DECEMBER 2021

THE MONTHLY RENT

NEWSLETTER

PEEK INSIDE:

FED Policy Updates

Competing on Terms Instead of Price

GOB Network 2021 Growth

New Members
525+

National Weekly Meetings
17+

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Dedicated Admin Team
7

Thank you to all members that helped drive our growth in 2021 and continue to share the GOB Network with others!

GOB Network Coming Soon!

Here is a sneak peek of what's to come in 2022!

Education Platform

GOB International Conference

GOB Member Perks

AND so much more...

THE NEW MONETARY SYSTEM PARADIGM AND ITS EFFECT ON REAL ESTATE

by Davide Formica, Formica Investment Group

The U.S government debt has been increasing exponentially (26.5 trillion as of Jun 2020). Putting it into perspective: $3.7 trillion printed in nine months (9/30/2019 – 6/30/2020). That is a 14.2% increase. During the ongoing fiscal year, which ends in two months on 9/30/2020, the government has printed almost double of what was printed in 2009. If you add all the years from 1991 dating back to 1789, the first fiscal year for the U.S. Government.That is 288 years which, only accounts for 13.84% of the total debt to date. That is less than what was printed in the past nine months.

U.S Debt Yearly Change

Current events have forced the hand of governments around the globe to take unprecedented actions to keep their economies afloat. But, in doing that, the limits of what can be done with the current monetary system are being put to the test.

We may be close to a new monetary system paradigm change.

Technology – The younger generation is used to transacting with their phones. Send a check? Cash? What?... They will be more inclined to pay and receive money within their phones using apps that are already integrating with crypto currencies.

Eurodollar – This is one of the reasons why the dollar continues to have such high demand (in addition to the foreign debt).

But, the growing frustration by the U.S sanctioned countries is fueling their pursuit to become independent from the dollar. Not an easy feat, but eventually likely to happen. Also, worth mentioning that China is already testing its new digital currency. The next crypto wave is coming.

Foreign Debt – No other country in the world can offer the freedom, security, and the rule of law that the United States can provide. For this reason, foreign countries continue to purchase U.S debt payable in dollars. This is yet another reason for the increased dollar demand.

The United States is in a unique position where the government can continue to print money with minimal effects on inflation (currently under 1%). Luckily, oil prices are also low at the moment, which usually causes inflation to go down.

Thoughts for the future.Cash continues to get diluted right in front of our eyes. And the possibility of a decreased dollar demand could create a sizable inflation effect. For these reasons, it's a good idea to stay hedged by investing in real estate.

IT'S UNNECESSARY TO COMPETE ON PRICE USING SENSELESS ASSUMPTIONS

Ashray Gupta, CEO
Encephalo Investments

By Dion Huey

As the market drives forward and investors continue to pay sky-high valuations for properties based on an operating pro-forma that may not come to fruition, a behavior aptly coined irrational exuberance by former FED Chairman Alan Greenspan, you have to stand out above the noise.

"Competition is fierce, and differentiation on terms alone may not be enough to win you the deal," according to Ashray Gupta, founder of Encephalo Investments. "We are not price buyers, nor will we ever be. However, we have passed on several deals despite us offering the best terms."
Ashray has an intriguing background in analysis and equity trading, including developing strategies using the Dark Index, an indicator used to predict inflection points in the equity markets. Throughout our interview, it became apparent that he is transferring his experience and knowledge from equities and options trading to real estate syndication. Recently, his firm sought to put in an offer for a multifamily community in a major southeast MSA. Instead, he came across another property that was twice the size and value of the original property he sought to acquire by sheer happenstance.   After running the numbers, he decided to put in an offer.

"Our biggest belief is that we do not need to have the top price; however, we do need to have the strongest team and the best terms."
Indeed they had the best terms, especially with time to close, 60 to 70 days versus 75 to 90 days from the other bids. Also, they were offering to have their EMD go hard within days of offer acceptance.Ashray stated, " I don't like to go into any deal without having two or three entrance and exit plans." After countering a couple of times, the seller selected his group for best and final and invited them to interview. Confident they were in the lead, they increased the price a bit. The broker later informed them the deal was awarded to another group due to their price coming in at 6.5 percent higher than Encephalo's.

"Regardless of how you slice the deal, I could not figure out how they were making it work at $66 million. "
In the end, it didn't matter as this is part of the process. "I'm not going to chase a deal when I know I don't have to."
There are plenty of deals in the size range in which Ashray is looking. Although Ashray is conservative in his underwriting, when adjusting the financial model levers to see how the group with the winning bid arrived at the price they did, the deal no longer made sense. They were going in based on best-case scenario assumptions as their base case. Ashray sees many syndicators factoring in CAP rate compression or using their going-in CAP rate into their exit assumptions. While aggressive assumptions have worked out over the past five years, this may or may not be the case in the future.
As an options trader, he takes a different approach when projecting an exit cap rate. "The Greeks," as known in finance jargon, are a measure of the implied volatility of the underlying asset and can be used in option pricing.

Vega measures the velocity of equity growth, which Ashray believes applies to real estate investing.

"Investors are quick to add on points to a CAP rate. They should consider the rate of equity growth, which is a more market-driven approach to real estate investing. Assets are just a vehicle for equity multiplication. There is a major capital rotation from equities markets to real estate and I want to be there to capture this."

A broker recently sent over an offering memorandum for a deal that projected 17 percent rent growth for a property that only experienced a 2.2 percent growth in rent based on the T-12. Keep these properties in the funnel as they could prove to be good buys down the road once the music stops.

> "We do not need to have the top price, we just need to have the best terms."

