Joe Muratore & Ryan Swehla | Graceada Partners

Joe Muratore & Ryan Swehla (00:00)

And that's why for us,

really kind of the core thesis is to be the institutional player that is just like 20 years ago in self storage or you know 15 years ago in mobile home parks to be those first groups that are really figuring out how to access these markets.

Matt Slepin (00:22)

Hi, this is Matt Slepin and welcome to Leading Voices in Real Estate. Today's conversation recorded on September 18th with Joe Muratore and Ryan Swehla, the co-founders and co-leaders of Graceada Partners, a real estate investment firm that focuses on value-add multifamily and industrial assets in secondary and tertiary markets in the Western U.S.

is a very different discussion for leading voices.

We usually cover larger investment managers or sometimes regionally focused businesses, but they don't think that we've yet covered a company with a thesis around a type of market like Rosatus, focusing both on the demographic strengths of these markets, focusing on what is by nature middle market plays, and playing it strategically in a less commoditized and institutional part of the business where they hopefully can outperform and find real alpha across their business.

We've also covered co-head teams a lot in the recent past, but I think this is the first one with a team that first met in the third grade. I love it. I've also been doing a number of podcast trades recently, so both this episode and the next one with Bob Hart from True America are back-to-back podcasts where I do this interview and then the guest interviews me for their show. So definitely check out Crusader's website for more information on their business, but also for a link to their interview with me.

I'll also put that into our show notes once their episode is released.

Please enjoy today's show, which I know you will. As always, if you have a few minutes, please rate our show in your favorite podcast app and please follow and subscribe to the show and share your favorite episodes with colleagues and friends. I encourage you to visit the archive on your podcast app or on the ZRG website where you can go back and check the library. If you have comments on the show or if you'd like to talk about how ZRG can help your business on the talent side, including search, consulting, or advisory in the real estate space,

Please contact me at I hope that you enjoy this conversation with Joe and Ryan.

Matt Slepin (02:19)

Joe and Ryan, welcome to Leading Voices in Real Estate. I am pleased to have you both on the show to talk about your business and where you invest in secondary and tertiary markets in the United States. We've had some conversations through the podcast about kind of regional or more local developers, but we've never really gone into the thesis of investing in secondary and tertiary markets and.

To me, that's utterly fascinating, both about your business and then what that means for other like kind businesses, if there are any in the country. It is a total contrast to most of our sessions. And in fact, the last podcast was with the co-heads of Blackstone's Link Industrial Portfolio. So we are talking one end of the spectrum to the other. They were talking about using size and scale and.

playing in the major markets and in the core markets for industrial. And here we are talking exactly the opposite about an entire business, a business model and business strategy. So lots to talk about. This could be really fun conversation.

Joe Muratore & Ryan Swehla (03:21)

excited to be a part of it.

Matt Slepin (03:22)

Thank you. So why don't each of you introduce yourselves and what are your role in the company and then we're gonna talk about your company and then we're gonna talk about your strategy.

Joe Muratore & Ryan Swehla (03:31)

My name's Joe. I'm co-founder with my friend of 40 years, Ryan. I also play the role of CEO, which means managing our internal team, our investing, our real estate outcomes, playing a bigger role in setting direction and getting there.

And I'm Ryan Swayla. As Joe mentioned, we've known each other just for a little while. We can talk about that later. But I'm president of the company. I oversee capital formation, investor relations, kind of the external outward-facing part of our company and also involved in strategy. And we both sit on our investment committee as well.

Matt Slepin (04:08)

Cool. And I'm going to want to talk a lot about what it means to co-lead a company, but let's go back 40 years. How old were you 40 years ago when you met? like, were you in the sandbox? Were you on the basketball court? Talk about that for a sec.

Joe Muratore & Ryan Swehla (04:19)

pretty close.

Matt, when we met, it was the year of the Challenger. I don't know if that's good or bad, but we were in third grade. I remember watching that launch together. So it goes back ~ that far, 1986.

Matt Slepin (04:34)

1986,

third grade. And so when you were in the third grade and you were just talking and you were hanging out, of course you weren't imagining a real estate company or working together for this period of time. What was your fantasy of friendship at the moment besides the Challenger?

Joe Muratore & Ryan Swehla (04:48)

Well, yeah, we definitely weren't thinking about a real estate empire, but you know, it's interesting.

Partnership is a lot like friendship and, ~ you know, working together in a company ~ requires that kind of humility and recognition of different ~ views and perspectives. I would say, you know, when you're friends, you're friends because you naturally attract because you have different strengths and different weaknesses. You don't even know why, but you just are naturally attracted to each other. And we paled around for years, you know, through elementary school, junior high, high school.

Matt Slepin (04:58)

Mm-hmm.

well we'll go from sandbox to what that really means after we get a little bit further. It's funny, we've talked to brother and sister combos who co-head companies, so they go back a little further than you do in terms of their lifespan, I suspect. And last opening question, what does Graseta, how do you say the company's name and what does that mean? Where does that name come from?

Joe Muratore & Ryan Swehla (05:42)

Yeah.

Well, it's the Central Park of Modesto. It's called Graceida Park, and we named the company after it. We did not do a lot of testing in the market because it certainly looks like a Spanish word, Graciada, which actually isn't a word in Spanish, but it was named after two ladies that their families donated the park back in the 1800s, and it was Grace and Ada. And so hence, our firm's name is Graceida Park.

Matt Slepin (06:07)

Mm-hmm.

Joe Muratore & Ryan Swehla (06:12)

partners.

Matt Slepin (06:13)

Okay, we'll take it and we'll talk about what Modesto means also, maybe as we get along in the podcast. So what is it that you guys do? Talk about the theme of your business, where you invest, how you invest, how much you have AUM, lots to kind of cover for an overview.

Joe Muratore & Ryan Swehla (06:15)

Yep.

Yeah, I'll start with the idea that we are of Modesto and from Modesto and steeped in Modesto. Turns out that there's about 80 Modestos in the western United States.

you know, ~ tens of millions of people live there. About 30 % of the United States is sort of Colorado West. And a very large part of that lives in secondary and tertiary markets. ~ A theme we'll talk about today is secondaries as the new primaries. And I think that's a really rich data theme for us. But fundamentally, we started here in Modesto. We're in Modesto today as we film and there's half a million people within

you know, 30 minutes of us as we stand and they're underserved. And our firm started as a service provider and we noticed that we were doing everything. We were finding the opportunities, we were managing them once acquired, we were selling them, we were handling the leasing and our earliest thought was we should be applying the capital to this and doing it ourselves. The capital's parachuting in from LA and San Francisco and other places. I mean...

Why is this set not being mined? over time, we did apply capital and have been ever since. Today we're knocking on the door of a billion in AUM.

know, institution capital is a big part of what's happening for us and we're in three states now. So we'll talk more about our thesis, but we're excited. We tend to hear the comment that what we're doing is not something others are doing, that it is being done in a niche sort of way. so applying capital in our niche way, we think is a gigantic opportunity over the next two to 30 years.

Matt Slepin (07:59)

And untapped niche is a really good way to do business. I love that. So congratulations. And when people were parachuting in to do this, I'm assuming they were doing deals, not chasing an overall investment thesis that you have for your markets.

Joe Muratore & Ryan Swehla (08:02)

Ha

Yeah, mostly just to kind of give a little bit of framing of these markets. And we used to be shy about using the word secondary and certainly tertiary market because in some institutional circles that can be like a four letter word and we can speak to some of the misconceptions around there.

But these markets are predominantly private capital. One investor of ours ~ who came from a private equity background referred to what we do as lower middle market P.E. because in lower middle market P.E. you're really buying from the original owners of the business. They're smaller transaction size. They're not institutionally run. And when you look at secondary and tertiary markets very much the same dynamic you've got

Matt Slepin (08:57)

Right.

