**EPISODE 279**

[INTRODUCTION]

**Mike Flaherty (MF)**: Closing a deal does not make your investors anything. You have to perform on selling where you projected you're going to sell it and perform on the cash flows and the cash-on-cash returns you promised your investors. That's really the most important thing we do as real estate owners and syndicators.

**Announcer:** Welcome to Elevate, the masterclass where we dissect the elements of exceptional achievement and lifestyle design with a focus on personal growth and real estate investing. Now, here's your host, Tyler Chesser.

**Tyler Chesser (TC)**: Elevate nation, welcome back. This is Tyler Chesser. I'm so thankful to have you here and I'm blessed and grateful to be sitting with my friend, Mike Flaherty today. Oh, baby, this episode is so good. It's so powerful, and it's timely and timeless in terms of taking your multifamily investing to the next level. If you want to learn about how to use an analytical mind to evaluate investments yet not be in analysis paralysis and grow and scale tremendously. Today's episode is for you. Oh, I'm just so excited about this conversation because there are nuggets in here that can make you millions of dollars, it can help save you in situations where you could lose millions of dollars and I don't want you to be in that position. Because this business is very powerful. It's very exciting. But if you don't know the downfalls and if you have any blind spots, then you can be putting yourself in a very risky position. So today's episode is extremely valuable.

Elevate Podcast is all about mindset, mind expansion and personal development for high-performing real estate investors. I'm your host, Tyler Chesser, and I'm a professional real estate investor and entrepreneur, it is my job to decode the stories, habits, and multifaceted expertise of world-class investors and other experts to help you elevate your performance and lifestyle. Are you ready to take it to another level? It is time, let's raise the bar today. I want to thank you so much for being here, when I thank you so much for listening, and I want to invite you to pay the fee, the fee is to pay it forward, all you have to do is share this episode with a friend or someone in your network. And we are just deeply thankful from the bottom of my heart in our team's hearts that you have been doing that and we are seeing exciting substantial growth in our community. And really that is important to us, it's important for us to be able to continue to see growth and it comes down to personal referrals.

I mean, this is just like any other business we just asked for you to share this episode, all you have to do is grab the link, send it in a text message and email or just mention it to somebody next time you're out grabbing a cup of coffee or lunch. Hey, you know, I listen to this podcast and here's what it's all about. You should look it up. It's a really easy way to pay it forward. If you've done that in the past, we thank you so much. We just ask that you pay it forward once again to someone else and it's your first time listening to the podcast. I want to thank you so much for being here and for listening and engaging in this community. We are here to pour into your cup. We just started about that. We're excited to continue to do that.

So without further ado, I want to introduce you to Mike Flaherty who is the founder and managing partner of L5 Real Estate Investments. Throughout his career, Mike has been involved in the ownership, development and entitlements of over 200 plus nationwide commercial and residential properties valued at over $1 billion in total including multifamily, resort, hospitality, office, retail and large master planned residential communities. His passion for multifamily investment performance is based on his niche for detailed due diligence and you'll find that out today, market analysis and acquisition of value-add opportunities. Mike actively participates in all acquisitions and management of L5 assets. Prior to founding L5, Mike was a partner with Cardinal Real Investments where the focus was on the astute repositioning and development of residential and commercial in Los Angeles and New York City. This included the repositioning of a $29 million office building and an $18 million mixed-use development.

There's really so much more that I could say about Mike, but ultimately he is a phenomenal guy. He is somebody that's continuing to grow and push the bar even higher. And you also find out that he's a great family man. And you know, he's really setting an example in designing a very exciting life. He's a guy that, you know, really just continues to set an example that anything is possible. So without further ado, please enjoy this amazing conversation with the great Mike Flaherty.

[INTERVIEW]

**TC:** The legendary Mike Flaherty, welcome back to Elevate my friend. How're you doing?

**MF:** Thank you, my friend. How're you doing Tyler? Good to see you.

**TC:** Doing wonderful and really appreciate you making more time to be with us. It was interesting, as I was kind of getting prepared for our discussion today, I was reflecting back that it was two and a half years ago in a primitive time called COVID-19. Like in the heart of this when we initially did our first interview for elevate and that was kind of when you and I were really getting to know each other. But it's been fun to really, really understand more about your perspective and just kind of just the way that you look at the world and the way that you interact with your business and your family. It's just been, really been a joy. So I'm excited to have part two finally, you know, a lot of times I say well, I look forward to part two. Well, today is that day. So thanks again for joining me. What's been going on with you man over the past couple of years? I mean, obviously, you've been blowing and going in business, but tell me a little bit about that.

**MF:** Yeah, I mean, it's been a fun couple of years, right? You go from April 1st of 2020. From when you and I were talking about them. Not sure if anyone was going to pay their rent, you know, you were blessed to be in a very risk-averse real estate asset class that performs well and good times and bad. And when you go through a global pandemic, you really never know. And, you know, I think we all braced for the worst. You know, I remember myself and my partner and my team talking to the banks thinking, going back to the bank and how we're going to pay our mortgages. And then at least with our portfolio, you know, we have a little over 7100 units, mostly B-class solid, consistent upper workforce housing. You look back, and it's like, okay, how did the pandemic affect us bar occupancy went up from, you know, 95 to

97% and our collections certainly were hurt, but in the scheme of a lot of other businesses, right, when you think of office and retail, we did great. You know, our collections went from like, 99%, to maybe 97%. And we ended up continuing to survive through that period. We are why a lot of others were sitting on the sidelines, and I credit my team for kind of pushing us through that. Rates were low and we still had, you know, we still had some semblance of rent growth, and then you go into the latest cycle of tremendous rent growth as a function of inflation coming out of COVID. You know, we've averaged 10% to 12%, on renewal leases, and anywhere from 15% to upwards of 30%, on new lease growth over the last year or so. So, it's been an interesting, exciting time.

