Gurpreet Padda, MD 00:00
What I do with all of these projects is I look at my entry. And I asked myself, and I have a spreadsheet. Actually I build this on anything that I do. I ask myself, how long do I expect to hold this if I do this technique? And I usually have three exit plans, at least on any real estate project. Am I going to try to flip it? Am I going to try to get cash flow in it? Am I going to reposition it in a different way? What kind of tenants Am I going to? so I have at least three exit plans and then each one of those has a timeline and an expected rate of return? You know, am I going to 1x this deal? 10x this deal 100x this deal? What am I going to do? What and what timeframe can I expect it?

Trisha Talbot 00:43
This is the Providers Properties and Performance podcast. The podcast that brings together leaders in healthcare and investment real estate to consider the possibilities in future at the intersection of practicing medicine, and healthcare real estate investment returns.

Trisha Talbot 00:58
Welcome to the Providers Properties and Performance podcast. I am your host, Trisha Talbot. As a healthcare real estate adviser to providers and investors, the best solutions occur when the two collaborate together as partners in delivering better patient care. Providers can deliver care to their patients, when and where they need it and investors realize the returns to build and manage facilities. We explore changes in medicine and wellness, the future of healthcare, and using real estate as a strategic and financial tool.

Trisha Talbot 01:26
You kind of described that rabbit or hamster wheel, I guess, if the private practice physician just stays on the hamster wheel and doesn't think of some of these other things. What do you think the future of the private practice physician is?

Gurpreet Padda, MD 01:38
It's pretty dismal, I have to tell you that most private practice will disappear. I think that you're looking at 10 or 15 years, the only way around it is if you do concierge medicine. If you do concierge medicine, you're probably going to be okay. But if you are pure private practice, you're probably not going to be okay. And here's why.

There's an incentive to the hospital to have hired employees as physicians, because they get to charge hospital fees, which are different than the fees that you get to charge as a private practitioner. See, the hospital gets to charge a facility fee. That facility fee and the ancillary services that they get to charge for are ridiculously high compared to what you can do. And so you are at a serious disadvantage if you're a private practitioner. Now, if you go into concierge medicine, that's a different story. Because then you have a direct contract with that patient. The other area that you know is in some specialty areas that the hospital doesn't want to touch, or is not interested in, those would be like complimentary alternative care.

Those would be things like pain management, they don't want pain management associated with them. Because the pendulum swing said that everybody that was taking pain medicine was essentially an addict. And we know that's not true but that was the pendulum swing in the United States. So if you go into a specialty service that people are willing to pay for, you'll be fine. But if you go into a general practice setting, you're going to have some trouble.

So I perceive that that'll be the case, it'll take another 10 or 15 years, but most private practices will be marginalized, about 30% of private practices will have closed by the end of COVID. By the resolution by next year.

Trisha Talbot 03:22
And that's just from the pressure of insurance and regulation?

Gurpreet Padda, MD 03:26
Yeah, it's incredibly burdensome, it's incredibly expensive. And the reimbursements are really low. And with Obamacare, there were some things that were put into there that really disadvantaged primary cares, really disadvantage, the direct single solo provider, they advantage the hospitals and they disadvantage the individual provider. And so you'll see that playing out over the next five or 10 years.

Trisha Talbot 03:52
Yeah, which is interesting, because the hospital can't provide population health, like primary care can economically unless it creates its own business line and separates and things but I think that population health still needs to provide to be in private practice or in family practice or internal medicine. One, because they see the patients all the time. The patients are familiar with them, which is you know, right now, I think you're seeing that with the vaccine rollout is they're starting to extend it to the physicians that do primary care because their patients and talk to them about it, ask them questions, and feel more comfortable if they choose.

Gurpreet Padda, MD 04:30
No, I agree with that. But here's here's what happens though. The hospital buys the private practice, takes over the private practice. They buy the pediatric practice, they buy the general practice, they're not buying it for the dollars that the primary care is generating. They're buying it so they can pick up all the ancillary service. They're buying it so they can get the laboratory. They're buying it so that they have a captive herd of cattle that they can slaughter at any moment and the bigger their herd is the fatter that the hospital gets. And so they're buying it for different reasons.

