

EPISODE 725

[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]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Aaron Wolko, thanks for being on the show Aaron.

[0:00:33.2] AW: Thanks for having me Whitney, it's a pleasure to be here, a pleasure to speak with you this morning.

[0:00:37.1] WS: Yeah, you as well. Aaron has over a decade of experience in the capital market's field. He started his career as a tech analyst in Australia, after advising Fortune 100 companies there. He went on to manage portfolios at hedge funds and venture capital firms on the east and west coast in the United States.

He now finds himself financing commercial real estate deals ranging from one to 100 million dollars all over the US for a company called Eastern Union and I would imagine many of the listeners have heard of Eastern Union. And so we're grateful to have you on the show Aaron and maybe shed some light about financing. But then we're also going to hear more about some of your just experience before Eastern Union, before getting into financing and how that can help us as well.

Interested in that — but maybe you can fill in some of those gaps now and how you got into this business and then let's dive in.

[0:01:29.2] AW: Sure Whitney, I started in finance when I was a teenager, already, I was trading stocks. I used to use my mom's trading account, I had a little bit of money, birthday money I saved up. And I would leave school, ditch math class to go and trade what is essentially LTT stocks, penny stocks in Australia. I definitely had a good few days doing that, till today, some of my fractions are a little off because I missed some important classes in, like, ninth grade math. But no regrets and after I left school, after I finished school, I got an internship at Credit Swiss and I spent some time there as a tech analyst. And I would sit with boards of ASX companies, which is the SMP 500 in Australia.

Those were multibillion-dollar companies and I would look at their earnings over the last quarter or year. And what I noticed was that their mobile application platforms were gaining steam. But they weren't allocating any resources to it. I would sit there and drill the executive chairman of the company, running this multibillion — I'm like a kid, you know, who knows how to read a balance sheet and I would drill them and saying, "Listen, you have to invest more capital resources to your mobile app facing the client."

"That way, when they come to use your service, whether it was a gambling service or hospitality, anything that we were doing that was tax-facing, they would be able to do that seamlessly on the phone." And this is — remember, this was '08 when the iPhones just came out so they weren't even thinking about this. They ended up allocating resources and those companies ended up growing by billions in market cap over the next decade or so. That sort of was my early exposure to the capital market and I moved over to the States and started working for hedge funds and venture capital firms. And now I'm with Eastern Union, financing real estate deals all over the country.

[0:03:19.6] WS: Nice, well, let's talk about financing real estate deals for a minute. I want to hear more about your background and how these things connect. And just thoughts that you have on that but maybe we can talk about some current market stuff as far as financing. I know the listener's wondering, you know, about that, what's happening, what's expected to happen, some of those things. Just on the current environment that we're in, especially from an expert from Eastern Union like yourself.

You know, why don't we just jump right in to — what do you see right now as far as financing specifically multi-family? What are some things that the listeners should be thinking about or maybe even things that we should be doing differently now than saw we did six or eight months ago?

[0:03:56.7] AW: Right, I would say the first thing is that hospitality's out the window for now, that's the word on the street, unfortunately. And this is a firm — Eastern has done very large hospitality deals in the past. We've helped out clients buy hotels and casinos and stuff like that. To have that revenue stream completely off the table is tough but I'm personally optimistic. I just vacationed in Miami Beach last week, for my anniversary, and we saw the hotels that were over the weekend with relatively full capacity, relative to what the county allows.

I think hospitality is gaining steam and I myself am working on a few hospitality deals. Some in the 10 million range, some in the multi-hundred million dollar range. And I think that by the time those deals close, we'll already see that COVID has passed. That's some hospitality side, on the multi-family side, the one thing that investors have to think about today is bringing you more equity to the table. On an average multi-family deal, you know, relatively stabilized, at 90% occupancy, an investor could have bought 15 or 18% cash down.

