Anjali: [00:06] Hi everyone. Thanks for tuning in to today's episode of Money Checkup where we take a deep dive into matters related to money, business and personal finance. I'm your host Anjali Jariwala, CPA and Certified Financial Planner. Today my guest is Rachele Voigt. Rachele is a senior associate at MLG Capital. MLG Capital is a national real estate investment in private equity firm. Rachele, welcome to the show.

Rachele: [00:39] I am happy to be a part of it.

New Speaker: [00:41] I'm excited to have you on today because we're going to go through dissecting real estate private equity deals, which I think in today's environment is, is a very hot topic, but there's so much to learn in this space, so I'm glad we have you on to share your knowledge and expertise before we dig into the private equity real estate side of things. Tell us more about your background and MLG Capital.

Rachele: [01:06] Sure, absolutely. So I sort of have a windy path as to how I ended up in this industry. I went to school for human resources, believe it or not, and ended up working at a pretty large middle market financial services firm. Out of college. Um, I was managing their intern program in their campus recruitment process. And quickly through that process I realized that I wanted to be on the production side of a business. So I went and actually got my real estate license and I was selling residential and I did that for about two years. Ultimately realizing that I really wanted my weekends back and educating myself in the real estate space, it's real estate is such a fragmented, odd but exciting and very free enterprise type of industry where there are so many avenues you can go. So once I started learning a little bit more about those opportunities, I realized again how much I wanted to be on the commercial side of things. So I also, you know, in my personal life was interested in having a little bit more mobility, whereas residential is very much a local game. And I went to MLG and in about a, it was two years ago now. So I've been with the firm for about two years and I absolutely love every single part of it. So that is my journey. MLG and I could talk about it for a very long time. So, um, I'll keep it somewhat brief here, but MLG has been around for about 32 years and it started off as more of a commercial brokerage company that had a lot of, um, excuse me. They had a lot of development as a piece to their business operations as well. And through the brokerage and through doing, you know, many development deals on the land and mostly business park side of things, they actually got into acquisitions and investments as well pretty quickly. So today I would say, you know, post, you know, last recession, the business model really

		flipped where it went from doing mostly development, mostly brokerage with some property management and some acquisitions and investments to mostly investments, mostly acquisitions, a lot of property management and much less on the development and brokerage side.
Anjali:	[03:20]	And that shift, did that have anything to do with the bust we had in 2008?
Rachele:	[03:26]	It absolutely did. In terms of like you mentioned the bus that we had in oh eight, and oh nine MLG had this very critical experience with one deal that they were actually in. It was a deal down in Florida. It was a retail deal. Um, strip center wasn't, you know, a superstar performing asset, but it wasn't the worst performing asset. And what unfortunately happened is our loan was coming up for maturity at the same time that the bank was being foreclosed upon by the FDIC, it was like three thunderstorms all colliding at the same time. And unfortunately a vulture group out of Texas had took over the bank and was closing on all of the loans and notes and uh, left MLG in a pretty sticky spot where our CEO unfortunately had to hand the keys over. So what that did was it spiraled and, uh, inspired, I should say this, the principals to get together and say, what can we do for our investors moving forward and what's really going to take the company into the next few generations? Because quite frankly, the missing piece was diversification. And that's essentially how MLG Capital and our funds have become what they are today.
Anjali:	[04:39]	And that's such a great story. And the reason why I wanted you to highlight that is because I have been seeing more in more newer managers come up in this space and they haven't been around for very long. So a concern that I always have when I look at those deals is what is this manager doing to prevent another housing bust like we've had in the past because we're hitting all time highs again for, for the real estate market environment. So as part of due diligence, it's really important to know how someone is going to react and what mitigating steps at that managers taking a so that there isn't as much downside risk as one may have in the example that you just gave, which is why I appreciate MLG and the background and the tenure that you guys have had. Cause you've seen a lot of those markets cycles so you can, you can really talk to and understand and prepare for for any type of event that may happen now or in the future.
Rachele:	[05:38]	Yeah, you're absolutely correct and I would add in that you, you mentioned due diligence, you know when someone is looking at

a real estate private equity firm or an individual's syndication themselves, we always say it's not necessarily what it is, which would refer more to the deal, which is absolutely critically important and. It's a huge piece, but you really want to look at who you're dealing with as well. It's almost just as important, you know, the WHO and the what together. I think they're a great combination when deciding you know what and who you want to invest in.

