

**EPISODE 539**

[INTRODUCTION]

**[0:00:00.0] 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 am your host, Whitney Sewell. Today our guest is Mike Zlotnik. Thanks for being on the show, Mike.

**[0:00:32.3] MZ:** Hi, Whitney. Thank you for having me.

**[0:00:34.4] WS:** Yeah, I am grateful to have you on the show again and as a listener, you may have heard of Mike before, I hope so. But he was a former guest. He was on the show WS130. It was over a year ago now. I can't believe it's been that long ago, Mike.

**[0:00:46.8] MZ:** Time flies.

**[0:00:47.8] WS:** It is amazing, where does it go? But a little about Mike and then I will let him tell us a little more, but he is a debt and equity investor in real estate, CEO and has since founded TF Management Group LLC. He is the author of the book called *How to Choose a SMART Real Estate Investment Fund* and has a podcast called The Big Mike Fund.

Mike, thank you again for your time sharing your expertise with the listeners and myself.

Give us a little more about exactly what you're focused on as far as your fund and maybe some details around that and let us dive into just how you are handling this crisis and what is happening right now.

**[0:01:22.8] MZ:** Sure. Thank you, Whitney. I appreciate it very much. Yeah, I am a fund manager. People have called me Big Mike for a long time that's why I got bigmikefund.com. That's just the primary entry point to our universal funds and educational content. As fund manager, we own a few funds. We have a growth fund from the New Temple Growth Fund and then Temple Opportunity Funds has been around for three years and a number of legacy funds.

That we invest in a number of assets including multifamily. Generally, we invest as LP's, we could take a co-GP and some projects but we invest as LP investors, passive folks with the right sponsors. So, we have a broad range sort of fund to funds. We are not actively managing assets. But we pick and choose the best asset managers and invest in their best projects and then figure out how much capital we want to deploy. Some projects we can fund entirely and some projects we can take a piece depending on circumstances.

And I am here in New York, dealing with the craziness of the coronavirus. It is a unprecedented times but hanging in there. The spread here is pretty significant and I think it more than anywhere else in the country. And yeah, New York City is almost like a ghost town. It's not a ghost town. But if you go outside people are very few. Very few people walking and things changed drastically start what it used to be feels like almost a ghost town.

**[0:02:51.2] WS:** Wow. Well, just so the listeners know we are recording this on March 25<sup>th</sup>. This may not come out for the next couple of weeks but just so you understand that when we may know a lot more by the time the show comes out. But I love hearing right now how experts like Mike are handling their business and whether it is with sponsors they're working with or investors or just what is happening right now. And you know Mike what actions are you taking or should you be taking during a crisis like this or what have you seen?

**[0:03:19.3] MZ:** Thank you, Whitney. So, with every level no matter who you are, you have your relationships. Whatever you call them, the top five, the top 10 however many. And you should communicate with all of them. There is no necessarily critical order. But they could be our in-

vestors or our project sponsors. We make loans on projects, our borrowers. We work with closing agents, attorneys, title companies.

We try to reach out to as many as we can and express our support and just ask questions, "How are you doing? I hope you and your family are safe." So, communication is the key to reach out and we are having daily conversations more than one, two, three, four a day scheduling them out to chat with relationships. That is step number one just understanding how people are managing.

The next key exercise and you know I belong to a number of top masterminds around the country with real estate folks, one of the key messages is shred your expenses. Whatever you do, look at where you could cut costs. It is not a fun exercise to do. But it is certainly an important exercise if you are running an operation and you have a multifamily complex is there non-critical things that you cut or defer for the time being, right? And it is very, very important just going through your priority payments, things that you have to pay to keep things afloat and what you can defer and communicate with folks if you are deferring that you are not doing this for any other reason that it's the virus and they'll understand.

So, if you do marketing a little ahead, reach out to a marketing company and ask, "Can you give us a break for a number of months than they are?" Whatever a profit margin they will shrink and they will still keep the business but it will be somewhat savings for us. So, whatever you can cut costs, do some stress tests, just think about your portfolio, where do you have stress points?

So, on a fund level, we will go through the exercise what assets are at bigger risk and why, what can we do about it? That is another key question. There are things you just can't do anything about. No reason to stress about it and there are things you can control. Things you can control focus on those so you could do something about it. For sure reach out to your banks. It's one of the exercises we've done to give this and nothing to do with the fund.

My wife is an optometrist. We have a practice here in Brooklyn. It is closed. Well, we opened up a couple of funds for critical emergency cases but if you don't have the emergency it will be generally closed. Equipment loans, right? As many small businesses, they have that kind of loans, equipment loans. You reach out to the bank not only they do deferral, no questions

asked. You are in distress zone and you can't pay your bank for whatever reason then reach out. Most of them will be understanding and supportive.

