

How Interest Rates and Inflation Impact Real Estate





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Agenda

- 1 About Entrust & Self-Directed IRAs
- 2 Inflation, Interest Rates and the FED's Gambit
- 3 Is the U.S. housing boom a bubble?
- 4 Projections for the Future
- 5 Q&A Time

Meet Your Host

Bill Neville

Business Development Manager at the Entrust Group



10

Years at Entrust



Educating investors and professionals on tax-preferred retirement accounts



B.S. in Finance from Penn State University

About Entrust



\$4B

Assets Under
Administration



45k

Investors
Empowered



40+

Years in
Business



1

Point of
Contact

About Entrust



- Self-Directed IRA administrators
- Knowledgeable staff with CISP designations
- Nationwide offices
- In-person events and virtual webinars
- National Continuing Education program for other credentials
- Bi-annual IRA Academy

What is a Self-Directed IRA?



A retirement account in which the individual investor is in charge of making all investment decisions



Greater opportunity for asset diversification outside of traditional stocks, bonds, and mutual funds



All securities and investments are held in a retirement account administered by a regulated custodian or trustee



PRESENTED BY:



NEAL BAWA

Grocapitus & MultifamilyU



The Massive Impact of Interest Rates and Inflation on Real Estate

MEET: NEAL BAWA

President and CEO, Grocapitus & Multifamily University



NEAL BAWA



CEO & Founder



ABOUT NEAL

- ✓ Neal's companies have owned / managed a portfolio of over \$947 Million
- ✓ Over 4,800 units of Multifamily, Student Housing, Industrial & Self-storage, in 10 states
- ✓ Nationally known Multifamily mentor and speaker
- ✓ About 10,000 investors attend his Multifamily webinar series and hundreds attend Multifamily Boot camps
- ✓ Founder of a real estate community with over 30,000+ members.

KEY FOCUS

Investor Management



Leasing and Tenant Marketing



Submarket and Property Selection



Operations and Metrics



GROCAPITUS: PARTIAL PORTFOLIO & TRACK RECORD

SOLD

WINDWARD FOREST

VALUE-ADD
MULTIFAMILY
216 UNITS
ATLANTA, GA

SOLD

CHELSEA PLACE

VALUE-ADD
MULTIFAMILY
174 UNITS
ATLANTA, GA

NOVA RTP1 TOWNHOMES

NEW
CONSTRUCTION
MULTIFAMILY
46 UNITS
DURHAM, NC

EQUINOX IDAHO FALLS

NEW
CONSTRUCTION
MULTIFAMILY
66 UNITS
IDAHO FALLS, ID

FOR SALE

EQUINOX ON PRINCE

VALUE-ADD
MULTIFAMILY
114 UNITS
TUCSON, AZ

COUNTRY PLACE

VALUE-ADD
MULTIFAMILY
137 UNITS
KILLEEN, TX

ACQUIRED NOV 21

COYOTE CREEK

NEW
CONSTRUCTION
MULTIFAMILY
116 UNITS
ST GEORGE, UT

CONSTRUCTION
COMPLETED

THE GRID

NEW
CONSTRUCTION
STUDENT HOUSING
217 UNITS
BUFFALO, NY

CONSTRUCTION
COMPLETED

SOLD

LAKWOOD OAKS

VALUE-ADD
MULTIFAMILY
138 UNITS
JACKSONVILLE, FL

UNDER CONTRACT

PARK CANYON

VALUE-ADD
MULTIFAMILY
180 UNITS
DALTON, GA

STORAGE DEPOT

VALUE-ADD & NEW
CONSTRUCTION
873 UNITS
WEST MEMPHIS, AR

WOODS CROSS

NEW
CONSTRUCTION
INDUSTRIAL
6 BUILDINGS
SALT LAKE CITY, UT

+ MANY MORE...

BUILD-TO-RENT: NEW CONSTRUCTION PORTFOLIO

PARK LANE HOUSTON

UNDER
CONSTRUCTION
FOURPLEXES
56 UNITS
HOUSTON

BOTANICA OAK HILLS I SAN ANTONIO

UNDER
CONSTRUCTION
FOURPLEXES
96 UNITS
SAN ANTONIO

BOTANICA CHASE HILLS

UNDER
CONSTRUCTION
FOURPLEXES
72 UNITS
SAN ANTONIO

BOTANICA SOUTH PARK

UNDER
CONSTRUCTION
FOURPLEXES
128 UNITS
AUSTIN

UNIVERSITY OAKS

UNDER
CONSTRUCTION
32 UNITS
HOUSTON

BOTANICA FREDERICK S -BURG

BTR FUND
55+ ACTIVE
ADULT
148 UNITS
FREDERICKS-
BURG

BOTANICA OAK HILLS II SAN ANTONIO

BTR FUND
FOURPLEXES
188 UNITS
NW SAN
ANTONIO

LA CANTERA SAN ANTONIO

BTR FUND
FOURPLEXES
270 UNITS
NW SAN
ANTONIO

FAIR OAKS SAN ANTONIO

BTR FUND
55+ ACTIVE
ADULT
240 UNITS
NW SAN
ANTONIO

OAKLAND ESTATES SAN ANTONIO

BTR FUND
FOURPLEXES
66 UNITS
NW SAN
ANTONIO

PARK LANE AUSTIN

UGRO BTR
FUND
LUX
RESIDENCES
160 UNITS
AUSTIN

TRACK RECORD: EXITS CONSISTENTLY EXCEED PROJECTIONS

ORIGINAL PROFORMA

OVERALL IRR

17.2%

OVERALL AAR

21.1%

PROJ RETURNS

Incl. 2 properties on
sale or in contract

OVERALL IRR

36.4%

OVERALL AAR

47.1%

EQUINOX ON PRINCE*

Tucson AZ • Multifamily

ORIGINAL IRR

17.3%

REALIZED IRR

61.0%

STORAGE DEPOT*

W Memphis AR • Self-Storage

20.6%

49.6%

FAIRVIEW*

Greenville SC • Multifamily

16.0%

60.0%

PARK CANYON

Dalton, GA • Multifamily

16.3%

37.8%

WINDWARD FOREST

Atlanta GA • Multifamily

18%

22%

LAKWOOD OAKS

Jacksonville FL • Multifamily

17.6%

19.5%

CHELSEA PLACE

Atlanta GA • Multifamily

14.9%

12.9%

* Property on sale or in contract, these are conservative assumptions

INVESTOR TESTIMONIAL: SARAH L.



Neal and his team are awesome! **I've invested in 8 projects** with him and after 3 years we've already sold three. **He's outperformed other syndicates that I've invested with for much longer.** I love getting his monthly updates. It's rare to have a syndicator update us so regularly.

Grocapitus is a breath of fresh air. **They do things differently and way better than their competitors.** Thank you Neal for being an amazing leader to your team! I couldn't be happier with the results so far. Looking forward to investing more in the future.

- SARAH L

INVESTOR TESTIMONIAL: CHONG Z.



*I've been extremely happy about the Park Canyon project. Neal, Anna and the Grocapitus team were truly professional and diligent during the entire time. They stayed on top of everything, never missed one single monthly / quarterly update (which is really amazing!). **They went extra miles to ensure that the investors get the best possible return.** For example, before selling the project, they even redesigned the Offering Memorandum pages by the broker to make it look more attractive to potential buyers.*

***The team also has the rare ability to identify unique, unusual opportunities for further improvements.** Park Canyon by itself was already a great value-add project, but they were able to see the unique opportunity to rebuild the Phoenix building (on the site of a previously burnt down building) and the tremendous value it could bring. This move allowed the project to deliver an outsized return that greatly exceeded my expectations for a value-add.*

- CHONG Z.

TWO CENTS FROM OUR LAWYER

Please Read

- We are not investment advisors, and this seminar is provided for educational purposes only.
- All investments involve different degrees of risk. You should be aware of your risk tolerance level and financial situations at all times.
- You are free to accept or reject all investment recommendations made by us. All services that we offer are subject to market risk and may result in loss to your investment.
- As you know, a recommendation is not a guarantee for the successful performance of an investment and we cannot guarantee against losses arising from market conditions.
- Do not invest your money on our recommendation alone. Consult a professional advisor.
- HOUSEKEEPING – Recording? Questions?



INFLATION

8.5%

SECTION I:

INFLATION, INTEREST RATES AND THE FED'S GAMBIT



Multifamily University

WHERE ARE MORTGAGE RATES TODAY



Sources: CNBC TV, Mortgage rates hit 5.64% as home prices are up 34% since start of pandemic; May 2022.