**TC:** I always enjoy having these conversations with you, in particular, because it almost feels like I'm speaking to, you know, like a practical macroeconomist in our space, because you're a national player involved in so many different markets. Obviously, you're evaluating deals constantly, you're continuing to grow, you're obviously operating many different assets, you mentioned 7100 plus units across the country, and obviously continuing to grow and the portfolio is always migrating, it's evolving. It's, you know, some deals, or perhaps you may be excited, and you're obviously continuing to grow. One thing that you kind of glossed over there is, you know, you continue to buy throughout that period of time. And obviously, from an operations standpoint, in the beginning, it was like, man, who knows what's gonna happen with these deals? Like, are we gonna give everything back to the bank? And obviously, looking back, hindsight is 2020. And it's been very successful for you. But beyond that, on a growth trajectory, I mean, that's something I'd love to hear you talk about a little bit, because I know you and I have had extensive conversations offline just about how you're finding deals, how you're, you know, just really growing at scale. And you have been able to do that over the past couple of years as well. Could you talk a little bit about what that has looked like from a growth perspective?

**MF:** You know, we'll probably go there. But obviously, it's a lot more challenging right now. The environment of raising interest rates and raising cap rates. So certainly, you know, the acquisition, growth of our business has slowed, to say the least at the moment. But, you know, growth from getting, you know, from my first property was an 80-unit property in Odessa, Texas to you know, 7100, 7200 units. You know, I always say, there's no magic sauce to it, right? It's doing one good deal a time by your investors, you know, rinse and repeat, repeating that formula over and over. Over a long period of time, I've been doing multifamily for 13-plus years, you know. We survived the great recession, we've survived the great pandemic, and we're gonna do just fine going through inflation. And you know, what sure seems to be a looming light to mild recession here, but that's really the growth, right? You go from one deal a year to two deals a year to three deals a year to, you know, last year, I think we did six deals. Ad it's, you know, proving up trust and track record with your partners and your investors, most importantly. And then just building a team, you know, from investor advisors that have been with us eight years to a fantastic asset manager that's been in the business 30 years. It's made a great impact on our business over the last five to six years, to just you know, having a great partner, a great young guy is finding deals that do it the right way and do what they said they're gonna do and in doing the right thing. So, it's a function of doing the right thing over a long period of time.

**TC:** Absolutely. And it is, it's really encouraging and exciting to have these conversations with you because it kind of does go back to the fundamentals. It's doing the right thing. It's, you know, sticking to your principles. And to your point, it's executing on your promises and delivering on those promises and allowing that to really compound. And the thing that it's it's always interesting to me is that, you know, in these times of change and turmoil, whenever I have a conversation with you, you know, you're very analytical about what's happening in the market. And in many regards very patient to let things play out before you make your move. But when you make your move, you're like, all in. That was one of the things that really stuck out to me over the past couple of years. I mean, you made how many acquisitions? I mean, what type of dollar amount are we talking about over the past 24, you know, 30 months or so.

**MF:** It's been probably $350 million plus or minus.

**TC:** That's remarkable. And that's not somebody who's sitting and waiting and hoping and wishing, but there are times where you do evaluate, and you kind of pause, and you have this brief moment of pencils down, but then you push all in. But you know, I do want to go back to kind of the raising capital and stuff and the team stuff and all that. But you did touch on hey, well, what are we seeing now? And I do think that it's important for us to touch on because we're definitely at another sort of inflection point. It feels like in the economy. Of course, we've had, you know, the Federal Reserve has hiked interest rates tremendously in 2022. That's been kind of the central theme of this year fighting inflation, you know, who knows, what is to come in 2023? I think we've all got sort of our own perspective of the crystal ball. But I'd love to hear from Mr. Mike Flaherty. I mean, what is your perspective of the crystal ball from an economic standpoint, as well as obviously, specifically when it comes to multifamily investing?

**MF:** There are so many moving parts right now, right? Over the last six months, it's like it's evolving every month to month, you know, I've been wanting to update my investors on my, on my thoughts, you know, every week, and every week, it changes. You know, right or wrong, at least at this point, the main variable is what's the Fed gonna do? And you and I were just talking, news just came out, Chairman Powell just said, hey, they're gonna start to ease rates. But what does that mean? Is it a 50-basis point increase? Or a 25 basis point increase? So, they've done after 2022? How deep into 2023? Will rates continue to hike? We'll see. I definitely think the Fed did it too late in this cycle, I think they did it too aggressively towards the tail end, which certainly has hurt our industry with this sudden rise in rates, specifically over the last three to four months, and putting us in a position where now we need seller expectations to get in line and cap rates to get in line very quickly.

But I think things will start to get back to hopefully some semblance of a norm later next year. I think it'll depend on the extent of, as I said, a lighter mild recession that we hit. But there's just so much demand for multifamily and housing, we're still deep in a housing shortage that's expected to last another 10, I heard economists say the other day, another 10 to 11 years. So there's tremendous demand for rentals in our space. And there's also a lot of capital, right? As you and I have been talking offline, there are all the coffers of capital that wanted to buy multifamily, both domestic dollars and international dollars, it's seeing the US as a safe haven. Those dollars that wanted to come in pre-pandemic are still there, those dollars that wanted to come in pre-inflation are still there, and everyone's on the sidelines, kind of not wanting to catch a falling knife with rates and cap rates and wanting to jump into the stability that multifamily investing brings once we really know when will interest rates start to stabilize here. So, I think that's the positive news on the horizon here.