As an individual provider, if I buy somebody else's practice, I'm buying it because I want to provide the service for that entity for those patients, but I can't have ancillary services that are in another company or associated, that I can safely deliver. So either those services have to be internal, or they have to be, or I have to send them out. And so that's the issue. It's nothing more than that. It's just the hospitals have much deeper pockets. Now, they're very inefficient, that's why they get paid more, but their inefficiency comes about because they have huge physical plants. I have not seen too many hospitals in urban centers that are situated in really, really nice areas, not doing well. I know that everybody claims that they're not doing well but they seem to be building pretty efficiently.

Trisha Talbot 05:58
In San Francisco, they just expanded a beautiful hospital right in the middle of the city. So, share the story behind how you started Red Pill Kapital.

Gurpreet Padda, MD 06:08
So Red Pill Kapital is a play off of the matrix. And what the concept is either you take the blue pill, or you take the red pill, the blue pill lets you stay just the way you are. The red pill opens your eyes to reality.

And I actually started this because I was working with a group of prisoners, they were had been released from prison, there were exonerees, there were people that had been put into prison for crimes they didn't commit. And once they get released after 20 or 30 years, they're given a lump sum payment, a chunk of money, and the vast majority of them squander that money in the first year or two. And they lose everything they have. And they're just as impoverished two years later, as they were when they first walked out of prison. And they asked me to come talk to them. And so that's, that's how that concept of red pill came about.

I was trying to entertain them, and show them the matrix. And I love that scene. And it was open your eyes to to this financial reality. People are telling you a piece of information, and you're gambling with your money. And instead of gambling with your money, use your money to grow resources that are going to carry for the next 20 or 30 years. And so that's how Red Pill Kapital came about, that's how the name concept.

I've always been in real estate since I was young and worked in, in projects trying to figure out how to make them work. And my conclusion was that, there's no one right way to do it and there's no one right asset type to do it. It's the way that you need to do it at that time, and then reevaluate. And sometimes you have that mix your bets up a little bit, sometimes I'll do a capital growth on a particular project.

So I'll buy something that I'll give you an example, I ended up buying a small office building that was very, very cheap, I ended up buying for about $2.2 million. It was 20 something 000 square feet, I knew that office buildings are based off of net operating income. So the higher your net operating income, the more the value of the building. The problem with this building is it didn't have very much occupancy.

There was literally one tenant that was occupying 5% of the space. And so what I did was I quickly found some other tenants that wanted to move, I got them in there, I increased the net operating income, not very much, but about 10 or 15%. But that was enough that based upon the cap rate in that area, the value of that building went up by a million and a half, in a matter of a year. I immediately flipped the building, because I wanted to capture that cash flow. I wanted that cash that equity rates. So I sold it in a year and a half. and then I 1031'd that into other projects. There are some projects that I buy, and I hold and I rehab. And I'm looking not at flipping the asset. But how many, you know, what am I going to make per month for the next 20 years off of that.

So another example is, you know, we were in right in the middle of nowhere, we bought a medical complex, we got it occupied with tenants. And it generates about 3,500 to $4,000 in net operating cash flow per month. And that will go on for the next 20 years because the tenant is the federal government and they've guaranteed the income for it. And so we know we have a good quality tenant that's gonna pay for a long time. And so he depends on what I want to do at that moment.

Trisha Talbot 09:52
So I think you actually answered one of my questions I was gonna ask next but are all of the investments that you do do you syndicate them or is just one, sometimes you syndicate them and sometimes you don't?

Gurpreet Padda, MD 10:03
It just depends on what it is. I don't like risking other people's money as much as I would risk my own, which also really lends itself to the whole concept of Red Pill Kapital, which is asymmetrical return. You want to take the least amount of risk for the maximum amount of benefit. And so what I typically will do, if we're going to syndicate something, we know that that cash flows gonna be really good.

For example, I have a project right now that I'm working on. That is, we put it together, we acquisition the land, and we're putting together the syndication for it. And it's a skilled facility for people that have cognitive impairment. We got the land at five cents on the dollar, we got the certificate of need done. And we're going to put this down, it'll be 112 bed facility, broken into eight or 12 pod units, because we want to keep individual pods because just in case, there's another epidemic or pandemic, we don't want the whole facility to have a problem. So we separate out the pods into different houses, it's cheaper to build that way too. And the whole build costs for us everything inclusive will be under 9 million.