Anjali: 06:11 That's a great point and I think that leads me to our next discussion point, which is how do we vet a type of deal like this? You talked about the leadership team, like what are some things that people should be looking for or asking questions about in terms of the team that may be managing the fund?

Rachele: 06:30 Yeah, that's a great question. So every investor, every deal, every management firm is 100% different. So, you know, we're operating our fourth fund now, which will be between a 200 million and 250 million equity fund. You know, our first one was so much smaller at 27 million. But you know, I like to always tell people, even though we're on our fourth fund and we have this same exact philosophies and strategies since we started the first one in 2012 ultimately every fund will operate differently because every deal is different. Every sponsor that you partner up with on our end, if things will be different. So there's a lot of different nuances, I would say from our standpoint as a manager in this may highlight some of the things that an investor could look at, you know, if they're looking at their own things, are we look at common lead, you know, leverage points. So one of our huge things that when we're underwriting our deals is what leverage point makes sense. MLG, again, every firm operates differently in their philosophies and what they believe. But MLG tends to stick to run a leverage point between 60 and 65%

Anjali: 07:41 can you explain for our audience who may not be familiar with this term? What leverage point means?

Rachele: 07:46 Yeah, absolutely. It's essentially your debt. So one of the easiest ways to think about it is, you know when you're buying a home, the most common way to buy a home is to put 20% cash down and then to get a mortgage for the 80% so on a commercial deal, typically that is far larger and it also can be different types of debt. You know, you could have fixed at, you could have floating debt. There's many types of debt we tend to stick to fix, which would be very simple to your common mortgage. And like I said, you know, it's even significantly different than a residential purchase at 80% we're looking to do about 60 to 65

		and a huge reason that we do that is we feel that that leverage point is essentially it gives us some opportunity where in our downside or a worst case scenario, we have an opportunity to do things to fix what's affecting the property or the returns overall and still be able to hold onto our debt payment.
Anjali:	08:41	That's great and I think that's a really important factor for people to consider and make sure that they are looking at that. I have seen some deals come through where the interest rate is variable after a pretty small of time. That is something that I would be really concerned with on the deal because we're in a rising interest rate environment. So if, if that rate starts to increase and they're operating at a leverage point of maybe 70 75 80% that debt is going to get expensive really, really fast and that may make or break the deal essentially. So all these underlying components are so important to look at. And understand.
Rachele:	09:20	Absolutely, you're correct. And just to kind of finish off too, cause I think you're initially asked about, you know, some of the things that we look at when underwriting the deal's a huge thing for us as well is demographics, you know, so what is the crime like, what is the school like in the areas? What are the home values? What's the supply risk, you know, is there anything being newly developed that would affect our purchase? And then the overall return itself, you know, is what are we looking to gain for our investors? MLG specifically, you know, our investment structures an 8% preferred return. And overall we projected a 12 to 16% annualized IRR net of all fees. So essentially when we're looking at a deal, we want there to be cashflow while we are adding value to affect the overall return. And that obviously plays a huge role when we're trying to vet a deal.
Anjali:	10:13	That's great. So let's break down what the preferred rate means versus the annualized IRR
Rachele:	10:19	Sure, absolutely. So overall your IRR is going to be your total return on investment and it is based on time, you know. So for example, if you, you know, put in $5 I'm keeping this very, very simple. Yeah, that's great. One in $5 and were able to make it $10 that's wonderful. But someone who can make you that $10 in five seconds versus somebody who can do it in a year. I mean, what would you rather have? You'd probably have the one who can do it in about five seconds. So that's essentially how you know, the annualized overall return works. It's a very, very complex formula. You know, most people actually cannot calculate it, so you need the computers to do so. But it's

extremely important when you're vetting your overall return because of that time calculation piece, your preferred return, on the other hand is, is really more your return on the actual investment that you make. And so we look at it, it's more of like a dividend payment. So it's what can I be getting paid on more of a regular current basis versus waiting for the overall appreciation or the larger portion on maybe the back end of an investment. So that's how I like to clarify the difference between the two.

