Going Old School

TIME-TESTED TACTICS FOR THRIVING IN THE NEXT REAL ESTATE CYCLE

REINation

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How Do Innovators Prepare to Go Big in the Midst of Uncertainty?

The pandemic years have been full of the unexpected, the unprecedented, and the unpredictable. When times are uncertain, real estate investors look back to what really works. Your investments don't care about the conditions you had when you bought them. Old numbers don't eclipse the reality of new calculations. It doesn't matter where you started or where you intended to be.

What matters is where you are, and what you're going to do about it.

What Going "Old School" Really Means

Going "old school" is a mindset. It's a return to the behaviors and habits of successful investors who have gone before us.

Too many times, we expect investing in real estate to be a cake walk. When a problem arises, we throw money at it and hope it goes away.

While real estate investing demands a certain level of *emotional* detachment, it requires *personal* investment.

Going "old school" means you care about your reputation. It means you refuse to let everyone do the work for you. It means you're willing to put in the time and energy to come up with creative solutions. And most of all, it means having the fire of determination to get things done.

MAKE IT PERSONAL

What we invest in reflects what we believe others want and need. We're banking on demand! But it doesn't end there. Making your investments personal goes beyond capitalizing on demand. It means that every step of the way, we're asking "what do people need?"

The easiest, default option is to involve money, but money isn't always the solution. Making your investments personal involves looking for bespoke solutions for individual problems. What does the seller you're negotiating with really need? What do your rental residents truly value?

How can you – as an owner, a buyer, and investor – stand head and shoulders above the pack?

It's simple. You address the real needs of the real people you work with. Identifying and meeting the needs of the customer (or anyone you work with) is a business-critical principle.

GET CREATIVE

The real estate investment world didn't get where it is today without a big helping of creativity. Being creative doesn't mean ignoring the groundwork laid by those who have gone before. It's all about *building*.

There is a specific type of real estate investing known as "creative real estate." Primarily, these involve strategies that help investors avoid obstacles found in traditional investing, like financing.

You can still get creative with traditional strategies. The “old school” mindset here sees what is being done and what works...and then looks for new ways to innovate.

PUT BOOTS ON THE GROUND

Back in the day, drumming up business was truly a door-to-door, grassroots effort. Too often in the digital age we can become detached from the real work being done. That doesn’t mean that every owner-investor needs to pick up a plunger and start unclogging rental property toilets!

What it does mean is that the best investors are deeply and sincerely engaged in what is happening around them. We take strides to know more, do more, and *be more* throughout our investing journey.

SO, WHY GO OLD SCHOOL? WHY NOW?

Because we're facing some of the biggest challenges, disruptions, and uncertainties of our careers. Overcoming new problems means going back to *time-tested principles.*

“REAL ESTATE INVESTORS, DEVELOPERS, AND OPERATORS ARE NOW GRAPPLING WITH THE NEED TO BE INNOVATORS, DISRUPTORS, AND FUTURISTS, ALL THE WHILE MAINTAINING SUCCESSFUL PORTFOLIOS AND GROWING STABLE RETURNS.”

—ALEXANDRA NOTAY, PLACEMAKING & INVESTMENT DIRECTOR, PFP CAPITAL

Dealing with Disruptions

2020 and 2021 have been full of disruptions – personal, professional, societal, and political – there’s no part of our lives that haven’t been touched by the pandemic impact. Real estate is no different. No one knew what to expect in Spring 2020 when the market came screeching to a halt.

The real estate market has been full of surprises (good and bad) and we still don’t know what’s around the next corner.

The last great disruption in real estate was the Great Recession. And though the pandemic recession has not rattled real estate to its core in the same way, it was certainly a disruption. Working through these challenges demands a balance of old-school tactics and forward-thinking strategies. Because if the pandemic made anything crystal clear, it’s our need to secure multiple streams of income.

We like to call any little obstacle a "disruption," but the word simply means an unexpected development that changes our trajectory and demands new strategies. Industries like real estate constantly experience disruption in the form of technological advances, changing laws, and societal priorities. Certainly, the pandemic has introduced an endless supply of such developments.

Of course, we can’t begin to understand and overcome disruptions if we are not prepared for them in the first place.

