The Art of Passive Income Podcast
With Mark Podolsky, AKA The Land Geek

Today's Guest: [Paul Moore]

Transcript

Mark: Hey, it's Mark Podolsky the Land Geek with your favorite nichey real estate website www.TheLandGeek.com and I'm really excited for today's guest he is all about passive income in a big, big way.

But before we talk to our guest I'd be remiss if I didn't properly introduce our cohost; you know him, you love him - Scott Todd from ScottTodd.net, LandModo.com. If you're not automating your Craigslist and your Facebook postings PostingsDomination.com/TheLandGeek and of course if you want to start learning more about everything from Zapier to land investing to whatever it is check out InvestorNinjas.com. Scott Todd, how are you?

Scott: Mark, I'm great. How are you?

Mark: Pulse is still normal, respiration is fine. Let's talk to the smartest guy in the room, Paul Moore.

Paul: What?

Mark: Yeah, of course. Paul is a big deal. After graduating with an Engineering degree and an MBA from Big Ten, Ohio State. Paul, I don't know if, I'm an IU grad. My son's in IU.

Paul: Oh, okay.

Mark: Yeah.

Paul: Great school, too.

Mark: Yeah, there you go. Paul had a publicly traded firm that he sold out for 2.9 million five years later after working at Ford. He was a finalist for Ernst & Young's Michigan Entrepreneur of the year two years straight but then entered the real estate sector. He's completed 85 real estate investments and exits, he has appeared in HGTV special, rehab and managed dozens of rental properties, developed a waterfront subdivision, started two successful online real estate marketing firms. I can go on and on but Paul is currently the managing director of two commercial real estate funds at Welling's Capital. Paul Moore, how are you?

Paul: Hey, great Mark. Great to be here. Hey, Scott.

Scott: Hey, how is it going?

Mark: So Paul, let's just rewind the tape and kind of give us your story that we didn't really you know the bio doesn't really do it justice.

Paul: Yeah. You know after I sold my company in Michigan I was only 33, had a couple of million dollars in the bank and I thought I'm going to kind of semi-retire to the mountains. I bought 120 acres on the top of the Blue Ridge Mountains of Virginia and I said 'people I'm an investor' and you know what I really didn't know the first thing about investing guys. I confused investing and speculating.

Investing is when your principal is generally safe and you've got a chance to make a return, and speculating is when your principal is not at all safe and you have a chance to make a return and I confused the two and it got me into a lot of trouble. I mean, I made a lot of money occasionally but I lost a lot of money more often. I kept swinging for the fences which is fun as an entrepreneur but often foolish as an investor and especially if you do with all your capital.

So, I went through about 20 years of lessons with that and when I realized the difference I ended up in commercial real estate and we'll talk more about that later. But I went through all types of residential real estate. I'd make a lot of money on a deal and then instead of sinking 20% of it into another deal, I'd put it all into another deal and then lose it all. What I realized, if you keep playing double or nothing with all of your capital you're going to land on nothing at some point and you'll have to start over. I did that a bunch of times.

Mark: Yeah that totally makes sense and Scott Todd, what are your thoughts?

Scott: Well, I definitely agree that as investor you definitely don't want to take all the risk that you would as an entrepreneur like, that's part of the deal. It's like you want to make sure that if you're investing you have a recipe. Like, you know that you put this in and it's going to come out on the other side and it's something that's great than what you put it in at. There's always risk or things that don't go as planned, but man like there is an element of risk in there, but if you can just get dialed into hey, this is what we do and it's repeatable and boring that is the best formula for an investor, is something that’s repeatable and boring.

Paul: I wrote an article about why investing should be boring. You know Paul Samuelson was the first US economics Nobel Prize winner and he said, investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas and I didn't realize that. I’m a musician on the side just for fun and I think about people like my favorite band Rush or James Taylor, you know who spend years and years and decades playing the same songs every night.

