EPISODE 546

[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]

[00:00:24] WS: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today, our guest is Bob Fraser. Thanks for being on the show again, Bob.

[00:00:33] BF: All right. It's good to be back.

[00:00:34] WS: We're glad to have you back and just because Bob's vast experience and just his expertise in this business, so we just wanted to come have him back on the show. We can have him back numerous days. That's for sure. He can just elaborate and help us on so many topics. But something that's very important to all of us right now is just what's happening in the economy, and I want to get his take on that.

But I wanted to remind the listeners about show WS496 that came out February 29th and also show 526, which was just March 30th. So I would encourage you to go back and listen to those with Bob, where you can learn more about him and his background. But a little about him, he's on a mission to help investors take advantage of one of the most effective and overlooked avenues of real estate investing. That's residential mortgage notes. As founder and principal of Aspen Funds, Bob has purchased more than 1,000 mortgage notes, earning double-digit annual returns without the risk and volatility of traditional investing options.

Bob, thank you again. I'm always grateful to have you on. Any updates for the listeners before we jump in?

[00:01:41] BF: Well, this is a syndication show, right? So we're all syndicators. We're all out there in the market as well. I probably have as much experience as anybody raising money. Interestingly enough, I raised $44 million in the dot-come era. I watched and I was kind of a young buck or a middle-aged buck I guess, watching this market crash and going, "Wow! Look at that," and not thinking much of it until all of a sudden it dried up my funding.

What I learned through that process and what we're experiencing now with this current virus crisis is that money is all tied together. It's all tied together. Even though it's different sources of money, it's all tied together. When there's a lot of fear out there, the money evaporates. I watched literally where we literally – For the third round of financing, we went out to raise 25 million. It blew up to 45. We couldn't stop it and kind of just squeezed it down to 35 million by beating our investors up and telling them, "No, we're only going to let you put in so much money, okay?"

Well, literally six months later, we couldn't raise 10 million at any evaluation, and nothing was different in our business. It was just the emotions. Here's the truth about raising money. It is investors are very emotional and very fan-based, and that includes institutional investors. Okay, in fact, they're the worst offenders; the VCs all running herds. Everybody runs in herds. Banks run for shelter. If someone said the banks are like umbrella salesman that all disappears when it starts raining. That's pretty good. We're in a middle of a crisis, and if you're out there raising, it's going to be a very different world.

[00:03:34] WS: Great to hear that from your experience too. I mean, 44 million and then you couldn't raise 10 million. I mean, that's drastic. If somebody is in the middle of a deal right now, that's a nightmare.

[00:03:44] BF: Right. But what's interesting – So we're actively raising for some of our big note funds. Because we're perceived as countercyclical literally, we, because we're countercyclical or perceived that way.

[00:04:03] WS: What does that mean exactly?

[00:04:05] BF: It means when everything else is going down, we're generally unaffected or we're actually helped by that. This real estate is typically cyclical, right? It goes with the business cycle and the credit cycle. But my business is countercyclical. It goes anti-credits, like we do better when things are worse in one set. It's very interesting. If you can actually show that you – If you can weather the storm and come out and show that you actually protected your investors and you actually made money while the stock market is dumping, you can come out of this smelling very, very, very good.

[00:04:41] WS: Makes so much sense. If you can weather the storm and still make your investors' money through this downturn, you're going to develop a lot more relationships.

[00:04:50] BF: That's right. I wanted to talk a little bit about just the general economy. Everybody's aware, of course, the stimulus package has just passed, and some the challenges that are happening. Most of the analysts that I'm writing, the medical guys, the medical analysts are predicting another two weeks before a peak. Two to three weeks, say, before the peak in the infection rates and death rates, and so hopefully we'll start to see a reprieve. Of course, what's harder hitting than just the virus is the economic impact from the basically shut down in the economy. So 70% of the economy is consumer spending, 70. With consumer sitting home, it means the economy is evaporating and it's affecting everybody.