We could have financed it in an LTD of about 82 and a half or even 85 on a really good day. But now, banks aren't considering anything above 75% — and even that, you have to twist some arms to get to it. The first thing I tell my clients when they come with a deal they are on contract for is — do they have that first 25% lined up? Are your equity partners committed? Are you syndicators committed to putting that money down before we can get the process started? Otherwise, I'm just not going to spin my wheels.

On the raise side, on the other hand, we're seeing rates lower than ever, right? We did a refi recently in DC at 2.6%. Was seeing Fannie Green deals going at 2.9% on 25 million dollar acquisitions. So we're seeing some of the cheapest money that I think anybody has seen in our lifetime. I know in the early 90s when I was born, my parents told me they were owning interest on their account, 17% in the early 90s.

So I can't imagine what you were paying for money in that time but it definitely wasn't a flexible market for the average real estate investor. You had to come with deep pockets behind you. Nowadays, just about anybody can take that cheap money, your rent roll, pays your interest and then some, and you can build up an empire if you get started today. It's a real good time to be in the market and things are only getting better, right? We work with a few hundred banks around the country, we have a few departments, meaning, a few different officers who spend all day establishing relationships with banks.

Every day, we have emails and calls from banks saying, "In this market, we've opened up this kind of deals, tell your clients to send in their deals." We're closer to over 150 banks so far. This year. I believe that number is accurate, give or take 10 or 20. And you know, every day more and more lenders are coming and saying, "Well look, this employee fund, they've been sitting idle, gathering dust long enough, let's get moving."

[0:06:43.5] WS: What's your expectation for rates over the next six months to a year?

[0:06:48.9] AW: I reckon they're going to stay low, you know? I could tell a client, "Hey, there's a risk that's going up, so get in now." But realistically I think Trump stays in office, you know, and his relative control of the power — who controls the rates, I think they're going to stay low. Could they go any lower? Possibly and definitely in economic classes, we heard about rates going lower than they are today. And theory, in practice, I don't think we've seen it for a long time but maybe they could but I think for the next six to 12 months, you're pretty safe with getting low rates.

There's no absolute urgency. But now is the right time to be fielding offers, putting out there and getting your business moving so you have positions right when they do go up again.

[0:07:29.3] WS: Talking about getting your position right or, you know, your business in the right position. Any thoughts on that as far as what an investor should be doing right now? And just compared to what you see, see happening or coming over the six to 12 months outside of rates.

[0:07:44.6] AW: My smart clients are aggressively buying at the moment. And my gutsy clients are building at the moment. And that's something that we should think about. I don't know how

many of your listeners are out there actually developing properties — that's a whole other ball game. But the clients I'm working with are in contract two, three, four pieces of land, shovel ready, we're just getting the financing in place and the equity. Some of them we've got in a whole capital stack taking care of by hedge funds. Some of them are working with private equity guys and then on the finance side, the desk side, the way they see it is that — "I put the shovel in the ground today, I build in 24 months, my 40, 50 units are ready." And by then it's totally forgotten and everything's back to normal.

Those people with those long term visions are the ones that were successful in '08 when the market came down, the people who said, instead of being fearful now let's act now so by the time I'm ready for you to dispose of these assets or start renting them out, the market's affecting and that's exactly what happened.

It's very easy to get fearful and to pull back in your operations and sit at home twiddling your thumbs. But I think the real smart guys are being as active as possible right now, trying to grab good deals and positioning themselves for 2021, 2022 when everything's back to normal.

[0:09:02.6] WS: Long-term vision, that's interesting you mentioned that. And say, those guys are the ones that are going to be successful, we've seen it in the past, you know, as well. You know, instead of panicking and wondering just sitting on the sidelines, right? I mean, they're very active in staying in the market right now.

You know, you've had so much experience, right? I mean, in venture capital, different things before coming to Eastern. And in finance, specifically, you know, tell us a little more about just how those things merge, what that looks like and I'd love to learn more from just all your experience even before Eastern?