Joe Muratore & Ryan Swehla (09:04)

ownership that is predominantly private capital, non-institutional. So even the helicoptering in that we're talking about, a lot of that is actually private owners that they live in LA, they live in Chicago, but they like the yield component, they like some of the return metrics that they get in these markets, and they come in and then certainly overlay that increasing institutional interest. But again, kind of of that more helicopter deal by deal, not a broader thesis or

construction.

Matt Slepin (09:33)

Okay,

so much I want to come back to, so much to cover. But let's keep with the headlines of your company and what it is today. It's mostly multifamily and industrial. Talk about that, talk about how many assets. Just give us a sense of current size scale scope of company and then we'll ask about capital in a minute.

Joe Muratore & Ryan Swehla (09:50)

Yeah.

Yeah, so ~ today, as Joe said, we're approaching a billion in AUM. We are in about 12 markets. We're a vertically integrated team. So we handle the property, the asset management, the construction management, fund accounting, property accounting, all of that. And so with that, we've got a team today of about 65 people. And that's spread across the markets that we invest in. And obviously, that's a ~

scaling

group of individuals as well. Our management team consists of about five people. We have a CFO, CIO, COO, and then my business partner and myself. And we have a very strong leadership team below that. since given your expertise and background, really look forward to talking about talent and ~ how we find talent sitting here in Modesto, California, too. But we could could sidebar that. I'd like to add on

Matt Slepin (10:44)

~

Joe Muratore & Ryan Swehla (10:45)

Matt with regard to the asset mix earlier in our careers we own shopping centers and office buildings and we still have a few remnants of those but The thing that we kept coming back to was anchor tenants along with TI and capex those those sort of three Themes were constant thorns in our side, especially in shopping centers You've got co-tenancy rights and cam pools and a million pieces of complexity related to have an anchor tenant leaves this or that and then you have these

giant roofs that are in TIs, know, large tenant leaves, new tenant comes in, they have the, you know, market power to demand, you know, $50 a square foot in TIs, $100. It's incredible. And you would make gains with the asset and then fall backwards as TIs and commissions came into play. So a thing we moved towards several years ago was the no anchor tenants idea. And what we love about

you know, sort of workforce housing. I won't say exactly workforce, but it's 80s, 90s, 2000s. It's not necessarily new. We have some newer product. And multi-tenant industrial is that these are...

These are supply constrained assets. It's difficult to build them in secondary and tertiary markets. The rents don't justify new construction generally. They, you know, if one tenant leaves, another goes in. It's two versions of the same thing. On the apartment side, the tenant moves out. Well, if you're well positioned, it's an attractive asset. It's run well. There's a new tenant that wants to move in. Our average market has four to 6 % vacancy rates. There's demand for quality products.

And on the industrial side, lots and lots of 3 to 7,000 square foot tenants. I think we 400 or 500 tenants at this point.

And, you know, plumber moves out, plumber moves in, ~ you know, distribution moves out, distribution moves in. And we do have some larger tenants, but fundamentally we want, we want smaller tenants with enough demand on our, enough control on our side and enough demand wanting our product that, TIs stay low, commissions stay low, ~ and rents move up. It's a scalable business. with, with the older, with the, with office buildings and, shopping centers, we often say those are

Matt Slepin (12:30)

Mm-hmm.

Joe Muratore & Ryan Swehla (12:54)

art projects. Like those are, like when you have a big office building, you're thinking about that lobby and that space and that tenant and it's a local play. What we do is scalable. We have this type of apartment complex, we do this. We run it this way. We can do that in Colorado Springs the same way we can do it in Sacramento. We start with a scalable thesis. It's much more durable.

Matt Slepin (13:04)

Mm-hmm.

And the size industrial fits that theme well in terms of the type of tenants that you have there, largely real people, more than big corporate stuff. So you're playing at that end of the spectrum in the industrial game.

Joe Muratore & Ryan Swehla (13:30)

Take out rent control, take out politics.

Matt Slepin (13:32)

Ha

Joe Muratore & Ryan Swehla (13:33)

Yeah. And the

Matt Slepin (13:33)

ha ha ha

Joe Muratore & Ryan Swehla (13:34)

market is what the market is. And we are able to move. We're able to improve assets, move rents to market and treat our customers well in the current market environment. And the one other thing I would add to that is going back to kind of that lower middle market private equity example, we're buying from private owners. almost actually 100 percent of the time we're buying from private owners and private owners kind of have a

Matt Slepin (13:37)

right

Joe Muratore & Ryan Swehla (13:59)

investment objective which is long-term cash flow and keeping cash flow going. So they're not really focused on optimizing rent, they're not focused on pushing rents, they're more focused on occupancy. And so what we found over time is with multifamily and multi-tenant industrial, if we're buying an asset where the in-place rent is 10 to 40 percent below current market because you've got a private owner, it's much easier to grow NOI and these

Matt Slepin (14:03)

Mm-hmm.

Joe Muratore & Ryan Swehla (14:28)

two asset types because you've got that shorter lease duration. So we're typically, when we buy an asset, we can typically be growing rent 10, 25 percent in the first year just because you have the constant lease rollover in those two asset types.

Matt Slepin (14:41)

And let's

play with that for a minute, is either inefficiently managed from an NOI standpoint and from a growth opportunity standpoint. B, I'm guessing the efficiency in terms of, or the inefficiency on a transaction is probably relatively high. So you're a pretty preferred buyer to jump in and learn about those things with less competition.

Joe Muratore & Ryan Swehla (15:05)

Yeah, I'll touch a little on the operational inefficiency. Maybe Joe can touch on the sourcing part. So yeah, these owners are, owning it for cash flow. Typically they are not based in the area. Typically they have a third party manager and the third party management sophistication in these markets is low. And they're not incentivized to really be driving rents or optimizing the asset.

Matt Slepin (15:10)

Right.

Joe Muratore & Ryan Swehla (15:29)

Typically, just the operations itself is some of the greatest value add we're doing. Certainly, we're adding cosmetically and amenitizing and things like that.

A lot of what we're doing is just bringing efficiency to the operations so the tenant experience increases because they're used to a landlord who isn't doing things, a third party manager who isn't getting things done. The tenant experience increases, but then we're often implementing for the first time utility reimbursement, amenity pricing, dynamic rent pricing, all these things that in more sophisticated markets, they've been implemented for decades.

We just benefit from being in markets where a lot of those more sophisticated strategies haven't been implemented.

Matt Slepin (16:14)

And it's interesting to pick up on the third party managers are less sophisticated and it takes a sophisticated owner to manage a third party manager well. So if you have a high net worth or mom and pop who's remote, their ability to push and manage thoughtfully is hard. They put this one to bed. Okay, now I have this long-term investment. I can't worry about it because I got a good third party manager. Everything's rolling along fine.

Joe Muratore & Ryan Swehla (16:24)

Yeah.

Well, and if I'm being ~ nice about it, they actually have different investment objectives. Their investment objective is maintain cash flow and consistency of cash flow. Their investment objective is not optimize value and drive rents, which involves a vacancy and turnover.

Matt Slepin (16:57)

So there's inefficiency in the transaction market as well as inefficiency in operations.