Anjali: 11:38 And I think that differentiation is important because anyone who's considering doing one of these types of deals has to understand that their money is going to be tied up for a certain period of time. You know, anywhere from like five to 10 years, which is why the IRR a number is important to know because the longer your money is tied up on that IRR is slowly going to start creeping downward, which doesn't mean that the deal is good or bad, it's just understanding that that time and illiquidity is a piece of this. So this is not an investment that's going to be liquid like investing in the stock market. Right. So be prepared to have it tied up for that period of time and not something that you think that you can draw on when need be.

Rachele: 12:21 Correct. Absolutely. And, and that's a lot of the reason why real estate or maybe any alternative can be seen as sexy or riskier or attractive because it does operate a little bit different than the stock market where maybe, you know, an 8% is totally fine for you, but there are some people that are chasing overall returns above 20% you know, so a lot of it has to do with the risk tolerance and I'm going to put a plug in for you. That's why talking to an advisor makes so much sense because you want your portfolio to be obviously diversified. I mean, um, I know individuals who, for example, they call themselves more deal junkies and all they do are alternative investments and you know, different strokes for different folks. But I also know individuals who invest in the stock market and also want to be an alternative. So I'm not an advisor by any means, but at the same time, you know, there's definitely value in all of it.

Anjali: 13:20 Correct. Right. And diversification is so important in, in things like this, especially when you're deciding the type of alternative exposure you want in your portfolio. If you're going to do that through real estate. The nice part about doing private equity or syndications is usually the minimums are a little bit lower than if you were to try to buy a property directly yourself. Or You may need to put 25% down because it's an investment property. You're on the hook for everything. These types of deals it is, it can be a little bit smaller, you know, anywhere from like 25 to

50 to a hundred thousand per deal. And you know, it's, it's diversified. So the hope is that the risk is somewhat muted because now the money is pooled across all different types of investments versus having kind of money tied up in, in one property, which, you know, may yield more higher results, but you just never know for sure. So it's, I think it's a, it's a good approach for people, if it makes sense in their portfolio, in terms of their time horizon and risk tolerance of, of their investment portfolio.

Rachele: 14:27 Yeah, absolutely. And you know, as something for, um, MLGs current funds. So when I, when I gave a quick history overview, um, I didn't go into the funds, you know, super in depth, but when we had this experience, um, you know, and like I said, after the last recession, the principals got together and decided what would really take the company into the future and be most beneficial for investors as mentioned. And as you had mentioned as well, the diversification piece was just, it was at the forefront really. It was, it was really everything. So MLG funds specifically, um and like other diversified funds, I'm not sure where they're at. They're at in terms of how many layers of diversification they have. But for us, you know, we seek multiple layers. So not only our product type is different. So we'll be in, you know, some multifamily product and we'll be in some industrial product and a little bit of retail and office. But we also have an asset class type of diversification where we're typically seeking, uh, you know, Class C type asset versus maybe a brand spanking new class. A, you know, we have manager diversification and then the most obvious one, which would be the geographic diversification. So just that I would highlight that, you know, speaking of diversification itself, you know, geographic can be wonderful, product type can be wonderful, but we tend to seek even multiple layers and we find that again, that will hopefully help in mitigating the overall risk.

Anjali: 15:54 Yeah, that's great. And I'm glad you highlighted that point. So let's talk about deal flow. What does that mean? What's the deal flow look like for MLG? And then what deals do you guys pick from the diligence that you do?

Rachele: 16:08 Yeah, that's an awesome question. Uh, we at MLG, we actually call our deal flow strategy, our secret sauce, very, very cheesy, but we call it, or a secret sauce strategy because we essentially, you know, historically before we move towards a fund, we were only doing individuals syndications where, um, if anybody doesn't understand what a syndication actually is, it's, it's kind of like the money and the person that finds the opportunity come together and form a relationship. So in general a

