EPISODE 820

[INTRODUCTION]

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

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:23.9] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Tracy Hubbard. Thanks for being on the show, Tracy.

[0:00:31.6] TH: Thank you for having me. I appreciate it.

[0:00:34.8] WS: Tracy is a real estate investor and syndicator, professional ForEx trader and serial entrepreneur, having owned and operated six companies across various industries. Because of Tracy's extensive experience in the global interest rate and currency markets, he brings a unique advantage in his understanding of how global interest rates can affect cap rates, and financing rates, giving him the edge to position his investors for the coming years.

So, great topic, Tracy. It's a pleasure to meet you and have you on the show. Tracy's daughter, Keeley Hubbard was on the show, the show number WS693. And we talked about turning strangers into repeat investors, it was a great show. I would encourage you to go back and listen to that show as well. But Tracy, welcome to the show. I want to jump in to your background a little bit and help us understand a little bit better who you are and this topic is great, and is so ideal for our listeners and people in this industry. But I feel like it's something we don't typically know a whole lot about.

[0:01:36.8] TH: I understand that. It was foreign to me, when I first started doing it. I started trading the markets back in late '90s, '98, '99. And started off trading commodities and then from there, I moved over to currencies in 2002. I went through 9/11 as a trader in the market. So, that was a shaky event for me. And then moved over to something I thought was more liquid and that was the foreign currency market, which back then was a pretty much the wild, wild west with not a whole lot of laws and rules to it, but eventually got good enough to trading that people would come to me and want me to manage their money.

So, I sort of went over into managing money aspect of it and been doing that for the last 15 years. And as I watched the markets unfold in 2008, when we had our market bubble crash, I still traded but then that was the point probably where the Fed got the most involved in all the financial markets. And it just never really was quite the same after that. As I saw more and more things in the financial markets look a little bit like a massive bubble ready to pop, but nobody knows when, it was harder and harder to get returns for my investor's money, because you got to understand when you're trading currencies, it's basically the interest rates of their governing body, whatever country that is. You almost sort of think of it like their currency, whether it's the Euro, the Pound, the Yen, that is like the stock for that country. So, it's sort of a representation of that.

Now, in 2008 and 20199, if the Fed got involved, everybody started rushing to the bottom of the interest rate. It's hard to make money in the currencies, if you don't have some sort of spread between the different banks, central banks. Well, everybody's been rushing to zero. And Japan's been there for a couple of decades or more. The US has followed as has the Euro. So, as the market became less predictable for me, I said, "I need to start moving into hard assets." And that really started happening in 2015. I shut down the hedge funds, and started moving my own personal wealth into the real estate hard assets. And specifically, into multifamily is what I moved into.

[0:03:55.2] WS: Nice. So, I would love to dive in or for you to dive in a little bit on just how the global interest rates affect the cap rates and financing rates and things like that. Just help the listener and myself to have a better understanding of even things, we should be looking at and to know what to expect or what you look for.

[0:04:15.1] TH: Right. So, if the Central Bank interest rates go down and usually the financing rates for us as investors starts moving down with it, that creates demand, because if you can buy real estate and finance it very cheaply as we can do right now, when we had the interest rates where they're at, that creates demand in the market. So, as more people come into the market looking for returns, it creates more demand and usually there is supply of the real estate. Then you start having these, I don't call them bidding wars, but these people go in here and start offering a lot more because they want to get the deal. Well, that's driving the cap rates down which of course drives the property price up. So, that's been what we've been going through for quite a few years now. And it makes it harder to get deals that you can get good returns for your investors.

So, you have to be a little bit more prudent in your underwriting, so you don't buy something that you don't overpay for it, essentially. That's what's sort of driven the cap rates down here, to the levels, depending on where you're at, if it's a major market, then you're going to be looking at cap rates down in the fours easily in Texas, where I'm at, and then California, it's really, its way down there. A lot of Californian investors are running to Texas at best, because why? Because 4% cap looks great to them when they're used to one and a half to two. So, what does that do? Well, you get people driving up the price of the apartments.

[0:05:45.5] WS: Nice, I appreciate that explanation and really just laying it out there, kind of simply because the rates go down, causes more demand than supply, then there's bidding wars, drives cap rates down, then prices go up. I mean, ultimately. So, you talked about having to be more prudent in your underwriting. What does that mean to you? I mean, you're an operator as well, so knowing what you know about all this and having to look at your underwriting potentially different than maybe you did five years ago, what does that look like?

