



# The **Black Swan** Document

Dear Turnkey Buyer,

It is important to disclose to all of our turnkey buyers the worst case scenarios as we see them. I would also like to make it clear that buying turnkey properties from Property Rush does not absolve you the buyer from your responsibility to create your own black swan game-plan. Let us explain.

## **WHAT IS A BLACK SWAN?**

The **black swan theory** is a metaphor that describes an event that comes as a surprise, has a major effect, and is often inappropriately rationalized after the fact with the benefit of hindsight. The term is based on an ancient saying which presumed black swans did not exist, but the saying was rewritten after Black Swans were discovered in the wild.

The theory was developed by Nassim Nicholas Taleb to explain:

*The disproportionate role of high-profile, hard-to-predict, and rare events that are beyond the realm of normal expectations in history, science, finance, and technology. The non-computability of the probability of the consequential rare events using scientific methods (owing to the very nature of small probabilities).*

*The psychological biases that blind people, both individually and collectively, to uncertainty and to a rare event's massive role in historical affairs.*

When you think back to 2001, 2008, 2020, and 2022, each of those years had varying degrees of chaos and stress in the markets, however none of them were the same as the one prior to it! Each of those years were defined by Black Swan Events that had some degree of unpredictability followed by a correction.

One of the advantages that comes from experience is you learn to ALWAYS have contingency plans in place. It only takes touching the stove and burning your hand once to remember to never make that same mistake again. Over 15 years and thousands of properties later, we have gathered a ton of experience and are here to help navigate choppy waters for our investment partners when the storms arise. However, we would be lying if we said we knew when the next market crash was coming and what the cause would be.

The first thing you must understand with any investment... Things WILL go wrong.

No investment is smooth sailing. There will always be choppy waters for periods of time. Just like they taught us in Boy Scouts... Always Be Prepared!

## **YOU ARE THE CEO OF YOUR INVESTMENT PORTFOLIO**

### **The Decision Maker**

Just like any good business, a proper investment portfolio needs a leader and a decision maker. It needs someone who is going to take responsibility... aka The CEO. The people who lost their money to Bernie Madoff handed off responsibility. The people who trusted their financial planner or stockbroker to make decisions for them, lost a great deal of money in the financial crisis of 2008. You need to understand that you will remain squarely in the CEO chair of your investment portfolio now and forever. Property Rush will serve as your COO... we'll handle the day to day routine operations, elevate any things that are of concern to you, and then execute the decisions you make.

### **Do Your Own Due Diligence**

I'll repeat that buying from us does not absolve you of doing your own due diligence. Talking to the Property Rush team does not qualify as due diligence. Read, study, perform your market research, and learn about what you are doing. We are learning as the market shifts, and we too need to make adjustments and modify our systems and processes every year to better serve you.

We can inform, educate, and give you our opinion on how we would handle something based upon our experience in the industry, but we cannot make decisions for you. You have to educate and grow yourself so that you are a great CEO and CFO of your investment portfolio.

- Do I think that our system is the absolute best in the country? Yes!
- Do I think that we have done everything in our power to ensure that we create a win-win-win for the tenant, the turnkey buyer, and Property Rush? Yes!
- Do I think that our turn key real estate investment model blows away anything a financial planner will present to you? Yes!
- Will we do everything that we can to inform, educate, and disclose information to you? Yes!
- Should you let us make decisions for you? NO!

## **DAY TO DAY RISKS OF OWNING CASH FLOWING REAL ESTATE**

### **How We Mitigate Them**

Here are the worst case scenarios as I see them and how we have built systems inside our turnkey business to mitigate the risk of ruin. I must stress that this is not a risk-less investment - which are about as common as leprechauns and unicorns. We have, however, done our best in order to make this investment vehicle as anti-fragile as possible.

### **The Tenant Does Not Pay Their Rent**

We do an intensive screening process for all of our tenants. We make sure that they have no active judgements, recent eviction, no late payments recorded, and are not currently or have previously filed for bankruptcy.

We have a strict rent collection protocol; rent is due on the 1st of every month, it is considered late if not received by the 5th of the month, and we post a yellow letter on the tenants door on the 7th. We begin eviction procedures on the 15th of the month if we have not received payment. The tenants understand that we do not mess around and we follow fair housing regulations. This is also a training process. They either get with the program and pay on time or realize they are not the right type of person for our program and self eliminate.

The vast majority of our tenants sign a one year lease. We collect one full month of a security deposit that is *refundable* if they are a good tenant and keep the house in good shape. If they damage the property, we retain the security deposit as damages for the amount required to repair the home and will seek further funds if damages exceed the deposit amount. The key to minimizing the risk of a tenant not paying their rent is to act quickly and communicate regularly.

## The Tenant Destroys the Property While They are in There

Regular lease tenants put down a *refundable* security deposit that ideally incentivizes them to take care of the property to have those funds returned.