syndication, you know, is really any type of offering or like I said, the money and the opportunity come together as one. And so historically when we were doing these syndications, it was a one by one deal where MLG would be responsible for finding the opportunity for collecting the investor equity to go into the opportunity for managing the opportunity. And then for selling the opportunity in other, you know, form of what we would call this as we were direct operators. We were not, you know, seen as a joint venture or a private equity arm before the recession. And that's again kind of moving back to that secret sauce strategy where we decided we wanted all this geographic diversification, but how can you compete? For example, if we want to be in a market like Minneapolis, Minnesota, how in the world can we compete with the individuals that have been in the real estate game for 30 to 50 years? It's extremely competitive because in our business, at the heart and core soul of even a tangible asset class like real estate, you're dealing with people and human beings and relationships. So what we did was we opened up this, this separate arm where now in Wisconsin, Texas, and Florida, and specifically those states, because that's where we've had historic operations. We are still a direct operator. So we seek our own deals, all the equity funnels in from us. We actually manage the deals ourselves and then we, you know, find someone to go help us sell them. But the other 50% of all the opportunities coming in, we're actually our locating capital to have sponsor that has the deal and can't come up with the equity on their own. So getting back to your deal flow question, what that has done for MLG specifically is it, it's almost tripled the amount of deals that we underwrite on a monthly basis. We went from maybe underwriting 20 deals a month, and we now underwrite about 60 deals a month. So why this is so critical is especially in a really, really pricey market like today where things are a little bit questionable, we don't know what the next three to five years are going to look like. The odds are you're better off selecting a deal when you're underwriting 60 per month. And we're only looking to put maybe 20 to 25 in our fund at most over a two and a half year period versus somebody who is still only seeing maybe 20 deals a month and is looking to pick 20 to 25 so essentially what it comes down to is we wanted more opportunities to underwrite so that this selection we felt was truly, truly critical.

Anjali: [19:18] Yeah. And I think that's so great that you guys have that deal flow and it's a reason why I wanted to have you on to help people understand that. Right? Because MLG, you know, you guys have kind of the attraction, the tenure, the experience, you get so much more of those deals coming through so you can pick the best of the best versus someone who may be newer in

this space or doesn't have quite that tenure, they may be seeing less. So being able to pick the best of the best is going to help in terms of returns overall and also to mitigate that downside risk. So that's why I'm so glad you highlighted deal flow and emphasize day because I do think it's, it's very important when someone is looking through these deals and trying to decide where to put their money, especially if they're only gonna plan to do maybe one at a time. You want to really make sure that that one that you're going to put that bulk of money in is the right one and it covers all of these boxes that we're going through. Right,

Rachele: [20:11]

right. Absolutely. And one quick thing to add there, you know, let's put MLG even aside, even even, let's put investment managers aside for, for the sake of what I'm about to say, which is investors are sometimes inundated with opportunities in terms of, or, or people seeking out their capital. So I'll give you an example. We work with a, um, a good amount of physicians as investors. And so you have to think, they're probably called all the time, but at the same time it could be, you know, maybe they see one real estate opportunity per year and knows where it came from. And if you invest in that one deal, again, I'll go back to one of the first things I said here, which is the WHO and the what are just this great combination when you're looking at something. But you got to think, hey, if you decide to invest in that one deal, I mean it could be a total slam dunk, but if you're investing in a fund that's not only diversified geographically but the it product type via asset class and know that managers who have been doing this for about 32 years now have not only vetted one deal a month, you know, we've vetted about 60 so when you look at it like that too, you know, hopefully it makes investors realize just how critical the deal flow part of our business is. You know, because even if you think about the market and where it's going to be in two to five years, you need those opportunities in order to critically select what you want to invest in or choir.

Anjali: [21:39]

Agreed. Agreed. So let's now talk about the fees that someone may expect to pay with one of these types of deals.

Rachele: [21:48]

Absolutely. That's a great question. Part of investing in a syndication or a fund model or with an investment manager is you know, we have to keep our lights on too. We always say we have to operate a business, you know we have to pay people like myself who are trying to find opportunities and you know, meet and manage investor relations. So with that said, you know our asset management fee is a 1.25% typically in the market and asset management fee, which is an extremely

common fee. I don't know any other fun that doesn't have one, but typically they can be anywhere from 1.5% to maybe around two I think is pretty standard. There are also common fees such as acquisition fees, maybe a construction fee, travel fees, legal fees. So all of those things are either bundled up in the deal or they're, you know, somehow being allocated to the investor themselves. But those are some of the common ones. One of them that we do not have. That also could be something we're definitely an investor wants to look at is when you commit your investment capital, there are some funds or groups that will actually charge you a percentage of what you actually committed, um, versus what's actually working. Uh, so MLG does not do that, but those are some of the, the major, major fees that definitely to be aware of.

