# PCG's Guide to Real Estate Investing in 2020

*How to Successfully Approach*

*Real Estate Investing in a Changing Market*

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*Disclaimer: This is not a solicitation for investment, tax advice or legal advice. This Guide is for informational and educational purposes only. Consult with your CPA and attorney before making any investment decision.*

# Question 1: Is Real Estate a Smart Investment in 2020?

The real estate market has *four* phases:

Phase (NJ Real Estate Market)

1. Buyers Phase 1 (2008 - 2011) ← More Affordable RE prices
2. Buyers Phase 2 (2012 - 2015)
3. Sellers Phase 1 (2016 - 2018)
4. Sellers Phase 2 (2019 - 2020) ← More Expensive RE prices

Buyers Phase 1 (STARTING NOW)

Right now (Spring of 2020) the market is changing from a Sellers Phase 2 to a Buyers Phase 1, this is the time to be ready to buy. Sellers will become more motivated as the market turns and this will allow incredible purchase

opportunities for those who are ready to invest and work with the right professionals and partners.

Don't wait for the buying frenzy to begin again, take action when the market is soft because the best opportunities are found in the market we are about to experience. In real estate "you make your money when you buy", meaning the less you pay for the property, the more you earn through the life of the investment and upon exit. The most equity (profit) is created during Buyers Phase 1 when the price of the real estate is low. By working with the right team and executing a proven investment strategy, you can create exponential real estate wealth during this time.

## Question 2 : Be an Active or a Passive Investor?

1. Active investment - Requires 20 - 50 hours per week and your personal credit
2. Passive investment - Examples:
   A. REIT - Real Estate Investment Trust (generally publicly traded stock)
   B. Syndication - Private ( i.e. Peoples Capital Group) or Public (online syndication with small minimum investment)

One of our long time investors was an active real estate investor, dealing with the management of his own properties, including managing tenant calls, writing leases, managing contractors and personally guaranteeing mortgage debt . Through time he began investing with Peoples Capital Group (PCG) and discovered it has allowed him to earn the same returns without having to do any of the work i.e. he gained more free time to spend doing the things that he loves to do and less on the things he does not love to do (dealing with tenants and contractors).

Sometimes doing something yourself is not the solution. Hiring professionals with experience who have already learned from their mistakes is the best way to proceed. This holds true for a complicated, management intensive asset class such as real estate.

Also, by teaming up with a company that pools investment capital, this individual could own a piece of a larger and financially stronger building.

*Hedge against a raining day*

When getting started with real estate investing, passive investing is safest because it allows you to earn a return by investing in people with experience.

Learn from them and then decide if being an active real estate operator / investor is what you want to spend your time doing because being an active investor can be a full time job.

One passive investment option backed by Real Estate is a publicly traded REIT (Real Estate Investment Trust). REIT's allow investors to move money in and out of the market more quickly than a syndicate because a REIT is a stock.

REIT's produce strong dividends but the value of the stock can drop very quickly as we saw recently in early 2020, with some REIT's dropping nearly 80%. Tangible, well managed real estate bought through a syndicate does not historically drop by 80% over 3 weeks as a publicly traded REIT could. The value of actual real estate is far less volatile, especially in a strong metropolitan market while being professionally managed.

Additionally, stocks (REITS) do not offer tax depreciation - one of the other major benefits of owning tangible real estate.

Because of these factors, we believe the best way to get started investing in real estate is through a private syndication that has a proven track record in a recession resilient market. The following chapters will explore the most recession resilient markets, the types of properties PCG purchases and why PCG uses a buy, renovate, refinance, repeat strategy for itself and its partners..

*Above: The Founders of Peoples Capital Group: Aaron Fragnito and Seth Martinez who have a combined 25 years of investing in NJ real estate.*

# Question 3: How to Protect Your Investment in a Bear Market

The key to protecting your hard earned money in a market slow down is to:

1. Make your money when you buy (goal 10-25%+ below current market value)
2. Invest in cheaper real estate (RE), not the best property in the best city
3. Invest in RE currently producing or the potential to produce strong net cash flow
4. Focus on apartment buildings with rent that middle income earners can afford
5. Focus on a strong metropolitan area
6. Work with an experienced RE professionals and partners

There are large real estate syndication companies that focus on buying apartment buildings in emerging markets planning to sell the property in three to five years, hoping the market holds up. Since the market is cycling over to a buyers market for the foreseeable future, this could be a problem if they planned to sell soon.

We do not expect a large market collapse as we saw in 2008 but we do expect a market contraction for the next 6 to 18 months due to COVID-19. Hoping that the values continue to grow in emerging markets is not a great strategy long term.