Normally, if I was building that, that would probably be $22 million. So we already know that there's a huge demand, there's very little downside risk, because the land is worth five times six times what we paid for it. So it's an asymmetrical return, the risk is low, and the yield is high. That kind of stuff, I'll bring the other people.

I'll give you another example that I would never drink to other people. I've got a project that I'm working on next to the airport. They bought the building for 2.6 million 2.7 million, the principal on it died, the tenants went crazy. Nobody's paying rent, it looks like shit right now. And I ended up getting it from the bank for $365,000. Now I know that the land is worth something, but the tenants won't pay and they're fighting. And so now it's going to take me a year to get this thing aboveboard. In between I have to pay all the utilities, I have to pay the water, the electric everything. And I still don't have any paying tenants. But it'll take me a year. But I would never bring that to somebody else. Because that's too high of a risk.

The capital inflow on that, even though I bought for 365, the capital inflow will probably be another half million, 2 million. Now, once I get it established, and working like it's supposed to, then this thing will probably worth about 5 million. But it'll take me a year and a half to two years, with no guarantee. I mean, you know, there's crazy things that can happen between here and there. So I would never syndicate a deal like that. Because it's dangerous. And that's a speculative deal. I don't believe that you should syndicate speculative deals. Speculation is something you do with yourself. And then when you make that mistake, it's your own damn fault. But you don't speculate with other people's money.

Trisha Talbot 12:44
Yeah, well, I think it would, you'd end up having a short life as an investor because people wouldn't continue to work with you.

Gurpreet Padda, MD 12:50
They wouldn't trust you. But at the same time, I can tell you the speculative deals are the ones that, you know, it's really strange. I've never lost any significant money with real estate, because if you wait long enough, you'll eventually make money at it, the market will come up. And you know, inflation still exists. And so the inflation will, will chew away at what it costs you in the beginning. So I've never lost any significant amount of money on real estate play. It just took longer than I expected, or I had to redevelop it, or I had to do something else.

But that's because I'm really picky on what I go into. I don't, you know, I'm not buying multifamily right now, and haven't bought multifamily in the traditional sense, class, a multifamily probably in a year and a half, because the markets too hot. I'm still buying Class C, and I'm building ground up, but I know what my costs are. And I'm building ground up in San Antonio, we're building ground up in St. George's, Utah, we're building ground up in Phoenix. But those are deals that we know what the outcome is going to be.

It's our buildings, and we're going to control them. And we know how we can get those tenants. And our cost of construction is defined. Our construction costs cap rates, and our expected rates of return conservatively, or, you know, seven 8%, and everybody else's cap rate in the areas fourr so we know that we're going to be better than that.

Trisha Talbot 14:09
Well, you I'd love to hear if you had some lessons learned. So a lot of physician owners, I think that the common theme that you have is you go into real estate with the exit in mind, which is, you know, what you have to do, but a lot of, I would say physicians, sometimes they do, but sometimes they you know, they're told hey, you have to go own your building, and then they go do it.

And then you know, there's a couple they usually get a couple of their buddies and they all go in and develop a building and unoccupied because that's what they you know, they were told to do. And then you know, they forget about sometimes managing it and just one of them they don't want to pay for professional management or they're like oh well you know, we have a handyman, we can call so we'll we'll save money and we'll do it ourselves. And then when they go to sell it, there's there's a bit of cleanup that has to happen.

But what would you say to some of those peers of yours that they kind of go into it because they think that they have to own their building. But they haven't really thought about when what are some exit strategies that I want to think about that will help me back into how I want to own this property for the lifecycle of it.

Gurpreet Padda, MD 15:21
So, what I do with all of these projects is I look at my entry. And I ask myself, and I have a spreadsheet, actually, I build this on anything that I do. I ask myself, how long do I expect to hold this? If I do this technique? And I usually have three exit plans, at least on any real estate project. Am I going to try to flip it? Am I going to try to get cash flow in it? Am I going to reposition it in a different way? What kind of tenants and I going to...so I have at least three exit plans.