The other interesting thought and again we are very – with times of high uncertainty and a lot of things and moving into warp speed, there are things you could sell today, sell. So, I'll give you an example, you get a residential real estate, commercials are hard, commercials are frozen up. Commercial market is completely frozen, you can't get financing today. Maybe it will unfreeze by the time the episode comes out but residential sells.

So, if you have assets that are on the market and you got a good offer and the buyer is looking for a little break here and there, give them a break and sell the asset, get liquidity. That is the next advice, right? Get liquidity anyway you can. Increase liquidity. Get the cash. Hoard the cash. If you have lines in the banks that are giving you money, draw in the lines. Just pay them the interest even though you are not earning any interest in the money, keep extra cash in your account.

So, liquidity is the key for a couple of reasons. If you have problems you will be able to solve problems with cash. And if you have new opportunities and you have cash, you will be able to take advantage of them. So those are some basic ideas, at least initial thoughts what to do on the grand scale of things no matter what business you're in.

**[0:07:17.7] WS:** I love that right there. I mean you will be able to solve problems or take advantage of opportunities if you have some cash. I just think that is so smart right now to be thinking about that. And just you highlighting the communication you know with whoever it may be, whether it is your investors, if you are an operator or whether it is your mortgage company for your personal house, you need to be communicating, right? You got to be talking to them to see what is available or to see what you can do right now.

You know Mike do you see – I know you're working with numerous operators and probably have a good pulse on that just you know what people are doing and I wonder are you seeing much re-trading happening on deals that are under contract right now or what are you hearing about that?

**[0:07:55.6] MZ:** Such a great question, Whitney. Not enough time for the markets to shake through. We are seeing – So I could tell you, we have one deal we're going to invest in. It is a large multifamily deal in mid-west. Almost a thousand dollars over a \$100 million asset with proper debt structure and preferred equity and a common equity. To make the long story short, it was a solid deal and we were going to proceed with that. The deal got cancelled because of the lead investor.

We were a significant investor in the deal but we're not the lead invest. The last minute the lead investor pulled the plug because they have a significant portfolio of hospitality assets. It has nothing to do with multifamily but they freaked out because the hospitality is in the deep, deep, deep hole. It is beyond – you know, it's not even sure it is going to survive. So, this is called re-trade.

It is a cancelled deal that will probably re-trade if the seller will stick around for a number of months, maybe new investors will step in probably will re-trade. Don't have any other re-trades, had conversations with a number of folks. We do have a deal on a portfolio of single families. Not multi-family but it's a single-family portfolio. And it is a solid, solid deal because virtually the entire portfolio is Section 8. We feel good about the rent, the predictability of the cash flow because it is Section 8. We are still going to the seller, we are still asking for further concessions because of uncertainty.

And a lot of folks that we interact with, they're asking for any concessions they can, 10%, 15% even if they want to perceive with the deal. So the technique doesn't hurt to ask, don't know the results they are asking for the discounts. They're asking for some kind of a re-trade. Some of them will get put on hold. The sellers feel good about what they got. They got to tell them, "Well, let's key the right collection on April 1<sup>st</sup> or on collection on May 1<sup>st</sup>."

Numbers are good when you still perform and those who need the liquidity they will probably say, "Hey, close now. I'll give you another 10% off." So not enough time for data to come in. So, I can tell you that the conversations are happening and everybody is preparing to have the conversation but we don't know how they end up.

**[0:10:03.6] WS:** You know as an operator, how should we handle or do you have experience if investors say, “I need the liquidity or I need the money. You know I really need it out of this deal.” You know say we’re in it two or three years or maybe not, how have you seen operators handle that and what are your thoughts?

**[0:10:21.3] MZ:** We actually have an opportunity. We are working on it now where an existing multifamily funded, I think just about two and a half years ago. One of the significant investors in the deal, LP’s, wants to get LP and they reached out to the sponsor and the sponsor reached out to us and saying, “Hey, I have a potential investor on liquidity that is willing to forego the backend equity. They have been receiving pref and they are okay with that but they want their principle back. Are you guys interested in the deal?”

And the answer is yes, we are interested to discuss. So, these type of situations will happen and if you are a sponsor and you got some investors approaching you, they want liquidity, you certainly can try to help if you have somebody else who can step in your shoes. It requires your consent as a sponsor. And this negotiation, it’s a short sale of equity and assets. The deal itself may be fine. But it is not ready to get an exit point and you can’t bring it to the market now anyway because everything is in flux so you want to bring it to the market a couple of years maybe that was the original plan.

So, to have a conversation, we are looking for a little bit more discount and just the backend equity up kick. We are looking for some discount on the principle. If the LP is flexible enough, we can solve the issue. I don’t want to be a vulture investors, but we are opportunistic if the deal is solid itself. And at this point that is the approach.