**TC:** Yeah. And I think it's very difficult to project I mean, truly what will actually play out just because of the fact that, you know, the central sort of theme of what we've been discussing is really the function of interest rates and where those are actually going. And you've said this a couple of times in our conversation already, I'd love to just hear more thoughts behind this. You're kind of thinking perhaps a light or mild recession. Is that fair to say? And if so, I mean, could you expand upon that?

**MF:** I mean, as you mentioned earlier, I'm pretty detail-oriented and analytical. And I ask a lot of questions. And I listen to people who I perceive as a lot smarter than myself. And, you know, myself and my team we listen to a lot of economists, read a lot of material. And that's really what we're seeing and hearing. A lot ties to what the Fed ends up doing, you know, if indeed they end up easing and stopping rate hikes by the end of the first quarter, maybe the second quarter of 2023, I think that'll be the case. If that continues to be deeper into 2023 with consistently strong rate hikes that could change that thought, Tyler.

**TC:** Yeah, no doubt about it. And, you know, it all comes down to how committed are really what that inflation actually looks like, and how committed the Federal Reserve is to really tampering that and really bringing that back sort of in the where the They feel like that's reasonable. So I'd love to, you know, just kind of go back to that analytical mind and that engineering mind that you have. I mean, that's really kind of your background and your perspective and the way that you sort of bring your thought process to this business. And I've always admired that. I mean, you are very sort of thoughtful in the way that you look at things the way that you listen, by the way, I love your humility to say, hey, listen, all these people who are smarter than me, I think, you know, we've all got to give you a little bit more credit than you're willing to give yourself, perhaps I mean, you're a pretty smart guy. But talk to me about that analytical and engineering mind or engineer mindset that you have. I mean, how does that come into play? I mean, obviously, it starts I would imagine from just reading the market landscape and making some assumptions on where things are actually going. But then it drills into particular deals, particular assets, particular submarkets, talk to me a little bit about how you use that and how that's been an advantage for you.

**MF:** Yeah, I mean, I have an undergrad degree from Villanova in civil engineering. You know, my first job as a young 21, 22-year-old was with an engineering firm. And I did due diligence for a lot of large,out of Philadelphia, for a lot of large national retailers of developers from the likes of you know, Exxon Mobil, McDonald's, Walmart, Walgreens etcetera. And that was my thing, doing due diligence to help these large companies, and developers not make mistakes, and make the right decisions for their shareholders, their investors, when it comes to buying land and developing land, and what can they do and what can't they do? And what are the entitlement process and the permitting process? So that's my background. And I think when you can ask those questions, and you understand the answers to those questions, going into anything in life. But I think the key to making good smart prudent investments really comes down to due diligence and understanding the rights and the wrongs and the pitfalls of where you could have some problems.

So that's kind of the basis of my mindset, you know, finding a deal is one thing, but closing on it and making sure that you've checked all the boxes, right, from what kind of electrical panels do you have, and the level of deferred maintenance that the property has that you're inheriting as a buyer to the, you know, the political makeup of the local city council, planning commission, etcetera, to understanding, you know, potential permitting pitfalls, you know, from adding amenities to adding washer dryers in this specific property to really understanding the submarket, right, where's the path of progress? North? East? South? West? What employers are there? Where are tenants working? Are those employers growing or not growing? Who's hiring? Who's firing? A lot of those are just some of the questions. We look heavily into the strength of school districts, crime history, etc. And that's the beauty of what we buy with the class multifamily apartments built in the '70s and '80s. There's a track record, right, you can look at historic financials looking back from one year to 10 years, I mean, sometimes we're buying from groups that have owned the property for 10 to 30 years. And that takes a lot of the risk off the table, especially when you have experience and you're asking the right questions to help protect your investors.

**TC:** And I'm sure that you've had experiences along the way that have maybe scarred you and have caused you to be even more rigorous in some parts of your due diligence. Are there any sort of examples that come up to say, well, I'll never make that mistake, again, from a due diligence perspective, or just an evaluation of an opportunity perspective?

**MF:** Yeah, that's a great question. You know, gosh, we had a property in San Diego. And we trusted a partner and inherited a budget, you know, from a management company that had not signed off on our partner's budget, you know, that's a problem and a red flag, we'll never do that, again. You know, the property was also adjacent to a pretty significant 40-, 50-foot slope down to the adjacent property. And over time, that slope started to fail. And, you know, we needed the budget of four to $500,000 to fix it. You know, we certainly won't do that again, or buy a property like that again. You know, property in Kansas City, I think we misjudged the local municipality. Normally what we do with gentrifying apartments, you're adding value to the community. We bought a property that had been affordable housing in a very, very affluent area, and we were taking rents to market, we were putting $6 million into renovating the property, you know, fixtures, finishes, paints, adding amenities, adding a brand new clubhouse with gym and pool area. Most committed communities welcome you, this community was very challenging to work with. You know, they didn't like our paint colors. It just really became a mess and a delay. And as a result, it took us almost 14 months to get the pool open and get the leasing center open. So we had a 200-unit apartment community without amenities, without a business center, without a pool, without a fitness center, without a social Starbucks environment, which is what we like to add to our property.

So, I mean, those are a couple of the pitfalls you run into. You know, sometimes you'll buy a property from a seller that added washers and dryers, but didn't permit them correctly. And you may inherit, you know, some of those challenges going forward. One thing we look heavily at right now is the electrical panels - Statblock, Zinsco. In the insurance industry it's getting very, very challenging and requiring a lot of these electrical panels to be replaced from a fire hazard standpoint. If you're not aware of that, you could close on it and find out six months later, you need to put a, you know, a million dollars into electrical panel replacement. So, those are some of the things that we've learned from and, you know, and look out for going forward. It's an evolving, changing game. And you know, if you're not on top of it, it can be a very expensive problem.

