EPISODE 645

[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]

[00:00:23] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Noah Rosenfarb. Thanks for being on the show, Noah.

[00:00:32] NR: With pleasure. Thanks for having me.

[00:00:34] WS: Noah helps the rich get richer, so they can supercharge their impact. He started investwithourfamily.com, where you can see the details about the 3,500 plus doors he owns across the country. He's a third generation CPA, founder of a SEC reporting company, figiroyalty.com, that acquires revenue-based royalties in Internet businesses. He is the Chief Investment Officer at freedomfamilyoffice.com, where he advises entrepreneurs with a 20 to 100 million dollar net worth. Noah, thank you again for your time. I'm looking forward to the conversation. I'd love to know a little more about your background, maybe – Obviously, you're doing some different things, right? You're investing in different asset classes. You have 3,500 doors in real estate. I want to learn a little more about this, but tell us a little more about getting into something like that, and maybe we'll talk about a current offering that you have right now and how that came about.

[00:01:33] NR: Sure. I guess, I could go all the way back to being a kid and having Saturday breakfast at my family table and we were talking about money, because my dad was a forensic accountant, and he was always giving us the case of the week, people who were fighting over

money, and what they were fighting about and we got to be the jury. I've always been around this topic of helping the rich get richer and figuring out ways to create value for other families.

I started as a practicing accountant, but I ended up really finding a passion in real estate investing and just investing in general. Throughout my career I've ebbed and flowed, but I do have that registered investment advisory firm called Freedom Family Office. That's been an evolution on that since 2007. Whereas my wife and I started with a two-family house back in 2000 that we bought. We lived in half and rented the other half. That's now grown over time to those 3,500 doors you mentioned.

[00:02:30] WS: Started by house hacking in a duplex with your wife. You were married at the time. I like to say that, because there are spouses – I mean, that will do that. That's not easy. That's not easy.

[00:02:43] NR: No. I mean, she was right for it. Interestingly, her grandparents also lived in a two-family house and they house hacked their way. Now that was the only house they ever owned, but they bought themselves a two-family and their basement apartment subsidized the cost of living for them. She was comfortable right away and her parents encouraged us to take that money that we had and use a down payment.

One of the things that was unique about that transaction, it was a brand-new house, a single-family raised ranch, 225 grand. I got the seller to give us a closing credit, which covered pretty much all of our down payment. We were able to almost finance 100%. We put about 10 grand into the house to put a kitchen on the first floor and essentially, subdivide it into a mother-daughter. We lived on the top. We rented out the bottom.

Within a couple of years, we were able to pull out that equity, rent out that top floor, go buy ourselves our own single-family house that we lived in to raise our kids, before we moved and acquired some more property.

[00:03:45] WS: What are most of the 3,500 doors?

[00:03:47] NR: Right now, we have a focus on 70s and 80s built workforce housing in growth market. We've got about a 1,000 doors in the Atlanta sub-market, another 1,600 doors spread throughout the Texas markets, and then the balance are geographically diverse. Our core focus is what we call the infinite return model, where we're using really high loan-to-cost financing to get the transaction done. Maybe that's going to be 85% of the total transaction value is going to be debt financed.

Today, we're getting that done at under 4% interest. We're bringing in that 15% of the equity along with our operating partner. We like to write the bigger check, let our operating partner put in 5% 10% of the equity, and we come with the rest of the money. We bring our individual investors, the other families that invest with us. The goal then is make our value-add improvement plan, refinance the property, get our initial cash out, still own the property, and still have that cash flow.

[00:04:50] WS: Okay. Okay. Well, I want to jump right in though to this other part of your business and where you are – you're investing in other asset classes. Let's talk about the current one that you have right now, which I'll go ahead and say is a 506(c) offering. We can't discuss it, but I want to talk a little bit about why not just focus on multifamily? Why this other thing over here, but then also just what that is?