From like, James Taylor Fire and Rain what’s that 1970 but he has to put the same energy in it because it’s new for that crowd, that night. You know that’s boring. He's got to be bored you know almost 50 years playing that song but he does it and that’s what true pro does. An amateur keeps chasing shiny objects and trying to start something new without a formula and I love what you said about that’s very true Scott, that’s what you need to do. We need to be getting to a place where we're willing to deal with and survive and thrive with the monotony of boredom.

Scott: Mark, I was just in Vegas and I'm not a gambler but man, I actually got back yesterday. But yesterday morning I fell for like the Vegas, like trap. Like, I was there for four days and I did great not spending a dime in the Casino, then I'm just walking through and guess what, right there in front of me was the penny slots. So I'm like penny slots, how can I lose? I put in $5 into the penny slot well the penny slots, the deal with it is that you have to play a hundred pennies per game, so I basically had five-games. It was like bleep lost, bleep lost. I won 40 cents if you can figure that. At the end it's like here print out your certificate for 40 cents like I pull it out, I look at it I'm like I can't even go cash this thing, in that's how you literally it's like seconds not even a minute my $5 was gone. So to me that's like the way sometimes people go about the investing piece and I just literally just handed it to some other guy I'm like here man good luck. He probably won 40 million off of it but that's a different story.

Paul: Yeah, it’s great.

Mark: I don't believe in unearned income Scott Todd. I started thinking if you won 40 million you would have blown it because you wouldn't have appreciated it but that's a whole other subject.

Paul: Yeah right.

Mark: So Paul, I want to ask you because I’ve been on your podcasts *How to Lose Money* which is really a lot of fun for me you've got a great cohost. But the question is why did you title your podcasts *How to Lose Money*?

Paul: Over the years I got to know, I would go to these real estate investing meetings or other types of things I’ve been involved with over the years and the people would always be on stage trumpeting their glorious stories and all their… you know. Some of them are in their 20s they would be you know multimillionaire or whatever and I would watch the people around my table and sometimes we had discussion groups and their shoulders would just shrink down.

I would look at them and say you know that story was great but it caused discouragement. It caused people to think well, I'll never be able to do that, I’ll never be that great of an entrepreneur or a real estate investor or a father or whatever. I thought wouldn't it be great if we could all know the struggles these people went through along the way and then I got to know some of those people as I got on stage and realized they had terrible discouragements and struggles and pain along the way and when they would tell me this all of a sudden I would feel great hope. I'm like, oh I can relate to that and you're still this successful, well, that’s great.

I just realized if we can tell peoples failure, defeat, discouragements, struggles that these heroes had along the path to success we can give people hope that they... you know everybody’s is the euro of their own story we can give people hope that you can change, you can overcome, you can succeed as well, I think we learn a lot more from failure than we do from success anyway and so that’s what we called it *How To Lose Money*.

Mark: I love it. So Paul, you've been investing in all different types of real estate, residential, commercial, self-storage and if I was a listener and let's just say I’ve never done any type of investing at all. Where would you recommend based on your experience somebody would start and let’s just say their goal is they want to earn you know 15% on their money in a passive way. They're sick of making you know 0% in the bank.

Paul: Yeah. You know a lot of people with all the House Hunters and all types of other HGTV shows. I mean, I was on *House Hunters* and I can tell you that a lot of people think I could do that. My buddy and I started flipping houses almost 20 years ago before flipping was a thing I mean it applied to pancakes and birds. But anyway, it didn’t apply to houses but we were actually buying fixer-upper’s as we call them and a lot of people think that’s the perfect entry point.

But I talk to people every day from Bigger Pockets, where I do a lot of work and from podcasts and I realized these people were really frustrated. They realized that this spending every waking moment chasing deals in this overheated market and then spending their evenings and weekends swinging a hammer or painting, it’s really not paying off the way they hoped. What people realize is I want the great opportunity to be a real estate investor, but I don’t think this time thing is working for me.