**TC:** Yeah, no doubt about it. And I know like just from our own experience, I mean, our due diligence checklist just continues to grow just from you know, our own experience and, you know, feedback from other individuals like yourself and other operators like yourself, who have shared some of these horror stories. And I think that's one of the reasons why these type of conversations and this podcast if I do say so myself, is extremely valuable because you can learn from others without you know, having to make what can be extremely costly mistakes to your point. I mean, are there any other tips that you might suggest for the listeners, you know, not only to establish their own system to mitigate these types of risks and opportunities? Or is there anything else that you might suggest maybe mentors or maybe anything else like that?

**MF:** Well, I just said, there's just a lot of variables, right, that you can miss your due diligence checklist is always changing, evolving. I think at some point, I had one with over 600 different, you know, questions to be answered. It's overwhelming, right? And if you don't know what you're doing, it's easy to miss something that could really come back to haunt you. You, your own dollars and your investors' dollars. So I think partnering with the right operating partner that might have that background. I always used to call our team, the due diligence freaks. We take a lot of pride in that but you know, we're also partnering with management, national management companies that manage over 100,000 units nationwide. They have their own due diligence teams and their own checklists. And you know, when we're buying in, your Kentucky guy, in Lexington, Kentucky, we want to work with a company that manages not one property in Lexington, Kentucky, but maybe 10, maybe a thousand units in any given market. So, they know the players, they know the vendors, they know the pitfalls. They know the pros and cons of any given municipality where you're buying in, developing those relationships, can really, really help save you a lot of time, money and headaches over the long haul.

**TC:** I totally agree. And you know, the thing that I'm actually I'm sitting here, and I'm kind of laughing to myself, because you have this analytical mind and this perspective that in some cases, you know, you risk having analysis-paralysis, it's almost like how do you do anything? It's like, if you think about it, 600 questions, it's like, how do you actually buy anything. But at the same time, you're talking about $350 million in acquisitions over the past two years. So obviously, you're getting beyond that. You know, I think that's an interesting dynamic. I mean, is there any thoughts that you'd like to add to that?

**MF:** Yeah, it's an interesting point. I try not to, number one, you can never fall in love with your real estate deal. Putting something under contract, doesn't mean you've closed on it, right? You typically have anywhere from seven to 30 days to do your due diligence and do your homework and make sure you're buying the right property and you understand the ins and outs of it. You have a property management budget that matches your financial model and your underwriting so you really got to make the best of that. Try to really stick to my guns with that and say, hey, let's not get excited that so we know we've done our homework and know that our budget is accurate and our construction dollars are on par with what we think you know, any given opportunity property really, really needs it.

And certainly part of it is just staying very black and white. You've done your homework and that's when you mentioned I get excited. I do get excited, right, you know, because you can't fall in love but you're very interested in the property because you like the story, right? Under market rents, mismanagement, great growth markets - those are the types of deals we love to buy, you know, well located, good access to employment centers, good retail, mass transit. If we find a property where I can hit, you know, eight of my top 10 highlights for any given deal, I'm pretty excited. But we need to stay and be diligent with the process, before we move forward with buying $10 to $60 million apartment deal that has, you know, 40 to 100 investors in it.

**TC:** Is it fair to say that over the years, you've gotten to a point where if you start to feel excited, you know that there's something in alignment with a quality opportunity, because of how many times you've asked these questions, and you've seen things that don't work, or you see things that do work, you see that hidden value or that hidden risk? Is it fair to say that at this point, when you feel that level of excitement, you know, there's definitely something worth pursuing?

**MF:** I get excited after we put our investor summary package together with all the pretty pictures, and we've succinctly summarized our top 10 investment highlights, and we're halfway through our due diligence, and we know where the value plays are, where we can capitalize on making money and driving other income and driving rents. That's really when I get excited Tyler.

**TC:** When all the hard work of putting together that investment summary, it's like, oh my gosh, I'm with you, that is exciting. It's like, now the real fun begins because we now get to offer this opportunity to our investors. And we get to really share this upside.

**MF:** Yes. And that's exciting for me because you're right, a lot of the heavy lifting has been done, you're under contract, you've got your package done. You're extremely comfortable with the due diligence. Usually at that point in time, we've already walked all 300 units, we have construction estimates coming in, we know the condition of the, you know, structural issues and roof issues and HVAC issues, our budgets are pretty dialed in, the story that we initially like when we first were offering on the property is still intact. And then you know, you're sitting down with your investors, and you're explaining a great investment opportunity that you wholeheartedly believe in. That's the fun of it for me, Tyler.

**TC:** I totally agree.

**MF**: But it takes a lot of heavy lifting to get there. No doubt, right?

**TC:** I was gonna say it's overwhelming to get to that point. But I share that with you as well. It's so gratifying because all the hard work is then worth it. Because then you fully understand it you understand where the pitfalls are, you understand how to mitigate those pitfalls. And obviously, there are some that may be hidden, and you need to be ready to to adapt and pivot as you go. But you also truly understand the story of the steel and the upside of the steel and so that you can really share that. And to your point, I mean, it's just it's a huge uphill battle to get there. But I think all of that gratitude and sort of excitement comes through going through a hard thing. But you know, one of the things that I think is something that a lot of people miss and you know, we talked so much about finding the deals and you know, evaluating the markets and making decisions, but ultimately it comes down to the fundamentals, it comes down to execution. And so you've talked about one of the big difference makers for you over the past few years has been really Asset Management and just building your team around asset management.