[00:05:14] NR: Yeah. I come from this CPA background. I had hundreds of clients. I got to see lots of their financial situations, and real estate is certainly a great asset class for a whole host of reasons that all of your listeners know. Back in 2011, interest rates were down and I had a lot of clients that wanted yield, and we couldn't get it in the public debt market, so we created a private debt fund. We've been managing private debt and funding house flippers, funding purchase order finance, accounts receivable finance. We've had a debt fund going on about 10 years that's designed to generate about a 6% to 8% percent return for investors.

Then I've also looked at other assets, where maybe I could generate higher yields, even higher yields than in real estate. My first Internet startup was in 1999 and it was great fun. Then I came across in 2014, someone who's also been on your show, Ace Chapman. He and I ran into each other. In 2014, we decided to buy some websites together. Websites at that time were trading

for about two times earnings, so you're making 50% on your money if you pay cash, but usually you're using some leverage, generating additional returns.

Then fast forward a couple years, we started a private equity fund, so 506(b) offer, brought in limited partners, raised the capital, deployed the capital over the acquisition of multiple websites, deployed the capital on the fund, but realized that the model wasn't working as effectively as we'd like, and we ended up creating this company called figiroyalty.com.

What FIGI does is, instead of buying a 100% of a website, we work with someone that's acquiring a website and we'll provide them with some of the cash they need. We're providing them with some of that financing to close their deal. In exchange, we're getting a percent of their revenues.

[00:07:14] WS: Wow. Okay. You're not buying the website. I mean, how do you – we probably don't even have time to talk about this in extreme detail, but doing due diligence on something like that, on someone that's buying a website, and you're providing ultimately financing for that.

[00:07:28] NR: I think it comes from experience. Ace Chapman, who's my business partner and has been for a number of years, he's done hundreds of these transactions. He's really my detailed underwriting partner. When I'm meeting with the acquirer, I'm more interested in what's their credit score, what's their education and background and experience and what gives them the capability to take on this asset and operate it efficiently.

He's looking more at the business model, the sources of traffic, the longevity, the sources of income and doing the detailed underwriting of the asset itself. Together, we make a great team. If you on average over time are buying assets that typically trade for anywhere from two to three and a half times earnings, it's a lot different than buying properties that are trading at 17 to 22 times earnings. The cash flow just becomes much different day one at closing.

[00:08:25] WS: Are there an abundance of investors that know about this type of opportunity, as far as –

[00:08:30] NR: No. That's part of the reason maybe where the multiples are where they are. We're the first SEC reporting company that's really focused on providing this type of revenue, royalty financing, for Internet-based operators that want to do an acquisition. It's super exciting for us. It's nice to be a pioneer, but also, there's a lot of learning lessons along the way.

[00:08:54] WS: Yeah. Let's talk about the current opportunity that you have going on. I'd like for you to back up a little bit about what it is and then let's – how it changed a little bit. You shared just a little bit of that before we started recording.

[00:09:05] NR: Yeah. FIGI Royalty is now doing a fundraise with a 506(c). It's my first 506(c) that I've ever done. I've done lots of 506(b)s. I've managed three private funds, one is that debt fund that I mentioned, another is the private equity fund that I mentioned with Ace, and then a third fund which was a real estate fund. Certainly, we've done a bunch of direct syndications of individual real estate deals.

This is the first 506(c). Couple reasons why we did it, but it's new and exciting for me to be able to talk about something that I'm working on in real-time and potentially attract a new investor to a concept that they wouldn't have heard of if I didn't have that opportunity.

[00:09:46] WS: Okay. It didn't start as a 506(c), right?

[00:09:49] NR: No. We started the company with our private equity fund investors. We gave them the option to invest in the company when we fully deployed our fund. We said, "Hey, look. We're going to create this new structure. It's a C corporation, happens to be a C corporation that's based in Puerto Rico. There's some tax incentives around that." We allowed them to invest. In the first round of financing, we acquired a couple of royalties, we've put our business in a position where we could actually go public. We filed with the SEC. We've been SEC reporting for a couple months and we had an S-1 registration, which meant that we were going to offer shares to the public and then coronavirus hit.

