EPISODE 841

*"**AD:** You know, we both started out with rental properties and, you know, for myself and my husband, we did that for 10 plus years because that's what we thought real estate investing was. We didn't know anything else."*

[INTRODUCTION]

[0:00:49.9]

FT: Our guests today are going to share some real estate secrets. The two of them are cofounders in an investment company called Goodegg Investments where they help people invest in cash flowing real estate. What is this all about, how can we get involved, how risky is it?

Welcome back to So Money everyone. I'm your host Farnoosh Torabi. You know, we're all raised, a lot of us, myself included, with this ideal around owning a home, right? Buying a home is the American dream and lately, I think that has been up for debate. But I think what still people are interested in is looking at real estate as a potential way to invest; finding the right markets, finding the right kinds of properties, turning these properties into investments and making them cash flow positive. But of course, all that comes with a lot of work, a lot of research, it's a whole job on to itself.

Our guests today have tried to simplify this process, streamline this process and invite more people to participate in real estate investing. Annie Dickerson and Julie Lamb cofounded a company named Goodegg Investments. They're both working moms and experienced real estate investors and they joined forces to find a way to help other busy people learn how to invest in cash flowing real estate without being a landlord.

To date, Goodegg Investments has co-syndicated over $400 million dollars of real estate assets. They're going to walk us through the behind the scenes of their business, how they identify good properties, how they more or less recession proofed their business and also, financial advice they were raised with that impacted their lives today as well as how they're teaching their children about money.

Here's Annie Dickerson and Julie Lamb.

[INTERVIEW]

[0:02:40.9]

FT: Annie Dickerson and Julie Lamb, welcome to So Money.

[0:02:44.4]

JL: Thanks for having us, excited to be here.

[0:02:47.5]

FT: Listen, you know, listeners know, real estate is one of my favorite topics. I've been dabbling in real estate since my early 20's and along the way, you know, bought and sold apartments in New York City, renovated, always looking on my StreetEasy app, which if you're from New York, you know that's kind of like our go-to listings app and the two of you are not exactly in that sort of real estate but Goodegg Investments is in the real estate sector. You help busy people invest in cash flowing real estate that impacts local communities, all without the hassles of being a landlord. It sounds a little too good to be true.

[0:03:30.2]

AD: We get that a lot, Farnoosh.

[0:03:32.3]

FT: You do? This is Annie, right? I want to get your -

[0:03:35.7]

AD: This is Annie, yes. You know, what you're talking about, with the rentals, you know, it sounds very similar to how I started out in real estate and Julie as well. You know, we both started out with rental properties and, you know, for myself and my husband, we did that for 10 plus years because that's what we thought real estate investing was. We didn't know anything else. So we bought rentals, usually duplexes and we would do this thing called house hacking where we would live in one unit and rent out the other unit and we thought, "Hey, we're doing pretty well. This is great, we got the hang of this, let's do some more."

So now that we're living in the San Francisco Bay area, we decided you know, it's really expensive to continue to invest locally here. Let's try to invest out of state. So, that's exactly what we did. We found a great market in the southeast of the United States and we started investing there. We had never lived there before but we found a great team on the ground there and we started buying up small rental properties there. It was going well for a while and then all at once, it seemed things started to break down. We had fix after fix that we had to address, we had some tenant vandalism and some eviction issues and it was just taking way more of our time than we had anticipated.

Somewhere along the way, we had stumbled into this concept called real estate syndication, which is really just a group investment. In a syndication, we could be passive investors, which means we could just put I our money, somebody else would do the heavy lifting of all of the taking care of the renovations and the maintenance and things like that. We would be investing in larger commercial assets like apartment buildings. So that's what we do at Goodegg is we help people who don't necessarily want to be landlords but they want to invest their money in real estate. We help them to invest passively in these real estate syndications or group investments.

[0:05:58.1]

FT: You're in San Francisco, you mentioned Dallas, Fort Worth, San Antonio, Huntsville, Atlanta, Key West. How do you identify your markets?

[0:06:07.4]

JL: Yeah, this is Julie talking, how are you?

[0:06:10.8]

FT: Hi Julie.