SUMMARY: A LOOK AT THE VIDEO NUMBERS

MORTGAGE RATES RISING

May 2021

2.98%



May 2022 / July 2022

5.64%



**HOME
PRICES**

34%



AVERAGE MONTHLY PAYMENT

+1,800\$

per month

Sources: CNBC TV, Mortgage rates hit 5.64% as home prices are up 34% since start of pandemic; May 2022.

CHEAPER LOANS: A POSSIBILITY?

MORTGAGE TYPE
PURCHASE

PURCHASE PRICE
\$600,000

DOWN PAYMENT
\$120,000

DOWN PAYMENT
20%

CREDIT SCORE
740+

LOAN TERM
30y fixed

RATE

4.900%
30 YEAR FIXED

4.990%
30 YEAR FIXED

4.950%
30 YEAR FIXED

APR

4.610%

4.784%

4.806%

UPFRONT COSTS

\$6,149

\$5,183

\$3,106

MO. PAYMENT

\$2,432

\$2,487

\$2,504



BLUESKY
FINANCIAL

Revolution
MORTGAGE

RATIONALE: WHY ARE INTEREST RATES RISING?

WELL, BECAUSE OF RAGING INFLATION

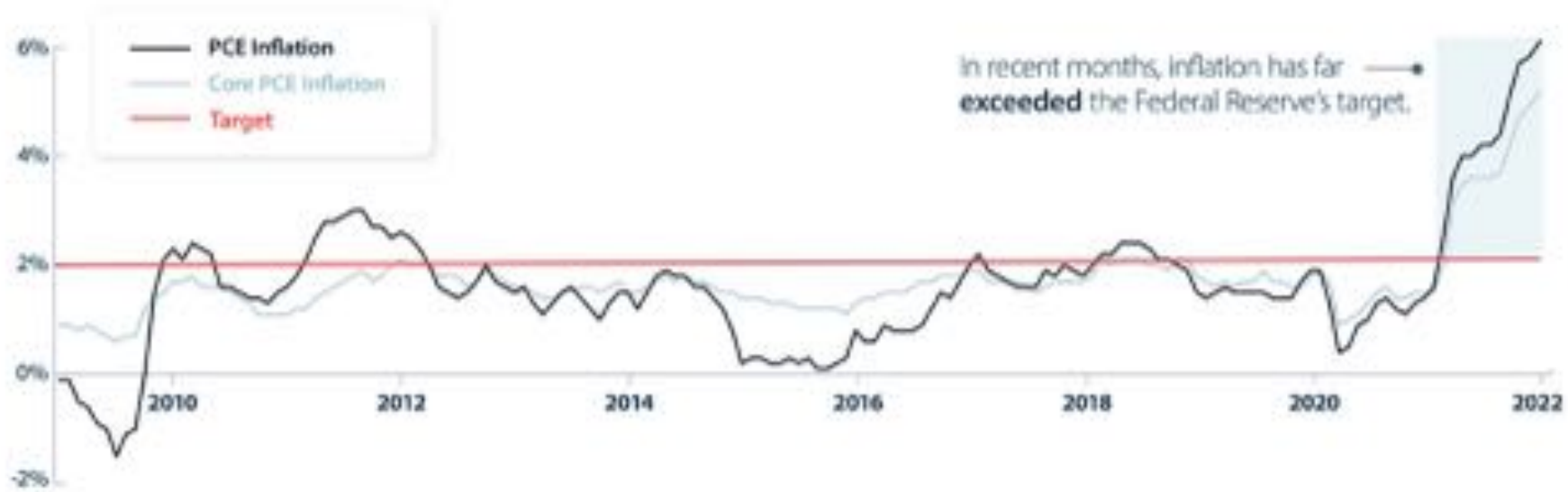


INFLATION RATES IN THE U.S.

PCE Inflation Relative to Federal Reserve Target

12 Month Inflation Rate, Seasonally Adjusted

Source: Federal Reserve Bank of St. Louis (Feb 2022). Core PCE inflation excludes food and energy, which tend to be more volatile categories.



OFFICIAL INFLATION VS UNOFFICIAL INFLATION

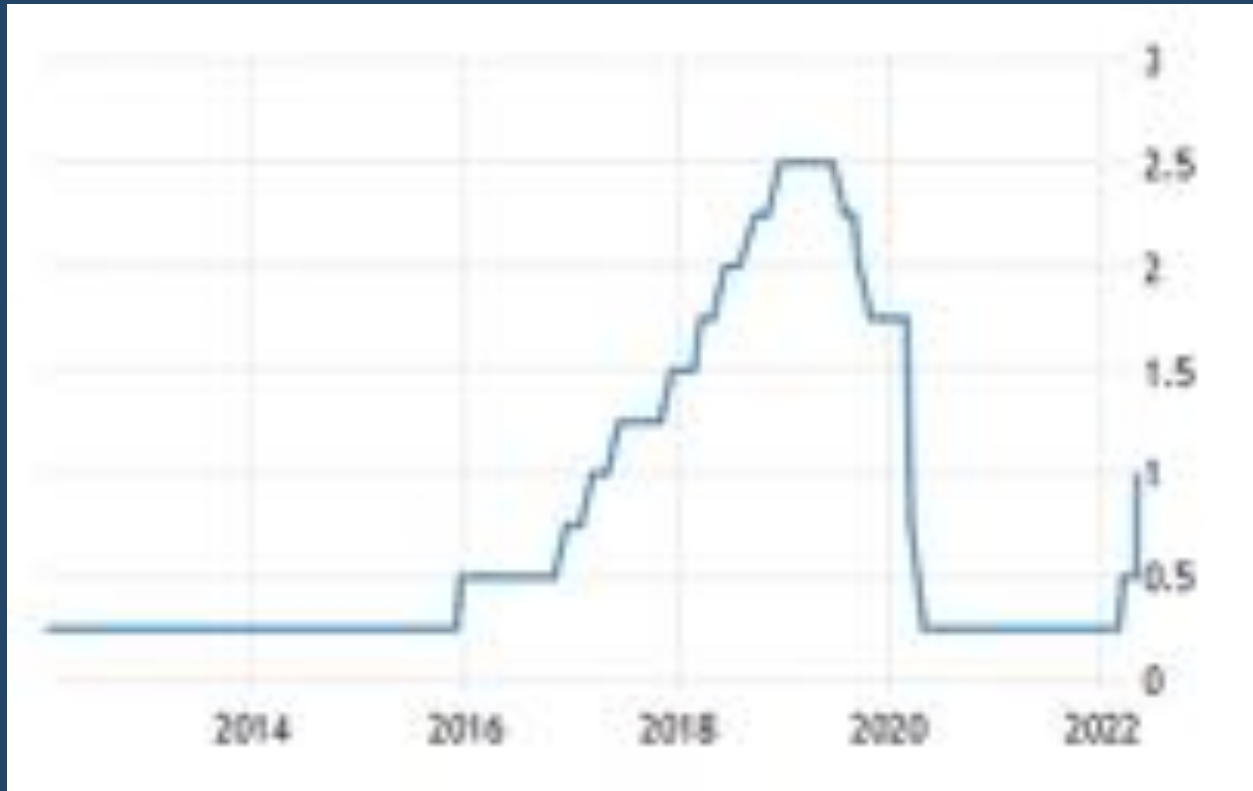
CONSUMER INFLATION



**Official vs
ShadowStats
(1990-Based)
Alternate**

DECREASING INFLATION: HOW DOES THE FED DO IT?

FED FUNDS RATE



RATE HIKES: HOW OFTEN WILL THE FED DO IT?

AND BY HOW MUCH?

The
Economist

INTELLIGENCE
UNIT

The **Economist Intelligence Unit** expects the Fed to raise rates **seven times in 2022**, reaching **2.9% in early 2023**. Starting in June, officials also plan to shrink their \$9T asset portfolio, a policy move that will further push up borrowing costs.