That is why we focus on buying in areas that allow you to commute into Manhattan in less than 1 hour. The demand to live in North Jersey near public transportation to commute into the greatest city on earth (based on North Jersey polling) remains strong through recession. Whether it's a seller's market or a buyer's market, people need to commute into Manhattan.


*Above: Picture of Downtown Newark, NJ - allows for a 30 minute commute to Manhattan.*

There are other companies repositioning apartment buildings (buying mis-managed apartment buildings and improving the cash flow) in emerging markets. Hoping to choose the right management company and overseeing them closely, we found this strategy to be seriously flawed.

Most real estate syndications rely on outside management companies to take a mismanaged apartment building, improve the building to earn higher rents from all the units while lowering the monthly expenses.

The great flaw in many syndication companies is that they are reliant on third party property management- we removed this flaw. As the owners of PCG, we believe that knowing the NJ market from 30 years of combined investment experience, knowing the minute changes in laws from town to town and living in this market our entire life gives us a competitive edge.

Don't necessarily buy in the city the media says is the next boom city. Cities will grow and slow, committed management and experienced operators are more important to protecting your investment long term.

*Above: 196 9th st in Passaic NJ. Multifamily Apartment Building acquired by Peoples Capital Group and its investors in January of 2019 for 20% below appraised value.*

## Question 4: Where is The Best Market to Invest?

When Seth Martinez and Aaron Fragnito (Founders of PCG) began purchasing in Downtown Newark, NJ in 2012, many people urged us not to invest there. The schools are ranked poorly, crime is high and the household income is low. Newark was in the papers mostly for crime rather than real estate development. But the city was changing and the seeds for a lively downtown had been planted.

The infrastructure to quickly commute in and from NYC and it's boroughs allowed Newark NJ to begin to reestablish itself a business hub. As Prudential, Audible and other fortune 500 companies started placing headquarters there, leasing office space and developing office space, we saw the writing on the wall. Rutgers University, New Jersey Institute of Technology and Essex County

Community College continue to drive demand for housing and improve safety around their campuses.

Today, Newark NJ is a very in demand location for both real estate investors and commuters alike. Many properties have flourished into extremely profitable investments through cash flow and equity growth as rents and values have consistently increased through the last decade.

Peoples Capital Group doesn't buy anywhere in Newark and there are still parts of Newark we do not seek to own. However by purchasing in certain pockets where there has been tangible, consistent growth, we are confident that the demand to live near universities and public transportation for easy NYC commuting will remain strong through the next market cycle..


*Above: Invest in Towns with Train Stations direct to NYC*

New Jersians saw the Hoboken boom, then Jersey City, then Newark a decade later and now we see the same infrastructure and development beginning to take place in Paterson NJ.

Paterson NJ is another North Jersey city within the NYC *Metropolitan Market* that allows a commuter to reach New York City through bus or train in less than an hour.. This is the same commute time for many North Jersey cities that have extremely high rent prices. Paterson has poorly ranked schools and high crime just like Newark but Paterson has not taken off like Newark - yet.

Paterson is the 3rd largest city in NJ (Newark #1, Jersey City #2) and located outside of NYC similar to Newark and JC. Many of the reasons Newark flourished but Paterson did not over the last decade are because of:

1. Past political leaders did NOT promote development - This relates with #1 because leadership starts at the top, but Paterson has only decided to allow development in its city in the last 2 years. Before this the corrupt politicians had terrible plans to bring in development and allow a downtown to be created.
2. Corrupt politicians - Joey Torres was Mayor of Paterson for 12 of the last 18 years in Paterson then went to jail. We met with Mr. Torres when he was acting Mayor just days before he was indicted. He had very poor understanding of how business worked, seemed unengaged and unrealistic with his strategy for us to buy city owned properties for 150% of what they were worth while enforcing countless restrictions.
3. No Downtown Activity- A city needs a vibrant downtown. Newark created a downtown first and grew out from there. Folks need nightlife and entertainment. NJPAC (New Jersey Performing Arts Center) in downtown Newark was the beginning of the transformation that took place in Newark as the light rail then followed. Jersey City and Hoboken both have a bustling nightlife and downtown as well.

*Balancing Risk with Reward*

In the last 2 years, the political leadership in Paterson has shown that they will approve ambitious developments, work with developers to offer incentives and allow new class A real estate to be developed creating a downtown with nightlife. Also work with the federal government to attract funds for welcome centers, parks and city development. Fifteen large new developments are taking place or already completed in Paterson, NJ creating a high end market.