[0:09:33.3] AW: Sure, just to give some background, I started, already at the hedge fund I was working at in New York, it was called Darling Capital. We were investing, we were doing pipes. We were investing in public companies in the OCC and we would take a discount of the shares, we would take real companies who had real operations and you know, it exposed our clients to a huge upside, we hit 20x on the deal.

It was a hedge fund investing in the public market primarily. But we had venture capitalist returns. And then I went to work for an actual venture capitalist who is in FinTech, the FinTech space. And as a result, I established a roll of clients who had the risk, at the time, for venture capitalism. So a lot of them are actually real estate investors already.

They own a building up to, where they're invested in portfolios. And then they had the disposable income that they say, "You know, here's six figures or even seven figures that I really don't mind losing. But I would love to make 20, 30x on it," you know? Really be able to retire on a yacht. You know, "Do what you can with it." And now I'm sort of the other side, I'm with real estate guys who — they like the safe brick and mortar returns. And yet, you know, a part of them also have the appetite for something more interesting.

From my venture capitalist days, I still consult with some of those firms and most recently, I was fortunate to allocate some funds of my own clients, into Space X through a fund I consult for and into Robinhood for a fund that I consult for. I believe their IPO for the next year — I think that's public information.

For your listeners, right? The real estate syndicators, you have investors, they're probably on your speed dial, I don't know if speed dial exists anymore. But they're definitely on your top 10 Whatsapp, most reached out to. And those guys trust you, right? When you come to them with a deal, they trust that it's a good deal. They're going to get 18 or 20% cash on cash. And you know, they wire you money because they trust you, because they trust your judgment.

I think if you open yourself up to more extensive alternate deal flow, like private equity, you know, reach out to some venture capital funds, see if they have anything interesting. Or the secondary funds to have access to those really cool companies. I think that could be a really cool second stream of revenue for you. To sort of get access to those deals, reach out to your investors and say, "Hey, I know we did a real estate deal last month, do you want to do a Neurolink deal next month?"

I think that will really — I think you've already gotten them committed to you as a person, if you've already given them a couple of good deals. It can really help establish your reputation as someone who not only just does real estate which is not cliché but is very

standard. Someone who I can actually, I can go through all my investment needs and all my financial advisory needs.

[0:12:12.3] WS: Yes, that's an interesting topic because even in within Life Bridge Capital, you know, our team has discussed this exact thing in saying, "Okay, you know, are we going to, thinking long-term, are we going to be the expert in multi-family and just focus on that? or are we really going to build a platform here where investors can diversify at a different asset classes and have an expert in numerous different asset classes."

You know, I think that's really where we want to be. We want to be kind of an all-in-one shop for an investor. And it's not that I'm going to be the expert in the asset class but our team can be. You know, as a whole and provide other opportunities.

Are there examples of the ways that you've seen other groups do this well, you know, that are just standing out amongst everybody else where they really position themselves to be experts in numerous asset classes or other, even non-real estate stuff.

[0:13:03.3] AW: Eastern Union is a great example of a company that does everything in real estate. Because we have different departments. If I bring in a deal that is not multi-family, we'll still get it done, right? It might be a healthcare deal and assisted living facility. It's sort of borderline multi-family and healthcare. So we have an entire healthcare department. These guys have been in there for over a decade, they financed north of a billion dollars at healthcare deals. And they know the business back to front so I'll say, "Let me get my healthcare specialist on the line."

He'll get on, he'll understand it perfectly and he'll go and get on about how to run that deal. And we do that with everything. We do it with our small loans department, we go with warehouse, industrial, SFR portfolios. And recently, we've even opened up, this happened this week or yesterday I think, a real estate brokerage firm. So often, because of our extensive contacts, we have guys saying, "Look, I want to dispose of this property, I'm willing to buy a property here, do you have anything?" And the answer is yes they would have been, "Yeah, maybe I'll hear something. but it's not my bread and butter," you know? I have to focus on financing real estate deals, not finding new real estate deals. I'm talking about license to broker real estate. So you

know, you'll have to go somewhere else. But now we can say, "Well actually, there is a guy in the company or a team in the company that will actually do that. So let me pass you on there, here is his information. Give him a call."

