



# Nine reasons to invest passively in somebody else's commercial real estate deal

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**We've done over 2 million square feet of commercial real estate development in our company directly, so why on earth would we ever invest passively in somebody else's deals?**



Real estate is the most powerful way to accumulate wealth. More people have become millionaires through real estate than any other means. We know how to find the property, create a plan for improving the cashflow, negotiate the deal, and manage the asset. Your passive investment provides you with the opportunity to earn an income without the nine to five. We create a unique business strategy that fits your financial and investment goals. Get the financial freedom you need to do more of what you love. **We are Red Pill Kapital, with a K.**



## About me

I'm Gurpreet Padda. I'm a physician. I also have an MBA. I'm board certified in anesthesia. I'm board certified in interventional pain, and I'm board certified in addiction, so I have a lot of experience in the medical field. I graduated from the University of Missouri-Kansas City in 1988. I've been in both an academic and private practice. I've been at a hospital-based practice, and I've been in an independent medical practice as well. I've used insurance-based plans, and I also have a cash-pay practice when we deal with issues associated with cosmetic surgery. I've run 11 outpatient clinics. I've developed surgery centers for myself, and I've developed surgery centers for other people. I have both a medical and a non-medical turnaround specialty.

I started in the medical field after I started in the business world. That doesn't mean I started a lot later. I started in the business world when I was 16, and I didn't go to medical school—a six-year program—until I was almost 18. I'm driven by compliance. I want to figure out what the rules are and I want to make sure I don't violate those rules, so that's my personality. That's how I come to this.

Academic  
and Private  
Practice

Hospital based  
and independent  
medical  
practice

Insurance  
based and cash  
pay practices

11 outpatient  
clinics, includ-  
ing developing  
several ASC's

Medical and  
non-medical  
turn around  
expert

Compliance  
driven

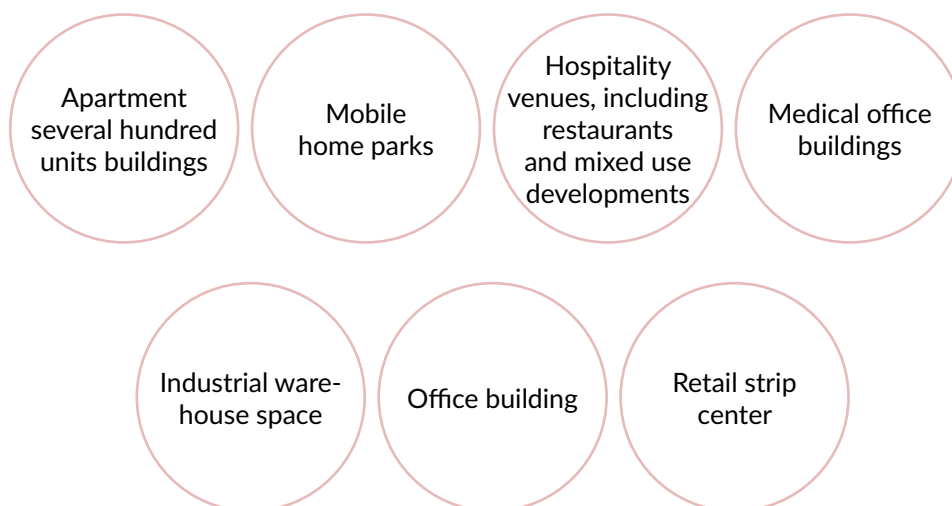


## I specialize in turnaround situations

I originally got my MBA in finance because I was interested in pharmacoeconomic studies, but then I was applying those principles – the cost-benefit analysis, analytic tools and costs, utility studies, and helping determine rates of return – for healthcare. I started applying them to physician care. I had already started my first company at the age of 14, a construction company, and I went to medical school right before my 17th birthday. I turned 18 in November and I had started right before, so my first year was really when I was 18, and it was a six-year program, so it was combined. The reality is that early exposure to construction and dealing with people when I was 14, 15, 16, and then understanding how the dynamics of human beings are, has made a huge difference, and it's allowed me to look at things in a little bit different way.