SO THE FED ANNOUNCED THE BEGINNING OF TAPERING. WHY SHOULD YOU CARE?

by Hammad Khan, Hands-Off Investment

At the November meeting of the Federal Open Market Committee (FOMC), the Fed announced the anticipated beginning of tapering. To ease economic stress brought on by the temporary closing of businesses and other far-reaching measures in reaction to the COVID-19 pandemic, the Federal Reserve began to buy an increased amount of U.S. Treasury bonds and mortgage-backed securities. These acts help keep interest rates low and provide liquidity to an economy thrown into chaos. Tapering is the gradual process of unwinding the strategy over time.

The Federal Reserve has adequately foreshadowed this move so as to not cause disruption in credit markets and the economy as a whole. The announced plan is to pare back $15 billion in purchases per month ($10 billion of U.S. Treasuries and $5 billion in mortgage-backed securities) for the months of November and December 2021. The plan after December is explained in the Committee's statement as follows "the committee judges that similar reductions in the pace of net asset purchases will likely be appropriate each month, but it is prepared to adjust the pace of purchases if warranted by changes in the economic outlook."

Being "prepared to adjust the pace of purchases if warranted" is related to the Committee's employment target balanced against its inflation target. An accommodating interest rate strategy aids higher employment. But, that risks inflation rising beyond the current target of 2% annually.

First, let's look at employment. Today's jobs report came in at 531,000 new jobs created. This exceeded expectations, which was in the 460,000, range by a nice margin. Many excited headlines claimed that this was the economy returning to normal. Although, it comes on the heels of two consecutive months of wide misses. We choose the more realistic reaction of being cautiously optimistic.

On the inflation issue, The Fed's target has long been 2% annually. After years of inflation below 2%, it appears that the Fed has become flexible. They have alluded to a 2.6% inflation rate in the short term to balance out the years below their target. Further, it is their position that inflation currently is a supply-side issue related to disruptions in the supply chain.

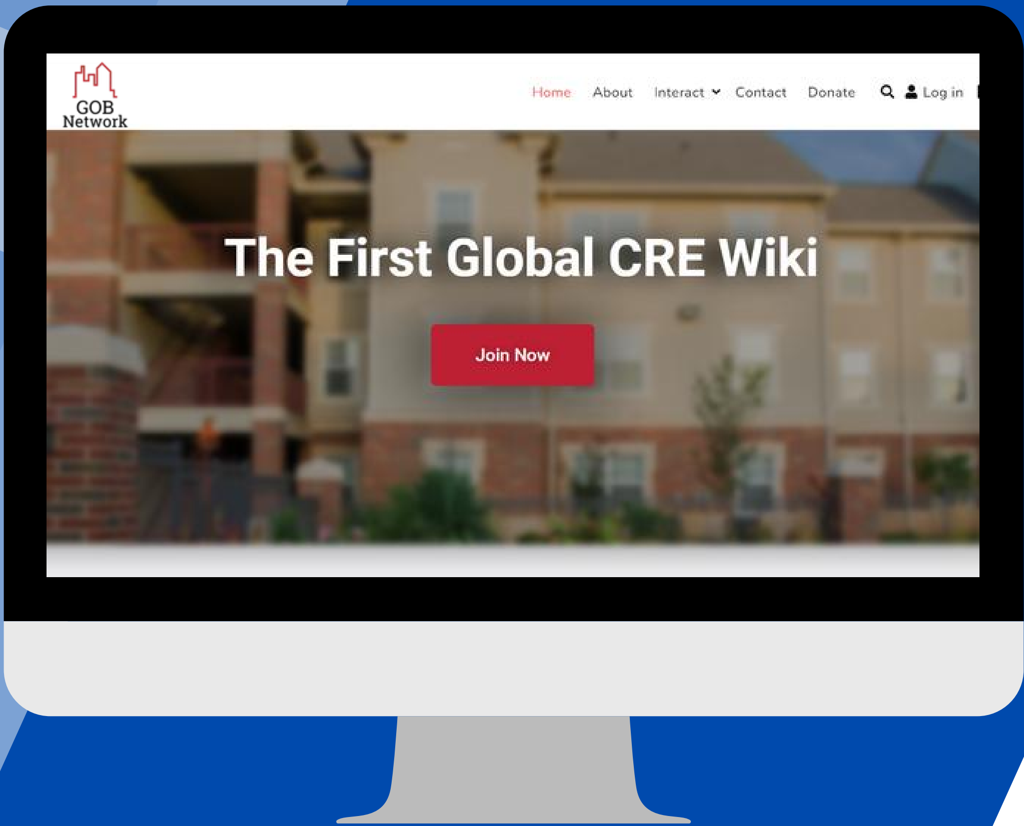
We accept that current inflation is transitory. But, we are moving from one transitory event to another. The next expected cause of inflation will come from wage inflation. We already see increasing labor costs. Tie that with the recent unemployment report, and you can expect wage inflation. To us, this implies overall inflation lasting longer than the Fed appears comfortable admitting.

All indications point to an increase in interest rates in the second half of 2022. We hear that half of the Committee wants to raise rates now. The FOMC left rates at the current level of 0-0.25%. This is the rate target of the Fed. We already see yields to maturity increasing in the secondary market; 2 basis points in the 20 year Treasury and 3 bps in the 30 year Treasury. When interest rates go up, the market value of existing bonds goes down.

All of this continues to support our thesis of adding real estate to the investment portfolio as a prudent strategy; a recovering economy, an inflation hedge, and investment yields via rent payments driven by markets rather than bank policies.

"Overall inflation may last longer than the FED appears comfortable admitting."

Launch YOUR REAL ESTATE INVESTING CAREER WITH US!



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