And he'll find you a buyer to sell. Eastern is a great company in that sense where everything is perfectly streamlined, really great management team. And really smooth backend operation. That is something I have never seen before. And I have been doing this over a decade. But then you have venture capital funds who have similar things. They'll take a tech team, a bio-pharmaceutical team, and, you know they're completely separate but they'll sort of share a deal flow.

But they each one focus on their own expertise. So I would say, someone like Life Bridge, you say, "Hey, we're looking to these kinds of deals. We want to get into the healthcare space. Let's hire a healthcare specialist." Someone who has been doing it a few years, has a good reputation who can field these kinds of offerings. And you can elevate him to a key position in the company and he'll focus on all of the health care. For example. So I think it is very doable for anyone who is already a trusted financial adviser.

He's already managing money, you just have to make sure you have the right people in place because you don't want to shank the opportunity.

[0:15:16.4] WS: Love that. It is about building a team of experts, right? It sounds like that is what Eastern has done and other groups as well because we do want to be experts in numerous asset classes, different investment opportunities. But I can't always be the expert in all of those, right? I don't expect to be but we want to have those opportunities for our investors as they have them and provide other opportunities so that is interesting.

And just really thinking of ourselves as a financial adviser or just somebody that we have a lot of trust of the investors, obviously if somebody is handing you 50,000 to a million dollars or whatever their investment may be, you know even if they're a multimillionaire, they're handing you \$50,000. That is still a lot of trust, right? It is a lot of trust and so presenting them with other types of opportunities is maybe a good option and just thinking outside the box.

So Aaron, what's been the hardest part though of this real estate journey specifically or into the commercial real estate now for you?

[0:16:07.3] AW: Ooh, at the risk of sounding facetious, I actually say it hasn't been too hard. You know I guess the toughest part on my end is flimsy clients, I would say. Which maybe is not politically correct but when someone brings me a deal and they say, "Hey, I need a financier. Who's got me a good offer?" I am spinning my wheels. There is a lot of effort that goes in underwriting the deal, finding the right banks or lenders for it. Getting on the phone with those banks and selling that deal.

And I come back with a good offer. You know, unless there is a very good excuse, I think the client should be — and everything is going smoothly, really the client should be taking that deal because I know there is nothing better on the market. And never have I seen a client come back and say, "Oh you bought me this? I've got somebody better" and that deal actually closes.

What usually happens is, "Oh that is a nice term sheet, someone else offered me a better term sheet." And then I say, "Okay, that's cool. You know, I will catch you on the next one. I want you to take the best offer that you have." And then they'll call me a month or two later and say, "Oh that deal actually never went through. Can I get that term sheet back?" And at this point, it is a renegotiation. Actually the bank has already forgotten about that deal.

The rates and terms may have changed and now they know that the borrower is a little more desperate. So, I think when you have a solid offer on the table from a firm like Eastern Union, which has the reputation that we have — 20 years in the business to closed over \$30 billion in financing. We closed 5.5 billion last year. We offer equity and debt. I think when a company like Eastern Union offers you a term sheet and it's good, you take that because Eastern Union will take you to the finish line.

I think if a different kind of broker, who is maybe running a small shop and is confident they can get it done. But at the finish line is going to fail. But if the right team is a little bit better, I think there is a reason that you got to have a better offer. Because actually it is not going to get to the end. So I think, stick to the reputable teams. It doesn't have to be Eastern but obviously I would recommend coming for me. You can find me on my LinkedIn page under my name.

You know at Eastern if you give you a term sheet it is going to go to the finish line. So you know, bear that in mind when you're working with a reputable firm on reasonably-sized deals.

[0:18:02.8] WS: How do you like to see investors prepare for a downturn?

[0:18:06.1] AW: Wow, who prepares for a downturn you know? I used to say — yeah well, everyone is so optimistic, which is a good way to be. And something like the downturn we have seen now is the black swan event, if I've ever seen one. You know, how often does a global pandemic come around? Once a century or something. So it is something that our parents haven't seen. Something our grandparents haven't even seen, on this level.