**TC:** Hey, guys, I want to remind you to check out CF Capital. CF Capital is the premier boutique real estate investment firm in the Midwest and southeast region of the United States. We are a national real estate investment firm with a purpose. We provide property investment and asset management solutions to help passive investors maximize returns on high-value multifamily communities. But our investments go far beyond acquisitions, we invest in people. We are in the business of elevating communities and raising the bar for everyone within our ecosystem. CF Capital is a real estate investment firm focused on the acquisition and operation of multifamily assets. We confidently deliver tax-advantaged stable cash flow and capital appreciation with a margin of safety. By investing alongside our team, investors can preserve and grow their wealth without having to deal with tenants, termites, or toilets. Investors come and stay for the outsized returns we create in our deals while appreciating the ancillary opportunity to make a bigger impact that only CF Capital can provide. If you're an investor and want to invest with us, here's how to learn more about CF Capital at CFCapLLC.com or by simply clicking the link in the show notes of this episode. We will see you on the inside of this powerful community. So, let's elevate communities together.

**TC:** Talk to me a little bit about some of the biggest lessons or the biggest sort of takeaways that you've come through over the past few years regarding asset management so that you are seeing through these business plans because ultimately, it's great to put it on paper. It's great to present the package, but it's so much better to exceed expectations. So talk to me a little bit about asset management.

**MF:** As we're talking through this, it's easy. You know, once you hear it, it's very easy because we talk about how hard it is to find a deal and negotiate a deal, how exciting it is to put a deal under contract, hey, we're gonna buy this deal. And then we talk about all the hard work to put together the package and the importance and the extent and the depth of the due diligence process. All that goes into it. And then you need to raise capital, right, you need to bring your network of investors that have worked with you for five to 20 years that trust your judgment wholeheartedly, you know, into the deal. And then, you got to source the debt, right, you need to get your loan lined up, you need to make sure interest rates stay in line with what you initially projected when you're buying the property. And then you got to close it and I probably just missed, like 20 more steps there and for a lot of people it's like, hey, that's time to celebrate, right?

And I think every major milestone is an opportunity to celebrate, it takes some pride in from a team standpoint. But the reality of it is you don't make any money at that point in time. And people say you make money on the buy, but you make money by performing on the buy. Closing a deal is one thing. Closing a deal does not make your investors anything. You have to perform on selling where you projected you're going to sell it and performing on the cash flows and the cash-on-cash returns you promised your investors. That's really the most important thing we do as real estate owners and syndicators. I think the most important thing that we do is being great stewards of others' money and dollars and accounts and family legacies. You gotta perform on what you said you were going to do. And that's what asset management is. It's so easy to take your foot off the gas and go okay, we close this deal, let's go find the next great deal. And I just don't have that mindset, you know.

Closing a deal is step number one. Step number two out of a 10-step process and the rest of the steps are the most important, right you need to perform on your operating budget, you need to perform on your construction budget, you need to perform to your investors on what you projected from a return standpoint, and then exit at a really attractive price and return for your investors. And you cannot do that without asset management.

**TC:** I totally agree. And I think a lot of people who are whether you're a passive investor or newer as an investor in the business as an active investor, I think a lot of people just don't realize how much goes into proper asset management on a day-to-day perspective. I mean, there's so many decisions, there's so many challenges, there's so many problems to solve, there's so many nuances that you have to execute on a daily basis. And there's such teamwork that is required to be able to do that effectively and efficiently. And especially over time, because, you know, you can perform well on one deal or two deals. But to be able to do that at scale. I mean, it's just a very remarkable process to really establish. And so I'd love to, you know, dive into that. I mean, when you think about sort of the team and tools and technology and other resources that you utilize to be able to do that at scale effectively to be able to remain on target for investors and to be able to solve problems and to be able to just continue to hold your team accountable for the business plan and really to strive to exceed expectations. I mean, is there anything that's been really, really useful for you that you'd like to point to?

**MF:** I mean, the obvious, people say this all the time, but you know, it starts with being honest and ethical. You know, I have a partner, we've worked together for 13 plus years, and if I'm tied up, and he can't reach me, or vice versa, I know we're both going to do the right thing, and make the right decision for our team and for the investors. And, you know, yesterday I was tied up and you know, I'm trying to get caught up on email last night, there's like 50 emails going back and forth on insurance premiums and renewals. And you know, my partner and my asset manager are just all over it. So you know, I think it's sometimes it's just it just takes time doing the right thing.

Other tools we have, we subscribe to Real Page you know when it comes to understanding sales comp, rent comps. We've relied heavily on their rent growth projections over a five-year period when it comes to rent growth and occupancy percentages. We subscribe to Juniper Square. It’s our investor management software, which our investors love all the distributions are made through there, that's an institutional platform investors can log on and check their account check their distributions and check their net asset value of their investments, you know, 24/7. We just signed off with some new software to help our asset manager create the tracking reports on any given property in a format that she needs to help her make sure that we are performing her budget and the management companies are performing per budget and making sure we understand where they're exceeding, where the variances both positive and negative at any point in time. So those are some of the tools that we've grown into relying very heavily on, as we've grown the portfolio, Tyler.

**TC:** Yeah, that's, that's really good, Mike. And one thing I think of, you know, there's we're never really completely on target when it comes to a proforma. Proforma is just that it's a projection. And we hope to exceed those projections, and we try to be conservative, and I know you guys do as well. But when it comes to holding your team accountable, when it comes to holding your property management team accountable, you know, let's say you're a little bit off track. I mean, what does that actually look like, you know, sort of look behind the curtain from you guys. I mean, how do you handle a situation like that?