Here's the latest numbers from Goldman Sachs, Bank of America, Morgan Stanley, J.P. Morgan. Basically, Goldman was predicting a 24% decline in GDP. GDP is gross domestic product. It's actually the sum of the economy of the United States and 24% drop, which maybe to somebody that doesn't sound like a lot, but that is absolutely humongous and it's unprecedented. Now, that's a big number. Bank of America is predicting a 12% drop, Morgan Stanley a 30% drop, J.P. Morgan 14. Let's say it's between 10 and 25%, and I think it's probably going to be towards the bigger numbers. Well, that is massive, massive. Literally, it is depression-inducing. There's not a big question about that.

Thankfully, our leaders and thankfully we have some business people in the mix, and I'll give a shout out to Trump and I'll give out a shout out to Marco Rubio, who was instrumental in putting together this bailout package. Well, they didn't waste no [inaudible 00:06:47] under their feet when they did this. They got right on it. So surprisingly, we got a bipartisan bill. I mean, that is worth a hallelujah right there. So they did this thing and its superfast and it's super big. So three trillion – I mean, 2.1 if you look at the last one they did, plus a trillion before that. It's really more unlimited because the Federal Reserve is involved in, and they basically are buying bonds. It really has even more upside than that, and I kind of have a gut feel they're going to do us another one.

But even if it's just three trillion, well, during the 2008 crisis, the bailout package was a total – They ended up buying about 3.7 trillion, 4 trillion dollars' worth of bonds right then. So it's equivalent, and that is a very significant deal. The stock market, of course, is rallied on the news as it should. They are really spending the money. Well, what that will do is hopefully cause a V-shaped recovery.

[00:07:47] WS: Drastic down, drastically right back up.

[00:07:50] BF: Goldman who is predicting a 24% drop in Q2 is predicting a 12% rise in Q3, so it is a V.

[00:07:59] WS: That's really fast.

[00:08:01] BF: Really fast. A lot of the analysts are predicting a V. Some of them are predicting more of a U. But really I think the general consensus is there's going to be a fairly fast recovery, and the reason is, one, the stimulus package is a real winner. There's always room for improvement, but they did something super big and superfast pretty quickly. One of the things that I find so surprising is they have the payroll protection piece of that, 350-odd billion to businesses.

One of the things that seems like our past leaders didn't understand and why we had a super slow recovery in 2009, '10, '11, '12 with Obama as present, well, he didn't understand business. The truth is jobs are created by businesses, right? If you want jobs, you better help businesses, and business are –

[00:08:50] WS: It seems simple, right?

[00:08:51] BF: If businesses are dead, no one's going to get hired, and so what they did is they gave the money to businesses to retain and rehire people. Instead of a person out of a job having to find a new job, they can simply go back to where they were. It's brilliant, and Marco Rubio pulled off that thing and it's just super. Honestly, we got to just high-five our government. Most of us just are so frustrated with the government. But anyhow, they did a good job on this, and it's going to make a difference. It's going to bounce back. You see, there was really no underlying problem. There was no systemic problem with the economy. It was booming, low unemployment rate, low interest rates, great earnings. I mean, that really was very solid. There was no – The economy wasn't sick when it entered into this, so this is not an internal shock. It's an external shock, which is different, right?

I am hopeful that we will see a V-shaped recovery. Ultimately, we could see part two ion the fall, even if the virus gets beat back and coming back until – Really, it's going to be an issue until we get the vaccine, which is they're saying a year plus. Bottom line, the economy, everyone should – The business owners, if you're a business owner, you should contact your bank and get this bailout package. I think pretty much many – A lot of the small businesses will be able to apply for this. It covers even gig workers, small business owners, self-employed, so it's a very good deal.

[00:10:23] WS: Yeah. I've heard even self-employed can apply for this as well.

[00:10:26] BF: That's right, and they're already starting it. I just got a message from my bank today saying there – The underwriting for this loan is a loan that's forgivable. It's literally bring your payroll records and there's – You don't have to [inaudible 00:10:38] personal guarantee or anything. It's definitely not a normal bank loan, and it's forgivable, so get out there and get it done.