And then each one of those has a timeline and an expected rate of return. You know, am I gonna want x this deal? 10x this deal 100x this deal? What am I going to do? and what timeframe can I expect it? I think that if you want to be a true passive investor, and I'm not passive, I mean, I have people that work with me that are passive, and I'm passive in other people's deals. So that's the other thing. I mean, I actually participate passively. And other people's deals, even though I'm an active investor, because that other deal is too far for me to take care of. And so I've got a deal in Houston that we're in, but I'm passive in it. Because it's safer for me, I'd be an idiot to know how the Houston politics works. And so I'm not going to go do that.

We've got deals in other places that we're totally passive in. But if you're going to be the active investor, you need to have a well defined exit plan, you have to understand and build in your cost of management. And that cost of management is not inconsequential. People frequently think, Oh, I'm going to do this. I've got a buddy of mine that's going to help me. But what happens when that buddy of yours is not available? And then you have to go out and get a real plumber. Or what happens if the buddy of yours decides that I'm not interested. And or I'm going to move to Florida, and then you're stuck with this building with shit flowing out of the toilets. I mean I've seen it. So those are the buildings that I get to buy. I get to buy them from people that are amateur investors. And they think that they know what they're doing.

Another example, I bought a 24 unit from a California couple. They came into St. Louis thinking that they knew the market, they bought in a class C to D area, near a warzone, didn't understand that the fine women that were living in their building were actually hookers, and they were bringing their customers back and that was going to cause them a problem because there was a crack addiction problem.

And they didn't understand the local, they didn't talk to the police. They didn't get police reports for that building. They didn't get a score on what is the risk factor for this building. And for this area, for this block. They didn't look at the police reports.

That's the first thing I did was I looked at the police reports and said, Okay, well, looks like there were like, two murders. There's been 100 arrests. And you know, there was a burned out car there a week ago. So this is not the normal area. And so the first thing we have to do is look at the tenants and see who do we need to evict. I ended up evicting everybody, they bought this building for 2.4 million, I got it from them for $600,000, which I thought I paid too much. And I evicted almost every tenant and then started bringing them back. And they had gone from their rental rate was $575 a month per unit for a single bedroom, which is really low. And I kept it pretty affordable. But we went to about $850.

And we brought in better tenants. And all of a sudden our tenants are paying us and the crime rate went away. Because we put in lighting, cockroaches don't like lighting, you know, they run from light. And so we put in high intensity LEDs, and it lit the whole place up like a baseball field at night. And people weren't, they weren't able to hook there.

And so you know, that kind of stuff, you have to really take an active interest in. And again, that was not a deal that we syndicated out because it was still speculative. It was something that we weren't quite sure how that was going to play out. And we didn't know exactly what our cash flow is going to be. But it's turned out very well for us. And it's meeting our projections and we'll exit that deal once it's stabilized in about a year, year and a half, and we'll have probably tripled our money.

Trisha Talbot 19:31
Yeah, I mean, I have clients and I think they'll enjoy hearing that there are opportunities to create wealth in real estate and it doesn't necessarily have to be an active investment if that's not something that they want to do. And then if it is, you know, there's professionals out there that can help them.

Gurpreet Padda, MD 19:46
Oh, yeah. And I go to people when it's another city because I don't know, every city and remember this is hyperlocal. Had I not gotten that information, had I not driven that project at night. Like I went there at night and sat with the car, looking and watching the police. The lights on the police cars going, huh? This means something to me. And then I talked to the cops. And I talked to the older woman and and communicated. And then we figured out what the pain problem was that they were suffering. Why? Why is it they can't collect rent? And why is it that they need to sell this building? And why is it they're gonna sell it to us for a third of what they paid for it.

Trisha Talbot 20:30
That's sometimes when things are too good to be true. They are.

Gurpreet Padda, MD 20:33
Yeah.

Trisha Talbot 20:35
Well, three, I want to move into the Q&A section and get to know you a little bit. So what was your first job?