PREPARE FOR DISRUPTIONS BY: CHOOSING MARKETS WITH LAYERS

The Real Estate Guys talk about investing in “stories” to prepare for uncertain times. These stories, or layers, refer to the identity of the markets we invest in. If a market is a “college town” or an “oil town,” you know what the story is.

Never invest in a market with a singular story.

We also refer to this as economic diversification. If a market’s identity hinges on one story, whether it’s a specific industry or a local sports team, the market will struggle when their stories have less than happy endings. When you invest, the markets you target must be able to sustain themselves and continue to thrive even if they experience an industry disaster or other economic downturn.

THE TOP "DISRUPTIONS" IMPACTING REAL ESTATE TODAY

- Carbon-Footprint Reduction
- Safer (More Hygienic) Buildings
- Blockchain
- Smart Controls
- AVMs (Automatic Valuation Models)
- AI-Driven Marketing & Data Collection
- Machine Learning
- 3D Matterport Video Property Tours
- Live Video
- iBuyer and Bridge Provider Companies
- Contact-Free Experiences
- Text-Based Communications
- Rental Management Software
- Widening Access to Comps

SOURCE: FORBES

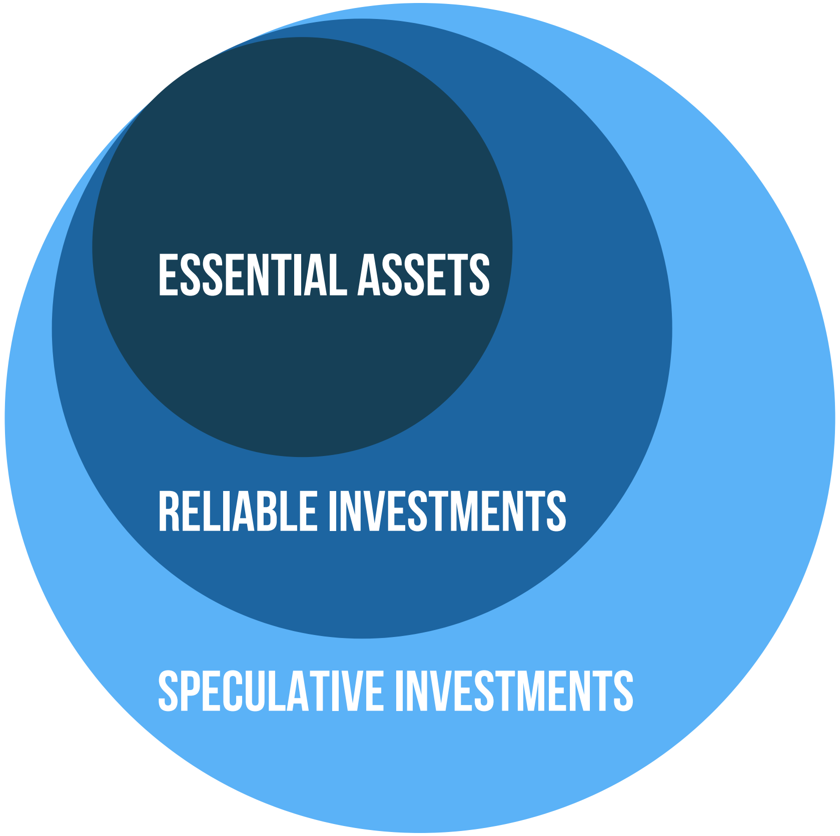
PREPARE FOR DISRUPTIONS BY: DIVERSIFY, DIVERSIFY SOME MORE

Diversification hedges against all kinds of risk. The more varied your assets are, the sturdier they will be against unexpected problems, both those within your control and beyond it. Diversification is an art in and of itself.

Again, The Real Estate Guys define this well with *the rings of risk*:

- **The Center Ring** – Your livelihood depends on these assets, and they should have risk isolated from other investments.
- **The Middle Ring** – Bread-and-butter, reliable investments that generate cash flow, build equity, and appreciate with time.
- **The Outer Ring** – Risky investments where you can be more speculative. You cannot expand into this ring without well-established center and middle rings.

