EPISODE 488

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Greg Dickerson. Thanks for being on the show, Greg.

[0:00:32.9] GD: Hey Whitney, thanks for having me. It's good to be here, good to talk to you again, good to see you.

[0:00:36.1] WS: Yeah, you as well. Great to have you back on the show. I encourage the listener to go back and listen to an earlier episode with Greg, probably – I didn't get the show number down in time but probably at least a year ago or we were determined a year and a half ago. I'm not sure now.

[0:00:50.7] GD: You're on 468 right now?

[0:00:53.1] WS: 488.

[0:00:53.2] GD: 488, yeah.

[0:00:56.0] WS: But Greg, thank you again. You're definitely an expert in this space and we're happy to have you on the show and but a little about Greg, in case you missed the earlier episode. He's bought and developed and sold over 200 million dollars in real estate. Built and remodeled hundreds of custom homes, commercial buildings and started 12 different companies from the ground up.

He's an expert on the topic of real estate and construction and has been a guest commentator on the FOX business network with Neil – how do you say that name?

[0:01:24.9] GD: Yeah, Neil Cavuto.

[0:01:25.8] WS: Cavuto. And Dave Ramsey. Written articles for magazines and newspapers and is a featured contributor in the book *Walking with the Wise Real Estate Investor* and *Walking with the Wise Entrepreneur,* featuring Donald Trump, Suzie Orman, Rachel Barns and others. Greg, thank you again for your time, won't you give us an update, what you have going on right now. Let's dive in to your super power.

[0:01:50.7] GD: Yeah, you know, I've got a lot going on. I have projects going on all over the country that I'm working on. Working on with people so I do coaching and mentoring so I had people all over the country and you know, I'll get involved with deals with them and businesses as well. So I do real estate development investment and I do equity capital so we buy companies, fix them up, sell them or we roll companies up so it's a value ad company play instead of real estate.

Those are the two things I do and I'm all over the country with those but I do have clients all over the world. You know, I've gone international since the last time we talked with the coaching and mentoring and all my deals are primarily in the United States right now. I have not done deals outside the United States yet.

[0:02:27.8] WS: I'm sure that's in the future. I don't doubt it a bit.

[0:02:30.7] GD: Yeah, it'd be a lot of fun. You know, I'd love to travel and you know, that's definitely something I'm thinking about but it's different. You got to be careful, you know, when you start doing stuff outside the country.

[0:02:40.4] WS: Greg, with your experience and especially with doing deals in a lot of different places and as long as you've been doing this, I would love to kind of hear your take on the current market and what your thoughts are on kind of what's happening and where you see it going over the next year or two.

[0:02:55.7] GD: Yeah, we're definitely at a peak in all asset classes now. A lot of people confuse type and class when they're talking about real estate. Asset classes are real estate is an asset class. You have cash, you have stocks and you have bonds. Within real estate as an asset class, there are types of real estate, you have commercial and you have residential.

In commercial, there is six main types, you have office retail, multi-family, industrial, hospitality and land. Within those types, you have subclasses and – sub types and you have classes: ABCD. Right now, pretty much all across the board, we are seeing, you know – we're maxed out. We're at a peak, all across the board. All asset classes. Cash, bonds, equities. Everything is at a peak right now. Real estate, all the different types, and all the different classes and all the different types have kind of maxed out because interest rates are so low, you know. In this economy, we are strictly interest rate driven.

You know, what I see is, I see a bomb about to burst in the equities market like we saw in 2009 with real estate. I think that's where our big issue is right now that you really got to keep an eye on. Interest rates are key for all of us in real estate, you know. That's what's making these deals work, when the cap rates compress like they have. You know, you're seeing fours and fives.

You're lucky to find the six anymore. What's making that work is interest only, you know, three and three quarters to 4%. You've really got to watch those interest rates and you really got to be ready and be careful and be nimble to adjust. The price you pay for an asset's permanent, but debt is temporary. The financing's temporary.