You as the sponsor will have the right of first refusal if you have your own cash, you could take that position but you may not want to. So, you almost need the conversation with somebody like us and I am not advertising or promoting anything. But we are happy to have a conversation if we like the deal. We may be able to help or not. We’d love to see things shake out a little bit and stabilize because we tried it before, we don’t know what the rent collection is going to be.

The proforma maybe a month ago could have been 10% cash on cash and a month later it could be barely servicing the debt with our own collection, who knows right?

**[0:12:20.6] WS:** Right, all right have there been any other impacts that you have seen or noticed or maybe that has been unexpected? I mean a lot of this is obviously been unexpected but anything maybe out of the ordinary or anything that you have seen that you can make us aware of?

**[0:12:34.6] MZ:** So, there is going to be some temporary and permanent changes. And you really have to think about anything that is happening right now is just going to be likely permanent or temporary thing? To give you some examples, the stay-at-home, shelter-at-home policy is now accelerating the trend for people to order. Everything order on Amazon or e-commerce. That trend has been growing and it is probably going to accelerate.

And we are not talking about multifamilies, just the general trend. Will people go back and still shop in the shopping centers? Yes, they will. But the acceleration to e-commerce is here to stay. Some temporary things, people aren't getting a haircut, they will get the haircut. There will be a lot of hair, the demand for haircut will increase when they come out of this. So when you think about it just the basic stuff.

So, I would say that you really have to evaluate the short-term trends and long-term trends and what you can do about it. There is going to be re-trading and there's going to be opportunities but we don't know what they are. So just observe, hoard cash and we are not trying to make any drastic decisions. It's more like we are here to help and we've had because part of our business we also lend money on a number of fix and flip projects and we had people that reach out and say, "Hey listen my projects are stuck. I can't rehab because of the shutdown. Can you give me a break?" And we will certainly do that.

So, we are here together back to the initial communications, find out who needs what help and how is it going to impact you.

Set expectations is the next important thing that you could do as a syndicator or myself as a fund manager, reach out to your capital investors, your whole universe and start setting more conservative expectations. People already know, I mean pretty basic but just communicate that the project is solid. You are taking care of the tenants and the debt service. But just lower a little

bit of expectations on the returns, something really basic and really important because you don't want to surprise people. You just don't know what is going to happen. But you can set proactive message today.

And the other interesting thing that happens is that when you have the next set of deals in the future, part of this communication is you could have follow up sequencing sort of just to tell people, "Listen the stock market is just in and it showed you what it can do."

Because there was a lot of value fast and it creates volatility and uncertainty. Whatever you feel about stock market, consider diversifying out of it and getting into more predictable asset class like real estate. And the fluctuations are a lot less in stability is a lot less. No guarantees there's still risk, right? You can have lows in economic occupancy and certainly have a pain point, have a pain point but there is a shift. It is a significant shift. So right now, I see two interesting shifts.

One, people are selling and they are saying, "I am done with it. I am moving the capital and I would like to put your fund because that is much more predictable or your syndication." There is that happening for people who are – don't want to be in this unpredictable volatile stock market. Something also interesting happens.

So. there is some absolutely the opposite happening. I had conversation with a few investors and said, "Listen your funds have done so well but the market has dropped 30%. Can I get some money out of your fund to go buy some stocks?" And then when I heard this like, "Really? Is that what you want to do? It is a dropping knife." "Well, you know it is going up and down, maybe it is going to recover 20% fast." Listen it is a matter of personal choice obviously but you have no control, no predictability and I had. I was able to communicate with a few folks and give them some wisdom to reconsider their decisions but some people are thinking, "Hey when something feels it's come down a lot maybe it is a bargain."

Is it? Can I drop another 20%, another 30%? Can we have the worst recession? But the opportunity certainly delivered the message because many people are moving out of it permanently and you will get some of that capital, looking for home in real estate.



**[0:16:48.2] WS:** Mike, you get to work with lots of operators and I wonder from what you are seeing from working with numerous operators, how were the best operators prepared for something like this before we ever knew this is going to happen, you know whether it is their underwriting, whether it is their management, whatever it may be, how have you seen the top ones you work with to be prepared for this now?

**[0:17:11.4] MZ:** So, another great question. I would say that the best operators have been disciplined in underwriting. Again, not just multifamily deals. Whatever they have done, they've been disciplined. We certainly do finance fix and flip and I had a call with one of our top guys who does 25 to 30 flips a month and he is just excited. He has been so prepared. More opportunities coming to the market right now because sellers are anxious. They are nervous, they're giving him better discounts.