[0:06:11.0]

JL: Hi. Really, what we look for when we – and this is specifically to multi-family apartments. When we look for markets that we are interested in, we look for certain fundamentals and I would say the two primary fundamentals that we look for is job growth and population growth. Because at the end of the day, if these corporations have identified these areas as places that they want to do business in, then they will create jobs and eventually those jobs will bring people and those people will need a place to live and it will have a positive impact on the communities that we're buying, the apartment communities that we're purchasing.

So I would say that those are the two primary. There are other things that we look for. We want to invest in areas that are obviously landlord friendly and, you know, we look for things like job diversity. So we don't want to invest in any one area that has like, you know, only one or two industries. We look for something where you know, there's a number of different industries and you know, not one of them makes up more than 15% of the overall workforce there. So those are kind of the highlights of what we look for a market we invest in.

[0:07:23.1]

FT: Julie, you came from a background in law and I want to now transition to more of kind of your founder story, how the two of you found each other. Annie, you talked about how you and your family got involved in real estate investing, but Julie how did you get involved in this market?

[0:07:40.6]

JL: Yeah, so I started investing in real estate back in 2009 and I was just doing traditional narrative of you get married and you buy a house because that's how we're taught to build wealth is you buy a primary home, you know, traditionally. We were looking at buying a loft downtown that I wanted to buy and then my real estate agent was pushing us towards buying a town home, a three and a half bedroom town home and I remember asking her like, "What am I going to do with all of these space? It's just me and my husband."

She said, "You know, if you buy this place, you can rent out the other rooms and offset your debt payments, your mortgage payments," and I thought, "Wow, that's really interesting. I think that we'll probably do this," and so that was kind of my introduction very similar to Annie, to real estate in that we started off house hacking. That was sort of something that changed my perception about how to build wealth. You know, to be able to live almost rent free in the bay area, you know, was a pretty good thing, still would be.

[0:08:40.7]

FT: Yeah. People are leaving San Francisco, I read. There's an exodus of 200 people leaving the city every day. That's net.

[0:08:51.7]

JL: Yeah.

[0:08:52.2]

AD: I believe it.

[0:08:52.7]

JL: I've heard – I keep reading the very same thing and I am also considering leaving for a number of reasons but, you know, it's really expensive here. But I guess the one thing that keeps me here is that you know, this last weekend I was snowboarding with my kids in Tahoe. A couple of weeks ago, I was having lunch with some friends in the wine country. I mean, there's so much to do in this area so that's one off the reasons I love living here. So it's, you know, the price you pay I guess to live in an area like this but -

[0:09:25.0]

FT: What kind of returns are we talking about here? Let's talk about numbers, and obviously these cannot be promised, these are just historical. But how well has Goodegg done for its investors?

[0:09:38.0]

JL: Yeah, I would say traditionally, every deal that we do, there is something that's built into the deals that's called an 8% preferred return and essentially, what that is, is it's a way that we ensure that the limited partner passive investors are paid before the general partners take anything out of the deal. So I would say that generally speaking, cash flow wise, the investors are seeing anything from eight to 10% annually per year for cash flow.

Now, that doesn't include on the back end when we sell or do any kind of a refinance then they would get, if it was a refinance, they would get a certain amount of the money that they had initially put in returned to them, and then on the back end, when we sell the property, they would get what would have been equivalent to another 10% per year. So you're talking about roughly 20% returns annually over a three to five year hold period.

[0:10:32.2]

FT: Yes, I'm seeing that now on your website under "how it works". Goodegg Investments, the minimum investment typically $50,000, most projects plan for a five year hold as you mentioned. In terms of all of the chatter we're hearing about, the recession that's going to be happening in 2019 and that obviously is going to impact real estate. How are you adjusting your business if at all with those kinds of projections?

[0:11:01.6]

JL: So as far as the numbers go, we're still able to project similar numbers. I would say that when we, maybe two years ago, we were seeing IRR numbers, which is IRR — Internal Rate of Return numbers somewhere in the 18 to 20%. Nowadays, you're seeing that number drop to somewhere about 16 to 17%. So you're definitely seeing those numbers go down. As far as, you know, potentially approaching some kind of a correction or recession, I would say that we are being extremely selective about the partners that we partner up with. Number one, then number two, the deals that we're getting into.

We are looking a lot more closely at the numbers that are being presented to us and then making a decision about whether we want to partner up on that particular deal or not. We're definitely aware of where we are in the market cycle. But that being said, you know, I know people who in the multifamily industry who have been sitting on the sidelines since 2014 thinking, "We are at the top." You know, the lost out on the last four years of a lot of great growth.