[0:06:15.2] TH: Well, I put more contingencies in there. On our underwriting, we also look at the refinancing part of the syndication, after we've held the property for a few years when we got to either refinance it or sell it. And so, we put it in a little bit of a buffer in there. We don't put really low cap rates in there on the refi say in two or three years. We always bump that up a little bit, because nobody really knows where the market is going. If they say they know where the market is going, they're delusional, because nobody does. And you can't predict where it's going to go, but it is the old thing of a broken clock is right, at least twice a day.

People will keep screaming along, if we're going to have a crash, we're going to have whatever, well, yeah, eventually there'll be right. But they'll usually call it wrong several times before they actually hit it by mistake. But in underwriting, we will usually pop the cap rates up because you don't know. I mean, sure, they could go up. You don't want to paint a picture of, yeah, they're going to keep going down, we're buying a four or five cap, and it's going to be in two cap in three years. Well, yeah, then the underwriting will look good to the investor, but we all know, it's just a spreadsheet, it's a prediction.

So, we try to be a little bit more conservative from this perspective of cap rates going out on the refi. We put a little bit more contingency money in there, just to be careful on the underwriting because you can make a spreadsheet, say whatever it wants to be, but you got to be able to perform still.

Something else we're doing is we're looking at tertiary markets, usually, because those follow the bigger markets, like the Dallas Fort Worth area, Houston, Atlanta, there are lots of big markets out there. But there's also smaller markets around them, like in Texas, specifically, I look in the tertiary markets outside of the big metropolitan areas, because those cap rates are going to lag behind the major markets a little bit. And because of that, you can actually get a better return to your investor, if you're looking at those tertiary markets. A lot of people don't want to do it, though. And you got to find investors that are also comfortable with investing in those markets.

[0:08:19.4] WS: I love that. Great advice. And so, where do you get your information or like, what are you reading on a daily basis or watching that's helping you to think about interest rates right now, or what to expect in the future?

[0:08:35.6] TH: Well, I do follow the financial markets on TV, because I've done it so long, it's hard for me to get out of it. Because it's second nature to me. So, I always check the financial markets in the morning, track a few of my investment still in the market, but it's long term stuff, it's investing, it’s not “trading the markets”. So, I always watch the markets there, and you will have people come on financial, and I'm not going to mention any financial networks, specifically, because some of them were just downright crazy. But I always watch those news to see what's coming out there, because even though real estate is pretty much regional, you need to pay attention to what's going on in the bigger markets. And I'm talking about California, New York, that kind of things to see where the big picture is. And that is going to give you a hint as far as what's going to be happening, down the road because it all rolls downhill. I mean, you'll read stuff about New York, how the apartment rental is crashing up there and blah, blah, blah.

Well, that is a regional thing. It doesn't mean it's happening here in Texas or Georgia or anywhere or Florida for that matter. So, you've got to keep a different perspective. But it's good to know what the bigger players are doing out there because most of the big, big players in the apartment realm — They're invested in multiple different markets because they also know that if one markets not doing well, then the other one could be doing pretty good.

[0:10:00.0] WS: Nice. So, your understanding, there's interest rates, you're thinking through that are and then I'll tell you what, how do you know what interest rates are? And even just something simple. I know you don't want to give out the exact thing that you're watching or news media, but how do you know some of that information just so you can watch it on a daily basis?

[0:10:18.3] TH: Well, the Fed rate is one thing and watch the Fed meetings when they come out, FOMC. Financial markets have these usually weekly reports to go out there, everything from unemployment numbers, to the Fed meeting, when they have it, and then the Fed minutes, they'll come out. So, I read all that stuff. You can get it from all different types of sources, just Google it. I mean, you can find multiple sources for that, watching the interest rates from the Fed.

But then again, the Fed interest rate is not really what we're borrowing against. It's going to have to be the mortgage broker that you use. And so, stay in contact with them, because they'll see what the market is doing here locally versus regionally, if they're financing different properties all over the country. So, keep in contact with them. And they'll give you a better idea as far as what you can really borrow it at now. It is going to reflect pretty much what the Fed is doing, because if the Fed is raising rates, guess what, the mortgage brokers are not going to be able to keep the rates down there also. They just always follow the Fed eventually. So, that's sort of the leading indicator, I'd say the FOMC.

[0:11:24.9] WS: Does cap rates compressing, does it worry you?