**MF:** Well, as you said, you're always off track somewhere, right? And you're always on track somewhere else. And maybe you're ahead of schedule. So it comes down to modeling and underwriting conservatively and building factors of safety into it, where groups get in trouble. Where is it when they don't do that? They don't expect the interest rates to rise or cap rates to rise, or they expect occupancy to be at 95%. Forever in one of those very, you're going to be wrong on one of those variables or one of those assumptions. So, you know, sometimes we've done very well on rent growth. And when we renovate a unit, we've almost Yeah, not almost we've always met or exceeded our projections, which is usually a great barometer of a successful investment. There's other things that can go wrong, right? Insurance premiums have skyrocketed over the last three years, you know, 10 to 30% increases, payroll has gone up significantly as a result of COVID. And in primarily inflation, material costs have gone up. So all these different vary, you never know which variable is going to overperform, you know, or which line item income or expenses, right, it's going to overperform and which is going to underperform. So having that factor of safety built in across the board normally protects you. Did I answer that question, Tyler?

**TC:** You did. I mean, it's really it's thinking ahead, it's thinking of the future, it's anticipating, and it's also building in a bit of margin of safety, you know, across the board to be able to withstand some of those challenges. You've mentioned insurance a few times. I mean, I think that is an important topic to just touch on briefly, it is interesting, because our insurance provider has also shared with us that we should anticipate even further hikes moving into the future in the into the very near future. It sounds like you guys have been having a lot of conversations internally as well. Talk to me about what you're projecting there. Because to your point, I mean, man, we've seen just tremendous change in terms of pricing for premiums across the board for property insurance. I mean, what are you anticipating moving forward over the next couple of years there?

**MF:** I think the industry is anticipating, you know, 10% to 20% increases. So you should really model that in and you know, like I said earlier, when it comes to due diligence, make sure you have a current quote, take your quote out to a couple different insurance carriers and ask them that question what's expected, you know, down the horizon, because it changes monthly, weekly. But you really, really need to understand that going forward.

**TC:** How about taxes? How are you looking at property taxes? Because insurance is one thing, but I mean, some of these things can be deal killers if you're not careful, silent deal killers.

**MF:** And property taxes is one of them, right? Normally, we'll anticipate assessments increasing upwards of 90% of what we bought the property for. But we also will reach out to the assessor local county assessor's office to make sure we understand exactly at least how they say they're going to assess, we also will engage a local or national tax assessment company like a company by the Marvin Poor Associates is one of a couple of different national groups that we use. And the reason we use them is that they've worked with that county assessor's office before and they're the company that will help us estimate where we think taxes are going forward. And they'll give us an assessment. Here's aggressive. Here's high, here's low. Here's aggressive, this is conservative, so we make sure we're in between there. And we're basing our, you know, the basing future tax increases off of someone that we think knows it, knows it better than us, but it's kind of a three-pronged approach to make sure you don't miss that number. Because as you said, a lot of groups miss it. And once you miss that number, it's very hard to catch up.

**TC:** Yeah, absolutely. I wonder if you guys think of this similarly to the way that we do. We kind of look at every deal and we say all right, well, there's a handful of you know, line items that could go in either direction. And we have to anticipate worst-case scenario, we should understand best-case scenario as well. But we need to be able to live with worst-case scenario. And if we can, this seems like a deal that we should move forward with? Is that kind of how you think about that as well?

**MF:** It's how I think about everything. As an example and again, I'll give my team credit for it. But you know, we bought with some variable rate loans last year. We bought very expensive rate caps. A 1% strike, which some of your listeners will understand as the most expensive. Some of these interest rate caps were of 1 million and a half, $1.7 million that we bought. And that helps set the ceiling with where our interest rates will go. And how we underwrote those deals, we underwrote those deals at the cap. So interest rates at the time of when we bought, it may have been 3.4%, 3.5%. But we underwrote the rate over the whole period at the cap, you know, the highest that rate can be for the next two or three years might be 4.3%. So we're gonna model it at that, if that makes sense.

**TC:** It makes a lot of sense. And when I think of, you know, just sort of the earlier part of the conversation, we were just talking about sort of where we project the economy to play out. And in some cases, you're saying maybe it's a mild to moderate recession, other sort of participants are talking heads may say it's on the other end of the spectrum, they may say that we're looking at a severe recession, or even a depression, and who really knows really where things are going to play out. But I think we have to be able to live with the circumstances. And we have to sort of stress test our thinking for how we're going to interact with this market. So I would actually love to just bring that line of thinking into navigating a market cycle, because someone like yourself has been around for a couple of decades now in the real estate business. You've seen market cycles, and you have the wisdom to say, well, you know, not every market cycle is the same. And in fact, they're always different. But there are similarities.

 

So I love to know just how you're thinking about navigating this market cycle and how that really plays into just your line of thinking in general on that type of topic.

**MF:** You're making me feel old here, Tyler. Yeah, it's a it's a great question. And I always take it back to how I wasn't I've always been in real estate. I was a real estate developer with some partners prior to 2008 and 2008 hit, I said, Hey, I want to build a risk adverse, sustainable real estate model, and I jumped into multifamily. And that was a really ugly recession, right? You know, worse than most, you know, most of your listeners have probably been through in it. I always call it a real estate recession, right? Real Estate just got hammered. It didn't matter your location, no matter how smart you were, it didn't matter. The asset class, however, in everything went back to the bank, right. Everything went went into foreclosure. Except for apartments, I learned once the foreclosure rate of multifamily coming out of 2008 was point 4%. They were the type of real estate that did not go back to the bank, because people always need a good, smart, updated, safe place to live in good times. And in that, and in good times. You have young dancers that are getting raises, and you know, are graduating college, they're renters, right, you have millennials, that for the most part, once are rents and want the flexibility that rentals bring them versus homeownership. And then in a downturn, certainly people are not buying homes, right. I mean, right now, the delta between, you know, rents and mortgage amounts has never been greater based on where interest rates are.