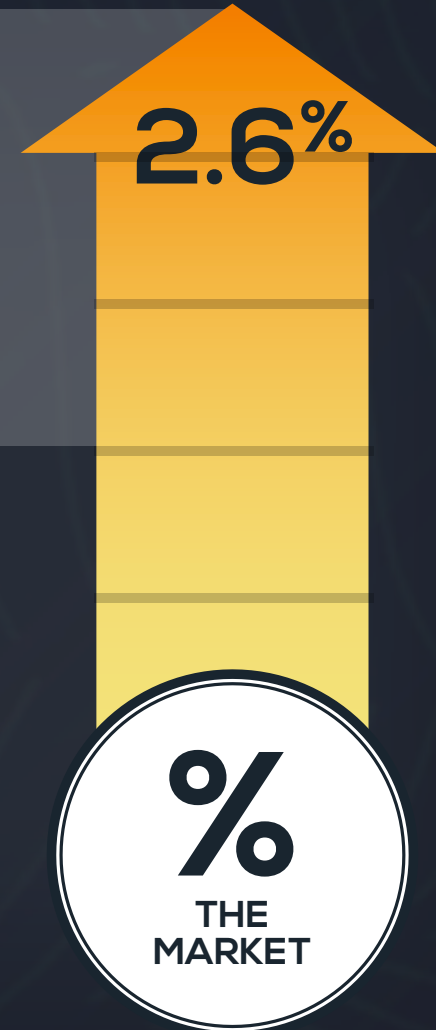
MORTGAGE MARKET: FUTURE HIKES 100% PRICED IN

2.2x

ahead of the FED

3x

for 2022

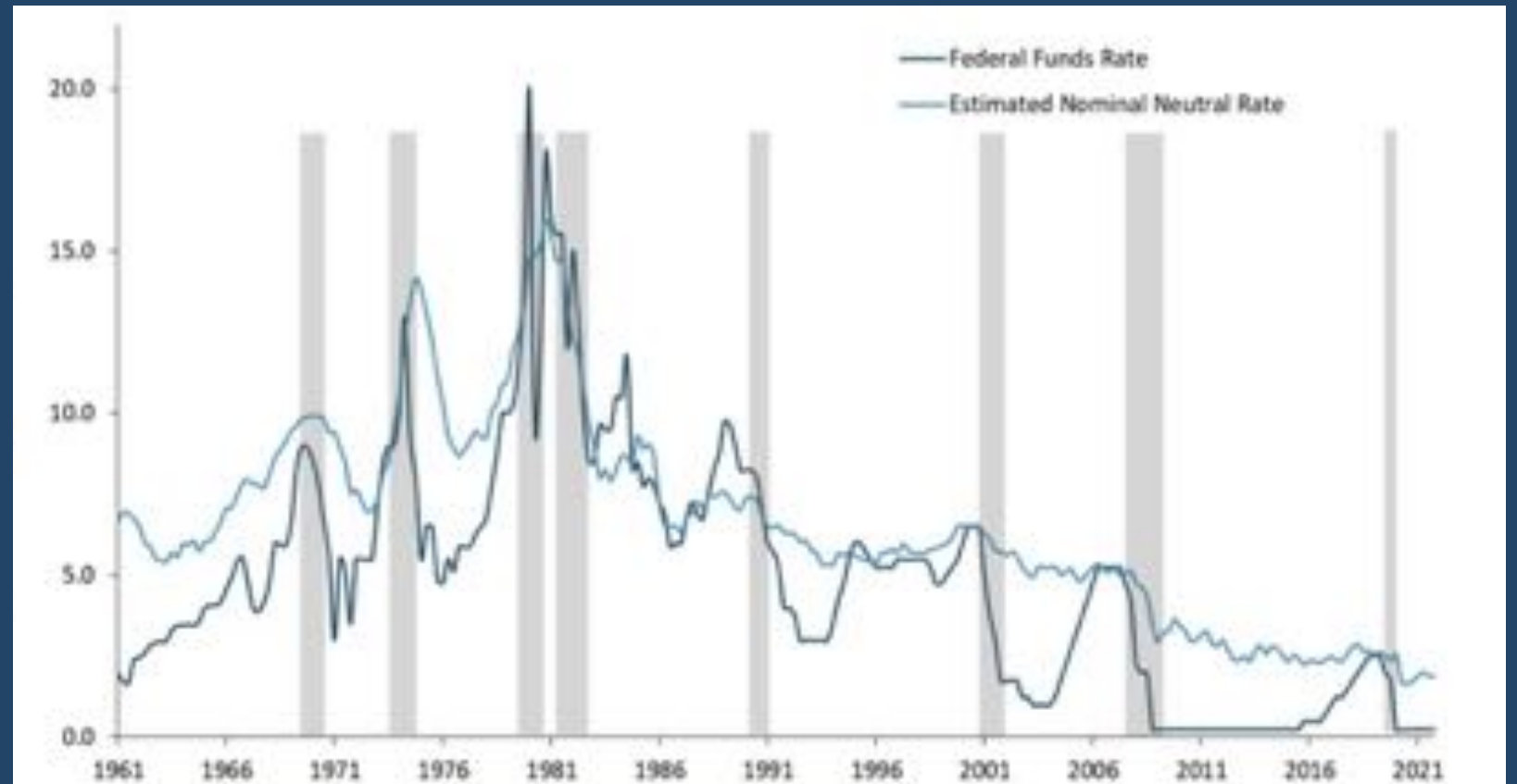


WHAT HAPPENS WHEN FED HITS THE 2.9% LEVEL?

LEVEL THAT THE ECONOMIST WAS TALKING BOUT A FEW SLIDES AGO?

**IN
8 out of 9
TIMES**

FED FAILED TO PROVIDE
A TRUE SOFT LANDING



DEFINITION: WHAT IS A SOFT LANDING?

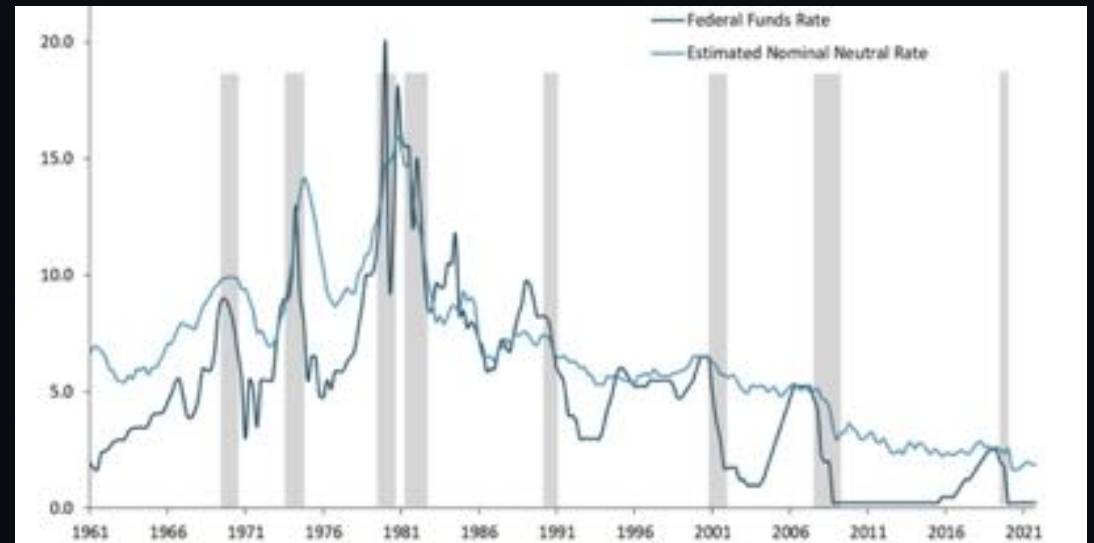


A soft landing, in economics, is a cyclical slowdown in economic growth that avoids **recession**. A soft landing is the goal of a central bank when it seeks to raise interest rates just enough to stop an economy from overheating and experiencing high **inflation**, without causing a severe downturn.



HOW OFTEN DOES THE FED ACHIEVE A SOFT LANDING?

Nine times since 1961, the central bank has embarked on a series of interest rate increases to rein in inflation. Eight times a recession followed. The only true “soft landing” – as significant rate hikes with no subsequent slumps are called – occurred in 1994



POLITICO

March 25 report by investment bank Piper Sandler. Not a sterling track record

THE FED: RATE HIKE ABSURDITY?