Joe Muratore & Ryan Swehla (17:02)

Let me speak to the transaction piece. And I think this is a, like for people listening, this is, I hope this is one of the main things they take away. A big, we're touching on a piece of our alpha and I wanna highlight it. This is something that makes us special. Let's isolate.

the first part of investing in real estate, which is this idea that you make your money going in. In other words, if you buy an investment wrong, it's never going to be great. You have to buy it right. So the key piece of our alpha here is twofold. One is 15 % better conviction and one is 15 % better opportunity set. So let's break that piece down. On the conviction piece,

Currently we're in 12 markets but...

working three quarters, the I-5, the I-15, the I-25, and we'll talk more about that later, but three vertical corridors in the Western United States. And our properties that are there are like beacons of data and conviction and insight. Like if you're looking on CoStar or Green Street, you're getting, you know, several layers, you're going through several filters by the time you're seeing it. You're not, it's not lived data. It's not your personal data. And number one, our goal is to have boots on the ground conviction.

because we're vertically integrated, about where rents are headed, where demand is, you know, all that stuff. So we're feeling stronger or less strong. We're layering in a personal level of information. It should be 10 or 15 % better than you can just find through data sources. It's ours. It's our lived experience. On the other side of that, deal doing is a slow process.

When you rush it, you always overpay. We see it as like a Ferris wheel. You just put stuff on the Ferris wheel, like we put out two or three offers a week, sometimes totaling $100 million, and we put them out.

somewhat casually because in working secondary markets to put out offers is really a fact-finding mission. We get close, we underwrite, but we often have incomplete data, but we put out offers. They're non-binding and they're just little, it's almost like giving someone your business card. But in all these markets, you have these owners that have owned for a long time, they're secondary or tertiary markets, there's not our level of liquidity and ability.

commonly in these markets. We're nice, we're easy to work with, we generate offers fast, and you know, the ferris wheel goes. They get the offer, they show their kids, they talk about it, they socialize it, but our job is to marry up 15 % better conviction than they see because they've been in that market forever.

~ with 15 % better opportunity set because when you're working 12 markets or more, know, you're getting off your it's like Warren Buffett says, Mr. Market presents an offer every day. It's your choice to take it. We're getting Mr. Market every day. Every day we get a call. What do you think? What do you know? It's like, so you've got this, ~ you know, this data set of things and we're marrying up opportunity with conviction. And this is a self-reinforcing network because

Matt Slepin (19:52)

Mm-hmm.

Joe Muratore & Ryan Swehla (19:55)

every time we buy a new building, every time we enter a new market, our data set gets richer, Mr. Market gives us more opportunities, and we're able to better match those up. And our ability to synthesize the data, to marry those things up, to value attributes in assets and markets, and make that math equation work gets better and better as we go along.

Matt Slepin (20:14)

Right. And the Holy Grail in real estate is an off-market deal and they don't exist in the primary markets in reality. Everything has a broker involved. What is your percentage of deals that either is truly off-market or has a passive broker versus it's actively marketed?

Joe Muratore & Ryan Swehla (20:33)

We are really, really, really good at this. This is something we know so well. So how do I say it? We were in the brokerage business for 10 years. I'll speak to my personal experience, but I was a street broker for a long time, meaning just boots on the ground, lots of sellers and small shopping centers.

Matt Slepin (20:37)

the

Right.

Joe Muratore & Ryan Swehla (20:56)

What's really interesting is to work in an institutional setting now with that lived boots on the ground experience. It's a Harvard of this business that's not as, it's not that common. It's not, to juxtapose a Main Street and Wall Street is not often done. And it is a secret sauce of our Modesto thesis and who we are. But so how do we buy?

The first answer is we were brokers, we speak broker. It's a helpful language in this business. Many of our peers are speak institutional, they look institutional, they sound institutional. They say what's on the market, our data is better. if you're in a best and final, let's start with you're in the wrong spot. Our job is to create a reverse funnel. A broker's job is to funnel to the highest price. Our job is to create a reverse funnel. So how do we create a reverse funnel?

The first answer is tons and tons of offers with very with a stoic level We achieve we work to achieve a stoic level of putting these offers out There is a the more you're married to a deal the more you're going to overpay So lots of offers lots of time that creates optionality Everything starts something and we often make about 20 offers for every deal we buy

It's great. feels good. Offer out the door. Forget about it. Next thing. Secondarily, we talk to brokers all the time. We love brokers. We pay fast. We are super nice to them. They are our buddies. We mostly thrive with junior brokers. We thrive with brokers and off brands. If it's a top name brand and that guy's driving a Maserati, he is not our friend. We want the secondary third guy on the team who's been in the business seven or eight years. He could do the top broker's job.

He's trying to make his way. Those guys are gold to us and we love talking to them. We answer fast. If it's a good deal, they get an offer out in two or three days. I these guys are feeling empowered. If the main broker gets involved, we're still calling the third guy. last thing I'd say

Matt Slepin (22:47)

Right.

Joe Muratore & Ryan Swehla (22:51)

is we work super well with those guys. market, sometimes the best deals in secondary tertiary markets come from...

you know, remax commercial or someplace that's just not CBRE. Like here's a person that wants to be a solo operator. They know their set of owners. They know when they have a great deal, but they value their autonomy. you know, these, when their calls come in, they're often the richest because they don't have a listing. They just have a lead and any of them.

Matt Slepin (23:17)

Right.

What percentage or

you do, you are going directly to owners because these are small markets. These are people who don't know they could market their deal. There's someone who, Hey, the patriarch just died and there's four kids and they'd rather monetize. And you get to hear about that through the lawyers instead of the brokers is it.

Joe Muratore & Ryan Swehla (23:23)

Yeah.

you

Yeah,

let me speak a little bit to kind of the structural of the market because these are less efficient markets. So separate of any secret sauce that we have, you're working in markets that are predominantly private owners. And so it's just a more inefficient market. And so the sourcing is more inefficient. It is still better generally to be working with brokers in that they are, their job is to find a transaction and get paid for it. And so they're very

incentivized to find the owners that are actually ready to transact. The difference back to Joe's point is the reverse funnel. never in a marketed process where they're asking for offers and best and final. What we find is that these are brokers that because of our track record, relationships, whatever, they're reaching out to us when they first hear about this opportunity or it's an owner they've worked with for decades and they're now ready to sell that asset.

The

flip side is maybe they've run a marketed process and it has been unsuccessful. It's failed because the owner had too high of expectations and a year later, six months later, the broker thinks that they're real about their offer and we get called. So there usually is a broker involved almost all the time, but the difference is it's a one-to-one negotiation between buyer and seller, not a one-to-fifteen negotiation.

Matt Slepin (24:58)

Right. Fair deal.

Also, I'm thinking of like a mom and pop owner of a 60-unit apartment building in a tertiary market. If I'm dealing directly with you, I don't trust you. If I'm dealing through my broker, all of a sudden the translation from you to that person feels better. And hopefully that broker is moderately but not overly sophisticated. So then you win in your reverse funnel. Just thinking. Okay.

Joe Muratore & Ryan Swehla (25:13)

Yeah.

Yeah. We,

go ahead. Well, I'll just say we've, we commonly purchased from the original developer.

Matt Slepin (25:26)

Go ahead.

Joe Muratore & Ryan Swehla (25:31)

We commonly purchase from the original developers children. We recently purchased from the original developers children's children. But our portfolio has a number of these. And what's interesting is when you're working with long time owners and families, I mean, these are estate issues. Think of if you've sold a house, Matt, when you come to market, think it's worth, most people think their property's worth a fortune because it's their property.

And they have to go through their sort of stages of grief to get through. There's a whole bunch of seller psychology to get to a real market price. So our job is to

You know, it's common in our business to be like, well, we know what the end price is going to be. Why won't they take that now? But you have to go through this journey with them and the broker saves so much time relative to their cost. Because for them, this is one of two or three big things they're going to do this year. For us, we need to work on 20 of these and we need to closely work with these brokers while they hand hold through stages of grief to get to the ultimate price. And often this involves listing and then it

didn't sell or listing again. mean, is saga. And ~ we're good at calibrating for the long-term pace of buying right.