So, it's really hard to say where we are. I think that investors need to be very cautious around who they are partnering up with, number one, and then number two, the deals that they're getting in to and that's sort of our philosophy as well.

[0:12:27.9]

AD: You know, on top of that, I think another thing that we're really selective about is the types of assets that we invest in and the types of assets that we invest in tend to be a little more recession resistant. So we, for example, we invest in workforce housing, which are class B and class C apartment buildings. These are not your luxury class A tier apartment buildings. These are the ones in nice school districts, but not the ones with the super fancy resort-style pools and the luxury amenities.

So what happens during a recession is that, you know, when people lose their jobs or they have to make those tough decisions, people tend to move from the class A properties down to class B and class C. So during a recession, we actually see an increase in demand for assets like workforce housing.

[0:13:31.1]

FT: No, you're right. I mean, if you have cash in a recession or you have good credit in a recession, you're a prime candidate for all the things that are losing value and it's a good time to get in. So I can see where that can be a surprising growth area for some businesses.

Let's talk about money, shall we?

[0:13:50.6]

AD: Let's do it.

[0:13:52.9]

FT: I'll ask each of you this question, feel free whoever wants to jump in first but what is your money philosophy, money mantra? That's something that's been your guiding financial force since as long as you can remember?

[0:14:04.7]

JL: Yeah, this is Julie talking. I'll comment on that first. I would say that, you know, my sort of philosophy about money is that it's never about how much money you have, it's about what you do with it that really counts, right? That's so true. I mean, we see so many people that have so much money and then find themselves bankrupt a few years later, you know?

Then you find people who are, don't make a lot of money annually every year and yet they are doing really big things and I think that's because they're being very efficient with their money. So I think that that's a really big thing is to keep in mind that it's never really about how much you have that it's about where you put that money and how hard that money actually works for you, that really matters the most.

[0:14:52.4]

FT: Do you have a personal experience with this? Is this something that you learned growing up or that you learned through a life experience?

[0:15:01.6]

JL: Kind of. I mean, I would say that, you know, I didn't grow up with a lot of money. My family certainly did not come from a lot of money and so was always about saving. Then as I got older, it was, you know, I realized that it's not only about saving but it's about earning and investing as well. So, you know, if all you did was save and let's say you make $100,000 a year and all you did was focus on saving but your expenses were 50 to 75% of that, all you're ever going to save is 25,000 or $50,000 a year. Whereas if you focus on earning as well, like, "How can I earn more?" and then once you earn more and then you're saving more, "How can I invest more?" and put that money to work for you, then that's sort of the strategy to go about.

But for me, I guess really where it hit home was when we sold some of the properties that we purchased back in 2009 and '10 and we were coming in just some capital and it was like, "Okay, well, you know, yeah, I have this money now and we could go do what most people do as they move forward in their careers and they earn more money and they have a family, which is, they move to a nicer neighborhood and buy a nicer house."

We were about to do that and as I was facing a $10,000 plus monthly mortgage payment, I thought to myself that there's got to be a better way to build wealth. I just can't imagine that this is the only way and that's when I discovered the passive syndication that we now do and you know, I wanted to find an investment opportunity that would allow me to have my money working its hardest for me in whatever mode that would be. As I identified the passive syndication opportunities, I was then able to quit my job. If I bought that single family home in that nice neighborhood, I certainly would not be quitting my job and I would probably be still working my job and not sitting here talking to you fine people.

[0:16:57.2]

FT: Yeah, I was just on a podcast with a guest who was saying that we often look at all these little ways to cut expenses to build wealth but really, we spend a majority of our money on housing, transportation, and food. So if you want to make a big shift, focus on those areas.

Annie, how about you? What was something that you grew up thinking with regards to money or a money philosophy that you have embraced over the years?

[0:17:25.1]

AD: Yeah. So I similarly did not grow up with a lot of money, but I had a really interesting set of parents. My mom was all about saving, she still is. She saves as much as she possibly can and she spends as little as she possibly can. My dad was, unfortunately for her, the polar opposite. He sort of didn't really pay attention to what he was spending and he was a gambler. He was often – you could often find him at the casino. So I grew up with these two conflicting view points and my dad even though he gambled a lot, he was very risk averse with financial instruments.