THIS EXPLAINS THE STOCK MARKET MELTDOWN

S&P 500



Greed & Fear index

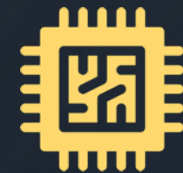


STOCK MARKET

↓ \$7T

Nasdaq

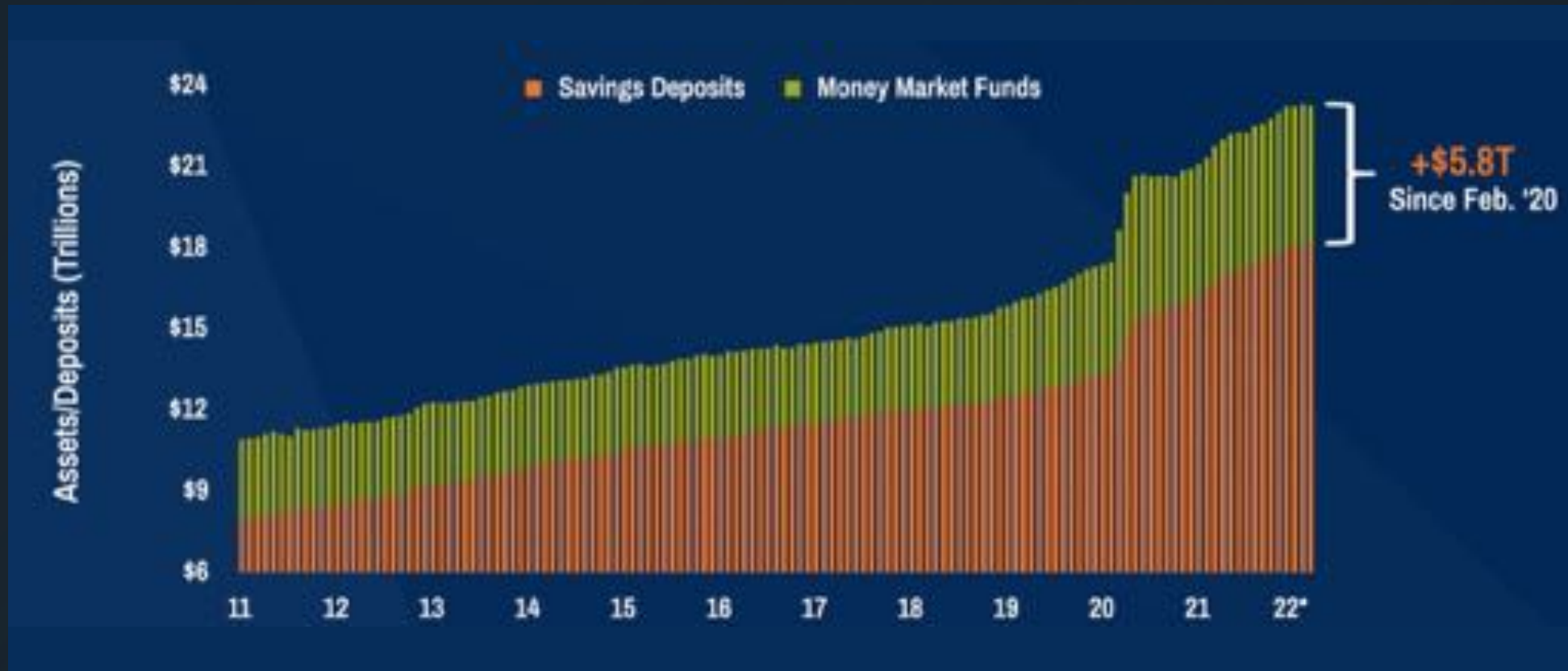
↓ 32%



TECH STOCKS HAVE BEEN HIT PARTICULARLY HARD

BUT WAIT: THERE IS PLENTY OF GOOD NEWS

PENT UP SAVINGS AND CASH ACCOUNTS



HISTORICAL DATA: EXTREMELY LOW RATES



HISTORY: 200 YEARS OF INTEREST RATES IN U.S.



SUMMARY

Rates are high

THE FED BATTLES INFLATION

Peak before the end of the year

MORTGAGE RATES ANTICIPATE FUTURE FED INCREASES



No Soft Landing

HISTORY SHOWS THAT THIS
IS UNLIKELY TO HAPPEN



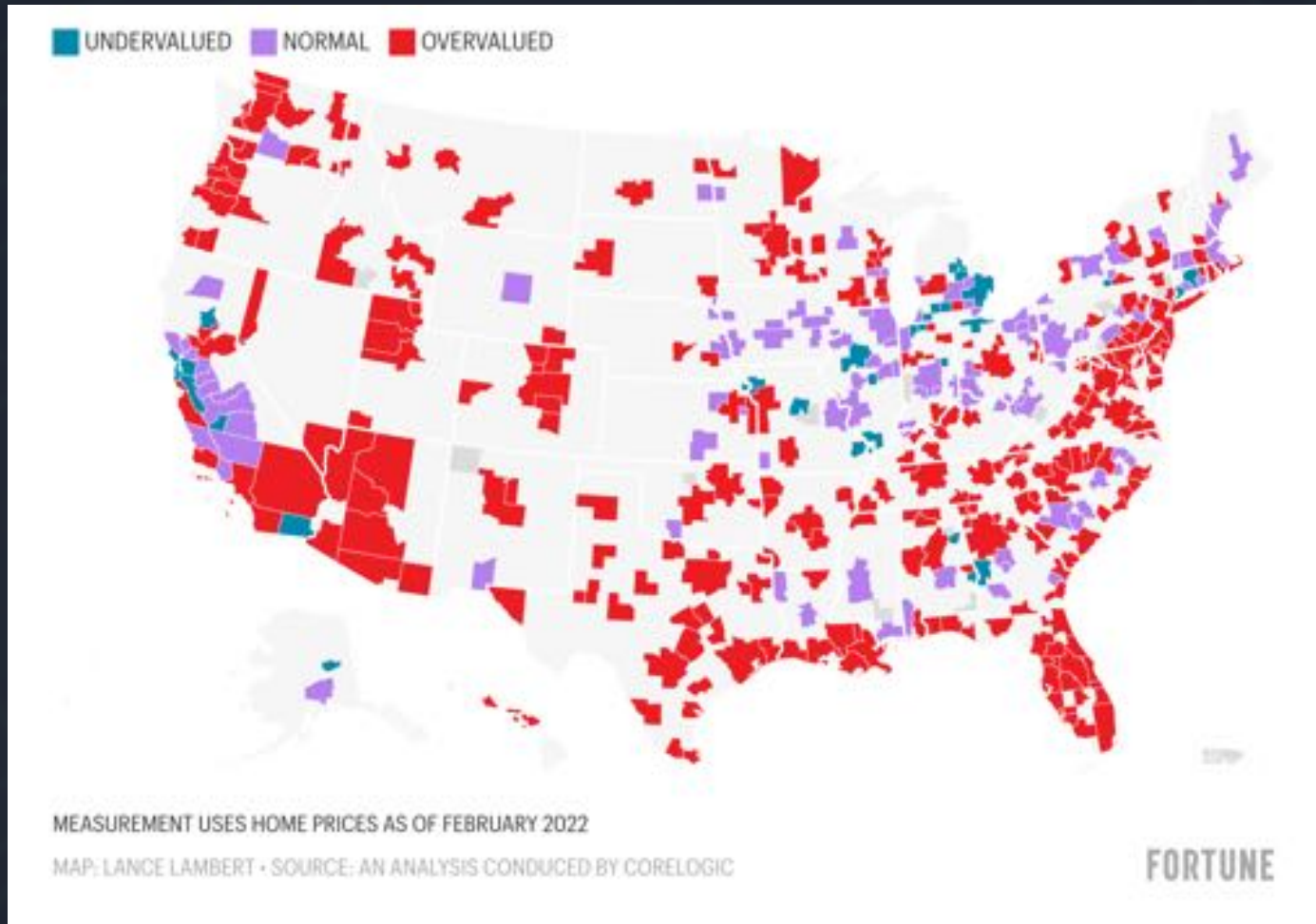
Multifamily University

SECTION II:

IS THE U.S. HOUSING BOOM A BUBBLE?