[0:11:31.4] TH: No, it doesn't, because I already own some properties. So, guess what, they're going up in value because of that. It's a natural thing to do. And the only thing, I'd say, concern me, it's one of these things, well, you may need to wait and like say this regional wait before you buy something. Now, as the markets have started to compress, what I'm seeing the interest rate compress, I'm seeing some, a lot of syndications out there and not being quite as aggressive on their returns for the investors because pretty much used to, would be the 10% cash on cash, 100% return, five years, blah, blah, blah, that's the basic model that everybody tries to hit.

Well guess what, if the cap rates keeps going down, it's going to be harder and harder to get that. I'm seeing stuff now where people used to do a lot of 8% pref. And 70/30 split and the 10% cash on cash, and 100% return. Now, they're offering maybe a 7% pref, and it maybe it's a six-year total return. I'm just doing one right now that we're looking at a six-year total return. And it's mainly to help get the total return up to that over 100% for them, and it's very hard to do that at five years now.

Now, keep in mind, you can make the spreadsheets, say whatever it wants to, but you got to always be cut to perform once you go out there and resume, you're running. Now, you've got to do something about it. So, you better underwrite it realistically, when you get there. I'm starting to see that pull back a little bit so it doesn't concern me. The cap rates are going down. At some point, the investors have to be educated on it and quit saying, “Oh, I can still get this where I used to get the five-year turn. Now, it may have to be six.”

But keep in mind, what is that? That's just a projection. It doesn't mean – I’ve told a lot of investors this, because we say we're going to refinance it two to three years, and the exit strategy in six, that's not written in stone. That's a business plan, but you've got to be fluid. And you've got to look at the market during the time you're doing this to see is it the time to refinance? Maybe it's time to refinance in a year from now, if the property is more stabilized. Maybe that your six, maybe that's not the time we want to sell. Maybe, you want to do a refi again.

So, it's just a guideline, but you've got to be in reality mode. Actually, I don't know what's going to be in the three to six years, but we have a plan and there's always the backup plan if that's not it. We'll regroup and head on down the road.

[0:14:02.4] WS: It's almost like you knew what my next question was going to be. I wanted to know your thoughts on the next six months to a year, just what you think is going to happen in the real estate market?

[0:14:13.6] TH: Well, I think you're going to still see cap rates compress a little bit more and this is mainly due to the Feds pretty much telegraphed. They're not raising rates over the next two years. I'd be shocked if they – I mean, they can't do it. They boxed themselves into a corner and I don't want to go down the rabbit hole of financial markets other than – it's sort of like a big Ponzi scheme, really, when you look at it because there's a lot of stuff out there in the financial world, in the stocks that are way overvalued/ It makes no common sense when you look at earnings. It makes no sense of where these stuffs trading at. So, people love to get in there, but once they pull the punchbowl away, you know, it's everybody's going to take the exit one little door, but you got 500 people to get out the door. But guess what, there's your crash as far as when it starts happening.

You'll notice financial markets, when they go up, they go up at a nice little slope, if you were to pull a chart up here for, say the S&P 500 or the Dow, it goes up at a nice angle, call it 45 degrees. And so, when the markets go down though, they drop like an elevator shaft. You can see that anywhere on a chart, you just look at it, and you got to think about, "Okay, what causes this to happen? What makes markets go up?" Well, demand makes markets go up. But what's the driving factor behind it? Well, it's greed. I mean, it's the greed factor. Why we all make more money? So, that's what driving it up.

Now, when the markets come down, what makes the markets come down, because they come down. If you look at the chart, they come down two to three times as fast as they went up. Well, what is driving that? It's an emotion. Another emotion. It's not greed, but it's fear. Because everybody's saying, "Oh, my gosh, is going away." And so, everybody's trying to sell everything and just drops like a rock. Well, if you look at those two emotions, greed and fear, which one is a stronger emotion? Well, it's fear. Because it's the fight or flight mode in the human. So, that's what drives down two or three times as fast as it goes up. And you could see this anywhere on any chart and that will happen at some point.

But sort of back to your original question, sorry, I go down these trails, when I start talking –

[0:16:29.3] WS: No, it’s good information.

[0:16:30.8] TH: – financial markets. I don't see the Fed doing anything, in the next two or three years, as far as the markets going down. They're going to have to keep printing more and more money. If you really want to know something else, I feel, and this is a sign I'm dealing with for a long time. The Fed can print all they want to at some point in time, people will lose faith in the dollar, and it's the reserve currency of the world, because it is what it is. But it doesn't mean it always will be because at some point or later, they're going to have to figure out how can they stop, say, a run on a bank when when the market starts crashing and people are getting nervous?