You could restructure, you could reorganize and you can rearrange the financing but whatever you pay for that asset, you're stuck with that. You ain't getting out of it. That goes both ways, right? It can be good on the bottom, it can be bad on the top. What I tell everybody is, the most important thing to know is the top. Everybody says you're making money when you buy, yeah, that's great but if you don't get out at the right time, you haven't made any money.

You really need to be careful, you need to make sure that you're really thoroughly understanding the properties that you're looking at in underwriting, breaking the metrics down at the door level and pay attention to insurance. Insurance costs are up and they're catching a lot of people off guard. Taxes are readjusting when you purchase an asset, that catches people off-guard.

Utilities. Utilities companies in different areas are pushing for rate increases because they haven't had them in a number of years and the winters and all the storms that we've had, their cost had gone up and fuel cost. You know, just as you're underwriting deals, just watch those metrics but right now, I feel like we are at the top. Cap rates are about as low as they've ever been. Interest rates are very low so it's all relative. When we are buying in seven and eight caps, interest rates were five and six.

Now we're buying a four and five caps, interest rates are three and four. To a degree, it's all relative, right? You just got to figure out what lane in you're going to stay in, what your strategy is. Are you a fee based asset manager, banking on – not banking on but you know, you're in more of a long term debt reduction, principle build up play – is that's your business model? Or are you a value ad where you have to get out on the back end, you need to understand that that reversion cap rate needs to be higher than you're going in cap rates.

You got to take that into account. Is there room there? You just got to figure out your business model, figure out your business plan, stay disciplined and stick with it and watch those interest rates.

[0:06:04.0] WS: Okay, I was trying to take so many notes right there Greg, that was good stuff. I hope the listener's paying attention.

[0:06:09.8] GD: You got it recorded so –

[0:06:11.1] WS: That's right, you can go back, hit the back button. That's awesome but you know, you mentioned – we'll go through a couple of points here that you had highlighted but like, you know, talking about being in the equities market, there seems to be a boom there – there's a bomb in there, you're talking about you know. Can you elaborate on that a little bit, like listener says, "Wait a minute, what's he talking about? Equities market." What does that mean?

[0:06:30.4] GD: That's stocks. Equities are stocks so right now, all of the indexes are at an all-time high, the Dow Jones, the SMP, the Nasdaq. Everything, all around the world, they're just maxed out right now and it's because of the monetary easing that we've seen in in the feds' balance sheet and the government's pumping you know, money into our economy, buying our debt. That has artificially inflated the price of that asset equity. A lot of the sovereign wealth funds, institutional funds, foreign wealth funds are going into the equities market and they're moving big dollars.

It's a big game, a lot of the hedge funds are in there and the values of these companies just do not make sense. Everybody will tell you – you listen to CNBC and you watch all the smartest people in the world that do this every day and I'm not a stock guy, I just know market fundamentals right?

When everybody's in, that's when you need to be going the other way and if you watch Warren Buffet who is our greatest investor of all time who has never changed his strategy his entire career, he's going to cash and he's waiting, you know? He's going to – just like he did in 2009, he's going to jump in when things start going south and you know, he tells a story of getting a phone call like people say, "Why are you cash?" He said, "You know, I got a call the other day, somebody needed 50 billion dollars by Monday. I was the only guy that could call."

He said, "So when you have cash, you get phone calls like that." Watch Warren Buffet, watch interest rates and I think you know, the markets are maxed out, can they go any further from here, I don't know. I really don't know. I do know they can always come back. I'm not a bear market guy, I'm not a doomsday sayer, I'm just saying, be careful and watch out because it feels like we've maxed out. It feels like we hit the ceiling, the markets have tried to push and reached that breaking point and they haven't been able to push past it and keep going on the upside. Every time we break that ceiling, it pulls back.