MARKETS AT RISK

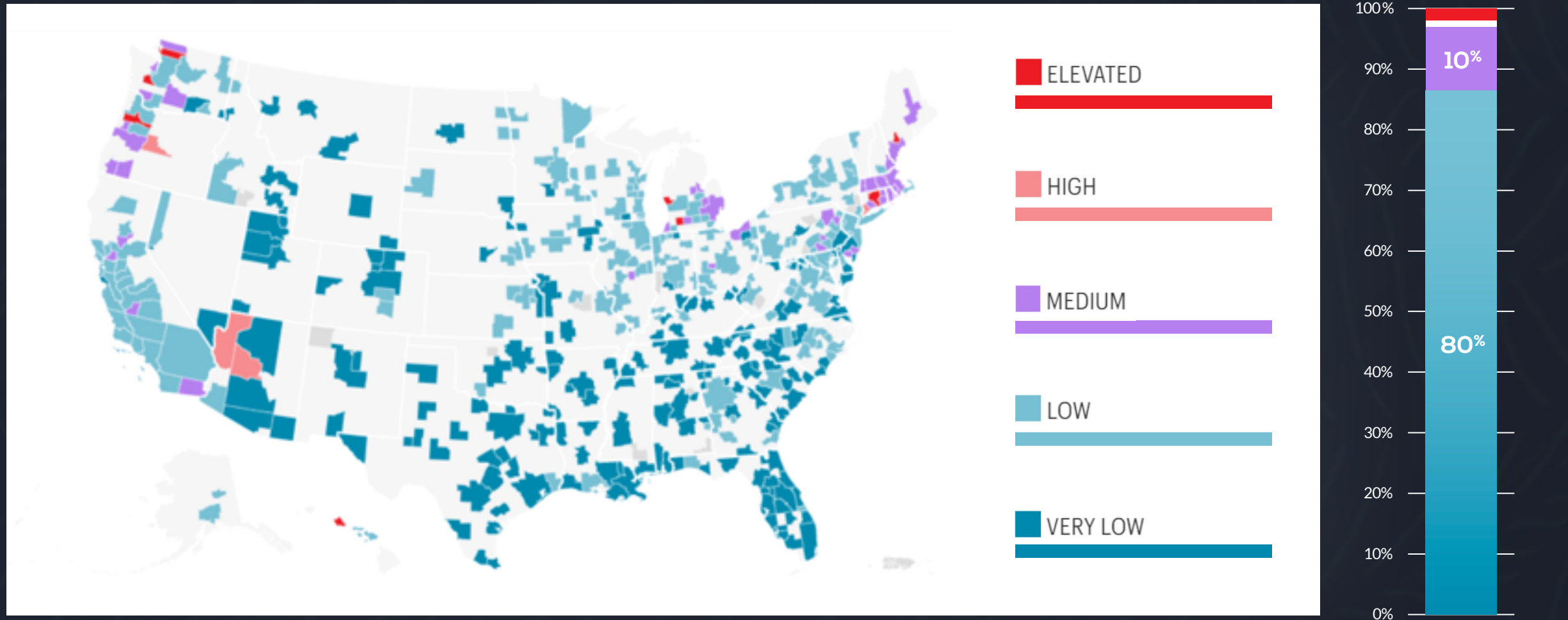
65% of U.S. markets are overvalued, according to CoreLogic.



Source: The odds of a home price decline hitting your local housing market, as told by one interactive chart – Fortune ; April 2022

MARKETS AT RISK

THE ODDS OF REGIONAL HOME PRICES DROPPING



Source: The odds of a home price decline hitting your local housing market, as told by one interactive chart – Fortune ; April 2022

TODAY: AN EXCEPTIONAL TIME?

ARE WE HEADING TOWARDS A REAL ESTATE CRASH?



LACK OF SUPPLY

VS.



STRONG
DEMAND



STRONG
JOB MARKET



ACCUMULATED
SAVINGS/STIMULUS



STRONG
INCOME



REMOTE
WORK

KEY DEMOGRAPHICS: BABY BOOMERS & MILLENNIALS



**BABY
BOOMERS**

**Reliable
cash flow**

**SINGLE-TENANT NET LEASE
PROPERTIES AND MULTIFAMILY**

**1031
Exchanges**

**RETIRING INVESTORS
LEVERAGING THIS METHOD**

**Peak of their
home-buying
years**

**ENTERING THE MARKET
WITH GUSTO**



MILLENNIALS

RISE IN DEMAND FOR ADJUSTABLE-RATE MORTGAGES

THE SHARE OF ARMs IS CLIMBING



JANUARY

MAY

4.6%

Average Contract Rate for 5/1 ARMs

5.6%

Conventional 30y. fix-rate mortgage

THE GOOD VS. THE BAD

Tend to offer lower initial rates than fixed-rate mortgages



Rate could jump unpredictably after the introductory period

U.S. HOUSING MARKET IS SOFTENING

THE DEGREE TO WHICH REGIONAL HOME PRICES ARE OVERVALUED OR UNDERVALUED

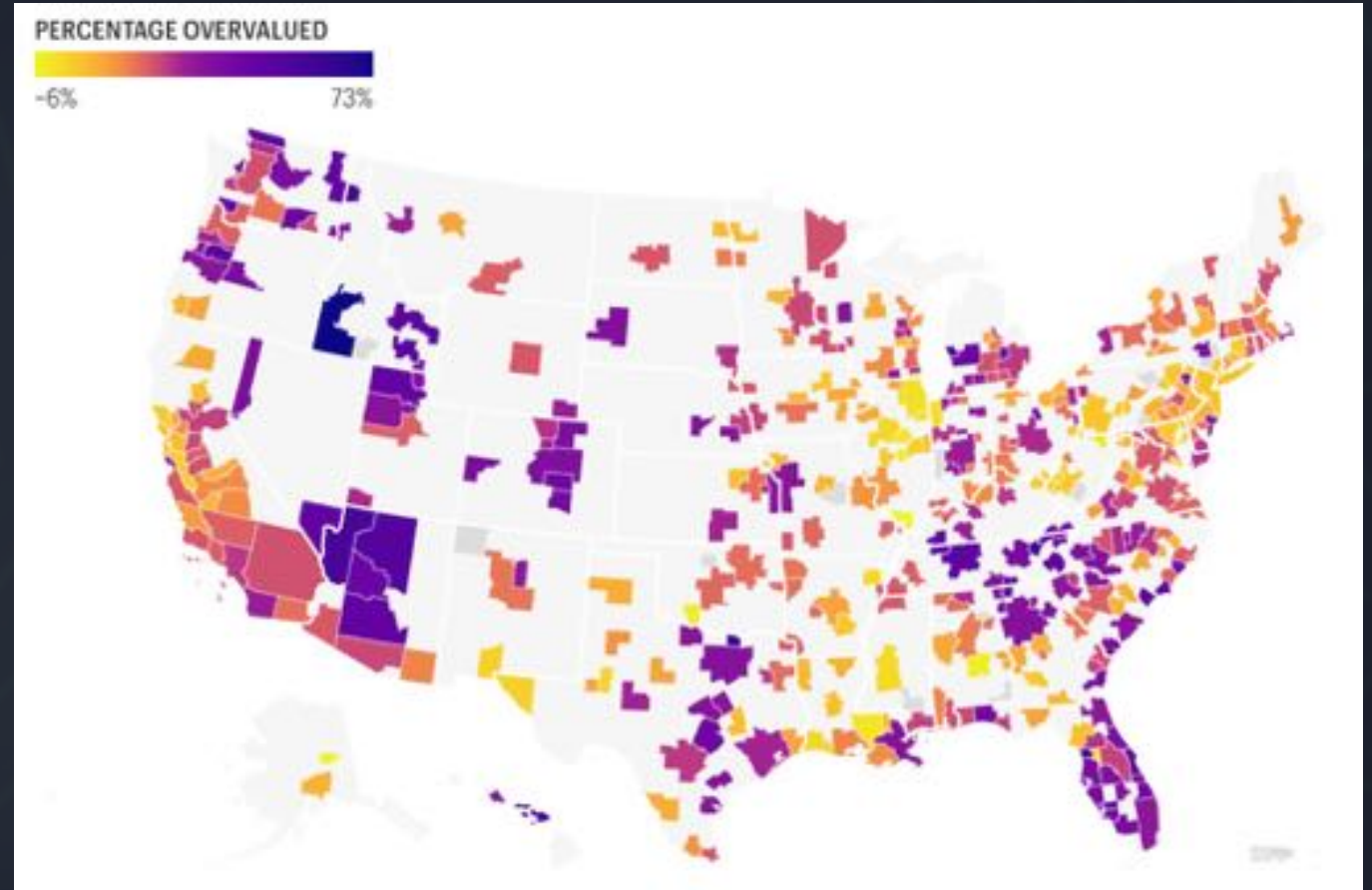


MARK ZANDI
CHIEF ECONOMIST OF
MOODY'S ANALYTICS

- ✓ Some regional housing markets could see home prices decline **5% to 10%** over the coming year
- ✓ If a recession does come, Zandi says price drops in those markets could grow to between **10% to 20%**



The housing market has peaked...
Everything points to a rolling over of the housing market



IS COMMERCIAL RE A BUBBLE?





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SECTION III: THE CRYSTAL BALL

OK, HERE ARE OUR PROJECTIONS

79.1%

PEOPLE WITHIN
1-MILE RADIUS
PREFER TO RENT
THAN BUY

#2

FASTEST
GROWING
COUNTY IN U.S.