By "reinforcing" each ring through diversification, your lines of defense against disaster and disruption will strengthen.



PREPARE FOR DISRUPTIONS BY: CREDIBLE AND QUANTIFIABLE

Investing in real estate is a numbers game. It doesn't matter how you feel about the deal, how good it seems, or what you want it to be. What matters is what it is and if the numbers check out.

Rely on market and property indicators like:

- Population growth
- Economic opportunities
- New construction statistics
- Property appreciation rates
- Comps

Every investor must also be familiar with these metrics:

Net Operating Income (NOI) – Total income minus operating expenses (excluding mortgage payments)

Capitalization Rate (Cap Rate) – Ratio between the income produced by a property and the original capital invested. NOI divided by asset value (starting with sale price, then with estimated property value in the future).

Internal Rate of Return (IRR) – The estimated interest earned on each dollar invested in a rental property (and thus, estimated long-term yield). Set the net present value (NPV) to zero and use projected cash flow for the years you plan to hold the property. This calculation assumes a stable environment and no unexpected expenses.

Cash Flow – Your net cash left after earning passive rental income and paying expenses. Negative cash flow may suggest over-spending, problem residents, or a bad deal overall.

Cash-on-Cash Return – The total return on your investment. Take net cash flow (after debt service) and divide it by total cash invested. This is sale price, closing costs, mortgage balance, etc.

Gross Rent Multiplier (GRM) – Divide a property's price by its gross rental income. Useful for market comps.

Loan-to-Value Ratio (LTV) – Track the equity held in a property by measuring financing needs (mortgage balance) against fair market value.

Debt Service Coverage Ratio – Net operating income divided by debt payments (monthly, quarterly, or annually). Lenders look to DSCR to determine if you are over-leveraged.

Operating Expense Ratio (OER) – Operating expenses minus depreciation, divided by operating income. A lower OER means that your expenses have been effectively minimized in relation to earnings.

Occupancy Rates – Vacancies cost investors and generate no passive income. Historical occupancy/vacancy rates clarify market projections.

PREPARE FOR DISRUPTIONS BY: RISK MANAGEMENT+ EMOTIONAL MANAGEMENT

Don’t take unnecessary risks with your real estate investments. Assess pertinent metrics, do your due diligence, and look to the reputation and results of any person or company that you partner with. Properly insure your investments, maintain an emergency cushion, and regularly re-evaluate portfolio performance. The more risk you can mitigate, the more stable your investments will be in the face of disruptions.

It is also advisable to manage your emotional attachment to your investments. Leave your emotions at the door and save them for your family home. Emotions can cloud judgment and push investors to compromise on the standards and limits they have set for their investment portfolio. Just because you love a certain city or property doesn’t mean it is suitable for building long-term wealth.

PREPARE FOR DISRUPTIONS BY: KNOWING YOUR CLIENT

Know that, when you diversify your portfolio, the residents occupying your investment properties will also diversify. That's not a bad thing!

Keep data like this in mind:

- Home purchases have increased in rural and suburban markets by 1% and 3% respectively in the last ten years, while urban home purchases have gone down by nearly 4%
- First-time home-buyers make up 31% of the market, while downsizing homebuyers or "empty-nesters" make up 28%
- There are over 200 million single-family dwelling units, and only 38 million multi-family units
- Only 38% of Americans under 35 own homes, while nearly 80% of Americans over 65 own homes

Gearing Up for 2022

Disruptions are unlikely to stop in 2022. While the tides of the real estate market may turn in the next year, investors would do well to establish and reinforce a firm financial foundation.

When we look among the uncertainties for opportunity, we can proactively innovate through:

- Research and awareness
- Financial diligence
- Creative thinking

Let's start with evaluating where real estate is headed.

"REAL ESTATE IS AN ACCESSIBLE, RELIABLE WAY TO CREATE PASSIVE INCOME AND BE PREPARED FOR UNEXPECTED CHANGES IN THE ECONOMY. BUT CURRENT CHALLENGES TO INVESTMENT REAL ESTATE, REFLECTED IN A STREAM OF MOSTLY NEGATIVE HEADLINES, MAKE IT MORE DIFFICULT TO EVALUATE WHICH OPTIONS REALLY ARE STILL 'RELIABLE.'"