As a result of coronavirus, many of the state agencies where you'd have to file a blue sky filing before you solicit, even though it's an IPO, before you solicit you've got to register in a estate. That process became manual for a lot of states. As a result, we were just tied up in this waiting,

waiting, waiting. One day, I was reading Hunter Thompson's book and he was talking about the 506(c) and I asked my lawyer, “Hey, if we do a 506(c), could we register with the states only after we raise money?” He said, “Yeah.”

We pivoted. We pulled our S-1 registration, we put together our 506(c) offer, which is live now. It's at figiroyalty.com/investors and people could watch a 20-minute video about our business model and how it works, they could see our PPM. That's pretty cool for me. I’ve never had the ability to share that type of information with the general public.

[00:11:29] WS: The biggest reason to go 506(c) is so you can register with the states after?

[00:11:35] NR: Correct. Because from a timing perspective, we had to pre-register with the states and they weren't accepting registrations. Now if we could post-register with the states, we could do our fundraising, we could start gathering our capital, start collecting the documents and then when the capital comes in and we counter sign, then the clock ticks 14 days until we have to file in that state. Now the states are starting to reopen and we had to make this decision probably four weeks ago to make that pivot.

[00:12:07] WS: You mentioned going public. We hear that term, but what does that really mean?

[00:12:13] NR: In this instance, the intention is that once we sell this 506(c) offer, which would be called the PIPE, which is another term that some people maybe haven't heard of. It's a private investment in a public entity. It's accredited investors only, hence the 506(c). They're making their investment. They're buying shares at $6. Then we'll register those shares with the SEC. That's what making them publicly available and publicly tradeable. Then there'll be a secondary market where a market maker will be able to sell any individual shareholder stock through the public markets.

Now this isn't a Nasdaq or New York stock exchange listing. This is an over-the-counter listing. There won't be a lot of trading activity. This isn't a get-rich-quick opportunity. You can't buy them for 6 bucks and expect to sell them for 10 the next day, but it does provide an opportunity for buyers to eventually have liquidity through the public markets.

[00:13:14] WS: Elaborate a little on an S-1 registration. Who needs that and when would you get something like that?

[00:13:22] NR: This process of figuring out that we did want to take a company public started in probably 2017. We formed the company in 2018. It's taking us, by the time our shares are listed and people have them and they could look at it on their phone, it'll probably be a two-year process. This was nothing that I expected in some sense, but there's a reason that most people don't take their companies public and that's the cost and the complexity.

You have to have audited financial statements. You have to have quarterly financial statements. There's a lot of filing requirements. There are a lot of legal requirements. The fees tend to be pretty significant. On the low-end, you're looking at $200,000 to $300,000 a year worth of compliance costs.

[00:14:08] WS: $200,000 or $300,000?

[00:14:10] NR: Yes. For a lot of people that go a more traditional route with investment bankers and big public auditing firms, you're going to spend probably closer to a million dollars a year in compliance.

[00:14:23] WS: I had no idea that it would be that much.

[00:14:25] NR: The flip side is that public market's value cash flow vary differently. When you look at the price-to-earnings ratio of the S&P 500, the 500 largest companies in the US, let's just say on average, they're trading about 20 times earnings. Obviously, real estate's trading at about 20 times earnings as well if you think of most properties at a five cap, but businesses that were acquiring, they're trading at three times earnings on average, so that's a 33 cap. It's three times earnings. It would be buying a property at a 33 cap. Totally different economic situation.

There's some arbitrage that can be had between the private market valuation and the public market valuation of persistent cash flow. We're willing to invest this $200,000 to $300,000 a year

of increased compliance cost, because we think it'll create an opportunity for us to just exploit that arbitrage opportunity in the marketplace.

[00:15:37] WS: Let's dive in a little bit to this type of opportunity that you have. Maybe you can elaborate on some of the details, and then maybe we can go into also some of the questions that investors should ask an operator, like yourself, when reviewing an opportunity like this. This is different than – I don't think anyone on the show has ever mentioned any opportunity like this. It's very interesting to me and I know it is the listeners as well, but just to help them as investors. I know many of them are passive investors. To help them to know what questions should we even ask? Give us some details first about this type of opportunity.