CASATA Micro Homes | San Marcos, TX

210 Units: Brand New Modular Tech-Enabled Micro Home Rental Community



Neal Bawa
Anna Myers



Aaron Levy
Zain Mahmood

Inspirational images. Subject to change

CASATA: CURATED LIFESTYLE EXPERIENCE

Uniquenesses Like No Other with Broad Market Acceptance



UNIQUE DESIGN

Modern, stylish, and eco-friendly micro homes with spacious & highly functional layouts



SEAMLESS TECH

Dedicated mobile app where residents can manage all needs and control their smart home



CURATED LIFESTYLE

Modern amenities such as food trucks, outdoor greenspace, art, music, events, and a beautiful common area

CASATA

UNIT DESIGN

MODULAR & EXPANDABLE

DESIGN COST REDUCTION

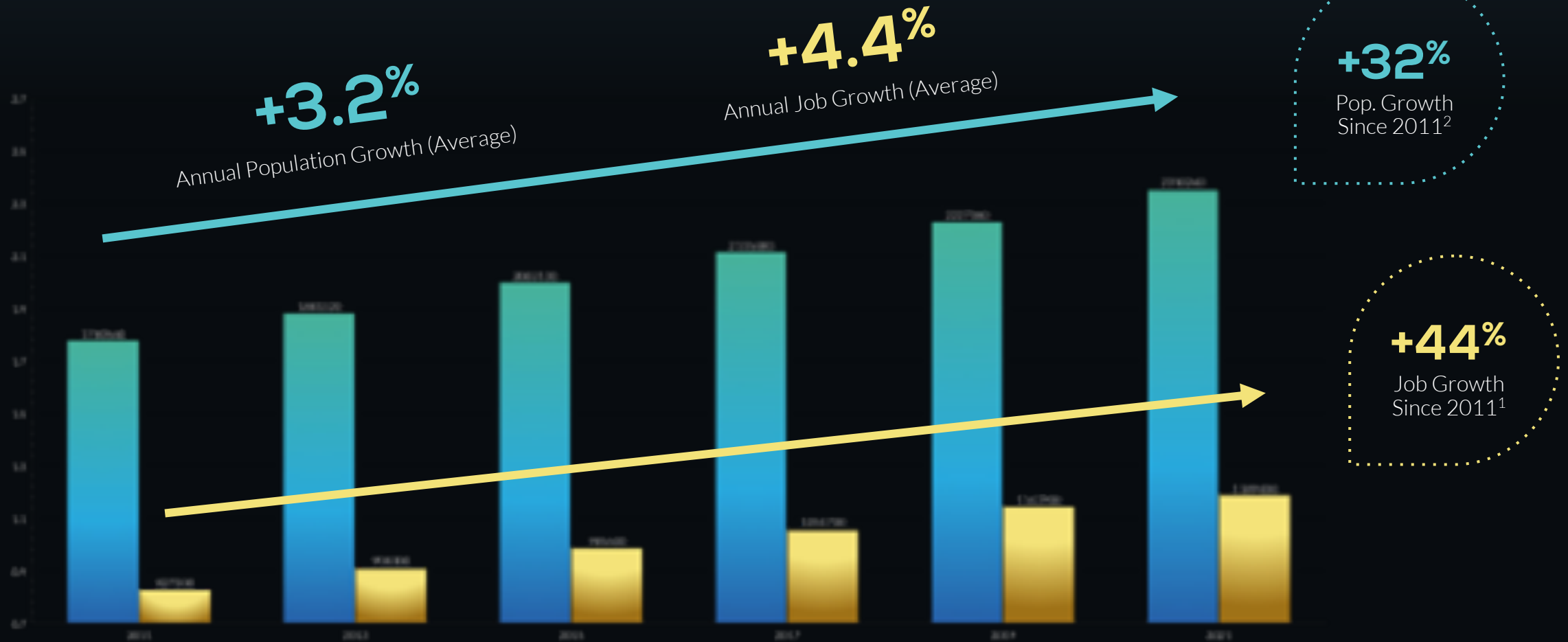
SHORTER DEVELOPMENT TIMEFRAME

ENERGY EFFICIENT



AUSTIN-ROUND ROCK-SAN MARCOS: BOOMING MSA

Since 2011, Austin MSA's Population and Employment Has Grown 32% and 44% Respectively!



Sources: 1) U.S. Bureau of Labor Statistics; 2) U.S. Census Bureau; 3) World Population Review, Austin, Dec 2021.

AUSTIN: ACCELERATED ECONOMIC GROWTH

Unique Business Climate: High Rankings for Talent Attraction, Recruitment & Retention

#2

BEST PERFORMING METRO

JOB LOSSES DURING PANDEMIC
U.S. BUREAU OF LABOR STATISTICS 2021

+23%

RENT GROWTH

As of Q3 2021

-2.2%

**VACANCY
IMPROVEMENT**

Year to date, Q3 2021

#1

**BEST POSITIONED FOR
ROBUST GROWTH**

- Economic Innovation Group

#1

**CITY MOST RECOVERED
FROM THE PANDEMIC**

- Economic Innovation Group

#1

**BEST STATE CAPITAL
TO LIVE IN**

- WalletHub

#1

**HOTTEST BIG CITY
LABOR MARKET**

Wall Street Journal

#1

**PREFERRED MARKET
FOR INVESTMENTS**

- CBRE Survey

#1

**FASTEST-GROWING
METRO IN THE U.S.**

- Business Facilities

#1

**BEST GLOBAL CITY
FOR REAL ESTATE**

- AFIRE

Top 10

**COMMERCIAL REAL ESTATE
MARKET IN U.S.**

- NAR, 2021

SAN MARCOS: MOST AFFORDABLE CITY IN AUSTIN MSA

Zumper Austin Metro Area Report: Ranks San Marcos #1 Highest Monthly Rental Growth Rate



+22%

SAN MARCOS RENT GROWTH

San Marcos rent growth is comparable to Austin rent growth of 23%



+5.1%

HIGHEST MONTHLY RENT GROWTH

San Marcos had the largest monthly rental growth rate in December 2021 for 2-bedrooms & 4.7% for 1-bedroom



34.8%

CHEAPER RENTS THAN AUSTIN

San Marcos ranked as the least expensive city with one-bedrooms priced 34.8% cheaper at \$1,120

CASATA MICRO HOMES

AUSTIN-SAN MARCOS



Attend a Group Presentation:

ANDREW LAPERRE

grocapitus.com/andrew

MORE THAN

9X

Faster Population
& Job Growth
than Nation

Exceptional
A+ Rated City
Ranking Better
than 99% of U.S.

(AREAVIBES)



Generational
Wealth Creation

EQUINOX
TOWNHOMES
- NEW BRAUNFELS -



Neal Bawa
Anna Myers

Equinox Townhomes | New Braunfels, TX

111 Units: Brand New Class A Turnkey Multiplex Investment Opportunity

Aerial Overview & Surrounds



Inspirational images. Subject to change.

Ground / Upper-Level View



Inspirational images. Subject to change.

NEW BRAUNFELS: A RAPIDLY GROWING SUPER CITY

One of the Fastest Growing Cities and #25 Best Place to Live (Money, 2020)