So he didn't understanding investing very much. He dabbled a little bit here or there and my mom definitely did not invest. She just saved, saved, saved and so when I started out my adult life that's what I did. I learned from my mom and I saved. I saved every paycheck and I thought, "I am doing pretty well. Soon I will be able to take this money and buy a house with it or buy something big with it," and there was a moment when I think it was around when we bought our first rental property when I realized that, "Hey, I don't have to keep working for my money. I can get my money to work for me," and it was such a life-changing moment.

I had never been taught that growing up and here I was with my first rental property and I didn't have to do anything and I would get that rental check every month and it was just so eye-opening and it was something I thought, "Surely this is a fluke. Let's do another and see if this still works," and over the years I have come to realize just how powerful that passive income can be and so nowadays when I look at my money, I think it is not the be all and end all. It is not like I am saving for some magical number and then I will feel great about my life. It's, "How can I make this money work for me so that I can live life on my own terms?" and that's what it's all about.

[0:19:36.2]

FT: This idea of investing I hear this over and over from guests, largely women, that they didn't get the investing education growing up. All right time now for our question from our sponsor, Chase. What is your New Year's financial resolution?

[0:19:50.7]

JL: So this is Julie, I'll go first. I would say that it's continuing to focus on the earn more save more and invest more. That's probably my focus for the New Year.

[0:20:01.5]

FT: Not spend more!

[0:20:03.5]

JL: Yeah and not to spend more.

[0:20:05.5]

FT: And Annie?

[0:20:06.8]

AD: And for me, my husband and I have been both focused on growing our individual businesses over the last couple of years and so our financial resolution for this year is to really get a grasp on not only how our businesses are going but how our personal finances are going and having a better handle on where every dollar is going.

[0:20:30.7]

FT: It's the year to do it. Lots of uncertainty in the economy in the market this year, so good to know that there's still some things under our control. We can still manage how we spend, where we're saving, the conversations that we have with those of us who are in relationships managing money together. I am not sure how old your children are, but are you doing any proactive work in getting them a little more money ready for the real world?

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AD: Oh yeah absolutely and I'll let Julie speak to her kids too. She has three kids but I will start. This is Annie, I'll talk about my two kids. I have two boys, they are six and the younger one is almost three and they say that kids form their money habits really young and so we started very young with them teaching them first about the importance of saving. So we felt like, first in order to have them grasp money we needed to teach them about saving. So we started my older one with some allowance and a little bit of money here and there for doing different things around the house and slowly he understood.

At first he was like, "Let's go to Target. I want to buy the latest Lego set," and every time he would save up enough money he'd spend it right away and then he heard us talking about, because my husband and I are both in real estate, so we talk about real estate at the dinner table, we talk about buying houses and rental income and over the years I think he's heard us talking about buying houses and he's been to open houses and helped my husband with setting up these properties and he's really starting to understand that, "Hey, if I have just a little bit of patience and I do the right things with my money I can actually get that money to grow over time," and so now not only is he saving his money, when you ask him he'll say he wants to buy a house with it. But he's got a long term vision for his money and we are starting to talk to him about some ways that he could invest his money and so I think he's really starting to grasp those concepts.

[0:22:49.6]

FT: Wow, amazing. Julie, you have three children and running a business that's –

[0:22:56.3]

JL: Yeah, it's fun times over here, Farnoosh.

[0:23:00.8]

FT: How old are your kids?

[0:23:01.8]

JL: Oh it's easier now. They're almost seven, and six, and three. So yeah, it's easier now. There was a time back when they were three and a half, two and a half, and a newborn and that life was a lot more fun that it is now.

[0:23:20.7]

FT: You don't have to tell me.

[0:23:22.3]

JL: Yeah, so for me I would say that we talk a lot about wants versus needs because I think with kids that is something that they aren't really taught at a very young age and to them everything is a need and the same for me when I was growing up it was like, "Well no, I need that Cabbage Patch doll. I don't want it, I need it," you know? So when we talk about what is a want versus a need they really start to make that distinction between, "If I had a $100 and that is all I had to my name, what would I spend that money on?" Right?