Matt Slepin (26:34)

Sure do.

Hey, I'm an intermediary in my job as a recruiter. Call me headhunter. We do this, but we do it with the human beings. And right. there's so much emotion involved through that process. But to know how to translate that to make good decisions is what you do, what we do, what brokers do. Everyone across the table does this stuff. OK, couple of other threshold questions. What is your average hold period? And then what's your capital look like in?

Is it funds? But first average hold period. So this is value add stuff.

Joe Muratore & Ryan Swehla (27:11)

Yeah,

so we underwrite to five years, typically three to five year hold. As I mentioned, part of why we've focused on these two asset types is we have the ability to grow in a way faster. So we're typically looking to exit between years three and five on an individual asset basis. It's actually not uncommon during our investment period of the fund that we'll have assets that we recycle because they've already, you know, had their use, their full growth. We do operate in a fund

We're currently on fund four. Composition is majority institutional capital and our currently our fund ~ is on track to exceed our target of 300 million and approach our hard cap of 400 million.

Matt Slepin (27:53)

Cool. Congratulations. Are you in the fundraise right now? So what's the timing of the next fund?

Joe Muratore & Ryan Swehla (27:56)

Yeah.

This fund will finish its fundraise in the middle of next year. the so next fund would be probably twenty twenty nine, something like that. Fund five.

Matt Slepin (28:08)

Okay,

and so let's talk more about the dynamic. We've talked about the transactional dynamics of your markets. I want to think of the research base behind this thing that says let's go for this. Although, and one comment is how much, timeline resilient is your thesis versus the thesis is right now and it works right now for secondary and tertiary because one of the lessons of the podcast is

Joe Muratore & Ryan Swehla (28:20)

Yeah.

Matt Slepin (28:35)

really doesn't matter how you buy it, when you buy. So how much does the when matter and the post-COVID when in secondary and tertiary is important post-COVID might continue, but I don't know that. So that's a lot to think about, but kind of argue the points.

Joe Muratore & Ryan Swehla (28:38)

Yeah.

Yeah.

Yeah.

Maybe I'll start a little bit with kind of the context on these markets and then maybe you could speak to long-term trends. one thing we learned, again, we didn't start in

New York City and say we want to invest in secondary tertiary markets. We just, grew up in these markets. These are the markets we knew. And really we kind of stumbled, you could say, across the opportunity over time. It was this slow realization that there's a ~ unique difference in

or how these markets perform. But in the institutional world, when you say the word secondary and tertiary market, as I mentioned, it can be a four-letter word. People think ~ illiquidity, they think these markets don't perform like primary markets, they think the real estate doesn't perform like primary markets. And so even though that was not.

Matt Slepin (29:38)

Hey, let me interrupt for a sec, because the

question, what we think about as institutional folks is does it scale and are we getting paid for the additional risk? I don't know that there's additional risk in your approving scale maybe. Go on.

Joe Muratore & Ryan Swehla (29:45)

Yeah.

Yeah. Yeah.

Yeah, absolutely. And scale is a really interesting topic. these kind of misconceptions kept coming up. And so we, over the course of several years, took to providing the research and the data that supported what we already knew intuitively. And so over the course of a few years, I'll just quickly touch on the three main misconceptions that I mentioned. Liquidity. That is a complete misconception.

And if we use the lower middle market PE analogy, we all get comfortable with it, which is the idea that smaller transaction size is actually the more liquid part of the market. We looked at the entire Western U.S. We looked at primary markets only. We looked at secondary tertiary markets only. And the data was consistent that when you're in that smaller average transaction size, that's the liquid part of the market. And the reason for that is because you're in between institutional and private.

So you've got essentially double the buyer pool. And what the data also shows, which this is really ~ different than people's perception, being closer to private capital, you have a more liquid market than being closer to institutional. We think institutional means liquidity. What the data shows is during downturns, institutions operate much more in lockstep with each other. And so the markets above 40 million asset size, whether you're in San Francisco or Baker's

field, if you're in above $40 million asset size, that's the market that freezes up. And when you're in that smaller asset size, because private owners, they're not transacting just because of market timing. They have estate plans, they have patriarch passed away, they have all these other external motivations for transacting. And so that is a real misconception is the idea that these smaller markets are less liquid, they're actually more liquid because of that private capital component.

Matt Slepin (31:47)

And I think the

last two recessions, private capital were the first places back in and we all saw that. Even in major markets.

Joe Muratore & Ryan Swehla (31:48)

Yeah.

Yep. Yep. Yeah. we're experiencing that right now.

Yeah. I mean, even today, our transaction volume has, you know, it's kind of returned to pre-rate hike maybe a year ago. And primary markets were still kind of waiting for that to occur. ~

Matt Slepin (32:09)

Okay, three misconceptions.

So that was one.

Joe Muratore & Ryan Swehla (32:11)

So that

was one real quick. The other one is this idea is, hey, don't these markets not perform as well as primary markets? We looked over the last 20 years, including the GFC, including the COVID pandemic, the rate hike. And we looked at Western US markets, the ones that we're active in compared to Western US primary markets, Los Angeles, San Francisco. And what the data shows is our markets have stronger GFC

GDP growth, they have stronger population growth, and less volatile in both of those. Less volatility, GDP growth, population growth, job growth, better unemployment. that really underscores, I believe it's a unique dynamic in the Western US. These are markets that for decades, for a century, have had year over year positive population growth.

because we're in the expansionary part of the United States. So they've had this huge tailwind of demographic growth that has always been there and has provided the tailwind for the economic measures. And to your comment about COVID, the data actually showed there wasn't a huge COVID bubble of population into these markets. Rather, still had this similar consistent population growth pre-COVID and post-COVID.

And

that's a real misconception. We hear headlines about ~ people leaving California, which is true. California actually had negative population growth. But the inland markets in California, the ones that are secondary tertiary, that are more affordable, they actually were a huge beneficiary in migration. the data on the economics, again, it's clear in our markets. We believe that it's consistent across Western

Matt Slepin (33:49)

Mm-hmm.

Joe Muratore & Ryan Swehla (34:00)

in US secondary tertiary markets, we're not so sure that that because of that demographic component, we're not so sure whether that translates to other parts of the country.

Matt Slepin (34:09)

Let's come

back to that, because I want to hear number three, but I have more questions about number two. So what's number three?

Joe Muratore & Ryan Swehla (34:12)

Yeah. Last one is,

hey, I remember in the GFC that

you know, didn't these markets not perform as well as primary markets? And again, we took over a 20-year period. We looked at all the major real estate measures, value cap rates, occupancy, net absorption. And broadly speaking, if I were to summarize, it showed that these markets performed about the same. So when you looked at value decline during GFC, primary, secondary, tertiary, about the same decline. When you look at vacancy increased,

during the GFC, they had about the same vacancy increase during that period. And we're talking industrial and multifamily. So broadly speaking on the how does real estate perform, it's about the same. The one interesting thing is in net absorption, much greater volatility in primary markets than in secondary and tertiary. And you would think the opposite because the logic goes there's an abundance of land and it's cheap to build.

you know prices get to a certain point they put up too much.

But what the data shows that primary markets have that oversupply and then undersupply much greater. And we believe that that is the presence of institutional capital. The markets that have less institutional capital tend not to go through these big oversupply, undersupply. The markets that have more do. And we've seen this with Austin. We've seen it with other markets as well. But when you're talking about Bakersfield, there's just very limited institutional capital. So the only people building

are the developers who are financing it themselves and have a very vested interest in not oversupplying the market.