— KIPLINGER

Research and Awareness

While no one can predict the future with 100% accuracy, real estate investors must pay careful attention to credible news sources and real estate experts. Their insight helps make sense of emerging trends. Investors who are knowledgeable of the past (including numbers, events, and predictions at the time) are better able to contextualize the present.

With that said, here are a few top predictions for the real estate market of 2022 worth our attention:

EXPECT: RETURNING MARKET BALANCE

Risky homebuying behavior largely defined the 2020 real estate market. The Wall Street Journal reports that many pandemic homebuyers regret their decisions. The frenzy caused buyers to forgo necessary due diligence and overleverage mortgage debt to seal the deal.

The good news is that current would-be buyers are taking a more cautious approach to the market, which could return a sense of balance. With home prices finally high enough to deter a large portion of buyers, market activity has slowed. Not only does this give a chance for inventory to catch up with demand, but it demonstrates that there is a limit to the boom – and rising prices.

According to Forbes, the real estate market is likely to return to a sense of normalcy in terms of price growth and due diligence in the form of normal inspection and financing contingencies.

Still, we are not likely to see a buyer's market in the near future. Even if demand calms, inventory is still a sticking point. Even though builders are scrambling to meet demand, the setbacks caused by lockdowns and supply chain disruptions – combined with the Delta variant threat – could mean a lingering issue with underbuilding (a problem plaguing the market since The Great Recession).

EXPECT: RISING INTEREST RATES

Interest rates have been at an all-time low (bouncing between highs in the 3% range and lows around 2.5%) throughout 2020 and 2021, spurring buyer activity. While this was a significant incentive in the beginning of the pandemic, rising home prices and lending restrictions diminished the allure.

As the economy recovers and demand tempers, interest rates will bump up in the fall and into the new year. The increase likely won't be much, but it will be enough to moderate buyer activity even further.

Despite predictions that the real estate market will return to a sense of stability in the coming year, it doesn't mean we can discount the unexpected. The COVID-19 Delta variant has thrown a wrench into economic re-openings, school systems, and the working world at large. That, in turn, will impact real estate.

Financial Diligence

Real estate investors always need capital, either to support their endeavors or to expand their portfolios. Part of securing the future in the face of uncertainty is to be proactive in growing, protecting, and raising capital.

HOW TO TALK THE TALK

When people advise you about keeping a "bank book," they are typically referring to a bank reconciliation tool. It's incredibly important to know your finances backwards and forwards before securing any type of financing, and certainly such a tool will help you get there. But that's only part of the picture.

When we talk about a "bank book" at REI Nation, we're referring to something a little different. It's a physical book, a three-ring binder of information that you build yourself, including a look at your finances, your employment or education history, and what financing you're interested in procuring. Essentially, you want a bank book to answer who you are and why a bank should have confidence investing in you.

Banks are asked for money every day. You want to do something that will set you apart and make it easy to choose *your* venture. Want another leg up? Approach a local bank over an international conglomerate.

Interested in learning more about how to make and use a "bank book"? Tune into The Grind Podcast, where Chris breaks down everything you need to know—including the SKU number for your three-ring binder!

TYPES OF LOANS FOR REAL ESTATE INVESTORS

There are four primary types of loans that real estate investors utilize. Leverage is a unique benefit to real estate investment, and utilizing it allows you to expand your business with minimal contributions of personal capital.

We're all familiar with **traditional money loans**. Although the process will be like that of financing a personal residence, investors will find banks are stricter with investment lending – particularly as your portfolio grows. They will be diligent in ensuring that you are not overleveraged.

Hard money loans specifically target real estate investors. The process is usually quicker and easier, as the loan is based more on the property's value rather than your credit score or net income. Hard money loans, however, are best suited for flippers. They're short-term (typically three years) and come with a higher interest rate than a traditional mortgage rate.

Private money loans don't have to come from industry professionals – just about anyone can offer one. Private lenders can be found in your professional contacts or in friendly and familial relationships. Because these loans are based more in an established personal relationship, they're easy to obtain once a potential lender is identified. If you can't qualify for a bank loan, private money may be your best bet.