It's very hard to prepare for this unless you are deep in the history books and have some kind of crystal ball. But you know, at my hedge fund, I used to say, "Joe [inaudible] — you know, we are doing all of the trading, we're doing all of this investing. We need a short button. I want a red button, which is ready to short market as soon as we see things going sour." So, you know I would maybe suggest, which is — this is pretty wild advice — I would suggest to your average real estate investor to take that 5% of their income of something and put it on shorts on the market, in case everything comes down.

In case the Dow goes from 30,000 to pre-Trump numbers, to like 18,000. Which we saw it happening, just about, in March or this year. You could have made a killing on that short. And, you know, if you didn't collect rents for a few months, which I know a lot of people are struggling with — collecting their rents, you know that kind of supplemental income could outweigh that loss. So I think always being ready for a downturn, you know, if you don't know how to short a stock go on Robinhood or Google it.

Pretty straight forward, shot the market. I am not saying to short the market, by the way. I am saying be prepared to put some of your income to show to the market so that if there is a downturn, you can supplement your income.

[0:19:40.4] WS: What's a way you have recently improved your business that we could apply to our business as well?

[0:19:45.6] AW: Outreach I think. I recently got very active on LinkedIn, which you may have noticed. Have been on LinkedIn for years, I never really used it. So months I wouldn't go on it. And that's because there wasn't much for me to do there. But now, when I know a lot of my potential clients are on LinkedIn, what I'll do is, I will post things that aren't necessarily business related. And not necessarily multi-family or real estate related but I know that my name and my tagline — what I do, which is financing real estate deals, will pop in their feed. And there's thousands of people, sometimes 10, 20,000 people see those posts. So I don't have to reach out actively to every person on LinkedIn and say, "Hey, I finance these real estate deals" because no one likes to be pitched on LinkedIn or in general in life, right? You want to establish relationships. But I want your eyeballs.

I want to get in front of you, you know, spread the net as wide as possible, and I want you to know that, "I am here. I exist and I can finance your real estate deals," you know, "Whether it is a million dollar deal or a 500 million dollar deal, I am going to take a look at it. Underwrite it and see if we can find the right lenders for you." So I think for those who are looking for investor syndicators, who want people, I think you should get on LinkedIn. Get in front of high net worth people, putting your tagline that you take \$50,000 for real estate deals, something that is simple as that.

I take your \$50,000 and invest it in real estate in high return, make that your tagline instead of some fancy CFO chief or executive chairman at whatever your company is called. Tell people what you do and then get in front of them and post personal stories, jokes, funny pictures, meaningful things. You know you can go and see my LinkedIn and see what I write about. There is a good mix of everything and you know I'll wake up on a Tuesday morning and there are two or three deals waiting in my inbox.

You know one of them is a very real deal. So I think that's a really great method to get out in front of people and that's something that has made my life a lot easier instead of the regular cold reach out. There's a lot of people in this business too. I put myself in front of a lot of people and let them come to me.

[0:21:43.0] WS: What is the number one thing that's contributed to your success?

[0:21:46.0] AW: I would say all of my success is because of God, the one above, you know? I know it is a bit of a cliché answer but I think, with any success story, comes a fair amount of luck or as we call it *mazal*, you know a flow of goodness. And I am very optimistic about everything. So I wake up in the morning even if I am not feeling great, I will tell it to myself that “It is going to be a great day.”

There is good stuff coming and going into life with that positive mindset. And studies have shown that you know a positive mindset with a real positive feeling, literally creates the positive reality around you. So you know it is definitely the positive mindset, going into everything without doubt or fear. You know I have no fear that I am going to lose the deal. I have a 100% certainty and confidence that when I take a deal through a bank, they’re going to come back with a term sheet. The client is going to sign it, we are going to get it funded in 60 days.