Matt Slepin (35:52)

So I want

to play I was going to use a Sacramento example, but maybe I could use Bakerfield, but I'm gonna go to Sacramento But here's the thesis so you want to invest in the primary markets you want to invest in the Bay Area Or you want to invest in San Francisco you want to invest in the peninsula and he said gosh, it's too pricey So I'm gonna invest in Oakland The risky move right and then they go well, it's too expensive there. I'm gonna invest in Sacramento so during the cycles people start over bidding on a

repetitive on that basis more to the furthest place you could go. And then those furthest places fall the most. Oakland probably did fall the most. So that's a different primary secondary in a big city. But is that thesis not true for Sacramento in terms of what fell and didn't and did it ever get there?

Joe Muratore & Ryan Swehla (36:39)

We'll be good.

Yeah.

I'll start with an idea and maybe you can follow up on that. But let's start with the idea that secondaries with the new primaries. Let's turn that argument on its head and say the axis has potentially shifted here. So let's say we're comparing Sacramento and Los Angeles. I live in Los Angeles. My rent is really high. It takes me an hour to get to my office building in downtown. I have to get there in my car, find a place to park. It was expensive for gas. was gridlock on the freeway. ~

Matt Slepin (36:44)

Right.

Joe Muratore & Ryan Swehla (37:09)

office

building, I go to the 32nd floor, I try to get home, there's a lot of...

What worked before was a network. You had to be here to be a part of this network. What has changed, especially in light of post-COVID, is now lots of people work remotely. They work remotely a couple days a week. They have access to further geography. Their car can potentially drive them there without them touching the steering wheel. There's new ways to work. Even now, we're having this lovely meeting and you're in a different spot than us and we're still connecting. The point is,

The world is getting more dispersed and the argument for secondaries and even tertiaries is increasing. And by that I mean you can afford a house. You can live on a piece of land that's big enough to have a swing set. Your kids, my kids walk to school in Modesto. It's really nice. There's places to park. My, you know, the office is not far from the house. The point is outside of that essential network to make, you know,

economic network, quality of life in many ways, especially as you get to where Gen Z and millennials are increasingly being as the biggest spending cohorts. They want to be in a place that supports their family because they're starting to have families or they do have families. starting with the idea that things are going to radiate from Sacramento to Oakland to Sacramento might be a 90s or 80s or old school idea that is totally different now. In fact, that's

Matt Slepin (38:30)

Right.

Joe Muratore & Ryan Swehla (38:34)

how we're building our business.

Matt Slepin (38:34)

you're

making two different arguments because one is it's a 40 year trend that you're describing, but the other is the post-COVID trend of people who are able to get out of the Bay Area mess to get to a place where they can have a sustainable lifestyle.

Joe Muratore & Ryan Swehla (38:41)

Yeah. Yeah. Yeah. Yeah.

The

chart shows a secondary acceleration of the first secular trend.

Matt Slepin (38:56)

Okay.

Joe Muratore & Ryan Swehla (38:56)

And I want to touch on that too, because you mentioned kind of, this a market timing thing versus not? I think an important thing to add context, which I didn't, is secondary tertiary markets in the Western US have $1.7 trillion of multifamily and industrial real estate. By any measure, they are a large and substantial market. And so an important point to add is that we're not

looking to catch on a secular trend, we may believe that that secular trend is existing and will add tail into what we're doing. But if you just zoom out, kind of like you said earlier about inefficient markets, if you zoom out and say, OK, there's $1.7 trillion of real estate in these markets and it's predominantly non-institutional, it is only a matter of time until institutions figure out how to effectively access these markets.

And that's why for us,

really kind of the core thesis is to be the institutional player that is just like 20 years ago in self storage or you know 15 years ago in mobile home parks to be those first groups that are really figuring out how to access these markets.

Matt Slepin (40:08)

Absolutely, totally. And I love the lower middle market PE play because that is a great parallel to this. Let me ask one other question about drilling down on your thesis, which is if it's only Western states, the best markets in the country from what I remember as of 10 years ago before COVID were the big cities in the West. The worst markets over the last eight years or something like that.

have been those same big cities. So does that, and now they're coming back because it got so bad, but is your data set corrupted, your story corrupted by the huge run up in those Bay areas, the California cities and Seattle and Portland or whatever, Denver, and then their fall, does that make that not relevant?

Joe Muratore & Ryan Swehla (40:51)

Yeah.

Matt Slepin (40:56)

to other secondary intershares, because I want to think for a moment about non-Western states in the same thesis, because that still fits the lower middle market PE metaphor that you have.

Joe Muratore & Ryan Swehla (41:08)

~

Yeah, Really, the population growth thing is pretty hard to argue, because real estate is demand-driven. And if population's growing, then you have growing demand for real estate. If population's declining, you have a different problem. And there are certain other parts of the country that have had more muted or even negative population growth. yeah.

Matt Slepin (41:32)

So Midwest has lost population, so we can't take this

thesis necessarily to those places.

Joe Muratore & Ryan Swehla (41:39)

Yeah, the other interesting thing on the population note is when you look at the primary markets in the West, even if you cut off COVID, that, you know, post COVID, every time the markets started to get overheated, population actually went into a decline. So even pre-GFC, the primary markets started to see a population decline. And it's really interesting to see how there's volatility where it goes negative and then positive in the primaries, but in the secondary, if you look at the graph, it's pretty stable, positive. It's not a lot of ups and downs. The volatility is much lower. And one of the questions we've been asking, I don't candidly know the answer, is, well, if you have a lot of out from here, wouldn't that mean that over here you'd see a spike and then a decline? And I think the only answer there is that when people are moving out of these primary markets, they're really dispersing across the United States. know, it's not necessarily I moved from San Francisco to Oakland.

to Sacramento, it's especially today, I'm moving in a more dispersed manner. But it is interesting to see that population volatility is much higher in the primary markets, whereas in the secondary tertiary, again, over a 20-year period, very kind of consistent positive population growth.

Matt Slepin (42:53)

Yeah, you're

not in Sonoma County because Sonoma County I believe is slightly losing population and it's a more elderly population. I'm a focus group of one that moves this.

Joe Muratore & Ryan Swehla (43:01)

Yeah. Affordability.

Santa Rosa has long, good long-term bones for demographics. we're not there now, but there's an argument for it.

Matt Slepin (43:10)

Okay, be there. love it. So and in the development there's really interesting same with Petaluma two towns right adjacent to where I am So tell us story about an apartment building a typical apartment building in your portfolio So we get a sense of what you know size scale and story and then do the same on industrial then we'll move on to a different top

Joe Muratore & Ryan Swehla (43:30)

Sure. I'll start with Westlake.

I'll start with the Lofts, a deal we're working on right now. I could talk Westlake, but the Lofts, 232 units in Fresno, California. Fresno's MSA is about a million people. By contrast, San Francisco proper is 700,000 people. So there's a lot of people on an island in the middle of the United States or in middle of California. It's known for affordability. It's also buoyed by agriculture and it's in the middle of the state. So it's got a distribution focus.

Point is, we purchased 232 units across from the university there. It's a Division I Fresno State. It's probably one of the best CSUs, most durable CSUs.

Property came to market at, they had a new appraisal at 37 million, came out, came to 35 million. The last group had tried to turn it into student housing with sort of mixed results and they had sort of reached the end of their capital and needed to make a move.

We offered 31 million. We ended up getting it for 29.7 million seven months after it went to market. So we let, you know, sellers go through their stages of grief. We put 2.8 million in capital into it. Took it back to traditional. Significantly upgraded the exterior. We renovated 80 units. Today it's on the market at 46 million with the same long-term broker and best in finals next week. So fingers crossed.

the NOI at a market cap rate justifies that value and we're excited about what we did in 18 months. That's a little bit of an extreme example, but being a vertically integrated company like we are, this is where the private equity piece of it comes and that we are able to attack an asset and radically change it from what it is to what we believe the market allows.