That said, this isn't leveraging risk-free. The loan is often secured by a promissory note, which means that your lender – just like the bank – can foreclose on your property for nonpayment.

If you already own personal property, you may be able to obtain financing through a **home equity loan**. You borrow against existing equity in the property (usually up to 80% of the property's value). Typically, all you need for this is a verified appraisal value, proof of income, and a credit score. The interest rates tend to be competitive, too.

Of course, you're putting your primary residence on the line – if you don't pay, you risk repossession.

No matter how you finance your real estate investments, keep a close watch on these key qualifying factors:

- Existing equity
- Cash flow
- Net income
- Credit score
- Debt-to-Income ratio

Keep up-to-date, thorough records so that you not only know where you stand, but so the financing process is that much smoother. Because so much about finance is automated these days, it is easy to keep track of transactions but difficult to feel their real weight. If you don't have a habit of checking your bank accounts (apart from their total balance), reminder that you might want to construct your own bank reconciliation system.

Creative Acquisition Strategies

When incentives are on the table in a homebuying discussion, it usually refers to incentives for the buyer. In a highly competitive seller's market, however, buyers and investors can offer incentives for sellers. Instead of throwing a higher offer into the ring (and potentially compromising your cash-on-cash return), get creative.

Getting ahead of the pack means offering the best – and most attractive – offer. Not necessarily the highest offer. When working directly with sellers, you've got to go old school. And that means addressing what they really want and need.

In this market, you need to know how to write the winning offer.

Even so, DO NOT compromise on key due diligence! Contingencies on home inspection and appraisal protect your investment! These are not to be waived.

However, you can get creative with your incentives in a way that won't compromise the security and quality of your investment.

- **Pay for cleaning services** – You're going to have the property professionally cleaned or rehabbed anyway. Allowing sellers to skip the step is a headache and expense off of their plate.
- **Cover moving expenses** – Moving gets expensive. Offer to cover their moving truck costs and mover (or offer a budget for doing so).
- **Plan to close quickly** – Most sellers want out within 30 days. If you can shorten the timeline, offer to do so. Be flexible and allow the seller to declare their preferred closing date.

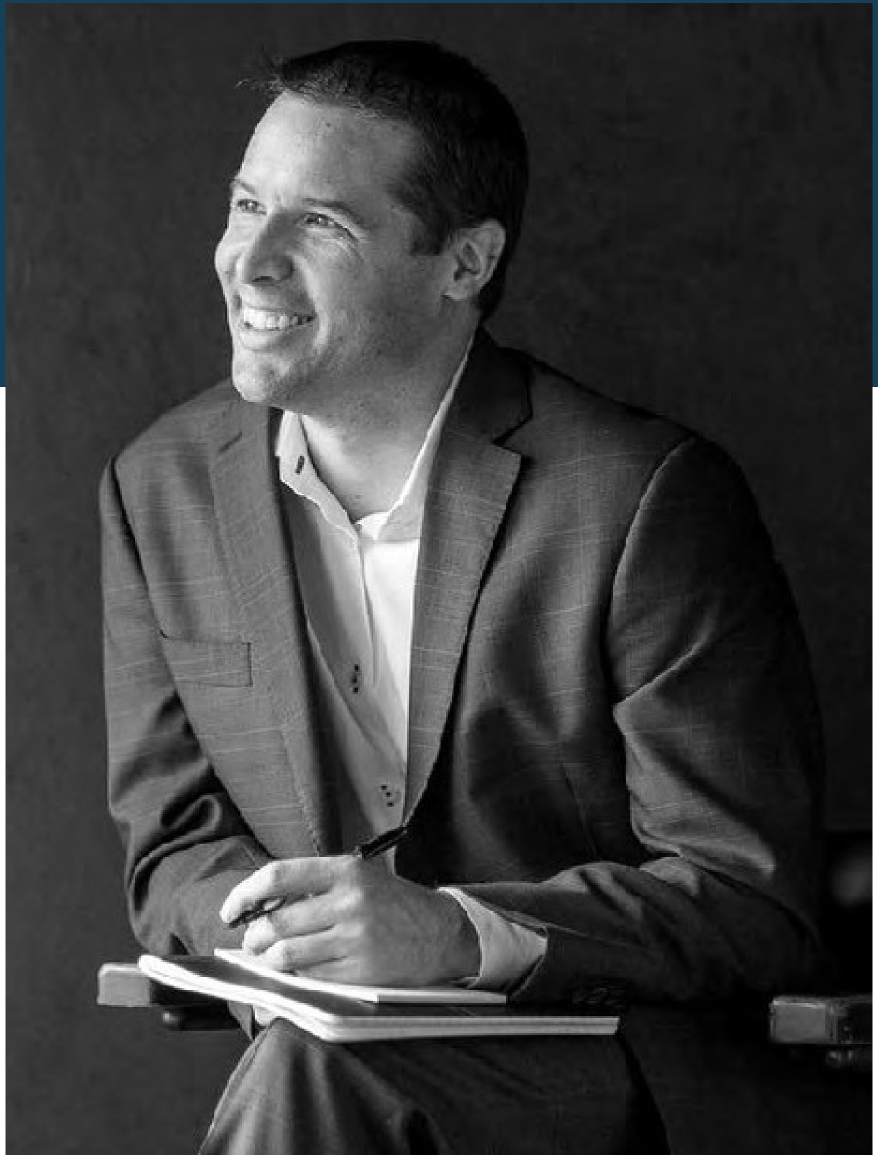
WHAT DO HOME SELLERS WANT?