That's kind of telling you that there's a limit right there and good times never last, bad times never last and bull markets, you know, always pull back, they always pair off and we got a lot going on with this whole epidemic that we're facing with the Corona virus, that's really affecting the economy, a lot of people are predicting a mild recession because of it depending on how bad it gets.

You know, I don't know if it's that serious but it's pretty serious. But at the end of the day, a company is worth the income that it can produce and we're seeing a lot of pressure right now in earnings reports on a lot of companies that aren't as healthy as they had reported and that we have thought they were. Just keep an eye on those things and be careful if you're in the stock market.

[0:09:00.3] WS: You also mentioned like interest-only debt right now is how a lot of investors are able to do deals right now, right? And make it happen. Is that something we should be scared of?

[0:09:09.4] GD: Yes, that's what caught a lot of people off guard in pre 2009, was the interest-only LIBOR loans that we were all getting for commercial and residential real estate, you know.

[0:09:19.6] WS: LIBORS like same as bridge, right?

[0:09:22.4] GD: Yeah, LIBORS, London Index Bank Rates so it's always lower than the fed rate, so they were basing in loan rates on that. But yeah, that was in short term bridge type debt. Typically, it's interest only so you're not paying down any principle. Your payments are cheaper so your cash flow is inflated or you have a bigger yield on your cash flow because you're not paying principle but you know, again, you're not paying down any principle, there's not a lot of cash flow left at the end of the day.

If you're buying a five cap and you're getting three and three quarter interest. By the time you put your reserves away, pay all the bills, there's no money left over. You're going to break even and you're not reducing the principle. That's a dangerous place to be in because you're banking on appreciation, you're banking on be able to add value, raise rents, things like that. The other thing I'll caution people is, make sure you understand that you're not always going to be able to raise rents exponentially.

A lot of people were saying, “Hey, rents double every 10 years.” You know, that’s just not the case. Rents have not doubled in the last 10 years and they may have prior to that but we’ve seen an increase but we’re kind of reaching a threshold now where you know, people can only go so far, there’s only so much they can spend because incomes have not grown exponentially in relation to rents.

Somebody put out a chart the other day that showed where rents are right here and incomes are right here, they’ve been flat as rental rates have shot through the roof. There’s going to reach, you’re going to reach a point of push back and a point of diminishing returns where you could no longer increase rents.

If your whole business plan is based on, “I know I can increase rents exponentially.” You might be able to get a year two, depending on the asset. If you’re $1,500 a month apartment, you might be able to squeeze another hundred out of it but if you're an $800-month apartment, you know, renter, that hundred dollars means a whole lot more to you than the $1,500 guy. You got to understand what your assets are, who your renters are, what those increases mean to them and what are their choices?

If I’m renting and apartment for 800 to a thousand bucks a month and you want to raise my rent a hundred dollars and I can go a block away and get two or three months’ free rent, I can get a U-Haul for hundred bucks to move myself. That’s what you got to watch out for and just be careful. I’m not like negative or anything like that, I’m just saying these are the things you need to think about when you're looking at these aggressive deals right now.

[0:11:29.2] WS: You mentioned earlier also about this reversion cap rate. Of course, we talked about that term and you hear that a lot in the business and especially analyzing deals or investors always ask about the cap rate or going in cap, the exit cap. You know, could you elaborate a little bit, what is the reversion cap rate? Listeners saying, “What’s he talking about?” What is that?

[0:11:50.1] GD: Reversion, like you said, that’s your exit cap rate. When you buy a property at a five cap to assume that you’re going to be able to sell it for lower than that down the road when you exit that property at reversion, when you fulfilled your business plan is unrealistic.

Generally, you need to figure, you're going to be a point or two higher cap rate than you bought it at, you know? The cap rates are going to increase, not lower or stay the same. Now, granted if you look back five years, they've gone down but you know the prudent investor has to assume cap rates are going to go up, interest rates are going to increase and the property's going to be trading because it's older and it may be less desirable depending on where the market stands and new supply in the market, things like that.