Meanwhile, so the larger economy hopefully will bounce back. When people have money in their pocket, they generally will. So I think consumer people are going to get out to eat. They're going to go buy stuff. They're going to go get that car. They're going to – My guess is we will see a V-shaped recovery. How does that affect the real estate market? A lot of us are in real estate, so I spend a fair amount of time kind of looking at the numbers in real estate. Prior to this shock in the residential market, which is my market, you saw pretty much massively positive fundamentals from my point of view, and that includes price to rent ratios. It includes affordability. It includes the housing markets, single-family homes being massively underbuilt for the last 15 years. It's just a massive shortage of supply relative to population and demand, and it's really systemic. We are literally setting a 13-year record in home sales in February before the crash.

Bottom line, nothing of that has changed, right? The rents are still going up. People still need a home. So I don't believe we're going to see much if any downturn in residential real estate prices. Add to the fact the part of the bailout program is the federal government again buying mortgages, so they're buying these MBSes. They're going to drive interest rates, 30-year fixed rates, to the toilet.

I was just watching Kyle Bass. He's a big hedge fund manager saying he thinks we're going to see 0% 30-year fixed mortgages.

[00:12:26] WS: Oh, my goodness.

[00:12:27] BF: I don't know if I'll go that far but homely smokes. What if there is a 1% fixed mortgage? What's going to happen? Well, you're going to see an unbelievable refinance boom, which puts money in people's pockets, and you're going to see prices go up. The commercial is a little more of a mixed bag. There's obviously – I think the world's going to change in regard to hotels and entertainment properties and possibly office space partially and certainly retail. Those areas are going to be negatively impacted for potentially a while.

Now, let me say this about that though. If you're in that space, maybe it sucks. But if you want to be in that space and you got some dry powder, it might be really good, right?

[00:13:14] WS: Good time to buy.

[00:13:15] BF: Good time to buy. It's always – If you can convince your investors to move or you can convince them you got a good deal and time to buy. I know a guy who made all of his money buying at the previous crash, buying hotel properties, and they're going to be on the cheap right now. Is there something fundamentally wrong with hotels? No. It's just a shock, so it’s a good chance for you if you know that space and you like it to potentially buy some properties on the cheap. So it's not all bad.

Now, the other parts of commercial you know, the storage units, office space, residential, multifamily, I don't think there's going to be much impact at all. In fact, cap rates might actually – You might see cap rate compression, believe it or not. Why is that? Again, low interest rates. What's happening with this wash of money, you’ve got trillions and trillions of dollars in cash entering the system. When you do that – Money is global, right? This is one of the things where I think it’s helped me be accurate in my forecast as I look at global money.

If you look at what's happening in Europe with negative interest rates, if you’re a pension fund in Europe and you’ve got billions of dollars and the bank wants to charge you interest to keep the money at their bank, what are you going to do? You’re going to pay your bank a few million dollars a year in interest. No, you’re going to go put that money to work. Where are you going to put it to work? Well, anywhere, right? But you can go bay a currency swap and go invest that money in America with a currency hedge and go buy multifamily and get a 2.5% cap or a 2% cap, and you’ll feel really rich.

That money is going to flow. It’s going to flow to America. America is still an incredible investment destination worldwide. Where are you going to invest? Wuhan? It’s just a fantastic destination. We have some of the best companies and best real estate, best financial plumbing in infrastructure in the world, so money is going to end up in America. It’s going to keep prices up. Again, I'm very bullish in real estate. There are some sectors that are going to get creamed, but that’s a good opportunity as well.

[00:15:25] WS: You mentioned earlier a very quick recovery. You even mentioned like by the third quarter. You think it’d be that fast.

[00:15:32] BF: Well, that’s what the banks are predicting. They’re smarter than I am. They look at – Do the bottom up analysis. I mean, it really depends on the virus if this thing does. If you look at China, they really peaked at day 30 and have flattened out the number of infections. If that happens here – We're around day 25 I think as I'm sitting here. If that happens, I think we'll definitely see a V-shaped recovery, and that's what most of the big investment banks are predicting at this point. So that's my best guess too.

[00:16:00] WS: When should we be ready to buy as far as, say, multifamily syndicators in the commercial space like that work? When should we be ready?