And when his state, he labelled to continue into the work, it's considered to be essential. And the people who want to work, the construction workers want to be coming out and it is easier for him to get people now. So, it is going to be because he has been prepared. He is going to take advantage of this opportunity and the small fish kind of falling off.

In commercial it is a little different, right? The ones who have prepared well they've built up reserves. And so, the good operators they are not over-leveraged and there's been a theory to get the maximum cash you can, the maximum loan, free money – well not free but very low interest rate. Yes, it's true but the smarter guys had cash reserves. You know we have just to give you an idea, we've been sort of prepared. We have been having extra cash so we have about 15% of the fund liquid completely. So, we've had cash positions significant because it's a prudent strategy when you see things not going to go well.

The same thing with Warren Buffett, right? He has a significant cash position but I am sure he is going to use the ammo pretty well over the next number of months. So, the smart folks have underwritten conservatively have had significant reserve. You know one of these guys who have assumed lower occupancy in the first couple of years so you can actually survive the stress.

And we have always we have underwritten we have asked them let's stress test the cash flow is stressed test, the cap rates. And those who have done those things and still went forward with

deals, the deals have better downside protection. I mean no guarantees now because even the best preparation can still hit a brick wall if we have massive unemployment but the preparedness has been better underwriting, better cash reserves. And then obviously execution plan, capacity, people experience to be able to deal with issues.

So, we've tried to be very selective picking the sponsors and operators who are the most capable. We feel pretty strong about it but still just uncertainties was difficult to deal with because again, you have a great multi-family complex, you just don't know what the rent collection is going to be and if suddenly it is below a stress point and you don't have enough collection to pay the mortgage. If you have good reserves great and if you don't have good reserves can you correct to the manage conversation with your lender and all of that stuff?

So, the good guys will get through that whole thing. And what is important is to communicate and going again, I mean CG mastermind are running weekly calls so she just stands for The Collective Genius. A lot of masterminds I mean they are during the time of crisis continues in frequent communications with your best resources and just get fresh data on weekly basis what is going on, what are the best ideas? Don't bunker up and hide away.

Communicate, find out what is going on, where things are getting better, where things are getting worse, maybe somebody can come up with good opportunity and they will need your help and then you can partner up with somebody.

So now is the time to be very proactive and take instead of leadership role within the organization, your people, your team. Communicate confidence. That is one of the key things. If you are going to communicate fear, people are going to be fearful.

If you're going to communicate leadership, people are going to feel confident. And you are not trying to be arrogant pardon me, you know ass but you just want to be a confident leader, communicate well and making people calm and confident.

**[0:21:06.4] WS:** Yeah, I couldn't agree with you more. Communication all the time is so important. And every show I do, I ask people something how they stand out or whatever with investors? And so much of the time it's communication. And it seems like in a time like this, a

high-quality operator you are going to communicate that much more. But then you're going to find some that is going to disappear you know at a time like this and that is not what we want.

If you want to be a top notch operator, this is the time to be communicating more than ever it seems like to me. And just what we are doing and how we are planning and you know just so investors know that we are doing everything we can to minimize any kind of damage. But unfortunately, we are running really low on time Mike but tell the listeners how you like to give back?

**[0:21:52.9] MZ:** If you have a question, I am happy to chat and give you some thoughts. There is no right or wrong answer. You can book 15 minutes with me and if you have a question I am happy to, again time permitting, I'll try to be responsive as I can and give you some thoughts whatever little problem, I want to say this, you know we are running out of time. But as a kid I was a mathematician. I always love solving difficult problems. So if you give me a problem maybe I can give you some feedback and hopefully it's helpful.

So, a bigmikefund.com from there you can schedule a time with me, just 15 minutes. If it is something that you need more time, we could extend it. bigmikefund.com, schedule a time and I will try to solve whatever issue you're having. I can't guarantee, I don't give you any investment advice. But I can give you sort of my wisdom and it is a very expensive wisdom but I am not going to charge you. Be very careful if people give you free advice.

I charge 1,000 bucks an hour but as of giving right now I am going to charge zero and just give it if you need some thoughts so –

**[0:22:51.6] WS:** I appreciate you sharing that Mike and I hope the listeners will take you up on that. Any other way that they should know how to get in touch with you or bigmikefund.com is the best way?

**[0:23:00.1] MZ:** bigmikefund.com, I promise if you mistype it, you heard that bigmikefund.com it's not a kinky site that is as far as I can tell you. You only have to remember the reason we got this site is because it is easy to remember, bigmikefund.com. That's all that is the entry point.

**[0:23:14.1] WS:** Awesome Mike, that's a wrap. Thank you very much.

**[0:23:17.6] MZ:** Thank you, kindly.

[END OF INTERVIEW]

**[0:23:20.4] 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]

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