You always need to be responsible in your underwriting and assume conservatively that the property is not going to trade as low a cap rate today as you're going to sell it for or five years from now.

[0:12:43.7] WS: When you say a point or two higher, what does that mean?

[0:12:48.1] GD: You know, if you're buying a five cap right now, you need to assume you're going to sell it at seven cap. Now, you've increased the income and hopefully you've become more efficient in your operations so that you know, at the end of the day, it's not always rent increases, you want to increase the income so that can be done through operational efficiencies, it can be done through other residual income centers throughout the property, laundromat, cell towers, billboards, other things that you can leverage to generate income off of that property not always just rents. You want to enhance the income so that will ultimately drive the value. So even if you have a one percent or two percent higher cap rate at the back end at reversion when you exit the property, you still have good upside profit in the deal because you increased the overall value.

[0:13:29.0] WS: Yeah and you know you mentioned too a minute ago like your property is going to be older when you sell it. I feel like if you are already buying the property that was built in the 50's you know five years from now I mean it's still built in the 50's. It's going to be five years older and it is not accounted for sometimes.

[0:13:42.7] GD: Well I had somebody today I was talking to and they said so you know, so class B, they're saying, anything built 1995. I'm like, "No, this is 2020. If – you need something in the

2000s to stay in class B," and actually mid 2000s so maybe that is 15 years old at this point, right?

[0:13:57.7] WS: Right.

[0:13:58.2] GD: So it is – a lot of those ABC rules haven't been updated because it's years back but a lot of people aren't connecting those dots but like you said, thinking about something that was built in the 50s time goes by quick. So it's 2020 so you need to be looking for value add in the 2000s now.

[0:14:16.8] WS: Sometimes it is just hard to feel like it's 2020. I still feel like it is year 2000, you know. So Greg, anything else as far as the way people or clients of yours or other people in the industry that you know that are looking at the market that kind of scares you.

[0:14:32.2] GD: You know the prices that some people are paying are aggressive. So what is happening out there that you need to understand if you are looking at a lot of these deals and they're not making sense and you are seeing them get closed and get done, understand that there is a lot of 1031 buyers out there that they are selling assets that they were in five and 10 years ago. So they are doing a 1031, they're going to pay a little bit more, they're going to be a little bit more aggressive.

So that is some of the buyers. Some of the other buyers are buying more on a yield and a principle play, pay down play like I said. So they are looking at, "Hey, I don't mind paying a little bit more now. It is a good asset. I've got a nice little yield, maybe I am going to make 3% cash on cash, or 10% – 5% cash on cash and I am paying principle down. So in 20 years I am going to own this property free and clear." Some people have that kind of a long term outlook on these aggressively priced well located class A, core or core plus assets.

So you know that's what's going on there. So I wouldn't get caught up in trying to figure out, "Man, why are these deals getting done? How are they doing those deals?" Just stay in your lane, figure out what works for you and your investors, don't get distracted by what everybody else is doing. Don't get pulled into thinking you got to do a deal just to be doing a deal. Have your plan and you know it is an aggressive market right now so there is nothing wrong with having a feed-based principle or pay down business plan.

Where you own an acquisition fee, you own an asset management fee, which just covers your overhead then you got an exit fee when you refinance and or sell that asset and along the way you are reducing principle, which is going to build equity in the property versus adding value and increasing the value so much. Hopefully you can increase the efficiencies a little bit through a portfolio play. If you've got a number of assets you can find economies of scale to reduce operational expenses.

Then you got a package of product that the bigger funds are now interested in, right? So it is like the Warren Buffet problem. He's got so much money, he has hard times finding big enough deals to do. Same thing with institutional investors. They are not dumb but they do have a lot of money. So they can't move 10, 20, $50 million dollars and they need to move three, 500, $1 billion. So if you are collecting the right kind of assets in core plus, your earning fees along the way to pay the bills. And you are paying down some principle.