**Annual inspections are performed at a minimum and any time a maintenance request is received, we train our handyman and vendors to take photos of the property while doing the work and to notify us if they notice any major concerns such as damage or cleanliness issues so we can rectify the situation as quickly as possible before it becomes a much bigger issue.**

## A Natural Disaster Destroys The Property

Property insurance should mitigate the majority of this risk. The greater Chattanooga, TN area is known for rainfall. It receives just as much rain as Portland, Oregon some years. Because of this, we recommend that you do not purchase homes in a flood zone and if you do purchase one in a flood zone to spend the money on the proper insurance to mitigate the risk of severe water damage to the home. This is an example of how you can turn a black swan into a grey swan. We are not subject to risk from hurricanes but there are occasional tornados in our area...a standard hazard insurance policy covers this type of disaster. We also recommend that you add a "loss of rents" line item to your insurance policy to cover the loss of income on the property in this scenario. Most lenders are now requiring this as standard policy.

## The Property Owner is Not Collecting Rent and Cannot Pay the Mortgage

We recommend that you keep part of your portfolio as liquid cash available to cover unforeseen items or pay for the mortgage expense while the house is vacant. If you are going to own a house for a significant amount of time, it is unrealistic to think the house will be occupied 100% of the time.

## A Balloon Payment Becomes Due on the Property

This is why we recommend that turnkey buyers obtain loans with 30 year fixed financing as much as possible. This completely eliminates this risk. If you do have a loan with a balloon payment, start putting away funds each month from the monthly rent you receive and to notify us 4-6 months prior to a balloon payment occurring so we can work with you to refinance the property with one of our lending partners.

## Interest Rates Sky Rocket

This is why we recommend that turnkey buyers obtain loans with 30 year fixed financing. You should also make sure that the property cash flows at 6% interest rate minimum. If you look on

our website, all of our calculations assume 25% down payment and 6% interest rate on a 30 year fixed note. Historically, that is the average interest rate you can expect to pay.

## **THE PROPERTY RUSH ANTI-FRAGILE GAME PLAN**

### **To Survive and Thrive (Hopefully) in a Black Swan Event**

We have tried to design our system to not only to survive the volatile, turbulent times (aka market crash, liquidity crunch) in the real estate market but to absolutely thrive in them. Below are a few scenarios we have stress tested our business and portfolio for:

#### **Black Swan Event: In the Next Crash, Our Portfolio Loses Value**

I believe crashes at their root are a LIQUIDITY crisis. All the houses that were losing money in '08 are now making money. The beautiful thing about owning an asset with a 30 year FIXED loan is that when the market corrects and values go down, you sleep just as well at night knowing it has zero impact on your cash flow! So in a crash if our portfolio loses its value we don't care as long as the rent continues to come in. If there is a crash and the banks tighten up, there will be a liquidity issue again so the home values will fall. If the rent is still coming in we will not have the liquidity issues that are persistent in a crash. This is why you need to make sure you always have some extent of liquidity to handle repairs and maintenance issues so you can hold onto the home while the market takes time to correct itself.

#### **Black Swan Event: In the Next Crash All our Tenants Lose Their Jobs and Cannot Pay Rent**

**Risk Mitigation:** Stash Cash. Take a portion of the proceeds you receive every month and stock away for rainy day funds. The rain WILL come...And I have noticed every time it rains...It is rare that it does not flood. So have enough cash reserves to withstand the storm.

We also buy middle class properties that have already gone through major renovations and are better overall quality than the majority of other properties in our class of homes. This means that when things tighten up and families have to downsize from a nicer home in order to afford a lesser rent, they will most likely rent from us over anyone else and this will reduce our risk of vacancy for long extended period of times.

We fix up homes the right way the first time and go the extra mile so that we will never have a hard time leasing our homes.

## Why do you think that the next crash could be your best time?

If we stay liquid enough and meet all of the interest obligations inside a crash, our private lenders will be extremely happy with us. Everyone else will have had all of their money in wall street wiped out and we will be the only people standing meeting our obligations and growing our investors' money by 8% or more every year.

If our purchase prices drop because asset values have gone down and we have more demand for tenant buyers and more private money flowing our way we will be buying everything in sight and expanding our business.

- Is this plan logical? Yes.
  
- Is this plan likely to succeed? After all that I have studied and read in the last 15 years, I believe so.

There could be a **Black Swan** that blows the whole thing up but I can promise you that the Property Rush team will continue to try to drive out these Black Swans and, at a minimum, turn them into gray swans.

Real Estate is the most sure fire way to build up generational wealth. Sure there are people who have made their money in other investments, but I can assure you that anyone who has made significant money outside of real estate...Now invests a significant portion of their wealth in Real Estate.

We look forward to working with you and appreciate the trust you have placed in us to help you achieve your goals to accumulate wealth through real estate. You will experience the peaks and valleys as you invest with us but our goal is to smooth out the rough edges and use our experience to make the journey as smooth as possible for all involved.

I hereby acknowledge that I have read and understand the contents of this document.

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Signature

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Name

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Date