Peoples Capital Group is therefore taking the initiative to acquire apartment buildings around these developments, seeing what happened in Newark - but not projecting the same. We hope for the best but plan to deal with the worse and still succeed.

A smart Real Estate  Investment company will aim to invest in the right pockets of certain inner city areas at the right times. Location is important but so is timing. Buy when the real estate is cheap in a city. Once the downtown boom is all over the front page, it is often too late, the real estate is overpriced.

Positive change in leadership, opportunity zones, and strong infrastructure are all indications that a city is set to boom and Paterson is beginning to do just that.

As a growing real estate investment company, Peoples Capital Group is investing in the NYC Metropolitan area, specifically: Paterson, Newark, Plainfield, Irvington, Elizabeth, Berkeley Heights, Passaic and other North Jersey markets that allow our tenants to commute into NYC in one hour or less.

*Above: Picture of Paterson NJ - allows for a 1 hour commute to Manhattan but RE values are priced below other cities offering the same.*

## Question 5 : Why Own a Small Piece of a Big Building?

One of the first buildings PCG bought was a 5 unit. The roof had a mysterious leak that has cost nearly $20,000 to fix through the years. This has caused the building to lose money year over year. If this building had 25 units, a $20,000 leak would be frustrating but would not prevent the building from producing positive cash flow. It is far more affordable to have 25 units under one roof rather than 5.

The same thing happened with many of our buildings with less than 10 units. Maintenance and vacancy costs were so high relative to the income, the buildings produced very little positive cash flow. One vacancy on a duplex causes you to lose 50% of your income in turn causing the landlord to lose money every month. One vacancy on a 25 unit and the property will still create positive cash flow every month.

We aim to buy properties that can cover all of their costs with 15%+ of the units being vacant. Through the years, we have learned owning apartment buildings 10 units and larger allows for positive cash flow and are safer investments.

More Units = More tenants paying rent = Safer Investment

*Building a nest egg with Real Estate Investments*

Smaller investors can work with a syndicate to pool their capital allowing them to buy a larger building and reap the multiple benefits where normally they would not have this option. This pooling of capital is called a syndication and can be used to buy one or many pieces of real estate.

Active real estate management is hard work, and making consistent profit from property is even more difficult. Investing in a syndicate is similar to hiring experienced professionals to make sure your real estate investments are performing well.

There are two types of real estate syndicates:

Public syndication - generally small minimum investment, due diligence supplied by middle man, thousands of investors
Private Syndication - Larger minimum investment, less investors, operators or company may be more available and transparent

The syndication space is quite popular these days with online crowdfunding sites popping up all over and public syndicators creating huge funds while selling cool merchandise.

Now you can invest as little as $500 in a syndication through certain crowdfunding sites.
The problem with these types of public syndications is that you rarely get to meet and know the operators and your actual ROI (Return on Investment) can be lowered through middleman fees.

Be sure to know if your syndicate operators are focused on producing long term results through actual heads up real estate management or are they selling someone else's syndicate. Connecting with the operators and completing due diligence on the operators is crucial when selecting a syndicate to invest in. When completing your research, keep in mind that the operators are equally as important as the deal specifics.

Getting started with real estate investing is safest by working with an experienced investment company that shows transparency and is able to explain to you exactly how your funds are protected and grown.

Interest rates are low (especially on large buildings) and residential rents are high so multi family real estate is a great way for operators and investors to earn consistent profits. Apartment buildings syndications are currently some of the most profitable and safest investments available right now. Always do your research to understand the investment risks.

*Above: Springholm Drive Holdings, located in Berkeley Heights NJ. 14-unit apartment complex PCG acquired with its passive investors in 2019 using a syndicate.*

## Question 6: What is the Best Type Of Real Estate to Own?

Real estate is rated in 4 classes:

Class A - nicest, newest, most expensive, typically best locations.

Class B - nice quality in good locations

Class C - older building in a less desirable location

Class D - cheapest, oldest, least desirable locations

PCG started by investing in Class D real estate but quickly learned that Class D properties look profitable on paper but do not cash flow easily in real life. The

wear and tear on the units create huge maintenance costs, while the management is costly with constant issues.

Ground up construction of Class A property (the best most expensive type of real estate) projects impressive returns sometimes up to 20%. This may work at certain times in certain markets but high end real estate development is also the riskiest form of real estate development. It is often overproduced and the most expensive type of property so in a recession people move to mid level properties (Class B and C Property).


*Above: Class B Apartment Building, Paterson NJ*

This is one of the reasons we focus on acquiring Class B and C apartment buildings. They are affordable, have moderate holding costs, are desirable to the largest tenant class and people need a roof over their head in good times and bad!