Matt Slepin (45:11)

Mm-hmm.

Well, I was expecting you were going say 60 unit tired building, not a 232 unit building.

Joe Muratore & Ryan Swehla (45:21)

Well, 232 units are a lot cheaper in Fresno than they are in San Francisco.

Matt Slepin (45:25)

I think you're like

130 a door 135 or something.

Joe Muratore & Ryan Swehla (45:28)

We bought it

at $127,000 a door. Replacement is about $300,000 a door. A hallmark of our markets is affordability, both on rents, but also on purchase price. And while...

Replacement cost is only one argument. It is very helpful if you buy things right and we are very thoughtful about buying things at a significant discount to replacement cost. But there's always that continuum of you can't buy junk. Here's junk, here's overpriced. can't.

You can't buy quality and pay too much as Howard Marks recently talked about in an oak tree memo, but you can't buy junk either. So you got to find that right spot of quality and value. that's, we spend a lot of thought and effort on that.

Matt Slepin (46:11)

You've quoted Warren Buffett before too. You just quoted Marx, but Warren Buffett would say the same thing. What's it Cigar butts, I think he called it or something like that.

Joe Muratore & Ryan Swehla (46:16)

Yeah. Yeah.

Well, I'd rather buy a good company at a fair price than a fair company at a good price.

Matt Slepin (46:23)

Exactly.

And also the fat part of the market for multifamily is workforce. It's not luxury. So you're in at the price point, not low income, not luxury, but that middle market for multifamily is huge and it's under supplied by far.

Joe Muratore & Ryan Swehla (46:40)

Click.

There's that? Another key idea here is to think of, you know, in private equity, real estate, it's very important to talk about hold period. It's very important to talk, as you very rightfully said, it's not what, it's when. Great. Those are gospel, but let's set them on the shelf for a second. A longer, bigger idea is to see workforce housing and small bay industrial as quasi-utilities.

to see them as a grid.

in our case throughout the western United States for a very long duration. There are going to be millions of new renters entering the market over the next five years as ~ millennials continue to form up and Gen Z's enter the market. There will be hundreds of millions of square feet needed in small bay industrial that don't currently exist. A big part of our markets are the rents don't justify new construction.

If you spend $300 or $350,000 per door to build apartments, you need $2,300 in rent. But our markets can only get $1,650. They can only get $1,700 in rent. Maybe they can get $1,900 in rent. Sometimes it's $1,200, depending on the market. But the point is, again on the continuum, living in that world of...

Increased demand, enough increased demand, but just not hitting affordability thresholds that justify a new supply. And that's, that's the tension we live in. And if you see it as a grid, if you see it as a necessary, durable, long-term utility, like they are not making nineties apartments anymore. They, they are not that big. They do not have balconies in the same way. Do they do not have the same size bedrooms or closets or kitchens? Like you can't.

make 90s apartments anymore. You have to make what we make, what's made today, which is smaller and more amenitized to justify that size. when you can buy, a big way we think about things are if you're going to develop, you have to spend 100 % of the money and get 100 % of the rent. We tend to spend about 50 % of the money and get 75 % of the rent. That's the simplest way to see our thesis.

Matt Slepin (48:47)

Love it.

Well said. Okay, let's have an example on industrial side.

Joe Muratore & Ryan Swehla (48:53)

So Elk Grove Industrial we purchased about a year and a half ago.

And I would say the Lofts, while it's an epic example of our vertical integration and ability to execute, the one caveat is it wasn't a long time owner. It was a group that was trying to convert it to student housing and they failed at that. And so we kind of brought it back on the multifamily track. Elk Grove is kind of more typical in that regard. It's an owner that, it was actually three partners out of the Bay Area, so out of area owner,

owned it ~ for about 20 years and they just got to the end of their partnership. You know, this is typical. It has nothing to do with market timing. It's just, hey, partners at some point, they want to kind of move on and do their own thing. Broker was doing his normal outreach of calling owners and finding out who would be interested in selling. And they said, well, yeah, we'd be interested in selling at this price. And ~ the price that they happened to say the broker knew that's

actually

a fair price for the property. It might even be a little low. And so he immediately turned around and called us and our team. And within 24 hours, we were at the property. Within 48 hours, we had an offer to the owner. And that kind of swiftness is one of the hallmarks of what we do. To describe the asset, I think it's about 300,000 square feet. It has maybe 25 tenants, maybe 30.

And the interesting thing about multi-tenant industrial is it's really an underappreciated asset class. We're not talking flex office, you know, in the Bay Area or LA or these urban markets where it's more officey. These are true industrial, but they're five to 20,000 square feet. And it's composed of users that are really serving the immediate area. So it's like strip retail or grocery and

retail for the area, but it's industrial. So these are tenants like pool ~ service companies, landscaping, contractors, light manufacturers, ~ specialty distributors, and it really is a diversified composition of tenants. With this particular one, the rents were about 35... We underwrote that rents were about 35 % below current market for the same

dynamics we talked about before where the owner doesn't want to spend money or or have vacancy and so we came in knowing how strong that market is and So far we've actually been able to achieve higher than our original underwritten rents at that

The multi-tenant industrial we're typically buying with a less than a three and a half year Walt weighted average lease term. So typically it takes about three to three and a half years to really work through most of the rent roll and we're part way through that process right now. We actually got the appraisal back, the third party appraisal at year end and we're

very pleasantly surprised with the value of the property. We knew we had purchased it under market. We also then saw that the rents we were achieving were higher than we had originally underwritten. So that that asset's performing very well. We probably have another couple of years on that asset.

Matt Slepin (51:59)

Cool. And are you newer into the markets and say Colorado or Utah and those other corridors? Talk about that. And then we're going to start to wrap up and change subjects.

Joe Muratore & Ryan Swehla (52:08)

Yeah.

Yeah, so we made a very intentional push to those two markets in particular because our thesis, what we've found effective in California is we call it kind of the in and out burger model, which is ~ everybody is annoyed that in and out isn't in whatever state they're in, but that's because they will only expand to the adjacent markets next to them. And we found just a ton of efficiency by expanding along adjacent markets.

that allows us to take all that market data, the relationships, the knowledge. When you're in secondary and tertiary markets, a lot of that is very hard to get. It's very inefficient. And so when you're expanding from an adjacent market, it just accelerates your conviction and your ability to execute. several years ago, we made the conscious decision to establish a flag on I-15 and establish a flag on I-25 because those represent kind of the three

north-south corridors in the western United States. ~ so we've been in each of those markets for about four years or so. And now we're to the point, and you can tell where you've really kind of reached an inflection point. I'd say probably a couple of years ago, we reached the inflection point where deals are coming to us, where brokers are calling us because they know what we like and what we're looking for. ~

And

we've got the concentration of resources and staff to be able to execute in those markets. And so I think today in the Colorado market, we have three or four assets and we're in the process of buying another three or four. In the Utah market, have, I think, or we've purchased, I think, two or three assets and we're looking at some others as well. But we're continuing to expand up and down those corridors. So down into New Mexico, up into

to Wyoming, Montana, down into Arizona, up into Idaho from Utah.

Matt Slepin (54:06)

And let's think about this in the non-western states. You're not there, but I want to play it play around with it a little bit. I'm thinking Midwest hard. think growth markets or stable markets less hard. Could you do this or have you thought about the thesis say in New England or you thought about the thesis in the growth markets in the southeast like Florida and Georgia? Are there secondary markets that you think behave similarly or do you not know anything about that?