And there is never even a shadow of doubt to poison that deal. And that’s the way it usually goes. And if it doesn’t go that way, so be it. Then we’d be able to move on to the next one. But along that process is always confidence, assurity, and faith that everything is going to be fine. So I think a positive mindset in everything we do, and just having those fears, reach out to anybody. Reach out to Bill Gates if you want, I don’t care. Reach out to Warren Buffet, Elon Musk, see what happens.

They don’t respond to your email, the best case scenario, you are an executive vice-president of their company within a couple of years. So you know you have one life, live it. Don’t be fearful and you know go into everything with faith and positivity.

[0:23:11.5] WS: Great answer. How do you like to give back?

[0:23:14.2] AW: So yeah, I definitely do not like to publicize it but, you know, I am Jewish and in Judaism, as well as many religions we’re actually obligated to charity. So I give 10% of all of my earnings, off the bat, to non-profits, sometimes more. Sometimes I’ll make a deal where it’s like, “If this deal goes through and closes — this huge deal I am working on, it is going to be 20% for charity.” And those are pretty big numbers, you know, at the end of the day.

So just about any friends that reach out to me with a charitable cause, and I have a lot, and I even work with no-profits, you know pro bono. If they call me for donation, no one gets to know. You know the size may vary but just about any non-profit that reaches out, and as soon as it is something that I believe in is going to get a hand out. I might even get a monthly commitment from me. So I believe that not giving is like a cow who doesn't give milk one morning.

You know that is the natural cycle of the universe. You know, the cow is fed and then it gives milk. And then it gets fed again and it gives milk, right? And this is the old days when you used to have a cow in the backyard and that is where your fresh milk comes from. So I believe we are not very different. We earn money, the coin comes into us and then some of the coin has to go out. And that's that cycle and revolutions. So be charitable, be giving and you will see the universe gives you a hell of a lot back when you're generous.

[0:24:26.5] WS: Aaron, I am grateful for how you give back and just your positive mindset every morning I think that is a great reminder for each of us. But I am just grateful for your time today and going through financing, you know what it was and what it has changed into now. And things we need to be thinking about there for rates and just some of your clients are doing. Whether you call them smart and gutsy, you know, different types of clients that are in the market right now and still making things happen.

And having that long-term vision. I think it is so important but also helping us think outside of real estate potentially as well. And about having other things to offer our investors and just really seeing ourselves as more financial adviser. Because we have so much trust of our investors as well. So I am grateful for your time. Tell the listeners how they can get in touch with you and learn more about you.

[0:25:09.0] AW: Yes, so the best way to get in touch is you go on LinkedIn, Aaron Wolko. You could see my name is spelled. And, you know, PM me. Add me, PM me, I will usually respond within a day. If I am on vacation, one of my team members has access to my account. So something will be set up and the syndicators, most importantly, I know you had Cameron recently and I just like to talk about Park Place Investment for a minute.

You know we got an online platform now, it's essentially an information bulletin board. But that will evolve into other things eventually where anyone looking for a syndicated deal, if you have a real qualified deal on your hands, send it to me. I will underwrite it, we'll get it out on the platform where we have access between Cam and his partners and myself and my team. We have access to hundreds, if not thousands of high net worth real estate investors.

Who can't run deals themselves because they are busy, successful guys. They can't, for example, their position — and one of my investors is a brain surgeon. He earns almost \$2 million a year and so he has a lot of disposable income. And he wants to put that in safe, high-return investments. So they will have a look at this platform. They will filter it out to the deals they like the most. And they will reach out to you and could invest five, six, maybe even seven figures in a deal that you are looking to raise money for.

So feel free to checkout Park Place Investments and good luck there. I think we are adding a lot of value to the market and especially the syndicators.

[0:26:34.1] WS: Awesome, that is a wrap Aaron. Thank you very much.

[0:26:37.0] AW: Awesome Whitney. I appreciate it. That was awesome.

[END OF INTERVIEW]

[0:26:39.5] 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]

[0:27:20.4] 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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