Anjali: [23:12] And I'll just quickly highlight the, the commitment aspect that you talked about. So for listeners who aren't familiar with the commitment based type investments, which, which can be very common in the private equity space, the way it works is that you actually are committing a certain amount of money. So let's say it's $100,000 that you're going to commit. So what the manager is going to do is they're going to call that money as they need it. So they may do a 10% call, a 20% call, which is essentially 10% of the hundred thousand. So then you got to send them $10,000 a lot of times with, with those types of deals, I'm, they may never need to fully call the full hundred thousand that you've committed because at a certain point in the lifecycle of the fund they're going to start generating more return selling those properties so they can cover those future calls with the distributions that you would have received otherwise. And so that distinction on whether the management fee is charged on the amount that is committed, which means that the money hasn't fully been put to work versus called is important. I'm in something to note when you're asking about how the fees work. So let's talk through the, which is also very common in this space is once a fund achieves its preferred return, then there's usually a split as to how the future returns are divided between the investors and the managers, correct?

Rachele: [24:38] Correct.

Anjali: [24:39] So can you walk through how that works and what is fairly typical in the industry right now?

Rachele: [24:45] Yeah, absolutely. So how MLGs works is it's an 8% preferred return. We then actually owe you 100% of your capital back so we're not participating in any of the sales proceeds or the profits along the way over time. Once we've delivered 100% of

your original invested principal back, then what we'll do is we split all of the profits coming out of the remaining assets that are in the fund and we do a 70 30 where it is 70% to the investor and 30% to MLG. What's more common I would say in our industry is I see commonly more an 80 20 split where the investor will get 80% and the manager will get 20 however they are participating in some of the sales proceeds along the way. So for example, let's say we had, you know, 20 deals in our fund and over seven years, again, all hypothetical, I'm seven years, we're able to distribute the 8% annual pref while we're delivering back your return of capital. Let's say there are, you know, we sold 15 deals in order to do that over the seven year period. The five that we have left, what that 70% is coming from is two things. It's the income being produced from the property as well as the sales proceeds. Um, so it's, it's really where it can get really exciting. It's, you know, really essentially that appreciation piece and that 70% split or that backend split has a lot of different names to it. You know, it can be the carry phase is the promote, um, the profit split, you know, however it's worded. Um, it's definitely an exciting piece to it. You know, if the deal went as planned or even better.

Anjali: 26:33 Got It. And then what happens if the fund doesn't meet that 8% preferred return for the year?

Rachele: 26:40 That's a really great question. The way MLGs, uh, investment structure operates is any unpaid pref is still owed to you until you're current on that 8% annual. So, for example, earlier on in the years of our funds specifically, and again I can only speak for MLG, we're doing value add types of opportunities. So our number one goal with every single deal that we put into the fund is to somehow create value and increase the operating income. We're not buying a stabilized asset where we know what the lease term is going to be for 10 years and we can count on that one percentage that will come to us. We're literally doing things to the property, we're renovating them, possibly. Maybe it's a partial renovation, maybe it's a full, maybe there is a commercial building and 40% of it is vacant and we're now filling that vacancy will, which will create the extra additional income. So the reason that I explained all of that is because it takes time. You know, none of that happens over night. You know, we're always looking at, you know, what is our first year cash flow actually going to be? Because if we are doing things like this, we may not be realizing the projected returns until maybe year three possibly. So getting back to your original question, with all of that said, the way that this works is even though in the first few years of our funds, we may be producing, let's say a 6% preferred return. Theoretically

somewhere down the line in year two, we're going to owe you 10% so all of the unpaid will be owed back to the investors and we actually cannot begin returning your original capital until we've gotten current on the eight.