I've eventually gone on to develop about 2 million square feet of commercial real estate. I've owned and operated five restaurants. I've got over 30 companies that I've worked in, as in terms of ownership, and currently have managed assets greater than \$200 million, but I still practice clinically every single day. I practice because I want to practice. I practice because I love the patients that I take care of. I practice in the urban core and most of my patients are indigent. Most of my patients are on Medicaid, and I do my medical practice because it's my calling, but my money is made outside of medicine.

**I have personally owned and operated** apartment buildings and several hundred units of owned and operated mobile home parks. I've owned and operated restaurants, mixed-use developments, medical office buildings, surgical centers, industrial warehouse spaces, office buildings, and retail strip centers. I have a lot of experience in real estate, which gives me the opportunity to have made a lot of mistakes. The reality is you only learn when you make mistakes. If I'm dealing with somebody and I'm going to invest passively with them, I want to know what mistakes they've made, because if they've never made a mistake, there's going to be a problem. I don't know how they're going to react.





## On directly owning and operating real estate

**There are some issues and advantages to investing passively**

### Advantages

- Quick, immediate decisions
- Control
- Leverage bank money 5:1 ratio
- Tax advantaged accelerated depreciation
- Pride of ownership
- High yield and appreciation

### Disadvantages

- Too quick, and too immediate
- Control = Responsibility
- (Tenants, Toilets, Termites)
- Recourse loans, eventually you run out of down payments
- Inability to qualify as a qualified real estate professional
- Predators know what you own
- Forced to use 1031 with ever increasing deal size

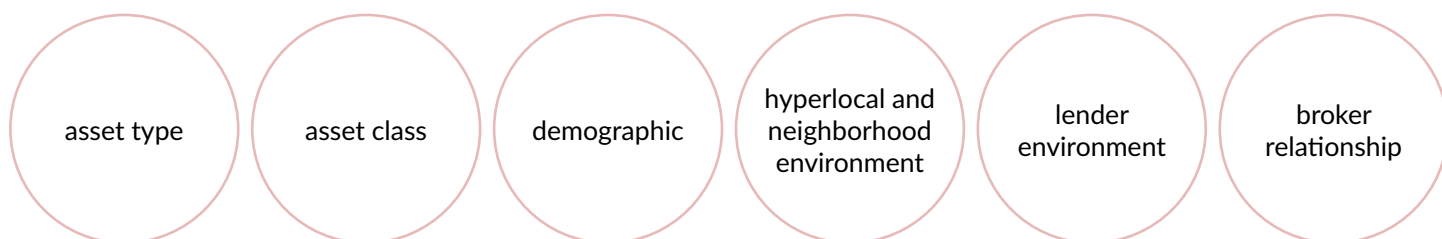


## **These are nine reasons to invest passively in somebody else's deal instead of actively doing it on your own**

When you're investing passively, you don't have to be an expert at that asset type. You don't have to be the expert at that asset class. You don't have to be the expert at that specific demographic because you have to realize that real estate is hyper-local. It's block to block. It's road to road. It's not state to state. It's not even the United States. You don't invest in the U.S. You invest in the U.S., in a state, in a city, in a neighborhood, on a particular side of the street.

# 1 Don't need to be the expert

It's very hyper-local. You don't have to develop all of the expert lender environment relationships because these lenders are very finicky and you have to be in constant contact with them. You don't have to develop expert relationships with brokers, which takes a lot of friction. You don't have to take them out to lunch. You don't have to hang out with them and have a drink. You don't have to constantly contact them so that you're getting the good deal, because the reality is most commercial real estate is driven by broker relationship and you have to maintain those broker relationships.



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## 2 Non-recourse, not on loan

When you invest passively, it's a nonrecourse loan to you. You're not on the loan.

**You don't have any risk beyond your capital invested.**

You're a passive. Who is at risk is your general partnership, and they're heavily invested in doing the right thing because they're the ones at the highest risk. You're along for the ride. You can step off this bus any time you want.