[00:16:09] BF: Well, if it's distressed, I would buy now. I mean, what's happening? Even a lot of the prices won't come down, but what's happening is a lot of people are feeling the money pressure. A lot of these big guys, they lose money in the markets. They got to have liquidity from somewhere, so deals evaporate. You'll see funding for existing deals can dry up. This is – Your sellers may be saying this. If your cash flush, you're going to find softness in the space, even in really good deals. I think the time is now and I really do. Certainly, for hotel spaces, I think you're probably at the bottom right now possibly in the entertainment and hospitality space.

[00:16:47] WS: You mentioned that that space is changing so much. What do you see happening in that space or on hospitality within the next year?

[00:16:54] BF: It's a great question, isn't it? I mean, I think people are discovering Zoom. I think people are discovering working from home and shopping for shirts and not pants. Well, office space changes. When you look WeWork and all this whole social working kind of thing, is that going to change? I don't know. It has a good chance of that. I think you'll see more and more people are getting comfortable doing their shopping in Amazon, getting groceries delivered because it's a fundamental change in lifestyle. Even travel may become a little less appealing.

A lot of these things may permanently change like those things. Yes, so maybe people will say, "You know, I'll just work at home. I don't need to go and have my co-workspace. Instead of going out to restaurants, I am going to just do the take out thing and I have a better home theater than I've got a movie theater." We may see this trend change significantly.

[00:17:53] WS: I just see people like almost being afraid, being fearful to be around one another. I wonder how long that's going to last.

[00:17:59] BF: Yeah. Well, we're going to see the end at some point. I think, again, I'm open. We're seeing the turn in a few weeks, mid-April timeframe. That's what some of the big medical research firms are saying. We'll get back to normal. It'll get back to normal. But, again, I'm more about the reprise. What happens if we see a return of this thing as far it's not going to disappear until they get a vaccine for it. So we need to really amp up the testing and be aggressive and when people are tested positive, they are quarantined. That's the only way to contain this. Otherwise, we're going to see part a two of this, which is kind of I think we're going to see – The current stimulus package goes through April 30th. In some parts, it would go out through June 30th. I think you're going to see more stimulus. Hey! It's an election year. Why not have more stimulus, right? Whoever didn't get elected for not having a stimulus.

[00:18:59] WS: You went through the dot-com era. You were able to raise 40-some million, 44 million. Then all of a sudden, it was hard to raise 10 million. Well, us that are going through that now, how do we convince investors like, "Okay, now is the time that we need to be jumping in or need to be investing?" How did you do that down or advice for that?

[00:19:17] BF: Well, then I had to pivot into shifting, because there was no money for tech. No one wanted to talk tech. At this point, we've got a lot of stock market investors that they are shell-shocked. If you've got some landlords or real estate investors who are in retail or restaurants, they're struggling and afraid. So I think you got to convince people that you have a model that is more resilient than that. I think it's a good time for mobile homes or storage units or other kinds of real estate. You can have a real edge where you go or start marketing like crazy to people that are sick of the stock market.

I mean, they went down, what, 30% in 30 days. I mean, that's unprecedented how fast that was. If you're on – I mean, literally, I got calls from people who said crying, "I've lost 300,000 in the stock market. My future is gone." You want to tell them, "Well, you probably made that 300,000 the last year or two, so –" But that's not the way people think.

[00:20:22] WS: Right. The future they had dreamed about over the last year or two, right?

[00:20:26] BF: They're paying for the future. But people are shell-shocked if you can convince them it's safe. Our funds actually, when we publish a quarterly stock price for a share price for our funds and we allow redemptions at that price. For me, I'm just going to put my share price next to the S&P 500 and say, "Which one did I do wrong?" I got liquidity too. By the way, we had no share price crashes. Show things like that to your investors.

[00:20:54] WS: Where are you getting all your media from? Where are you staying on top of all the current information?

[00:21:00] BF: The best financial source is Wall Street Journal. By far, they are the – They have real news. It's real journalism, it's unbiased, and they're doing just a fantastic job. Whatever you do, don't turn on the TV and don't read on Facebook. It's secondhand or third-hand food. Just don't touch it. Get it straight from the source.