[00:16:15] NR: Sure. Again, we're investing in Internet-based businesses, so these are cashless businesses, where all the income comes in through credit cards, or affiliate income. This isn't someone standing at a register taking money. They're all cashless businesses. They tend to be operating for at least 18 months profitably. They've been around. They've proven that there's a way for them to consistently attract traffic to their website, and to convert that traffic into revenue, and for that revenue to actually be profitable.

We don't we don't buy businesses that are high-growth like venture capitalists, where they're investing money now for a company to potentially make more money in the future. Even though Uber is worth 60 whatever billion dollars and it's never made a penny, that's not really our marketplace. We want to find that small, typically lifestyle entrepreneur-led company, where that entrepreneurs may be making $150,000 to a million and a half dollars a year, and they might have a team. That team may be mostly virtual. They may work in different countries. Nobody is necessarily coming into an office from 9 00 a.m. to 5 p.m. on Monday through Friday to make this business work.

We believe that that is the future of commerce. That is growing. It's been growing for the last 20 years. We think it's going to grow for the next 20 years, so we want to plant our flag in a variety of these businesses, build a diversified portfolio, where we're not relying just on Amazon, we're not relying just on Facebook, we're not relying just on Google. Although many of the companies that we acquire might have a heavy reliance on one of those types of businesses. When we build out a pool of them, we're diversifying our risk.

We're essentially saying to an operator, “Go buy that business for a million dollars.” Maybe the seller is going to finance 400,000 or 500,000 of that purchase price, and they're going to get paid out of the ongoing cash flow from that company, so we know the seller's got some skin in the game to make sure that they're not just trying to run away from something that's going to go wrong.

The other let's say $400,000, $500,000, $600,000 that the acquirer has to come up with, they have an option to get minority equity partners, or raise LP capital, but then they've got to worry, if they go to a conference and they fly first class, or they take some friends out to dinner and order an expensive bottle of wine, how are their limited partners going to feel about that? How are their minority partners going to feel about that?

With us at FIGI Royalty, we're top-line only. Spend whatever you want to spend, we're going to get paid just on the revenue that comes into that business. Then the other unique thing about our business model is what we call our aligned incentive model, is as that business owner scales their revenue up, our royalty goes down as a percentage of sales. While we may generate a 30% return on the invested capital that we have if they don't grow the business at all and that might be, let's just say 10% of sales. If they grow their sales above the current mark of where the business is doing revenue right now, maybe our revenue royalty goes down to 5%.

If they grow it even farther, maybe we're just down to one penny on every dollar. Each of those pennies adds up to us as a greater IRR, so we're really happy. The owner that had us come in to help them finance the transaction, they don't mind so much having us as opposed to a minority investor, because our percentage keeps going down. If they had a minority partner that they'd be just taking as much as they can off the table, the same way that the owner is.

[00:19:59] WS: Well, give us a couple red flags, or a couple questions that investors need to know about when looking at an opportunity like this, before we have to move to a few final questions.

[00:20:08] NR: Opportunities like this, investing in a company that's SEC registered, that's going to list shares for registration, it's a highly volatile market, so these micro-cap public

companies oftentimes are worth zero. Or they succeed, but there's very little that's in the middle. This is a very risk-on capital investment. I've been telling my friends and family, "Don't invest anything that's going to cause you to not want to see me at a family dinner." This is high-risk, unlike the real estate deals we do, where of course there's risk in every deal, but I'm not so worried about losing all my money when I buy a 150-unit apartment complex.

Here, it's a little bit different. I think one is making sure that any investor, whether it's our deal, or another deal, that has this model of a direct public offering, that they know what they're in for. That there might not be liquidity, even though there's a secondary market. Then like any business, it all comes down to the people. If you're investing in good people, then hopefully if things don't go perfectly according to plan, they'll be able to figure out an alternate path to create value and you want to be sure that you know who you're investing with, you understand what they've accomplished and you can see the future that they're trying to create.

[00:21:36] WS: All right, Noah. What's been the hardest part of this syndication journey, or business for you?