#3

FASTEST GROWING POPULATION IN U.S.
U.S. Census Bureau, 2020

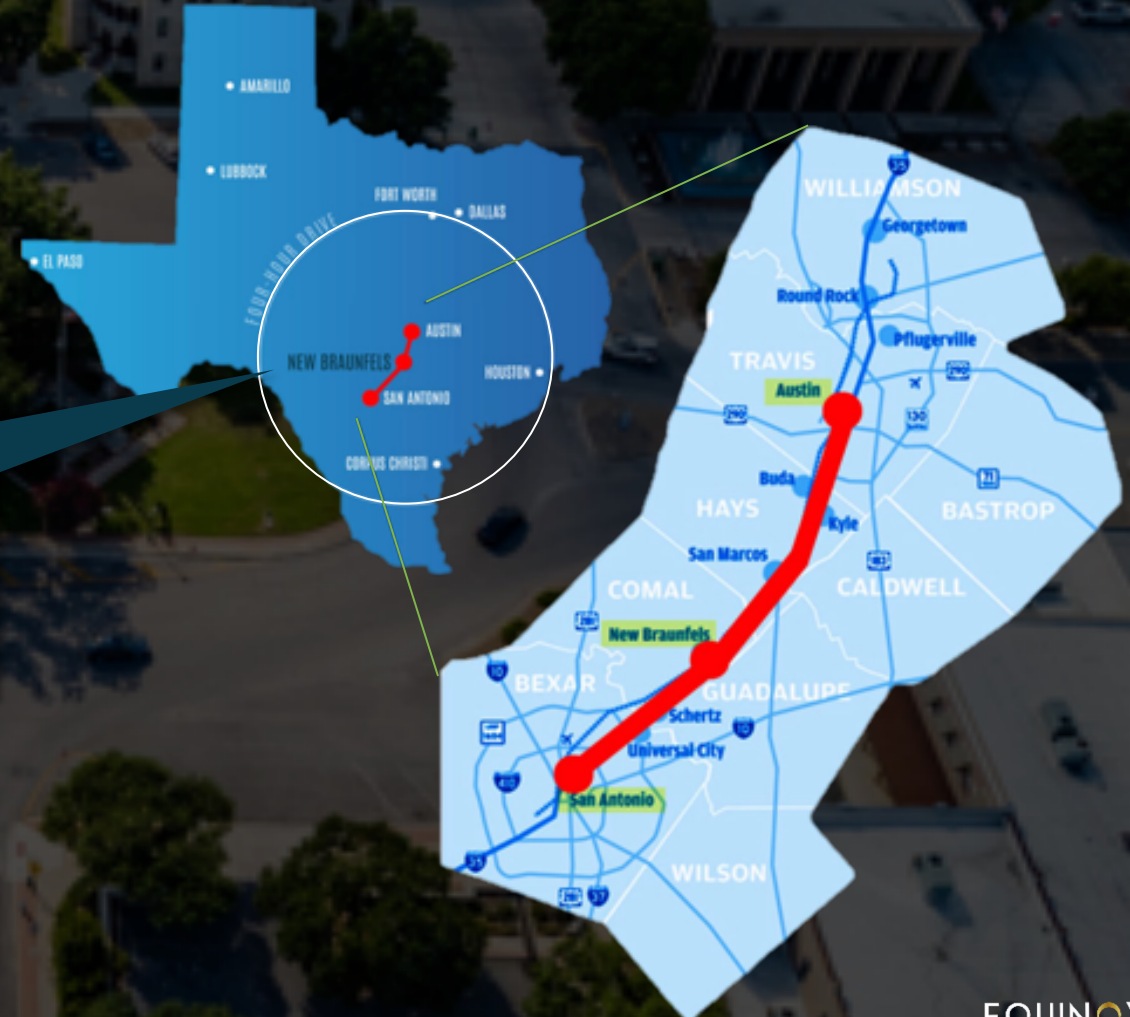


12,000,000

NEW BRAUNFELS:
WITHIN 4-HOUR DRIVE OF
OVER 12 MILLION PEOPLE

500,000+

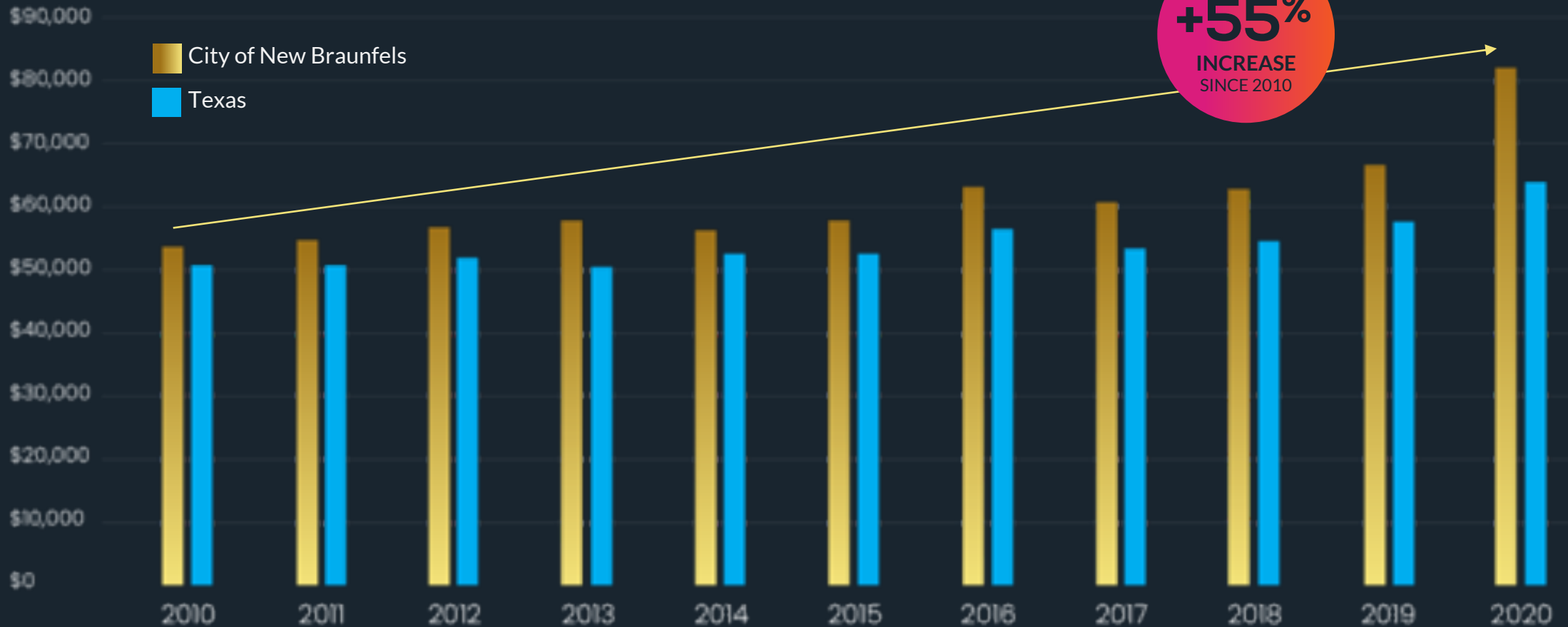
WORKFORCE
WITHIN 30-MIN COMMUTE



Source: 1) Neighborhood Scout, Jan 2021.

NEW BRAUNFELS: INCOME ON THE RISE

Residents Enjoyed 26.3% Median Household Income Rise in 2019-2020, Higher than Texas Average



Source: New Braunfels EDC, 2020 Economic Benchmarks, 2020



INTEREST RATE PROTECTION PROGRAM

Invest without stress related to interest rate hikes

EQUINOX TOWNHOMES

AUSTIN - SAN ANTONIO CORRIDOR



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PEGGY BOHANAN

grocipitus.com/buyer-group-call

FEATURED INVESTMENT

EQUINOX TOWNHOMES



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SECTION III: THE CRYSTAL BALL

OK, HERE ARE OUR PROJECTIONS

OUR PREDICTIONS: FOR THE NEXT 12 MONTHS

HOW MANY HIKES?

Are we really going to get to 2.9%

MORTGAGE RATES

Will interest rates be at 7% by year end?

INFLATION

Will inflation moderate or spin out of control?

HOME PRICES

Home prices – up, down, or sideways?

MULTIFAMILY PRICES

Will multifamily prices keep going up?

RECESSION

Will we go into a recession in 2021 or 2022?


MULTIFAMILY CAP RATES

Will cap rates keep going down?



YES, the Fed will hike all the way to 2.75%. They are at 0.75% now, so 8 more quarter point hikes coming