[00:21:20] WS: What has this economic turn right now taught you or anything that you didn't expect or didn't know about how you're operating your business?

[00:21:28] BF: Well, having – Me and my partner, having gone through the – He went through the S&L crisis in the '90s, okay. I went through the dot-com crisis in 2000. We both went through the last crisis and we got wiped out. Literally, we've been wiped out I think a total of like six times, so we're pretty sick of being wiped out and we're allergic to being wiped out. So what we did is we built a bulletproof model.

Now, there's no such thing, right? I mean, if a nuclear bomb fell on me, it's not going to be pretty. But beyond that, we've kind of done our homework, and the fun thing for us at this stage is that it's working, right? Our models are very, very robust. We actually planned this out. We're like, "Whatever happens when the next crash comes, we're not going to be the guys at the bottom of the pile." We got – That's why we went into notes. We got on the other side of the debt equation, and so it's actually improving. That's the thing. It just shows you can learn a thing or two. Don't waste a good lesson, right? Don't waste a good lesson. Learn a thing or two and make a change.

[00:22:42] WS: Could you just elaborate a little bit on the bulletproof model and you're into notes and why that's bulletproof now?

[00:22:49] BF: The banks generally make out. If you lose money in your real estate deal, your bank probably didn't lose much money if any. That's the rule, so you want to be a lender, not a borrower. The lenders put such protection in place. You indemnify them. They make money. It's heads I win, tails you lose kind of bank documents, and you sign all that stuff. Well, that's the stuff that I have and that people sign, and so I'm protected. I've got the equity questions. We're the lenders. The borrower has equity in their home, and so there's all these cushions on top of me to protect us.

Then we're earning super high yields. We do that through very good underwriting and a very inefficient product. But we did very sophisticated underwriting and we actually did stress testing. We stress-tested our models. What that means is put your assets on the spreadsheet and run the worst case scenario on it, how borrower's failing this, these kind of things happening, reduction in the prices. We probably pushed on this pretty hard two and a half years ago and completely pivoted our model. We didn't completely pivot. We just began to focus on a different kind of asset. It's much safer assets. We found that we could buy this stuff and still preserve our yields. Again, very inefficient pricing, so we're able to buy it at super good prices and continue to do that, and so we ended up with extremely safe portfolio but it's extremely high yield.

Yes, it sounds too good to be true. Sorry. I'm not going to tell anybody how we do it. But actually, we do. We tell everybody how we do it. We just don't want – We didn't want to get creamed again. We're still making those decisions and planning on these things happening. No one expects this to happen, but I'm watching this market for 15 years. You're at 12 years going up. I know what's coming. I know because nothing goes up forever, so we just got to plan it out.

[00:24:52] WS: All right, Bob. Well, amazing update, and I'm grateful for your opinion and just your expertise that you're sharing on the show. Anything else you want to leave the listeners with about just the economy right now before we have to go, because we're right now out of time?

[00:25:06] BF: Perfect. I would just say this is our finest hour, right? J.P. Morgan made all of his money buying defaulted Russian government bonds [inaudible 00:25:16]. Literally, the Russians said they're not going to pay these bonds, and he went and snapped them all up for pennies on the dollar. Who does that? Well, J.P. Morgan did. Then he lobbied the government to put pressure in Russia and he ended up making a fortune on this. He says the time to buy is when there's blood in the streets. That sounds crude and crass, but he's making a point. Don't be afraid. Don't be afraid. This is an opportunity. If you're on the wrong side of this, I have been there, dig out. But this is the time to look for opportunities.

[00:25:48] WS: Wow! Thank you so much, Bob. Tell the listeners how they can get in touch with you and learn more about you.

[00:25:53] BF: Yes, aspenfunds, aspen like the tree, F-U-N-D-S.us.

[END OF INTERVIEW]

[00:26:01] 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. Subscribe too, so you can get the latest episodes. Lastly, I want to keep you updated. So head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page, so you can talk to me directly. Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

[00:26:41] 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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