[00:21:42] NR: Hardest part is finding the right deals. I put my money in first and I'm a pretty conservative investor. I like to usually hit singles and doubles. This FIGI Royalty business is the first home run swing I'm taking since 1999. It's atypical for my types of investments. Finding the right deals, especially in this environment, where we could come into that value-add workforce housing deal, go in with high loan-to-cost financing, refi in 12 to 18 months and get our capital back, those deals are hard to come by.

[00:22:16] WS: Let's use the Internet-type business. Tell me a little bit about how it performed during, or maybe the COVID pandemic, or maybe how you prepare for a potential downturn like that?

[00:22:30] NR: Yeah. It's interesting, because these businesses tend to be remote-based businesses. The good news for most of these operators is they didn't have a change in that workplace environment. A lot of them were using Zoom to schedule meetings. A lot of them were using Teamwork and Asana and Basecamp to manage their projects. They weren't used to all being in a same location at the same time to get their work done.

The other thing is we've had a lot of businesses. One of our royalty investments is in a toilet company, of all things. As there was this run on toilet paper, people were looking for bidets. That company performed really well during that downturn. Another asset that we owned booked hotel rooms and we received commissions when people booked hotel rooms. That business died. For every great story, maybe there's the flip side of the coin as well.

If we think about the next 20 years, is more commerce going to get done online remotely versus on-premise in a retail location? I'm making my bet that the future's on the Internet, not at the retail shopping center down the street.

[00:23:40] WS: What's the way you've recently improved your business that we could apply to our business?

[00:23:44] NR: I think this 506(c) offer is way underutilized and way under-talked about. The real delta between the 506(b) and the 506(c) is the accredited investor confirmation process.

That's not very significant and I haven't really been able to see any other substantive differences in the way that the paperwork was completed, or the way that I'm going about speaking about it, or marketing it, other than now I could talk about it publicly with people that I hadn't met before.

I see all these tremendous advantages without any real significant downside.

[00:24:22] WS: What's your best source for meeting new investors right now?

[00:24:25] NR: Facebook, LinkedIn, social media, pretty prolific. I post about all the things that I'm interested in, which is wealth and taxes and real estate and family and lifestyle, and through that, I've met a lot of new investors. It's surprised me when somebody sent me a 150 grand and I'd never met them in person, but it's happening more and more. I think it's just the byproduct of the same thesis that I have, that consumers, wherever they are, whatever they're shopping for, whatever they're looking for, there's enough information online for them to get comfortable making a buying decision.

They don't need to physically touch the merchandise anymore.

[00:25:04] WS: What's the number one thing that's contributed to your success?

[00:25:07] NR: Learning. I'm always learning. I've got a real open mind. I never want to be right. I always want to learn something new, and strong convictions weakly held.

[00:25:16] WS: How do you like to give back?

[00:25:18] NR: My wife and I are pretty active in our community. Philanthropically, we have a family foundation that we use to support initiatives locally. We focus on Jewish causes, education, and food security. Those are the three primary impact areas for us.

Then on the time side, I tend to keep my Monday through Friday from 7:30 to 9 open, to take all of those, "Hey, Noah. I want to pick your brain type phone calls." I schedule them when I'm out for a walk and I get a dual purpose of getting in some exercise, some fresh air, and helping someone that needs a little mentoring or coaching.

[00:25:52] WS: Wow. Well, Noah. Thank you so much. That's incredible. Appreciate you giving back in that way. This has been a great show. You've provided tons of value about lots of different things that are – a few things we've never talked about on the show before. I'm grateful for that. Tell the listeners how they can get in touch with you and learn more about you.

[00:26:10] NR: Sure. I would say, visit me on LinkedIn. That's always a great source. You could find me, just my name, Noah Rosenfarb. There's not too many of us. If you wanted too, you could check out our website, Invest With Our Family. That's our real estate syndication platform. FIGI Royalty is where you can learn about our royalty platform, and then Freedom Family Office is our family office business for ultra-high-net worth, very successful entrepreneurs that are looking to convert their net worth into passive income and a fulfilling life.

[END OF INTERVIEW]

[00:26:40] 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]

[00:27:20] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by LifeBridge Capital. LifeBridge 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. LifeBridge 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

[END]