I talked to oral surgeon who... what he would make, probably hundreds and hundreds of dollars an hour. He said he was building a portfolio, 20 rental homes and he was on number three and it was driving him nuts. He said I had oral surgery yesterday between surgeries I was on the phone with painters and plumbers and it’s just not working for me and here’s the thing, residential real estate is valued by comps as we almost know. That means if you’re Chip and Joanna Gaines Junior you can go out and beautifully renovate this $300,000 house. Let’s say you add 250,000 to it, you've got 550' in it, you've got, you know, a finished attic, finished basement built out in addition, gold-plated fixtures everything. If that neighborhood only supports a $300,000 house, you’re not going to get your 550' out it. That’s because residential real estate is based on comparable properties in the neighborhood.

Commercial real estate is not at all like that. It’s based on a value formula and this is probably the most important thing I'll say on this show, the value of commercial real estate is the income divided by the rate of return, and more specifically it's the net operating income divided by what we call the Cap Rate or capitalization rate which is the normal way to return that an investor would expect for that type of property in this market, at this time.

Now Cap Rates used to run about 8 to 10% or more. I was just at a Mobile Home Park University in Vegas over the weekend myself and they were talking about you know Cap Rates of 10 or 12 or 14%. But typically, they’re running around 5 or 6 or 7% these days. But if you take the net operating income divided by the Cap Rate, you'll get the value. Well, that means you can force appreciation, you can do specific things to increase the net operating income and you can do specific things sometimes - not always to compress the Cap Rate and by doing that you can dramatically improve the value of an asset.

The problem most of us have is we don't know how to get access to these commercial real estate opportunities and in a minute, if you'll give me time I will go over an example of how this value formula can work. But the problem is most of us don't have meaningful access to this. I was talking to an investor in Europe recently and she said she was struggling to manage these single-family and small multifamily from across the Atlantic and she said even if she was in town she realized she'd still have the same struggles dealing with vacancy and property managers and all these massive hassles.

And then, I told her about commercial real estate and the light bulb went on for her. She said, wait a minute, why am I working harder than I need to, make less than I could and she realized that our company could give her access and there's a lot of other companies out there that can give people access to commercial real estate. The Jobs Act of 2012 and all kinds of other things have opened doors for crowdfunding and for hundreds and hundreds of syndicators who can take people's money, invest them passively, grow their income, expand their wealth massively by this formula I mentioned and people can have access without lifting a finger. They can stay on their day job, they can slow down eventually on their day job, maybe retire and they can make them make the same and if they invest it with the right syndicator, which is tough to find if they can make same or much more money than they can make on doing it on their own and all they have to do is walk to the mailbox to get it.

Mark: Makes sense. Scott Todd?

Scott: I mean yeah, some people have more time than money and other people have more money than time and I think that if you can find the people that have what you don't have whether it's time or money well then, you're off to a winning formula. I think that a lot of times people think that investing has to be a, you know, kind of an independent score and it doesn't have to be.

Like you referenced the oral surgeon well, the oral surgeon should continue to do what he does best and let somebody else who has the time or even the desire to go out there and to manage some property or to invest the money. A lot like why do you go to a financial advisor? Because their whole job is to understand what's happening in the marketplaces, is now the time to be in bonds or is now the time to be in stocks or equities or whatever it is let somebody who lives and breathes this stuff every single day let them be your expert if you will. Why do it yourself? But I know that we live in that do-it-yourself type of mentality that I'm going to do it myself. Well, if you do it you're going to waste a lot of time and money probably.

Paul: It's a good thought.

Mark: Yeah, absolutely. I mean, it's one of those things where I think you just have to be really realistic about your bandwidth and if you don't have the bandwidth it's, you're better off making a nice return with somebody that this is all they do all day long and they have a track record of success doing it. So Paul, you've got two funds at Welling's Capital and what is the focus of those funds? Where would you put your money for investors now?