You will be able to find companies that project better returns. As we research the competition, we see operators projecting double what we project. We hear

commercials on the radio talking about 20% cash on cash returns and we wonder how they accomplish such high returns.

Passive investments vary in ROI: Savings accounts earn a return around 1% APR, bonds around 2% - 4%, index funds average 6% - 8% annually though can be very volatile as we say in 2008, 2018 and 2020. Other real estate syndications vary on their projections and actual returns, usually falling between 8% to 15% annualized cash on cash return!

After doing our research we found many real estate syndicates overpromise. Others have very rosey projections and quite frankly at times get lucky because apartment buildings are very forgiving in a strong market. The demand for rental housing tends to stay strong in recession, less people buy, more people rent, holding demand strong. But only hoping demand stays strong is not a great long term strategy for operators or investors. The operators need to know what they are doing and have a value add strategy that is logical and plans for a best case, worst case and most likely case scenario over the life of the investment.

## Question 7: What is PCG's Competitive Edge?

Peoples Capital Group has worked with several management companies in the past and unfortunately found that none were capable of repositioning an apartment building.

Most management companies cannot apply all of their resources to your property, they have other customers, commitments and standards . Management companies work on extremely tight profit margins so they need to spread their resources over as many accounts as possible to provide the agreed service but also earn a reasonable profit.

One management company collected the rent and called a plumber when a pipe leaked. Another, though with a well respected realty brand, achieved only 75% collections while promising over 95% collections, and a third management company stole money from us.  In the last case, this unscrupulous management company appeared to be trustworthy and family owned but ended up renting out the same unit to multiple people in one day and running off with the money (and keys)!

Because of this, we found most management companies promised impeccable service in the interview but the collection numbers would tell a different story once they won our business. We often found excuses instead of net profits confirming that sometimes if you want something done right, you have to do it yourself (or develop your own company).

These experiences forced us to create our own management because we wanted to be able to provide our investors and ourselves with the best management possible for what our aim was i.e. repositioning real estate to obtain the most value from each unit and create as much equity as possible for ourselves and our investors.

Aggressively improving the cash flow of an apartment building is a lot of work. It takes years of real estate experience and expertise. Each apartment unit must be handled on a cases by case basis taking into consideration the legal and ethical factors involving each tenant. For example, does the unit have rent control? Is the tenant disabled? Will the municipality permit the landlord to not renew a lease for a low paying tenant? What is the process of converting the utilities?

*Syndication: Partnering with Experts*

Through the last 10 years Peoples Capital Group has developed a different strategy, we manage all of our properties in house with our company PCG Property Management.

This allows us to have complete control over how our buildings are managed and enforce integrity in daily operations. We realized someone else is not going to care for your baby like you do.

PCG Property Management is focused on taking a mis-managed apartment building and turning it into a consistently profitable asset. There is a lot of work behind the scenes to find, underwrite, manage and reposition these buildings but that is where value is provided and that is how wealth is created in Real Estate.

The safest way to invest in real estate is with a syndicate that has full management control of the assets, a 10+ year track record and purchase in locations that have continued demand through bull and bear markets. At PCG we aim to bring that service to our investors everyday. We manage only PCG properties with the goal of out performing our projections year over year.

Link to a video Q & A with our amazing property management staff at PCG Property Management LLC.

https://youtu.be/Pdy7Ge4tbkA

**Additional Free Content:** If you found the content in this *eBook* to be of value, Subscribe to our *youtube channel* - (channel name is Peoples Capital Group) for new investment videos every week! PCG also hosts the *Passive Cash Flow Podcast* with weekly episodes available on all major platforms.

# Summary

During volatile times, the philosophy of Peoples Capital Group is: *stick to what works.* By taking less risk, acquiring real estate near new developments of NJ class B and C real estate in locations that allow tenants to commute into NYC in 60 minutes or less. We have found through our 10 years of business that it is these such areas that will have demand in the future. This also positions an investor to significantly underprice the new construction rentals while offering tenants a similar, yet more affordable product.

Additionally, peace of mind and steady success is often more attractive to an experienced investor than riskier high returns. A consistent 10%+ return can be an aggressive return on investment that beats most other passive investment options outside of real estate yet doesn't take on the extreme risk of higher return products. Fortunately, PCG has historically accomplished this level of return for their passive investors.

*Looking for more information?*

*Email info@PeoplesCapitalGroup.com to request additional information about Peoples Capital Group. We look forward to hearing from you.*


*Passive Income Streams Through Real Estate Investments*

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