Gurpreet Padda, MD 20:41
I never had a job. I never had a job in high school or anything like that. I self created a job. So my first real thing was I would hustle and I would mow grass and I would get all that stuff done. I didn't have a real job till I had residency. And that was the first time that I actually had a paycheck from somebody, I usually made my own way. And so I really didn't have, never really worked for anybody. It just never even occurred to me. And not that I couldn't work hard. It just never occurred to me.

Trisha Talbot 21:14
What would you be doing for a living if you weren't a physician?

Gurpreet Padda, MD 21:16
I thought about that a lot actually. I've done a little of everything. My favorite thing that I've ever done, I owned a company, and was called tribal link. And it was an amazing company. And I wish I had never, never really departed from it, I may go back to it again, I would travel all over the world. And I would get antiquities, and I would get artifacts that had been used in cultural use. So they weren't like spectacularly expensive. But they were used in the culture. And they had a lot of patina and they had a lot of history.

I would acquisition those. And I would put them in containers and bring them back to the US or I would send them to Europe. And it was the story behind the use of that thing that was relevant. So people would buy it. Like if you look at a rug, and you go, Oh, that's a nice rug, it's eight by 10. And so when I was in Afghanistan, I would go into the villages buying rugs, and I didn't sell an eight by 10 rug. I sold a piece of history and architecture. And did you know that this rug was weaved during the Afghan war with the Russians and you can see the change in the cotton fiber. And you can see where they substituted out plastic because they couldn't get cotton that year.

And this thing took, you know, 3000 hours to make. It was handloomed. And here's a picture of the kid and his family that were making this thing. So that historical significance comes through. And instead of that eight by 10 rug being worth $600, that eight by 10 rug is now worth $15,000 or $25,000. You have to be able to connect that humanity to people. But that was one of my favorite things that I ever did was to go out and meet people and understand them and understand their culture.

I used to go up and down in the Swat Valley and pick up wood and stuff that people were throwing out because they thought it was stupid to have this old wooden trunk in their house. And I'd buy it from them. I would been in the Toberland Islands. And after they were done with their ceremony, they would burn all the masks. And I would exchange the masks before they were going to burn them. I exchanged it for BIC pens because they like the BIC pens and I got these Togoland masks and I would turn around and tell the sell the tourbillon masks to museums, because no one had been there. And these guys were headhunters. And so that was it was just, it was an interesting fun time in my life. I live with Aborigines off the north coast of Australia, and participated in their ceremonies, and had a good time understanding that culture. So it was a really chaotic, but just immersive time.

Trisha Talbot 23:51
Oh that's fantastic.. I have another whole long conversation on just that. Are you reading or listening to right now for news information or inspiration?

Gurpreet Padda, MD 23:59
I don't really look at the news. I know that sounds strange. I don't look at any mainstream news. So I typically try to take a balanced approach. And my balance approach is this. I get up early in the morning, I look at certain specific YouTube channels to gain my macroeconomics for the day. And then I will look at BBC and I'll look at Al Jazeera. I'll look at Fox News. And I'll look at CNN for the same topic if something interests me. So I'll look at all four of those to see what they're saying. Because almost

always invariably, it's four different opinions. And somewhere in there lies the truth. But it's four different opinions. And so that will usually give me a perspective.

But I don't really do that very often because there are very few things that I really want to embed myself into thinking. And so I try not to listen to the news. I think that bogs my brain down and I am looking more at the things that really really interest me. I do a lot of reading Richer, Wiser, Happier is an amazing book that just came out. I think green is the author. And it's a book about stock market investing. And even though we've been talking about real estate investing, the mirror is it's such a mirrored process, the stock market investing, you have to invest for margin of safety, you have to realize that the market is irrational and it pendulum swings rapidly. That's why cryptocurrencies all over the place. That's why the stock market, you know, there's a discrepancy of 75% of the stock's price in a given year.

So understanding those pendulum swings, that's one of the most recent books that I'm reading. One of the other things that I'm doing is grabbing pieces of information, and trying to fit it into the architecture of how I understand things. I told my kids, I'm writing all of my thoughts into things how my brain thinks, I called it, the Dead G Scrolls, just so that I can write down what I'm thinking, and then come back to it, and then see how it changes over time, I spend a lot of time introspecting.