INTEREST RATES: 12 MONTHS FROM TODAY



6.25%
LOWER

**SINGLE FAMILY
INTEREST RATES**



INTEREST RATES: 12 MONTHS FROM TODAY

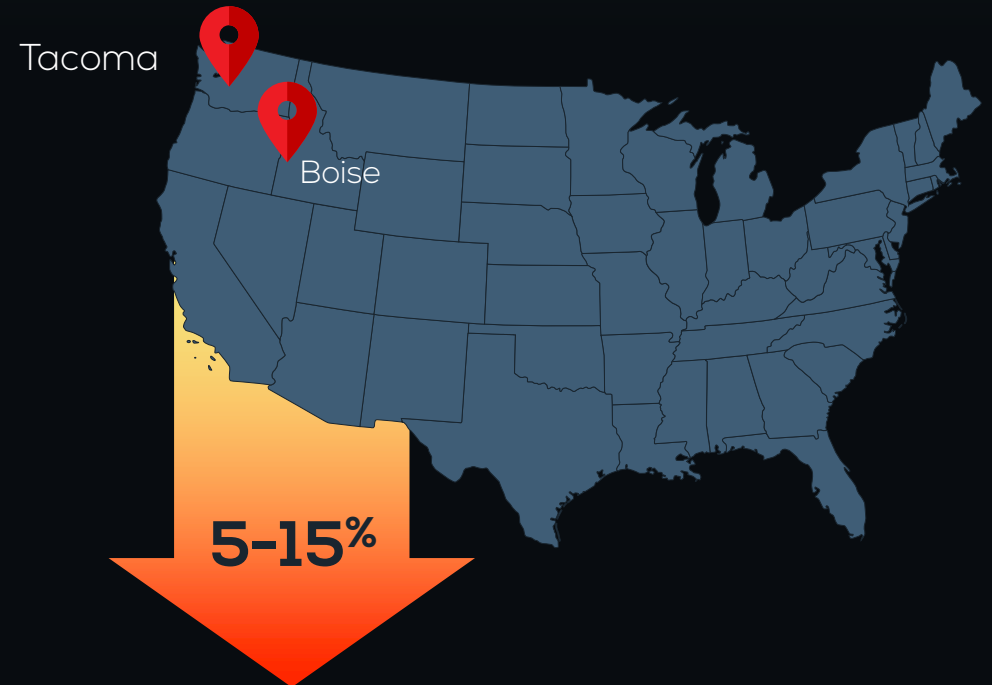
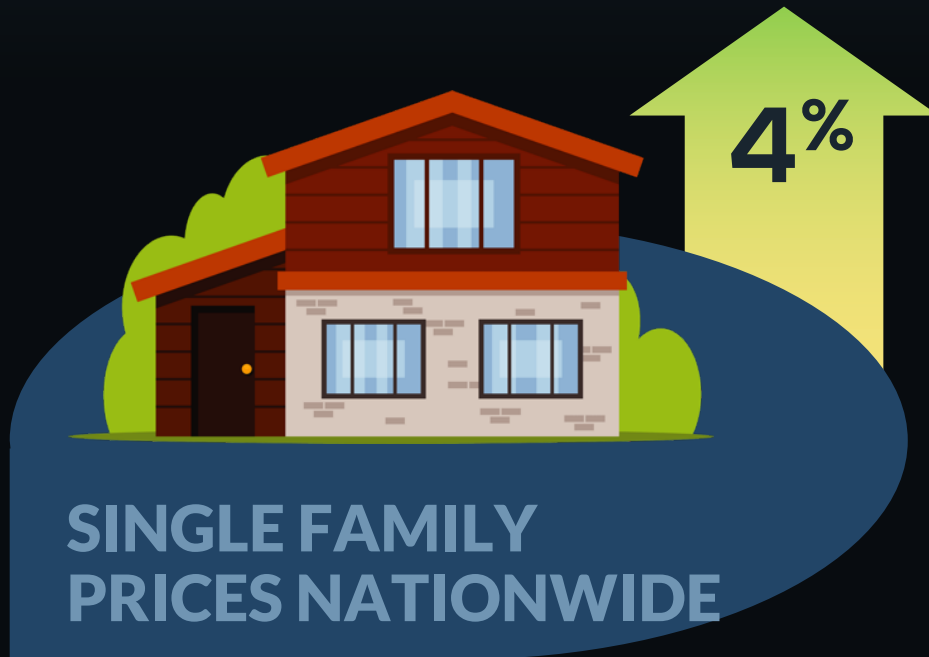
6%

**FOR FIXED RATES. BRIDGE
RATES WILL BE VOLATILE,
WITH SIGNIFICANT SWINGS**



**MULTIFAMILY
INTEREST RATES**

PREDICTION: SINGLE-FAMILY HOME PRICES



MARKETS AT RISK

MARKETS MOST LIKELY TO SEE PRICE DECLINES



REDFIN

- Sacramento, CA
- Sarasota, FL
- Tacoma, WA

CoreLogic

- Bend, OR
- Prescott, AZ
- Lake Havasu City, AZ
- Bridgeport, CT



CoreLogic

- Hartford, CT
- Kalamazoo, MI
- Lewiston, ME
- Mount Vernon, WA
- Muskegon, MI
- Olympia, WA
- Salem, OR
- Honolulu, HI

Source: -----

CAP RATE INCREASES: IMPACT ON MULTIFAMILY PRICES

SELLING AT

4 cap

SELLING AT

4.5 cap



MULTIFAMILY: CAP RATES 12 MONTHS FROM NOW



+0.5%

Q4 2021

Will compress again as soon as the Fed starts to cut rates

MULTIFAMILY PRICES: 12 MONTHS FROM NOW

Wait a minute, didn't
show prices in the



NOPE THAT WAS JUST AN EXAMPLE OF CAP RATE AFFECTING PRICE

MULTIFAMILY PRICES: 12 MONTHS FROM NOW

SELLING AT

4 cap

SELLING AT

4.5 cap, 10%
rent bumps

FOR SALE



\$30M

FOR SALE



\$29M+

MULTIFAMILY PRICES: 12 MONTHS FROM NOW

Down 5% to 10%

**Then back to Q1
pricing in 12 months**



MULTIFAMILY PRICES

The image features a background collage of US dollar bills, including \$100 and \$50 bills, with the portrait of Benjamin Franklin visible. A central, torn paper effect reveals the text 'INFLATION' and '8.5%'.

INFLATION

8.5%

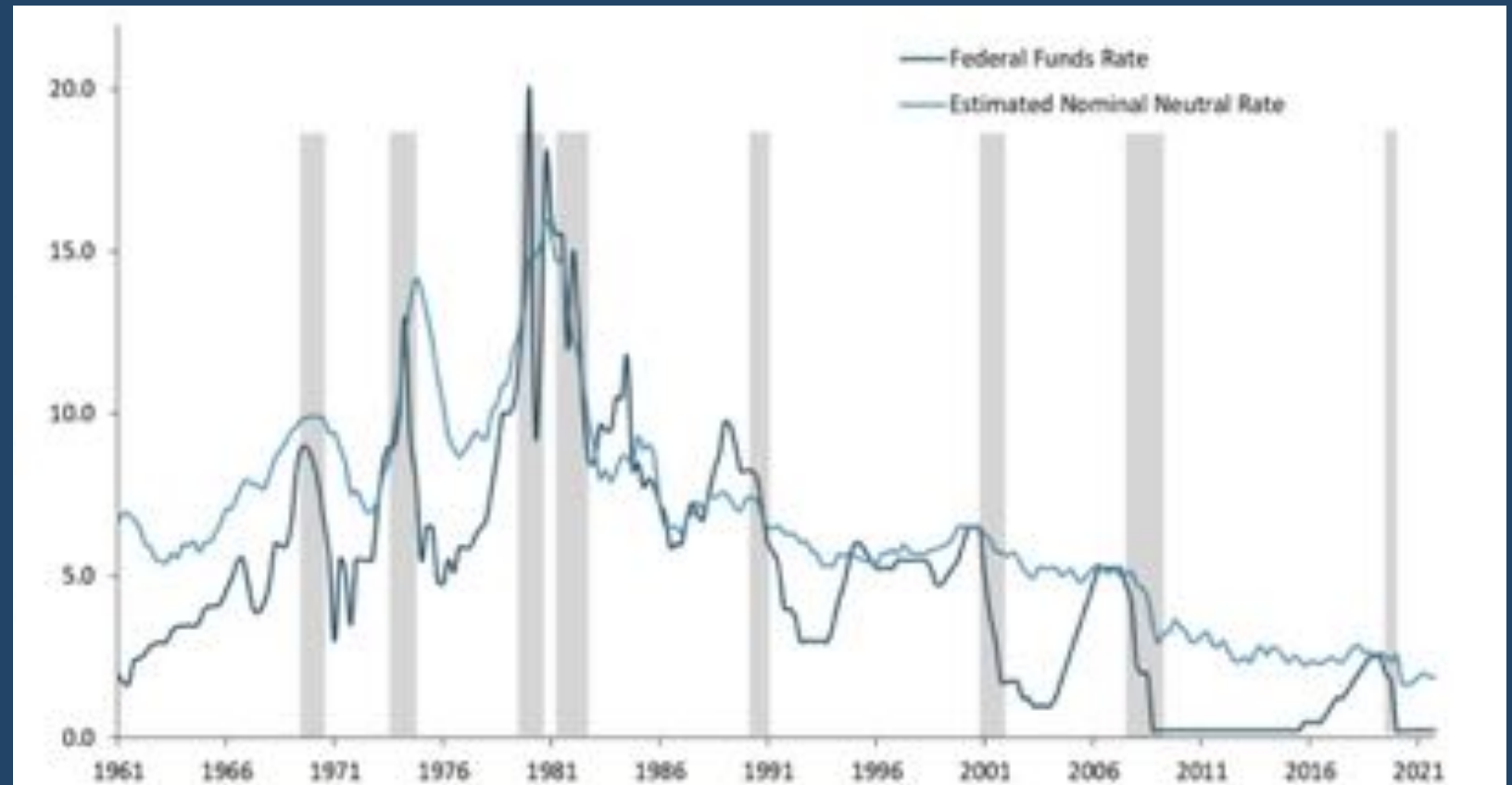
YES, the Fed will beat inflation. The Fed knows how to beat inflation, and is pretty good at it

THE FED WILL PUT THE ECONOMY INTO A RECESSION

8 TIMES OUT OF 9 IS A PRETTY AWFUL RECORD

**IN
8 out of 9
TIMES**

FED FAILED TO PROVIDE
A TRUE SOFT LANDING



FEATURED INVESTMENT

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What's Next?



Upcoming Webinar – The FIRE Movement: Creating Your Version of Financial Independence

➔ Register today & join us July 20!



Have feedback or topic requests?

➔ Let us know in the survey as you leave



Need more information on SDIRAs?

➔ Visit our website and Learning Center



Follow us on social media for updates



Time for Questions