Joe Muratore & Ryan Swehla (54:33)

I'll speak to it, which is to say, and we would probably say it differently, but I'll say it my way, which is 100 % it, no problem. Where there are population sets, there are inefficiencies. This is where you'll see the difference in our different perspectives that add value. Predominantly, our decline is about 20 million. That's south of Blackstone and Link, and that's north of the local family offices. And it's more about the process or the practice than it is the market.

Matt Slepin (54:46)

course, that's my next question, but.

Joe Muratore & Ryan Swehla (55:00)

I mean, the point is getting there, establishing the relationships, putting out offers over a period of time, dealing in that tweener space with conviction and ability and balance sheet, which we can do with friendliness, with pureness, establishing a beachhead of assets and then clustering around them and then moving up and down corridors. There's a, this isn't a...

This isn't what they say. can, you can copy process. can't copy conviction. The point is like the way we approach things is, is native to our lived experience, our, you know, our Modesto thesis. And there are Modestos everywhere and they they're durable enough that, you know, hundreds of thousands to

you know, at least hundreds of thousands of people are there for a reason and not seeming to want to leave. And there is billions of dollars of real estate in all of those markets. And it does have to be owned by someone. that middle, lower middle market, as we talk about, needs passionate, sophisticated owners. And we believe we're really well qualified for that space.

Matt Slepin (55:47)

Mm.

You could do it.

So the growth thesis in the Western states that we talked about before and I was pushing in all that stuff, may be even in a market, I'm going to play with Ohio for a minute, like is fly over world, it really I don't, but whatever. One of the best podcasts I had, really interesting guy who ran a group called Redwood Housing, a BTR business, biggest BTR builder in the country, I believe, is building BTR.

Joe Muratore & Ryan Swehla (56:10)

Yeah. Yeah. Yeah.

Matt Slepin (56:31)

in secondary markets in Ohio, which he knows like the back of his hand. Those markets are stable. The dynamics of that stable market half an hour outside of

Columbus, Ohio is exactly what you're talking about. It doesn't have to be growth. It's stability that you're describing and need.

Joe Muratore & Ryan Swehla (56:45)

and

value that the real estate's not replaceable, because the cost structure doesn't support replacement.

Matt Slepin (56:48)

stability indeed value and the same inefficiency.

Joe Muratore & Ryan Swehla (56:52)

Yeah, and the only caveat I would give there, which is we're currently in 12 markets. There's call it 50 or 60 of these markets in the Western U.S. We certainly have our hands full, so to speak. The other interesting thing is really around scale, because as we've noted, the liquid part of the market is that 10 to 40 million dollar asset size. And so a real guiding light for us is we will not

Slowly, you see this in managers as they get bigger, they have to go up in asset size. But when you go up in asset size in these kind of markets, that's really where you incur risk. So for us, the governor to our growth is really going to be around scaling the infrastructure to be able to continue to buy, add value and sell more of these smaller assets versus going up the food chain in terms of asset size. Back to the In-N-Out Burger idea.

I fed my family there a couple nights ago for $26. I mean, this is a gigantic group that produces quality at value. And the point being is it takes extra discipline and conviction and determination to stay at a smaller, that 10 to $40 million size, which is sort of a safe harbor in between the bigs and the smalls. But we're building that, you know,

that is essential to our thesis and we're vertically integrated and we put extra effort into building out that thesis and we're not looking to move outside or below it. There's so much opportunity in this lower middle market spot and it's durable because our competitors, the large ones, don't have the incentive to get smaller and the smaller ones usually don't have the capability to get bigger. So this is a great middle ground for us to build a scale

geographic business model.

Matt Slepin (58:40)

That's wonderful. Adorable. I like that word a lot. And you will have competition. Others are going to listen to this podcast. There's brokers who heard a lot from what you've talked about. There's other private equity folks who want to do business models that make some good sense. Talk a little bit more. We started this beginning. Let's go back to the sandbox when you were in the fourth grade or whatever you described. And just think through a little bit the pathway that you've come through together, how you work.

together now and then the company you've built. So comments about company culture and your partnership.

Joe Muratore & Ryan Swehla (59:12)

Well, definitely has our partnership has definitely been founded on friendship. There's no doubt about that. Joe and I, with some other guys just did a 140 mile bike ride around Lake Tahoe. we. So we.

Matt Slepin (59:25)

Good for you, I've wanted to do that one. The greatest

bike ride in the world is called or something, right?

Joe Muratore & Ryan Swehla (59:30)

Highly recommend it but point being that we're not just here in the office together. We actually hang out ~ after hours as well and a well-functioning partnership is far more valuable than a sole proprietorship or you know a sole owner. have so many, especially in the investing business, you have so many risks around echo chamber and around self-reinforcing and that's been a really valuable part

of our partnership. But I'll just kind of back up a little bit that we started with we were working together at another firm, a real estate firm here in Modesto, and we started more and more thinking about starting our own firm.

And ultimately we did that December of 2008, which was about two months after Lehman Brothers collapsed. So it's perfect timing for entering the real estate market.

Matt Slepin (1:00:18)

~

Mm-hmm.

Joe Muratore & Ryan Swehla (1:00:24)

Not so, but ~ we started as a third party broker and property manager. And so that really, in retrospect, we got a PhD in distress because we were the ones on the ground stabilizing assets in the worst possible environment, worst possible situation. We worked with distress borrowers, foreclosed assets, special servicers, the whole gamut.

and it really in retrospect was formative in how we kind of view the world. We tend to be pretty low leverage, low...

We tend to, we've always been fixed rate debt, balance sheet lenders. We don't do securitized debt. We saw what happens when securitized debt goes wrong, when assets go wrong with securitized debt. And so there were a lot of lessons that we learned through that. But I would say probably the best lessons that we've learned are the grit and the resilience that it takes to grow a company from zero and do it through the most challenging real estate environment any of us have seen.

in our lifetimes really and to be able to then build an investment company out of that.

Matt Slepin (1:01:37)

I love that. Joe, any comments to this?

Joe Muratore & Ryan Swehla (1:01:39)

Well, 40 years is a long time. Apparently there's something that works here and ~ back to durability, I would say we are, we think differently, uniquely differently. We have the ability to...

Matt Slepin (1:01:41)

Marriage is tough,

Joe Muratore & Ryan Swehla (1:01:50)

argue things out. I would say, you know, after, you know, these decades, we've gotten better at seeing our triggers and staying there. You know, I've listened to some of your other podcasts with other co-heads and the point is like, you got to stay in your lane the right amount and you got to overlap the right amount. And there has to be the right amount of friction to have good ideas and avoid hubris, to spot blind spots that the other doesn't see, but there has to be enough, ~ self-control to, mute every

there can be a brotherhood component here and I suppose earlier in our friendship it sounded much more brotherly but the point is over time we've built a really good rhythm and certainly as the firm's grown, we're at 63 people today, we've by necessity had to build out our lanes, trust each other in their spots, not co-decide on everything.

We've built this out. We've got extremely competent leaders with decades of experience, know, managers in our company with master's degrees. I mean, it's the right amount of like it's taken this sort of toughness and grit to get here, but we have the ability to step back and build this the right way. And I'm really thankful for that.

Matt Slepin (1:02:59)

Yeah, it's interesting. People ask me all the time, could it, you know, as a career planner or recruiter, whatever the right words are for this, people say, OK, I'm at an inflection point. What do I do? And I always say to people, and this may be my way I had to do it was go find a partner. Don't do this alone. Don't go on your journey by yourself. I've always looked for partners. It's really hard. My first partner in my head hunting business that I set up.

You know, we didn't work well together. wanted to partner so badly because I didn't want to do it myself. I didn't want to pound my chest to be myself. And in real estate, we think about the chest pounders a lot more than the togetherness folks a lot. And so the message is really interesting here.

Joe Muratore & Ryan Swehla (1:03:35)

Yeah.