Anjali:	28:25	That's great. And I, that's why I'm glad you you emphasize that because that's a structure that works in favor of the investors. So, and it, it's more and more and more what I've been seeing in terms of the deals I've been looking at. But if you're not seeing that when you're vetting a deal, and then that may be a red flag as to whether the managers incentivized to be working in the investor's best interest because you want to make sure that you're getting your money back and you're getting the return that you've been promised, which is why you put the money in the fund to begin.
Rachele:	28:54	Yeah, absolutely.
Anjali:	28:55	Okay. So another term that comes up in a lot of the decks I look at is, is equity multiples. So what exactly is an equity multiple? What does MLG target for that number and then what's common in the industry?
Rachele:	29:09	Yeah, that's a great question. Um, I'll start off by saying the equity multiple and your IRR have sort of an inverse relationship. So the example that we always use is if you're producing a 15% IRR over a five year hold, that's going to be a two x equity multiple. The equity multiple, I like to always explain, again, keeping it overly simple is if you invested a dollar, we were able to produce $2 on your dollar investment. So MLG, being in line with that example that I had shared, the five year hold 15% IRR and the two x equity multiple, that's sort of the range that we're looking to do for our investors. So with that said, our average equity multiple is a 2.44 x. So it's actually a little bit better than the doubling of your money. But you know, both are very important. Again, as you're kind of looking at a deal, and just to give you an example of the kind of inverse relationship, um, there was one deal where MLG had actually held over going through the recession. So we sort of what we call weathered the storm now because we had held it a little bit longer than we initially projected. The great thing is we still sold it for a profit, but it took us longer to get there. So what will happen is your IRR might be a little bit lower, but your equity multiple is going to be a little bit higher. So hopefully, hopefully that makes sense in terms of that kind of relationship between the two.

Anjali:	30:40	Yes. No, no I think that's perfect and it's good to, for people to look at that cause the equity multiple is essentially kind of like what's the money you're going to get back at the end of the day? Do you want to look at that plus your rate of return and when, when you're thinking through the type of deal that's best for you. So the, the next concept that I wanted to have you walk us through is what is an accredited investor and what do those things requirements look like?
Rachele:	31:06	Sure, absolutely. And I'll start this by saying, you know, everyone's personal financial situation is totally different when MLG is accepting investors, you know we have investors that invest in a variety of different ways. For example, they may invest via an LLC, they may invest as an individual, they may invest jointly, they also can invest maybe via a trust. Every single one of those will actually have different accreditation requirements if anyone is interested in, in what those actually are. The SEC lays them out pretty nicely and they define what an actual accredited investor is. But you know, I kind of gives me an opportunity to highlight maybe what our process is as well, which is probably a common process among many different investment managers. Once you are able to actually accredit, we run you through about a two week legal process where our legal team has to sign off on everything. And then once you are notified that yes, your accreditation is good to go, then you're put in queue for the capital call. So an accreditation requirement, feel free to, you know, check out the SECs website on what that actually is. And like I said, it's very, very dependent on the way that you're choosing to invest.
Anjali:	32:22	And we'll put that link for the SEC site in the show notes if anyone's interested in looking at that in more detail. Okay. So the next topic that I wanted to walk through, is tax implications of doing these types of deals. So anyone who's listened to my podcast knows I'm a tax nerd, so I usually have something tax-related in every single episode I do. So I wanted to spend a few minutes walking through these deals because this type of investment is going to have different tax implications. Then maybe your more traditional investment like investing in an ETF or a mutual fund or an individual stock position. So the way that these deals are usually structured is that it's a partnership and you're going to get a K-1. So what does the K-1 mean to the k one is going to essentially list out any income and expenses that the fund generated throughout the year. When you receive a K-1 you're, you receive it because you are a partner in that investment. So even though you may not see any money coming through yet, you may still pay the tax implications of it because that's just how they K-1 investments work. Usually on