So again, today's dynamic creates more renters, you had more renters than buyers coming out of 2008. So, you know, is that the worst we're gonna go through? I'm not sure. But as I mentioned, some of the fear factor of COVID, right, we didn't know that anyone was going to pay their rent, we didn't think we could pay our mortgages. And you know, in the end, certainly, we were affected, but collections dipped a bit. It wasn't catastrophic. So when I look look forward to another recession, you know, my concerned about it Absolutely. Right. Certainly I'd rather not be but when I look, historically, back at the performance of multifamily in rough times, there's no better place, I'd rather have my money because people need to rent and you know, maybe your occupancies dip to percentile, maybe you can't grow rent, you know, for a short period of time. We saw that through COVID. Right, the summer COVID, it was impossible to grow rent, but I'm not worried about the asset in the short term or the long term. So to answer your question, if you can lock in long term and have a long term mentality with multifamily, and you'll have a whole projection of five to 10 years rent growth over a period of time will will outperform and it protects you as well occupancies as well, just as I keep saying over and over the demand for rentals is there will help us ride through this next next hurdle that that may or may not be on the horizon here.

**TC:** So in short, choose the right asset class and choose the right asset class that has the right demand drivers that is a sustainable demand driver throughout time then you're going to put yourself in a position to be successful in sort of weather those storms and I couldn't agree more. I mean, I think at the end of the day, you know people always need a place to live. And you know, I don't know about you, but I just saw that our global population just crossed over 8 billion. And you know, I think in some cases, some people were saying, well, maybe there's a population collapse on the horizon, who knows, I mean, but at the end of the day, we still have a tremendous shortage of housing units in the United States. In fact, I just saw, I think it was NMHC set 4.3 million, the number of housing units that we need to develop by 2035 to really catch up with the demand. And so you know, there's a lot to be said about that. And I also saw that chart, I think it was earlier today about that gap between the cost of owning a home versus renting, and it's never been wider than it is today, it's much more expensive to own a home, I think it comes down to the pricing, it comes down to interest rates, you know, we've seen historic price growth in homes across the country. And now of course, interest rates are hovering around that 7% rate for a 30-year fixed rate. And I think it is interesting to understand that that is obviously a tailwind when it comes to multifamily investing, because, you know, instead of purchasing a home as a result, people are now renting even more.

So one thing that I'm wondering if you think the same thing that I'm kind of thinking about potential hidden risk, in terms of our occupancies would be along the lines of sort of household formation, perhaps people, you know, combining with others to save, you know, inflation has been a big deal, you know, saving money and trying to downsize perhaps mean, is that something that you're thinking about? Or is that more of an ancillary factor on the horizon that just happens during a recession like this?

 

**MF:** I think it happens during a recession like this, you're gonna have kids staying home from college, you know, living in their parents basements, I think you hear a lot of economists say, hey, the United States needs to be more incentivized to have more children. You right, that's reducing increasing tax incentives there. So I think that will will help from a demand standpoint, but also from a development standpoint, you touched on it's so challenging to develop, like, how does the US ever really catch up, you know, with housing demand, right, regulatory costs are up 40%. At the moment, the ability to develop and get approvals through local municipalities I mentioned before planning commission zoning, hearing board, City Council's, it's never been more challenging. So to turn that around and make it easier to build and develop in great locations, right, not in far out suburban markets, but great location where there's entertainment, where there's job growth, population growth, great access to jobs, I mean, those are the variables that protect your real estate investment in those are areas where it's very challenging to develop. So I really believe that the demand is going to continue, it's just going to be a long time for the development world to catch up. And at least in our world, you know, we're not competing with class a new construction runs. We're in the middle where I like to say 80% of rental demand is you know, product built in the 70s and 80s. Our tenants are workforce housing workforce housing plus gray collar, pink collar tenant base, where most of their decision is Seretse, at least for the short term.

**TC:** Yeah, yeah. Good stuff, man. Well, Mike, this has been such a fun conversation. As always, before we wrap up today, I'd love to ask you, I mean, how are you investing in yourself today, because obviously, we're talking about this asset class that you and I both love and we have such a reverence for and believe in to the ends of the earth in many regards. But ultimately, we are our best investment as well. And I think it's important for us to remind ourselves that, you know, we should be continually investing in ourselves. And so we started with some of the conversation around just your humility. And that's kind of what I was driving out of the conversation is you always struck me as very humble guy, someone who's achieved very much, but you you continue to learn and grow and put yourself in the opportunity of continued growth. So how are you investing yourself these days?

**MF:** You know, as I mentioned, earlier, this year, the last couple of years have been a constant research project. That's been my term. You know, you're a crazy reader, right? So I'm trying to read more, I'd love to catch up, be able to read as much as you do, right? When they say Warren Buffett reads three to four hours a day in the morning before he even gets his day started. So I think the thirst for knowledge is still there for me, especially in volatile times. But that's what protects your dollars, your investments, your team your thinking, and you can never think you know it all right, you need to study you know, younger trends and older trends, new technologies, continue to stay in touch with the market, even in a challenging environment like right now where it's hard to buy, but the more you can stay in touch with this the economy and the cycle and the values of real estate, the better position you'll be in and you know, you'll be into strike coming out of it.