If you put together a nice three, four, $500 million package to a $1 billion package that is very attractive to some of these funds, they are looking for yield. So that can be your exit.

[0:16:54.9] WS: I like that, yes. So you mentioned core and core plus, what is that?

[0:16:59.0] GD: So core is stabilized, class A, B plus type assets in primary and secondary markets, core plus has a little bit of upside. It is above value add. It is a newer product, it is going to be A minus, B minus in that range. Again primary, secondary markets, sometimes tertiary markets if you have a major university or something like that that is driving those plays. So the difference really is what you have is you have distressed, you know, opportunistic distressed. Than you have value add.

And you have core plus step up then you have core, which is done and it is usually newer, nicer and new construction. You know a lot of people will equate core with class A. It doesn't always have to be class A, it just needs to be stabilized, nice, where there is really no value add that's already been done.

[0:17:44.7] WS: You know, you and I briefly talked about this before we started recording it but you see more developing happening now just because of the difficulty of finding deals, is that right?

[0:17:53.4] GD: That and supply. So there is not a lot of properties out there and there is a lot of demand for units in a lot of markets still. I mean when you look at the national average, believe it or not, we are still under supplied in housing units. So that could make that development attractive. A lot of people are going with that model that is a long term play. You just need to be prepared for a five year haul and zero income for the first two to three years.

Because it is going to take you, you know a couple of years to get it approved, get it mostly build to built, leased up depending on the size of it. Smaller properties do lease up quicker than bigger properties. You know, to stabilize. So that is going to be a three to five year play kind of like a value add but those are a lot of fun too. So a lot more people are getting into development especially smaller mixed used deals. So you can do a nice 20, 30 unit, three to five million dollar building here or there that fit in very nicely in different areas and different demographics.

Those are great little assets that are easy to lease up, they're quicker. You can get them done in a couple of years and there is a good market for them at the back end.

[0:18:51.4] WS: What's your thoughts on the types of debt that are – I know we talked a little bit about debt but like, specifically, say, bridge debt right now, like your thoughts about the types of deals that people are using bridge debt for or should we be running from bridge debt?

[0:19:04.1] GD: No, I think it's fine. So again on the new construction that is the other thing. So HUD has a program for 40 years, non-recourse 95%. Freddie and Fanny have good construction loan products as well that they will give you I think some high loan to cost on those deals with long term non-recourse. So there is some really good construction debt out there. Bridge debt is often used for the construction portion and then it gets converted to that permanent on the back end.

But I think what a lot of people are doing is doing bridge debt with maybe a supplemental loan on the back end to do the value add person's portion reimbursement so they don't have to do a complete refinance at the back end. So those can be really nice attractive products. There is also floating rate loans where you can adjust that rate ever so often without penalties or without a full refinance. So I think those are fine. I don't see – the difference between now and 2009, I don't see any catalyst where interest rates are going to increase, okay?

The Fed is talking about holding rates. They want to see some inflation, which you can't raise interest rates to create inflation. The rates have to stay low to create inflation. They want to see two percent inflation. The only way to do that is the hold rates are lower. The Feds is talking about holding rates and potentially lowering if they have to so what's really cool for where the space we're in, in real estate is if the market does have an issue or if things do start to go south the Feds going to cut rates.

So that is even better for real estate investors, you know so that is what you really want to watch those rates because man, we could be looking at two and three quarters a year from now, you know six months from now. I just don't see any catalyst for interest rates to raise exponentially anytime in the near future and the Fed doesn't either. You know they just don't have that in the horizon. We can see inflation but they are going to hold that check with keeping rates low.

[0:20:45.2] WS: Well unfortunately we are almost out of time but just a few more quick questions for you Greg, what is a way that you have recently improved your business that we could apply to ours?