Paul: Well you know, I wrote a book on multifamily investing in 2016 and it was not at all arrogantly called *The Perfect Investment* and that book's still selling pretty well. But you know the problem with *The Perfect Investment* is it's not perfect anymore, if you can't find any deals that make sense. And a lot of people are finding these days that they're not finding deals that make sense in multifamily and they're wondering you know if... You know, I read Howard Mark book recently *Mastering The Market Cycle* and realized you know people are taking the biggest risks at the time they should be the most conservative and that's right near the top of the market. I started thinking you know maybe we should try to find other assets that are not as risky and that do well and not as overheated is what I meant to say and that do really well in any economy.

Well, I think apartments generally did pretty well during the recession I've got a lot of data for that. But we also found other asset classes including: self-storage and mobile home parks that have something that apartments don't right now and that is a very fragmented ownership base. The owners of self-storage and mobile home parks are often mom-and-pops and because of that they leave a lot of money on the table. They don't have the time, the resources or even the desire to operate and juice every dollar they can out of a property and because of this value formula. I mentioned it's possible for a professional operator to take over, to acquire one of these mom-and-pop owned parks or self-storage facilities and dramatically increase the income and through leverage significantly increase returns for investors.

So, we've been investing in these funds in those three asset classes: self-storage, mobile home parks and to a very small degree opportunistically apartments and the returns that these operators were investing with have been seeing are pretty hard to believe but you know, I can use this formula to show you how they're doing it, but they're getting returns of 40 to 60, or even more percent annually.

Now, that won't go on forever you know the mom-and-pops are dying off and selling off, institutionals are coming into these spaces and jumping in, jumping in and grabbing these assets, which by the way, makes a great seller for our operators because if you can buy a 7% cap rate and even if you didn't improve the income at all you can sell to an institutional at a 5½% cap rate. That's about 25 or 30% increase in asset value, but with leverage, that's a 60% or 70% appreciation just from having the right buyer and the right seller, not to mention all the income you're driving in the numerator of your equation which takes your return, your appreciation well over 100%. Let's say it takes three years to get well 140% return in three years, you know, that's a pretty nice annual return in the 40-50%.

Mark: Wow, I love it. Scott Todd what are your thoughts?

Scott: I agree, man. There's not much more to say beyond that.

Paul: Yeah. I would add though leverage makes it even better. I mean, if you have 66% leverage you're only putting a third of your money and that means you can multiply that number for the return on equity by three and so it significantly increases the return for the investor.

Mark: Yeah. I think what's interesting about those two asset classes is that a lot you don't understand or not they don't understand they don't think about it. It's not really talked about a lot and at the end of it they are the two safest asset classes in real estate, they have the lowest default rates number one is self-storage and number two are mobile home parks.

Paul: That is exactly right.

Mark: Even though when you say mobile home parks, I mean people kind of put their nose up to it they're like oh gosh, I wouldn't touch that, those are toxic or I don't know. Today what is the stigma for mobile home parks?

Paul: There's a lot of stigma. You know most of us have lived in apartments or rental homes. Most of us or many of us at least have used self-storage units and there is no stigma there, but most of us have not lived in a mobile home park. Most of us don't even know somebody who lives in a mobile home park and there is a stigma, but you know 10,000 people a day are turning 65 years old and over half of them have less than $10,000 saved for retirement. Well, a lot of them don't have a lot of options and they do have home equity in many cases and they can trade that in for a decent mobile home and $200 to $500 lot rent and they can have a lot of freedom, they can enjoy retirement, they can you know make that $1500 Social Security check stretch and be able to afford their home and have a lot less stress than managing their own home. The stigma is there but like Robert Helms on the real estate guys radio loves to say, you know 'live where you want and invest where it makes sense' and I will tell you, mobile home parks really make a lot of sense.

Mark: Yeah. Absolutely. Well, we're at that point now Paul where we're going to ask you for your tip of the week: a website, a resource, a book something actionable where the Art of Passive Income listeners can go improve their businesses, improve their lives. What have you got?