the front end of these deals, you're not going to see as much income reported on the K-1 it's going to be more losses. These losses are going to be passive, meaning you can't offset it against your ordinary income. But if you have other passive income, you can offset the losses with that income. So if you have investment real estate, if you have another type of private equity deal, those can be offset with each other, but you're not going to be able to take that loss and offset against your wage income. And the reason why this is important is because a lot of people, when they're doing one of these deals for the very first time, they're usually surprised about the K-1. A lot of times clients forget, I had that happen this year where the tax return is filed and then I told my client, well what about the k one from that private equity deal you did? And they're like, oh Geez, I forgot. That's awkward bad I, yeah, and I will say that most managers, I haven't seen K-1s kind of come through in time before tax filing season, but I would say that if you're kind of receiving K-1s more than one especially you most likely are going to have to extend your return because a lot of times those things aren't going to come through until after tax filing season, which also can be very surprising for some people, especially if they're very much used to filing on time. But just note that this may cause you to extend, which is really, really not a big deal. Most of my clients extent, I always extend my tax return. But the extension is just to file, not to pay. So you still have to pay what you would owe by April 15th of that deal. And then the other piece of it is thinking through where you're going to do the investment. So most of the time these investments are done in taxable with taxable money in textbook types of accounts. But there is a component to this where you may be able to do it in a retirement account. And MLG does provide an investment vehicle where this can be done in a retirement account instead of using taxable money. And the reason why you want to make sure that the fund is structured to do so is because there are situations in which if certain types of income are generated in a retirement account, it essentially taints the account so it no longer will receive that preferential tax deferred treatment. So Rachele, I would love for you to talk through the dividend income fund that MLG has for its newest fund.

Rachele: 35:58

Yeah, absolutely. And I love that. Great lead in that you just gave me the, uh, the tax side of real estate investing is a really special side of it and it's actually real estate historically is a tax advantageous type of investment. But it is so critical to understand, you know, like you had mentioned what are my overall tax implications. So as you had mentioned, MLD does provide a really unique product in our fourth fund. Um, it's a new product and so I'll start by explaining why we did this and

did a great job of kind of leading into that there an extra tax or like you had mentioned there the tainting of the investment in more of a retirement type of vehicle. And we decided that we would pay really smart attorneys to figure out is there a way that our investors don't have to realize any of this extra taxed or have their investments slightly tainted. And what we did was we created what we call our 1099 dividend fund. Essentially what it does is it, it's turning the rental income in towards more dividend income. So the K-1 that you'll actually receive is much simpler. It avoids a specific tax, which I'm not an expert in whatsoever, but it's called UBTI, which stands for unrelated business taxable income. There's always a chance that you can still realize it, but with the vehicle that we created, um, it's not as likely. So with that said, in this conversion of the rental income towards the dividend income, one of the other things that this vehicle does for investors is it eliminates doing multistate tax filings. So for example, you know, we talked about geographic diversification and from an investment side of things, this is fantastic. However, if you're in 10 to 15 states and you are invested in a property that's in those states coming through our other entryway into fund four, which we call our private fund, you will have to file multistate tax filings. And so in terms of an implication, what that looks like on the tax side, it could create an extra administrative costs. If you're doing your taxes yourself, you know, you definitely have to get educated on what that's all going to look like. But ultimately going back to, you know, why we created it again, we wanted those who wanted to use a retirement vehicle to not realize or have the likely less likely chance to realize the UBTI and the multistate filing just kind of came as an administrative bonus.

Anjali: 38:38

No. And that's great. And I'm glad you mentioned the multi state filings cause that's another shocker that some clients receive. I will say if you're doing one of these investments in you and it's one where you're going to get K-1s from multiple states, I highly suggest using a CPA. Uh, mainly because the state rules vary in terms of when you're required to file a tax return. So we may get a K-1 that is reporting something and you may be required to file a tax return in that state, but you may not be required to file a tax return. So it's really helpful to kind of have someone, a CPA who knows that space and understands those rules to be able to guide you so that you're not filing in all these multiple unnecessary states.

Rachele: 39:21

Yeah, and I was just going to add as well, you know, we always always recommend that our clients use CPAs as well come tax time. I mean everyone, you know, we'll choose what to do on

their own. But it's definitely a, a recommended topic, you know when we're talking to investors.

Anjali: 39:36 Right, right. This definitely adds to the tax complexity. So I wouldn't suggest going this self prepared route and, and this is coming from me who is a CPA. So that's my kind of through today. Okay. So do you have any tips or advice for people, people who may be starting to invest in this asset class?