# 3

## No responsibility except to vet the deal, the operator, and monitor

You don't really have any responsibility inside the deal except to vet the deal. You need to vet the deal. You need to vet the operator and you need to monitor the deal. We'll have other presentations on how to vet the deal, but you want to look closely at the underwriting. You want to look at the debt service coverage ratio. You want to look at the rates of return. You want to look at how long it's going to take to get that return. You want the underwriter to have stress-tested that deal.



- What happens if this drops to a historic vacancy level?
- What happens if interest rates go up?
- What happens if demographics change for this community?

When you do vet the operator, you want to check their backgrounds. Every single general partner, you want to have checked their backgrounds. You want to look at their prior deal experience; you want to run UCCs on them. You may even want to do criminal and legal background checks on them.

That's what we do. We're Red Pill Kapital. We look at those deal sponsors. We figure out if we're going to invest passively, and I want to know everything about the operator.

**The operator is the most important part of a particular deal. It's even more important than the deal itself.**

## 4 No time commitment

When you're a passive, you don't have a time commitment because what you're doing is you're using other people's time and paying for it with your dollars. It's the concept of leverage. Now, most people talk about other people's money, but as a physician you have money. What you don't have is time, and the reality is **time is always way more valuable than money**. If you can leverage other people's time with your money, you've created a far greater leverage than the five to one ratio of money leverage that you would create in a recourse loan.



# 5

## Not limited by geography or travel distance or time zone



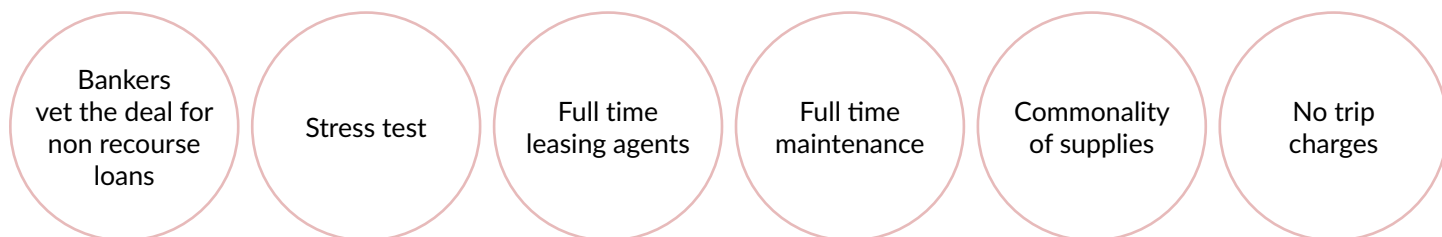
When you're investing passively, you're not limited by geography. You're not limited by travel distance. You're not limited by time zone. You can do geographic arbitrage. You can live in one place and pay rent and then invest in another place and earn a high income.

There are some people that want to live in California, but they invest in Oklahoma. They don't want to live in Oklahoma. There are some people that live in Florida and they don't think that Florida is a great place for them to invest long-term because of the hurricanes - even though I have to tell you the hurricanes are not as big of a deal right now. Now they might become a big deal in 10 years, but they want to invest somewhere else. Geographic arbitrage is what passive investment allows you to do. You don't have to go drive by your property every single day. You don't have to go look at it. You don't have to manage that asset directly. You're a passive. You live where you want to live and rent if you want to rent, but you invest where it makes money.

# 6

## Bigger projects, more eyes on the project, professional management

The other reality is in a passive deal, it's going to be a lot bigger than you doing a small deal. The bigger the project, the more eyes on the project. There's more professional management and the reality is it's going to have to get a loan and the bankers are as interested or more interested than you are because you're leveraging a five to one ratio. The general partners are on the hook, and the bank wants to make sure that this is an awesome deal because they want their money back. They're going to stress-test this deal.