Well, there's a really good way to do that. You just eliminate the fiat currency — the paper currency. And if you go to something like, I'm sure everybody's heard of the Bitcoin, right? So, go to a digital currency, and hey, and governments already floating it out there, my personal opinion, I'm not a tinfoil hat guy, but you know, everybody knows Bitcoin. When was it created? Who did it blah, blah, blah? Well, I wouldn't be surprised if it wasn't a trial balloon floated by a government to see how the public would accept a digital currency.

The thing about a digital currency, it's not physical, you can't hold on to it. It's all online. It is what it is. It's smoke and mirrors. Well, if the market starts to crash, they can create whatever they want to, to keep propping it up. And if people get nervous, and they want to pull their money out of a bank, well, guess what, you can't pull all the digital currency out of anything and stuff it under your mattress. It's not possible.

So, that concerns me a little bit, as far as what the market is like. I mean. If you think banks still carry a lot of cash, go down there, try to withdraw, say, $100,000. Because you're a little concerned, you want to do some cash around. I've done it and go experience it for yourself. And you would think that you're trying to do a personal loan in the bank. They don't keep that kind of cash down there. Number one. By the way, guys, if you don't think you're already doing it and say, “I'll never fall for the digital currency.” Yes, you are. It’s the same thing you got the debit card, a lot of it's already digital. It's online. So, it's common. So, I would say just prepare yourself for it. And that's back what I said originally, hard assets, real estate, best investment I can find.

[0:18:51.6] WS: Great advice. Now, I'm glad that you brought that up. It's something I've thought about a lot recently, or you can see some things happening. It's something we've been conditioned for for a long time as well. So, what about preparing for that downturn? Any other ways? Other than sitting in this electronic currency, what about just on the real estate, on your multifamily properties, how are you preparing for that potential downturn or downturn that you mentioned like it's going to happen eventually?

[0:19:19.0] TH: Right. Well, we try to, when we're looking at properties is back to the same thing, you still got to buy value. And when I say downturn, it's going to be one of the financial markets. Now, the real estate market may take a little bit of a hit. But if you go back and look at the last market crash — class C properties did better pretty much from a value standpoint than class As, and some of the B properties. So, maybe that's when you hold — that’s when you hold a property and you don't necessarily want to sell it, but you position yourself for some decent cash flow during that time, and maybe you hold through it a little bit.

[0:19:56.7] WS: Tracy, just amazing information. Unfortunately, we're going to pivot to a few final questions, but do you have a few daily habits that you're disciplined about that have helped you achieve success?

[0:20:08.2] TH: Yeah, I knew something's called vision mapping. And it sounds a little crazy, maybe. But it's something that you write out on a daily basis. I know everybody talks about it, here we are coming to the end of the year, they say, “I'm going to make my goals for 2021.” And they write them all down, they put them on a piece of paper, and sooner or later, they get shoved into a drawer somewhere, and nothing really happens. So, what you got to do is figure, okay, you have your big plan and from there, you start diving down a little bit closer.

I'll give you an example of, say, a guy in high school or early high schools are coming out and say, “Well, what do you what do you want to be when you go out into the world and become an adult?” And they said, “Well, I want to be an attorney.” I said, “Okay. So, that's great goal. Let’s talk about what you want to do and be an attorney to going to do?” He goes, “Well, I’m going to go to law school.” “Okay, that makes sense. And before that, what are you going to do?” “Well, I'll go get my bachelor's and from there, I'll apply.” And then I said, “How are you going to do that?” “Well, I guess I got to make good grades in high school.” “Okay, what does that mean?”

And keep digging down to what you come to is what are you going to do today? Today. What are you going to do to get to that big goal? If you take care of the daily thing, you're going to take care of, guess what, the rest will start falling into place. But you have to have something that's attainable on a daily basis. And if that means I got to get up every morning, and I've got to go jog, or walk or whatever you're going to do to get help you set yourself for that day, you got to knock it out.

I write something on, what am I doing today? Maybe it's underwriting a property? No, I you want to be a real estate syndicator, millionaire. Well, that sounds great. What are you going to do today to get there? Maybe it's because I need to call X number of brokers, I need to set those meetings and get face to face with them so they'll know who I am to come get me those pocket lists. So, it all comes down to a daily thing. What are you going to do? And I would encourage you to – and it's called vision mapping, because guess what, if you write it down, and you read it, and I'm talking about seriously writing it down. When you write it down, it's powerful, and it starts focusing on that daily goal so you can get that ultimate goal, the long-term goal.