Rachele: 39:58 Absolutely. My first and almost foremost tip is to just do your research. So instead of like I had mentioned kind of in the beginning, I'll go back to that again. It seems like a common theme is it's really not necessarily all about the deal or the product or the what itself. And while that is so critical and important, it's also really about who you're investing in as well. So, you know, there are communities out there, there due diligence communities, there are professionals that you can speak to about these things, but it's not, it's not necessarily worth it sometimes to just go with that, that risky gut exciting feeling that individuals might feel when a deal, you know, hits their computer or their phone, do the research until you feel comfortable. But also my other advice would be to be optimistic about it. You know, I get the question all the time specifically in real estate regarding what had happened in oh eight, no nine and um, most individuals are following the real estate market and knowing that, you know, it is high and we're in a slowly rising interest rate market. So be still optimistic because you know, here at MLG, I mean there's always an opportunity to make money in every single market. It comes down to, you know, what are those foundational philosophies that you're following, um, the decisions that you're making and the overall experience that who you're investing with, um, has. So that that would be my advice is to definitely do your research, but you don't have to be negative about absolutely everything. It's a great asset class. Our principals have been investing together and with MLG for an average 25 years. So even though they've weathered through a couple of crazy cycles, they obviously are passionate and love what they do.

Anjali: 41:47 No, and that's great. I'm glad you brought that up because part of the research and the vetting makes sure that the principals are also putting their money into the funds as well. Cause you want, you want, you want to make sure that the people managing it have skin in the game. So I think that's great. And then, you know, on the, on the flip side, do you have any advice for the more seasoned investors who, who've done a few of these and you know, maybe are looking to the next step in their portfolio, seasoned investor?

Rachele:	42:12	You know, it depends on if they're more the type that really, really prefer that individual's where maybe they're picking their own deals. And my advice would be to maybe look at those opportunities and maybe create your own little portfolio of diversification. So sometimes real estate and opportunities can be found or be brought to you on a very local relationship basis. So if even if you are seasoned and you've been doing it for, you know, 40 or 50 years for example, my advice would be to maybe look into that geographic type of diversification or maybe do research in a different type of product. I'm just so that maybe you create your own little diversified portfolio.
Anjali:	42:56	Oh yeah, no that's, that's really great. I do know a lot of those types of personalities. You could kinda like to have a little bit more control over that. So this is, this was really great and very, very informative. I think there's a lot of great takeaways that our listeners can, can have from this conversation. The one thing I'll add emphasizes and really do your own research, learn about the space if you're going to invest in it. Because I work with a lot of physicians. You have a lot of physician investors, there's a lot of deals that are brought to, you know, physicians specifically. They're there sometimes can be herd mentality that I want to do this one because all my friends and all my colleagues are doing it right. And, and that's great, but you also need to do your own research and your own diligence because you have to make sure that you're taking the necessary steps to do what's best in your interest. It's great to get the advice and feedback from colleagues, but you need to also do the research and spend the time yourself.
Rachele:	43:50	Absolutely. And I would second that.
Anjali:	43:52	So tell our listeners how they can learn more about you and MLG.
Rachele:	43:56	Yeah, absolutely. So, um, you can always visit our website, MLGcapital.com. We have actually a significant amount of articles and videos. I'm our CEO CEO, for example, Tim Wallen. Um, he has done a lot of articles and informative videos on the tax side and I thought I would throw that in there because as you mentioned, you always like to talk or hit at least the tax piece. So if you go to MLGcapital.com, you can either look at the informative pieces that we have out there or there's also an inquiry page. So if you're interested in talking with an individual and, um, a lot of times, by the way, that could be me or it could be one of our other associates here on the team. You know, we're happy to address any specific questions that anyone has. We also have a couple of other different pages that are, we're

starting to do a little bit more in the social media area and that would be, um, MLG capital has a Facebook site and we also have a linkedin site. So any one of those are totally fine. I myself, you know, I'm on Linkedin, so if anybody has any specific questions, I'm happy to connect with them there as well.

Anjali: 45:02 That's great. And I'm all of the resources that, uh, Rachele lists, they will also be available in the show notes. Well, Rachele, thank you so much for being on the show.

Rachele: 45:11 Absolutely. I had a blast. Thank you for having me on. I hope you have an awesome day.

Anjali: 45:15 Thanks. Thanks for tuning in today. If you're interested in making better financial decisions and are considering working with the professional, please visit us www.fitadvisors.com to schedule a free initial consultation.