[0:20:53.1] GD: You know for me just constantly pouring into myself, developing myself, educating myself, so improve everything I do through educating myself. I read constantly, I listen to things constantly, I study the markets, I watch the CNBC. I listen to what's going on outside of my industry. So you got to be in tune with what is going on around you to really be effective in your industry.

You know, as far as my business model goes, you know I am pretty consistent. I do the same things, you know my super power we talked about that. I am a delegator. I am a leader, motivator, delegator. So you know I turn things over to other people so that I have the time to be at the high level and be the visionary be the creator of the enterprise that I am in charge of that I have been blessed with. So for me it is just that constant enhancement of my own mental capacity and vision.

[0:21:40.2] WS: Are there any other ways that you are educating yourself for staying on top of the market?

[0:21:43.8] GD: Yeah, just reading. You know reading, watching, learning, talking to other people.

[0:21:47.5] WS: I know you mentioned like watching CNBC. I don't know if there is anything else.

[0:21:50.3] GD: Yeah CNBC is, you know, for the financial markets, you know there is obviously Bloomberg, the national news. So I watch both sides of the news. I keep up with what is going on politically and things like that as well. So I do watch the news regularly. I am not like obsessed about it but I watch the evening news and I watch a little bit of Fox and I watch a little bit of CNBC, a little bit of Bloomberg and then I talk to people in the business.

So I have friends who are on Wall Street that are with the big investment banks. With Goldman, with Black Rock, with Solomon Brothers and people that have been on those firms that have been in that world. So I talk to them all the time, Much smarter than me, much more sophisticated that have been in the thick of it. One guy I am having lunch with next week who worked at Lehman Brothers when they were going down and now he is buying mobile home parks and storage facilities.

So I just try to talk through as many people as I can, people like you, people that are in the industry out there doing things and just try to listen and learn and believe it or not I know I talk a lot about here but that is the purpose. When I am talking to an individual, I am asking questions, asking good questions, seeking knowledge and wisdom and listening.

[0:22:47.8] WS: And that is what I get to do every day.

[0:22:49.4] GD: Yeah, that is a lot of fun isn't it?

[0:22:51.0] WS: It is, so Greg what is the number one thing that's contributed to your success other than asking good questions?

[0:22:56.3] GD: You know being a seeker of wisdom, seeking to help other people, trying to be of service to other people. I have learned that everything that you do in life is all about serving others. So when you seek to understand the other person first, seek to serve them first then everything else takes care of itself.

[0:23:11.2] WS: And how do you like to give back?

[0:23:12.5] GD: You know I've got an education company I am really focused on that right now. I have created the MBA level education for the everyday entrepreneur. So I am really focused on giving back and helping as many people as I can by sharing my 23 years of mistakes as well as success. Yeah, I am involved in a lot of ministry efforts in and around the country and the world. I support a lot of different charities, both Christian organizations as well as in non-profits and community organizations and associations.

So I am just a giver man that is another super power. I was born with that. My parents are always like, "You're the guy that would give anybody the shirt off your back" and I'm like, "Well you know, it's just how I was born."

[0:23:47.4] WS: That's awesome. Well thank you for sharing that Greg. I know you shared lots of wisdom with myself and listeners today and it is an honor to have you back on the show and get to know you even a little better. Tell them how they can get in touch with you.

[0:23:58.5] GD: Yeah, so gregdickerson.com is my website. Everything is on there, all of my social media, YouTube channel. I've got a YouTube channel that I put out videos every day, short, quick just meaty you know. How to do this, how to do that, what we just talked about in a little minute, two minute bit size pieces. So I do that every day and I am on all of the social media platforms. You can find it all there, gregdickerson.com.

[0:24:19.9] WS: Awesome Greg, that's a wrap.

[0:24:21.4] GD: Yeah man. Cool that was fun.

[END OF INTERVIEW]

[0:24:23.4] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

[0:25:03.4] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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