I typically will get up around three o'clock in the morning, 3:30. And I spend the first three or four hours just doing this, you know, kind of the thinking stuff and then work out and then get to work, get to medical work. And then I do you know, my meetings, usually in the afternoons, but then I've had some decision fatigue. And so I do those meetings when I have to. But all my real thinking has been done between three and 7am. The times when I'm really thinking about things.

Trisha Talbot 26:37
I think you just answered my next question, which is what do you do every day for healthy self care?

Gurpreet Padda, MD 26:43
Yeah, I work out for a while I pretend to work out for an hour. A lot of times my business partner, she's actually working out and I'm just being a goofball. I do maximum effort weight, as much pressure as I can put on those on the muscles and joints and bones, and then do two of those and then spend the next 10 minutes looking at something and understanding it and then do two more, or five more or 10 more. And so I also do a lot of biohacking. And so I try to figure out how much exertion can I create with the least amount of time to get me the maximum end result? And so I love the concept of biohacking.

Trisha Talbot 27:18
Yeah. It’s interesting stuff out there for sure. So I could ask you one of both of these questions. Typically, the first one is when I’m just interviewing a physician, and then the second one is when they're an investor, but you're both so do you think a person is born with a desire to heal? Or is this learned only through their training?

Gurpreet Padda, MD 27:37
I think people are born with the desire to heal. I think that the training allows them to do it. And whether you're trained as a nurse, you're trained as a pharmacist, whether you're trained as a physician, that vehicle that you use to get there is the training. And whether you're a physician or not, there's a lot of people that are non physicians that are amazing healers, there's a lot of you know, people that I've met that are just amazing, untrained healers.

And I think they have a deep desire to connect to people, and a deep desire to make the world a better place. So I think that comes first. And then you have the vehicle of training that tells you how you're going to manifest it or how are you going to create that? That's my opinion.

Trisha Talbot 28:22
I like it. And do you think leaders are born or trained?

Gurpreet Padda, MD 28:26
So that's interesting. And I had seen that question. I go both ways with that. And let me tell you why. I'm an incredible introvert. And I don't like public speaking. But I had to get good at it. And such to the point that I took a course in public speaking because I hated it.

And I was like, I need to get better at talking to people and being able to look people in the eye and connect with them. And I don't like doing it but I have to in order to do business. So I better figure this out. So I took a course in public speaking and how to talk in front of a TV camera. And they usually give you six takes and you know they criticize you for. All six takes of mine were terrible. And I was in a class and it was the end of the day. And I said look, can I just stay here, everybody else is going to dinner. But I just want to - let's leave the video running. And I'll spend a little bit more time just learning this because the next day you had to stand in front of a lecture podium and they're going to give you a topic and you had to talk about it. You know nothing about this topic.

And so I knew that my ability to communicate with people was really shitty. And I was so introverted, that I didn't know how to communicate. And I was so embarrassed about communication. So I sat there for the next six hours, seven hours, well past midnight, just wasting all of that videotape. But when I finally figured out that I had to put myself outside myself, and I had to look at myself from a different direction and what I was seeing, then that's what allowed me to get that leadership skill. It allowed me to connect with people in a whole different way. So I had to be trained.

I was always bossy. Don't get me wrong, but being bossy is not leadership. Being bossy is just being an idiot. Being a leader is being able to pull other people to what you need them to do. And hopefully, because it's good for them. Leadership is the ability to move people from point A to point B, for their benefit, but they don't themselves see or they need somebody to help them see. And you have to sometimes train people to be leaders.

I mean, everybody's bossy. But all little kids are bossy, if you ever watch them, but they're not leaders. They're not leaders till they turn themselves. Buffett, you know, was not a leader. He actually had to train himself. I think he took the Dale Carnegie course, to train himself.

Trisha Talbot 30:48
Yeah, and it's constant. It's a constant process. Well, this has been an amazing conversation. I want to thank you very much for your time. I think my listeners are really gonna enjoy it.

Gurpreet Padda, MD 30:57
Cool. Thank you so much.

Trisha Talbot 30:59
Thank you.

Trisha Talbot 31:02
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