[0:22:12.8] WS: I love that. Consistency, right? All the small steps, consistent small steps lead to big leaps. But I feel like most people never write it down. They think they have a goal in mind, but they don't write it down. Writing it down does something to you mentally. It helps you to commit as well, as long as you don't just throw it in the drawer like you talked about. But Tracy, what's your best source for meeting new investors right now?

[0:22:38.9] TH: Well, my daughter Keeley. It’s sort of funny. I've had several companies, I've had partners, but I'll tell you, the best partner you ever have, for me, anyway, is my family and my kids. From that standpoint, everybody has been burned at some point in time, either through a business deal or whatever, so that can happen. I trust my family and my kids I call them kids, they're all adults now, but I trust them with anything. And my daughter feels the same way. She's been through a couple business deals that didn't turn out very good. And we sort of looked each other and go, "I always do business with my family, my dad or my daughter or whatever." And so, the best way to do it is to raise up your partners.

Now, I would not have said, okay, Keeley is my second, I've got four kids. I've got three daughters and a son and I was looking at each one of them, they all have their own personalities, but Keeley is my entrepreneur of the group, and she's a great partner. She's got skillsets that I don't have, basically. So, that she helps a really along the line when we talk about the money raise or whatever deal and going in getting investors. She's really, really great at that. So, that helps me a lot. I try to stay in my own little lane when I do that. Man has got to know his limitations. I think [inaudible 0:23:55.4] would say that somewhere.

So, that's what I do. I don't try to get into her area of expertise and she doesn't get into mine, and it makes a great partnership.

[0:24:05.1] WS: Nice. Raise up your business partners.

[0:24:09.2] TH: Yes. That's the best way to do it. You better start soon.

[0:24:12.0] WS: What's the number one thing that's contributed to your success?

[0:24:15.0] TH: Tenacity and I would say reinventing myself. I'm a former Marine, and they taught us, you just don't quit. There is no quit in us. And I've been down before guys, I'm telling you. I had a bankruptcy in '98. So, there I am at 42 years old with four young children, guess I better figure out what I'm going to do now. And so, I reinvent myself, I'm not afraid of trying something new, whether it's trading the markets. I just try to reinvent myself and be – don't get so locked down that you can't come out of it and have some people around you to help bring you up.

I mean, I've got a great family, that my wife has been behind me the whole way and she helps support me in areas sometimes financially and also mainly emotionally, because it's tough. If you don't have somebody there to help boost you up, because, hey, life can throw some things at you. But I would say, reinventing myself into something else. That's what I've done throughout my whole life.

[0:25:11.3] WS: And how do you like to give back?

[0:25:13.6] TH: Well, I find charitable organizations that I really believe in, and we try to support them best what we can, financially, or maybe through, volunteer work or something like that. I think one of the best ways to give back and I've met several young people, some of them are still in college wanting to get into real estate, and they find me through maybe a podcast show, like yourself or someone else. And they've reached out to me before. I don't know them, but I'll always give my time to them and sit down and buy them lunch and help them, because they want to know, where do I start, how do I get there? And I said, "Call me anytime, I'd be glad to help you." It's something that I didn't necessarily have when I was really young. Because one thing, the internet has changed so much when I first started. So, that is out there to be able to have a source as a mentor. I think mentorship is huge.

Always no matter what business I'm in, I've always had a mentor involved in because, hey, I don't know about every industry out there. But hey, I can find someone who does, and then go and say, "Hey, would you help me along this to be a mentor for me?" So, I think that's very important in giving back in that area.

[0:26:22.9] TH: No doubt. Well, Tracy, I'm grateful to have met you and to have Keeley on the show as well. I just appreciate you just really laying it out there in simple terms where we can all kind of understand today, just a relationship between the financial markets and interest rates, cap rates, what that does to the prices of our real estate and things like that, and helping us to just get a basic understanding there so can start to have a bigger and better understanding to know what to expect and what to watch. But so grateful to have met you. How can the listeners get in touch with you and learn more about you?

[0:26:54.5] TH: My email address is tracy@hubbardcapitalgroup.com. And my phone number, I'll give that out too, it's (817) 291-5766. That's the only phone I have, and I do answer it. Unless it's a spam risk. So, that's the best way to get a hold of me.

[0:27:15.0] WS: Awesome. That's a wrap, Tracy. Thank you so much.

[0:27:17.8] TH: Thank you, Whitney. I appreciate it.

[END OF INTERVIEW]

[0:27:20.5] 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]

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