Paul: All right well, you know, neuroscience tells us that we spend up to about a third of our time during the day daydreaming and they do brain scans and watch people's brains and see that they're daydreaming or fantasizing about their potential future or they're fearing the potential outcome of their life but they don't do that when they're listening to or watching a story their brains lock in. So, we needed to learn to tell good stories. Donald Miller has a book out called *Story Brand,* and I just read the book over the weekend while I was in Vegas and I'm fairly obsessed with it right now. So, I'd recommend the book *Story Brand* and if you want to learn more you can go to their website and learn how to tell whatever you're doing as an investor or an entrepreneur or a business person, learn to tell your story and they really help a lot at the *Story Brand* book and podcast.

Mark: All right, fantastic. I actually have that book on Audible and it's really a phenomenal book and makes so much sense and there is so much wisdom in it because that's how we learn and how our brains remember things is through stories. It's really phenomenal. Scott Todd, what's your tip of the week?

Scott: All right Mark, we all fall into this trap and it's like productivity right. We all go into our email and like everybody and their brothers send us an email, everybody. As marketers we want to send these emails but it kills our productivity. So, you've been to these websites where like hey, give us your email address and get on our newsletter and you get this thing and you want this thing but yet you don't want the emails that come along with it and then it's like, if you're like me men, you're like I don't really want to unsubscribe because what do I do. You know I might want it and then months go on and then the next thing you know it's like delete, delete, delete. You don't even open them up anymore.

Well look, here's a solution. Go to SubscriptionZero.com and I'll just put it in the chat for you too SubscriptionZero.com because when you got there you can sign up, you get an email address like a Subscription Zero address that you give to all of these things and then what happens is you're on their newsletters but they don't come right to your inbox. They go to your Subscription Zero inbox; they get squatted to you like once a day with a summary of everything that you've missed.

Paul: Nice.

Scott: From like 40 emails you get like one email that summarizes everything that you missed and it like puts your brain at ease and you're more productive.

Paul: I love it.

Mark: I love this.

Paul: That's good stuff right there.

Mark: That is a great tip of the week.

Paul: I'm writing that down.

Mark: I'm already in there. I'm already putting in my delivery day, my delivery time—Sunday.

Paul: So hey guys, so what do you do? Do you actually go back to a lot of your current subscriptions that you occasionally read and you change your email to that one?

Scott: You could or you could just unsubscribe and if like, I always say like if you're not reading it just unsubscribe it because they haven't made that big of an impact to you anyway and then if you ever want to go back you'll be like, let me go find them again and then you'll find them again. But just unsubscribe, it will save you a lot of work too and then all of the future one just go there.

Paul: I love it.

Mark: Well, I just got my dummy email, Scott.

Scott: What's that?

Mark: I just got dummy email. So now, I'm going to go a Text and then I'm going to add that as a shortcut and this is great.

Scott: Yeah, so you have a new email address and you know you get a weekly digest.

Paul: So you can do a weekly or daily?

Scott: Mark, when I did mine I couldn't run it. I thought it was...

Mark: It's actually you get it's once a week. You get one delivery a day.

Scott: Even better.

Mark: Yeah.

Scott: What day did you chose, Mark?

Mark: I chose Sunday.

Scott: Sunday okay. So, like Sunday...

Mark: But you can change it.

Scott: Yeah, yeah you're not locked into it.

Mark: Yeah.

Paul: Brilliant. I love it.

Mark: All right well, my tip of the week is learn more about Paul, his investment philosophy, his funds go to WellingsCapital.com, WellingsCapital.com and learn more there. I want to thank the listeners and I implore you to do us one little favor, it's actually three little favors because the only way, the only we're going to get the quality of guests like a Paul Moore, from WellingsCapital.com is if you do this you've got to subscribe, you've got to rate and you've got to review the podcast. Send us a screenshot of that review to Support@TheLandGeek.com we are going to send you for free the $97 *Passive Income Launch Kit* course. So please do that.

Just go to TheLandGeek.com/Training to learn more there. All right Paul, are we good?

Paul: We're good. Great to be here, thanks.

Mark: Thanks so much for being here. Scott Todd, are we good?

Scott: We're good, Mark.

Mark: All right. I want to thank the listeners again and let...

Scott: ...freedom...

Mark: ...ring. Thanks everybody.

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