So it is about reinforcing making smart decisions with your money that's one thing and the other thing is introducing a lot of investing ideas to them on a level that they can understand. Simple things like if you had a $100 would you want to just spend it on something whether it's on going to Lego Land for a day, or would you rather take that $100 and give it to mommy and mommy will pay you whatever, $5 a month and at the end of the year, mommy would return your $100 and you would have collected that extra $5 a month and I present those ideas to them and asked them what their thoughts are around that and it is so interesting to watch and say, "Well yeah, I will wait for my gratification and I'll take that $100, I'll give it to you so I can get $5 a month and go get an ice cream once a month," or something. You know something that they enjoy and still have my $100 at the end of the year and they say, "Yes that's what I would do."

So it is about really introducing the ideas and the strategies that we're using as adults but introducing them on a much easier to understand level to our kids and that's one of a number of things that we do. But yeah, I feel like children are so intuitively just smart. I think it is true. We learned everything we needed to know in Kindergarten and I feel like kids in the Kindergarten, first grade are more smart than we would actually realize they are so.

[0:25:31.4]

FT: Yeah, paying dividends or like that or I have heard families matching savings in the piggybank, a dollar for every dollar and that I think probably starting around first grade they get it. I probably wouldn't expect my four year old to appreciate that right now. He wants what he wants, when he wants it. But truly I think studies show that the best financial – the best life skill, forget just financial skill, the best life skill you can teach your kids is to have one, self-control and two, delaying gratification. It goes a very, very long way.

What was your biggest money mistake? Let's skip ahead a little bit and jump right to the biggest mistake you've ever made. Annie, you go first.

[0:26:15.7]

AD: Okay, so let me think about my biggest mistake. I think probably my biggest mistake was in waiting too long to really get into investing in, seriously investing in real estate I think. You know, I'd mentioned that we had been investing in real estate for over 10 years but it was really just slowly. Every few years we would save up enough to buy a duplex and then that would throw off some passive income and we'd say, "This is great."

And then a few years later, we would save up enough to buy another duplex and then we would keep the first one, rent that out and move into the next duplex and we did that for about 10 years. We are still living in a duplex, in fact but I think that's 10 years that we could have been really doing a lot more in the real estate investing space. Now that I know so much about real estate syndications and debt investments, equity investments, there's just so much you can do in the real estate investing space. So I look back at those ten years and I think, "Wow, if I knew what I knew now back then we would be in an entirely different place now."

[0:27:40.9]

FT: Well yeah, I mean compound interest always works best when you get a head start.

[0:27:47.5]

AD: Yes, for sure.

[0:27:50.1]

FT: Julie, how about you?

[0:27:51.0]

JL: Yeah, so for me when I was in my 20's I would spend a lot of money on things like fancy cars and going out to eat and travelling and looking back in hindsight, I probably didn't really get serious about saving and buying a home and investing and all of that until I met my husband, which was when I was in my 30's and then took me the last 10 years or so to get to the point where I am and very similarly, like Annie said, had I not been irresponsible with my money in my 20's I probably would be not be where I'm at, at this later point of my life and probably would have been able to get there a lot sooner.

So I would say it was just not having the money sense when I was in my 20's and just being completely irresponsible and having no clue that there was a better way and that had I earned and saved and invested earlier on I probably would have been able to accomplish so much more on a much younger age.

[0:29:03.6]

FT: Give us one hack that you two practice. It doesn't have to be a money hack, but maybe it does save you money, it saves you time, which then let's you maybe it goes back into your financial life. Or like, you're both moms, is there a productivity hack that you have that gets things done hack that you have? Something that you feel like you do that perhaps others don't but has really benefited you in your careers, in your lives, in your financial lives.

[0:29:29.3]

JL: Yeah, this is Julie. I would say that one thing and I am going to try to keep it short because it can get pretty lengthy but basically the strategy, one of the strategies that I use is using whole life insurance policies as a way to allow my money to work in two places at the same time. Traditionally when someone gives you a $100 you can either spend it or save it. But you can't do both at the same time and so with whole life insurance policies, you are able to basically accomplish that. You are able to have it working for you in one place earning a return within the policy and then you can also take out a loan and invest that money into whatever investment is attractive to you and you are effectively having your money working in two different places for you at the same time.