**TC:** I love that thirst for knowledge as well and just treating yourself like a just this research project and continuing to grow and learn. I think there's just a lot to say about that. And the last thing I want to ask you is because I know that you've designed this amazing life with your your family and your girls and all this stuff man. What are you most excited about for your family moving into the new year? What do you guys have on the horizon? Anything exciting to share?

**MF:** Oh, let's see, I have three unbelievable daughters. They're ages 12, 10, and 8, Alana, Malia and McKenna. I was an athlete as a kid and following the same footsteps, thank God, it took them a while but my two oldest has really gotten into competitive volleyball and I live and die watching them you know do their best out there, on the court and my little one's playing basketball while I get into volleyball and in tennis as well. So, outside of the business, that's what I'm most passionate about watching them, you know, follow their dreams and in helping them achieve on the court alongside of the academics, Tyler.

**TC:** That's right, man, that is so cool.

**MF:** Is there gonna be years they're gonna be there soon? My friend just got to get out of those diapers.

**TC:** I secretly want my daughter to play volleyball because I think it's the most fun sport and most entertaining sport. I mean, it's just so athletic. And there's so much action. I think it is such a fun sport. And of course, you and I are we're basketball guys. You got the Villanova championship basketball right behind you. I could say Go Cats, but I'd say it in a totally different way. But are the Villanova Wildcats gonna do anything this year?

**MF:** Yeah, they're off to a slow start. But we need to get a couple guys who've been injured off the bench. And I think they'll close I think they'll close real strong.

**TC:** That's awesome, man. Well, I appreciate you being a family man. And just continuing to design that limitless life that you have and just continue to share what you're learning as well. Man, Mike, I just want to thank you again for being on the podcast today. Part two, until part three, my friend, any parting thoughts or words of wisdom that you'd like to share with Elevate nation,

**MF:** You know, I think just never, never give up. Right? If you're passionate about what you do, and you're passionate about this industry, now's a wonderful time to jump in with both feet and follow the trend. And listen to the economists and listen to guys like you, Tyler, who are out there every day, not only doing it and performing on it, but educating just puts everybody in a great spot, a great perspective, you know, good times, and bad. And I really do believe I think there's gonna be some phenomenal buying opportunities coming out of this. I'm excited. I know, my team's excited. We're, you know, we're primed to strike when the opportunity is right. And I just encourage everybody continue to listen, learn, read and, and be prepared. And the more prepared you are, the more often you will, you know, you'll make a really great decision on buying a great investment.

**TC:** I absolutely agree. One of the cool things about you is that you've shown that it doesn't stop with that analysis paralysis because I think a lot of people get to a point where they're learning and reading and growing and listening to the economists and you know, they're getting all this these data points. But at some point, you've got to go out there and embrace the risk and you've got to move forward, you've got to take action, it's never going to be perfect. It's imperfect action. So I just think that you've really set a great example of that, Mike, tell the listeners where they can learn more about you and l five investments.

**MF:** Yeah, I mean, my website is just www.L5.com, L as in Larry, the numeral five and dot com. Track me down there at any point in time, feel free to reach out to Tyler. Tyler, you have all my information, including my cell phone. Call, text. I keep myself very accessible to my investors or potential investors. So reach out anytime I'm happy to share, you know, some of the facts and figures and reports that we follow very closely as well.

**TC:** Well, I always enjoy our conversations, Mike. Until next time, my friend. Thanks so much, again for being on the podcast.

**MF:** You got it. Tyler. Thanks so very much for having me, my friend. We'll talk soon, maybe even tomorrow.

**TC:** Sounds good man, will talk to you soon.

[END OF INTERVIEW]

**TC:** Elevate nation, Mike Flaherty bringing absolute value. As always, sometimes I don't think Mike realizes how much value he actually brings and how much deep knowledge and wisdom he actually brings. Because it's just so second nature. And you can just tell that it you know, it's through that repetition. It's through looking at deals, it's through asking questions, it's through surrounding yourself with people who may know more than you do at one point in time. And then all of a sudden, you become that expert in the room. So I think there's just so much value in having sort of a being able to rub shoulders with somebody like Mike. And you know, the other cool thing is people like my are the nicest people that you'll ever meet. And some of the most successful people are always the most generous. They're always the most humble. And I just think that it's a great pattern to observe.

And so I want to encourage you to understand or really to dive into this conversation and to really immerse yourself into what this was all about. Read between the lines, what did you agree with that was really surprising to you? What did you disagree with? What do you feel like was left out of this conversation? I want to encourage you to have a conversation with someone else about that. And maybe your key takeaways, what are your top one, two or three distinctions that you took from this episode? Did it have something to do with asset management? Did it have something to do with the evaluation of deals or growing or using your analytical mind to evaluate deals? What was it that you took away from this episode? I want to encourage you to jot that down, whether it's one thing two things, three things, if you only have one, that's perfect, move forward with that and make a commitment to taking action on that distinction, because that's how we grow knowledge is only potential power. The real power is in taking massive action on that knowledge, committing to that taking imperfect action and recognizing that failure is feedback. It is not fatal. And so when you need to course correct, do that, you know, get closer to where you want to go.

So, I just want to encourage you to share this episode with a friend have a discussion and of course, listen once again, because repetition is the mother of all skill. Until next time, elevate nation, I just want to thank you so much for tuning in, and we will see you next time.

[OUTRO]

**Announcer:** Thank you for listening to Elevate. If you enjoyed this episode, be sure to rate, review, subscribe, and pay it forward by sharing with a friend. Most importantly, take this opportunity to elevate your results by taking immediate action on what you learned. For more, visit elevatepod.com.

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