- A SMOOTH, CLEAN TRANSACTION
- A FAIR OFFER
- LIMITED CONTINGENCIES
- FEWER HEADACHES AND OBLIGATIONS

- **Cover closing costs** – Instead of splitting the closing costs, offer to cover them in full. The less that extra expenses eat into their profits, the better.
- **Increase your earnest money offer** – Earnest money goes towards closing costs anyway and a higher offer shows just how serious you are about buying. Just make sure you are serious, or you risk losing this deposit.

In real estate investment, we want to come out on top without compromising the viability and profitability of the invest. Be creative, thoughtful, and backed by numbers in every move that you make – with sellers, vendors, and residents alike.

2022 may come with more disruptions. Regardless, stick to those time-tested, *old-school* methods that have served investors well through good times and bad. When you do, you can conquer any market, any day.



ABOUT

REI Nation is a family-owned and operated turnkey real estate company that specializes in passive investing. Active real estate investors themselves, the Clothier family know the types of services and experiences that investors want and expect to see in order to feel comfortable and secure investing far from home.

The company's unstoppable momentum was built by working with clients from around the world who care about passive, cash flow-positive portfolios of investment properties. In its twenty years, REI Nation has built a reputation for incredible customer service, excellent property management, and for surrounding themselves with proven individuals and companies.

Keep reading to learn more about REI Nation's eleven investment markets and property management services!

CURRENT INVESTMENT MARKETS INCLUDE:

- MEMPHIS
- NASHVILLE*
- LITTLE ROCK
- DALLAS-FT. WORTH
- HOUSTON
- SAN ANTONIO
- AUSTIN*
- OKLAHOMA CITY
- TULSA
- ST. LOUIS
- BIRMINGHAM
- HUNTSVILLE
- TUSCALOOSA

REI Nation has grown into one of the top private, single-family home buyers and sellers in the country. As we continue to expand into more markets, our commitment to quality and delivering the highest level of customer service only grows.

Our new markets have created such a buzz within our client community that we are currently evaluating several other markets we believe to be solid candidates for future expansion!

*We offer property management services only in Austin, Texas, and Nashville, Tennessee.

ABOUT

Premier Property Management Group was designed by REI Nation from the ground up as an extension of our commitment excellent service for real estate investors. Premier makes property management easy and stress-free by providing excellent experiences for our tenants, our investors, and everyone in between.

The secret to our success is in our customer service. We keep an open line of communication between investors, residents, and property managers. Monthly updates, in-house professionals, and exceptional customer care are all part of our process.

In addition to REI Nation's eleven markets, Premier also offers property management services in Austin, Texas, and Nashville, Tennessee! Premier also manages properties not purchased through REI Nation. Learn more about making the switch!