So that's a strategy that I have learned after I got into real estate over the last couple of years, that has really allowed me to earn a significant amount more than most people are because they are not using the whole life insurance policy in tandem with their investments, and so I have a bump in my returns. So if I am looking at a 20% return on my syndications that I've invested in, once I invest into a whole life insurance policy, pull that money out and invest it to one of the syndicated deals I am probably looking at a 27% annual return.

So that's a strategy that I knew nothing about and took me a long time to really wrap my head around it and discover it. But if anyone wants to know more about that I am happy to refer you to my insurance broker who specializes in all of that and just a disclosure, I get no compensation for that at all. It's just a hack that I've used that I found that there is a lot of interest in, specifically from other moms that are out there.

[0:31:21.2]

FT: Well if you have something to put the money in too that you really feel confidently about that you are almost you're managing that. I know whole life insurance can get very expensive. the monthly premiums can be. It's not for everybody but it sounds like you have figured out a way to really leverage it.

[0:31:36.5]

JL: Right, yeah and I think that if you understand — so one of the things that I have done is I have taken an investment and invested it into real estate, a single family home, taken that money to fund — so the cash flow from that property let's say it's $900,000 bucks a month and then the premiums on the policy are equivalent to that and it now funds that policy automatically. So there's different strategies and ways that I use it so that I don't have to necessarily have to come out of pocket for the insurance premiums. But yeah, it can get very expensive but it just depends on what your bandwidth in terms of what you can afford.

[0:32:15.4]

FT: Very creative. I am not going to pretend that I got all of it but I am probably rewind and listen to this a few times and listeners you should too. All right, let's do some So Money fill-in-the-blanks and to make this simple, I guess just whoever wants to go first just jump in and don't feel like you have to answer every single one but I am just going to do this only once instead of to each person because I don't want to give anybody the chance to think about it too long.

All right, if I won the lottery tomorrow the first thing I would do is ____.

[0:32:51.2]

AD: Buy a house with a view. I've been wanting a house with a view —

[0:32:55.0]

FT: You answered this before I even finished the question.

[0:32:57.6]

AD: I want a house with a view. Now, outside my office window is our next door neighbor, which has a hot pink house that's falling apart. It's like Barbie pink and it's falling apart. So I would buy a house with a view, no doubt.

[0:33:13.1]

FT: Whoa, Julie?

[0:33:15.2]

JL: I would probably – gosh, first thing I would do is I would donate to cancer research.

[0:33:19.2]

FT: Is there a kind of cancer?

[0:33:22.8]

JL: No, not any particular kind just cancer research. I am not a big fan of cancer. Not that I personally had any, you know, I haven't had cancer, knock on wood thank goodness. But I watched it destroy so many lives and it breaks my heart. So that's probably the first thing I would do.

[0:33:40.6]

FT: Fabulous. All right, one thing that I spend on that makes my life easier or better is ____.

[0:33:48.2]

JL: Instacart.

[0:33:51.3]

FT: Yeah, order from your favorite grocery stores to your doorstep within hours. I am familiar.

[0:33:57.8]

JL: Yeah, mommy loves it.

[0:34:00.3]

FT: Annie, any expenses there?

[0:34:03.8]

AD: Yeah for me it's Audible. I love Audible, I can listen to books on the go and it has doubled or tripled the amount of books that I can get through.

[0:34:12.8]

FT: They are one of our sponsors for this podcast, so I'll be sure to relay that to them. They'll be happy to hear. All right and last but not the least, I am Annie, I am Julie, I am So Money because ____.

[0:34:27.1]

JL: That's a tough one. Annie you want to go first?

[0:34:33.2]

AD: Sure, okay. I'm Annie and I am So Money because I am taking control of my financial future and I am helping others to do the same.

[0:34:42.4]

FT: Love it.

[0:34:45.6]

JL: Okay, I am going to use the same thing as Annie and I will say the same thing as her. There you go.

[0:34:54.0]

FT: Ditto, what Annie said. I am with Annie. Annie Dickerson and Julie Lamb, thank you so much, co-founders of Goodegg Investments. A really thoughtful conversation with the two of you and definitely some things to think about and strategize. I am going to look into that whole life insurance leveraging that you are doing, Julie. It is a little too sophisticated for me I think but I am always open to new ideas and appreciate you sharing that with us and thank you so much for joining us and have a great New Year.

[0:35:23.3]

AD: Thank you so much, Farnoosh.

[END]