You know, if it's a gigantic deal, you're going to have a full-time leasing agent. You're going to have full-time maintenance. You're going to have supplies in stock. You're not going to have trip charges because you own one house on this side of the street and one house five blocks away and then one house three miles away. In a passive deal like this, you're going to own 200 units or 150 units and it's all going to be in a one-acre plot of land or a two-acre plot of land, and it's right here and all the systems are exactly the same. All the HVACs use the same filters. All of the plumbing is the same. You need to replace a toilet; you have six of them in stock. Your maintenance guy knows how to do this. You have full-time management, you have full-time maintenance, and you have full-time leasing capacity, so your turnovers don't cost as much. Trip charges are gone when everything is in one common place.



## **Deploy capital at higher rate of return in an asset type that you can affect and impact**

You want to deploy capital at a higher rate of return and asset type that you can affect an impact.

**The reality is when you deploy capital in the stock market, I don't care how many iPhones you buy, you're not going to affect the price of Apple.**

When you deploy capital in a property and you have an interest in it and you get on those property management calls and you can give some feedback, if you're interested, it'll have a huge impact. It'll have a huge impact on the operations of the project and you can have a very significant outcome difference.

# 8

## Can use IRA money, since I don't control the deal

You can't use your IRA money if you own the deal because you're self-enriching. But if you're a passive investor alongside somebody else who's the general partner, we can show you how to use your IRA money.

- You're not a prohibited party in a passive deal.
- You don't have any issues with 1031s because if you've structured this correctly and you've structured your taxes, you're not going to have any issues.

There are a lot of issues associated with capital gains. There are a lot of issues associated with taxes if you use your IRA, and navigating that can be a very significant factor. So let's take an example: let's say that you're investing through your IRA and you get \$100,000 gain. It's all good until you realize that you might be at risk for 37 percent UDFI tax if that project had a loan on it.

But if you structure this correctly, you can prevent that by using a qualified retirement plan. So you shift your IRA to a QRP, and the QRP is immune from those taxes. Let's say that instead you had purchased this with non-IRA money and you sell it and you got \$100,000 gain. Well, you're going to be subject to a tax on that money because it's capital gain. Using the right plan at the right moment, with the right stuff, will prevent you from having to pay taxes, and taxes are your biggest impediment to wealth generation.

# 9

## Pride of ownership, without the predators

You get the pride of ownership without the predators. The government can't go after you. The tax authorities leave you alone. The attorneys, the patients, the employees, and all of the predatorial problems that you have disappear when you're a passive, and you can hide your passivity even further by buying it through a trust. There are all kinds of tools that you can do to protect yourself as a passive that are not available to you as an active investor. Your name is not on the loan. Your name is not in the public record.



## So what's Red Pill Kapital?

Red Pill Kapital is a physician-owned commercial real estate investment and education company. It allows you to invest passively alongside us. We find the property or we find the investment group. We create and validate their plan. We look at how to improve the cash flow. We negotiate the deal. We manage and oversee the asset. Your passive investment provides you with an opportunity to earn an income without the nine to five because physicians don't work nine to five; we probably work six to nine. We create a unique business strategy that fits your financial investment goals because we understand the specific needs of physician professionals.

## Is Red Pill Kapital right for you?

Are you looking to enhance your financial wealth and truly live the life that you deserve? Are you an accredited investor who's interested in learning more about passively investing and cash flowing commercial real estate? Are you interested in investing alongside us? Because we don't need your money. What we're trying to do is do bigger projects with more leverage, and the bigger the project, the less the risk because the leverage improves. We only make money if you make money. If you have any questions, please email me at [info@redpillkapital.com](mailto:info@redpillkapital.com) and that's Kapital with a K.





When you're hunting mastodons, it's a team sport. The physician is used to being an independent lone wolf, but when you're hunting a giant creature that's going to feed your family for the winter, it's a team sport. You have to work cooperatively. This is not the time to be an independent physician standing against the wind. This is a time to recognize that hunting mastodons is a team sport, not an individual sport.

We search for value-added real estate for our passive commercial real estate partners, and we actively manage that investment long-term for a successful exit. We are Red Pill Kapital. Find us at [redpillk.com](http://redpillk.com).