That's.

If you want to go fast, go alone. If you want to go far, go together, as the old quote says.

Matt Slepin (1:03:46)

I'll let that one be.

I agree.

Joe Muratore & Ryan Swehla (1:03:48)

And that's an interesting touch on our core values because ~ you know the real estate industry is characterized by hubris, ego, know hyper competitiveness and we certainly operate with you know high level of discipline and execution but our first core value is positive, caring and humble and those are typically not words that you associate with real estate private equity but it really is a reflection of

of

kind of how we view the world. Our other core values are owns the mission, excellence and execution, wants to win. So we really have kind of the more typical excellence and competitiveness, but it's over layered with this idea of being positive, caring and humble. And that extends all the way down to our people on the ground at our properties. And it really is a privilege to be able to find people.

that share those core values all the way down at the property level and know that by and large if a tenant is coming into one of our offices or talking to one of our property managers they're going to receive positive caring and humble in the context of whatever hard conversation or difficulty that we have.

Matt Slepin (1:05:02)

Fair

deal.

Joe Muratore & Ryan Swehla (1:05:02)

I'd to that

that we went through a discovery process years ago and landed on a core purpose of we create environments that transform people's lives. And what's super powerful about that is number one, it reflects our goal to actually improve, prove the world and improve people's lives. Most of what we, most of the properties we buy are undisciplined properties. They, they suffer from a lack of leadership. We, we solve for leadership and discipline and communities can flourish there.

What we do isn't just about making money. We fundamentally improve our assets and our companies, our company to ~ create a place that life can flourish because you need constraints for freedom and our goal is you can't do the scale we're looking to accomplish.

with me and him, you can't be a grouchy or a hand holder to do this. You have to create a platform. You have to create environments. You have to create leaders. The most important thing is you have to open-handed leaders who create leaders. mean, this ecosystem makes the mission possible.

Matt Slepin (1:06:06)

Totally true. It's interesting. I don't usually editorialize it when I do my introduction to these podcasts, but I did after the last meeting with the link guys and they're two leaders in private equity. And I said this, I was surprised by positive, caring and humble. I actually felt that this great team, think some, and so not all PE therefore has the chest pounders. That's not the business that lasts a long time. So

Joe Muratore & Ryan Swehla (1:06:32)

dangerous dangerous ~

Matt Slepin (1:06:35)

And I do find after having done 200 some out of these podcasts is that one of the themes of my guess is that they're pretty decent people. And so it's decent people who create fortunes. Now, some of them are chest pounders, too. Right. Or some of them are chest pounders. Not to. They're just the chest pounders that exist out there. Often it exists out there in the developer because to be a developer, to make something from zero.

Joe Muratore & Ryan Swehla (1:06:44)

Yeah.

Hahaha.

Yeah.

Matt Slepin (1:07:01)

then you have to have a different kind of conviction and belief to put that kind of risk out there in your vision. And those folks may have some of that more than what you've described across, which is totally correct.

Joe Muratore & Ryan Swehla (1:07:01)

Yeah.

Yep.

We you know, it's funny we get asked about how we handle, know, we're in workforce housing. We raise rent when we buy properties and we've been asked about how how we handle that. you know, number one, it is anchored truly by positive caring and humble. But it's also anchored by making sure that we're creating value for that tenant in a way that makes them happy to be there. Many of the tenants that we

especially on the apartment side, but even on the industrial side, we'll buy properties and we immediately hit the property with improvements, we immediately hit the property with a higher level of service, and it's so different working in this less competitive environment because our competitors or the competitive property is owned by private owners that are not managing things well and that are not...

providing the same level of service. And so it really does allow us to kind of go to bed at night feeling like we're actually contributing positively to the world, even though we have the word private equity associated with the work we do.

Matt Slepin (1:08:17)

Absolutely.

Okay, last question on leading voices is your advice to young person entering in the real?

Joe Muratore & Ryan Swehla (1:08:22)

I'll go first. We've been talking about a lot of books today, but there's that famous book, The Hard Thing About Hard Things, Ben Horowitz. It's fun to ask, know, like, what would a venture capitalist say to our business or to see different perspectives. But a thing to draw on from that is there's, you know, if there's a clear path from A to B, then it's commoditized. Your opportunity is capped. Your pay is capped.

There's so much, especially in this AI world, especially right at this moment, we're at some sort of inflection point, there is so much non-clear A to B. And I tell my kids like, don't.

Don't, if you can see a clear path to where you're headed, you're going in the wrong direction. You need to move towards something you care about or find interesting, but then you're going to have to find that journey. I'll add to that, that there's know, degrees of pain or degrees of pain's the wrong word, but like discomfort tied to exponential growth. If there's not ~ a small amount of

Matt Slepin (1:09:13)

uncertainty.

Joe Muratore & Ryan Swehla (1:09:17)

urgency or crisis to what you're doing. If it's very calm, you are in first gear and you are not moving towards like go on vacation. There should be challenges that you're solving, quarterly, that are like, this is a check. I if you're growing and if you're pushing, there will for a fact be challenges that you're not sure about.

And that's going to require you to grow in your knowledge, grow in your relationships, grow in your resources. You're going to be forced to level up. And I could give a whole speech or sermon on this, but the point is, go where A to B is not clear. And if you're not feeling uncomfortable challenge, you know, you've picked a comfortable life and congrats on that.

Matt Slepin (1:09:56)

It's funny when

when I when I was graduating before I graduated college, I had no idea and all of a sudden in junior year, I said, you know, I should be a doctor because anything a doctor, they're always in demand. It always works. You don't have to figure it out. But, know, I'd never taken a bio biology class. It was a little bit late to do that, but I was really freaked in the fear of going into a world that made that I had no pathway was terrifying.

Joe Muratore & Ryan Swehla (1:10:23)

Yeah.

Yeah.

Matt Slepin (1:10:25)

Then even when I started in a search it was terrifying but But but that makes the terror helps you go somewhere. So don't pick that easy righteous right right path. It's a really good advice Ryan ~

Joe Muratore & Ryan Swehla (1:10:36)

Well, and this is where our personalities or our worldviews overlap because

I was going to say something actually very similar, but maybe with a slight twist. beat him to it. After 40 years, I can smell it. Which is like, the path less traveled. We both grew up in Modesto, but I went to Columbia University in New York. And when you graduated, everybody was asking, OK, are you doing investment banking?

Are you doing consulting or are you doing other? And that was kind of it. I worked at a hedge fund but ultimately found our path to what we're doing here. And what I would just say is that when the herd is going one direction or everybody's saying this is what you need to do, number one, they may be right, but.

Matt Slepin (1:11:18)

You

Joe Muratore & Ryan Swehla (1:11:20)

always ask the question, is this really what I need to do to get to where I want to be? And think about where you're looking to be in the future and find out what those people have done and what their paths have been. And then the second thing that I would add to that is find actively seek out mentors everywhere you can. And they can be found in the most unusual ways. My son is in an economics course at University of Portland and he really

liked the textbook that this very extremely well-known economist had written. And he emailed the economist and said, I really like your textbook and blah, blah, blah. And he got this really nice response back. And it just goes to show that you can find mentors and connections everywhere. And so I just really encourage, as a young person, always have an eye open to that. And always get out of your comfort zone to meet people and find them.

Matt Slepin (1:12:17)

That's really

awesome. One of the reasons we do the podcast, if not the major reason, is I'm trying to get young people to see different pathways that they can follow. And you guys have gone a very different pathway than any of our other guests. So add this to the list of ways to behave, to go find yourself, to find that thing that you get to do. So this is a wonderful conversation and thank you both.

Joe Muratore & Ryan Swehla (1:12:33)

Yep.

Thank you so much. Thank you.