EPISODE 911

[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 Whitney Sewell: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Mitch Rosen. Thanks for being on the show Mitch.

0:00:32.7 Mitch Rosen: Thanks Whitney for having me. Nice to meet you.

0:00:34.0 WS: You as well and Mitch is a senior director, head of real estate at Yieldstreet. He entered the real estate investment space as an analyst at Capital Trust at the time of publicly traded mortgage read specializing in subordinate debt lending. Mitch joined JP Morgan in July 2000 after graduating from Emory University with a BBA concentration in Finance. Mitch, welcome to the show. I'm always grateful to have, as your level of expertise as part of our guests and provide that value to the listeners, just from your experience, give us a little more about maybe what you do right now on how you got there, maybe talk a little bit about maybe the background of Yieldstreet, and a little bit about your experience getting up to that, and then let's dive into what is Yieldstreet, and we can talk about the differences a little bit and love to hear your thoughts on that and dive in. Give us a little more background and then let's work up to how you got to Yieldstreet.

0:01:27.0 MR: Fantastic, so like I had mentioned, I've been in the investment side of care my whole career for actually my whole career, as you mentioned, I worked in the firm called Capital Trust, which is a pelican Mortgage at the time, that focus specifically in the mezzanine part of the capital stack, if you think about pre-2005, most borrowers, you need a subordinate would basically solicit the mezzanine component separate and distinct from the first mortgage component, and there was a whole host of companies that emerged post 98 to cater to that part of the capital stack.

What eventually happened is, is that the bank said, You know what, we'll just do the whole stack and syndicate the back piece on the follow and make that spread and make that margin, make the fee. And so we know yields compress as you would imagine, but those companies like Cap Trust is you need to grow and scale as a CMBS market evolved and grew as well. I then left Capital Trust and went to go work for a multi-billion dollar alternative asset matched from Called Marathon Asset Management in June 04. At the time, Marathon was launching a lending program through a balance sheet fund called the structured credit fund, and we grew... out of the third employee hired for the division with my two bosses at a time when we grew the group from three people to 20 plus, we had four offices in the country and a 2 billion dollar, primarily first mortgage and supported be note Sri portfolio all asset classes nationwide. I then left there in Feb 13 to join another alternative asset, magical per Gate Capital to spearhead their foray into CMBS, investing primarily commercial, mortgage back securities and other higher levered, higher yielding Sri debt.

0:02:58.6 WS: Wow, okay, so I wanted to ask you just for a second though, for our listeners, a lot of terms here, maybe they haven't heard before, We subordinate debt as an edit some of those things, could you just... And we will spend a ton of time on it, we have done other shows on it, but I just thought it'd be a great time for you to just elaborate different types of debt and what that... Just quickly, so they understand what you're talking about when you say support and debt or mezzanine debt or other types of debt.

0:02:58.6 MR: Yeah, absolutely. So if you think about an analogy to buying a home, whichever would be the most conversation proposals, you buy a house, you go to a bank, you ask for a mortgage of... Call it 75% of the purchase price. You buy a house for 100 bucks, you borrow

75 dollars and you put up 25 dollars of cash. If you use that same analogy for a commercial mortgage property or commercial real estate property, you're buying an office building for 100 and you go to a bank and they give you 75, you may not wanna put up 25 of cash, and so another lender will come in and say, hey, I'll give you 10 more dollars and you only put up 15, about 10 from a third party lender will be more expensive and will be behind the first mortgage and priority of repayment.

So in the event of a problem going arising while you are, in theory seem to the equity of the owner, you are behind of fairly large mortgage and that has its all complexity is tied to it. So that's what mezzanine are subordinate lending is.

0:04:13.0 WS: Nice, I appreciate that. I just love to explain those things or have them explained for the listeners and for all of us, so we can all be on the same page. So tell us a little more about the old street and what that is.

0:04:24.0 MR: Sure, so Yieldstreet is an online digital wealth platform. We've been around since 2015 with the mission and goal of trying to bring alternative investments to retail investors, these are invest opportunities, a tradition I've been able to access, and we do that primarily, these are five different business lines, and then we are continuing to expand. One being real estate, to being in litigation finance, three being probably business credit for being marine finance, and then lastly are finance.

Mostly asset-based lending, and we often partner with third party originators or directly retake the product ourselves, and we have a unique structure where we are able to balance sheet these investments and clothes on them, and then syndicates or retail invest network through our website, we've done over 17 billion dollars of total closing since 2015, and we've had… We’ver re-paid both interest and principal over 800 million dollars in that time period. So we're very proud of our track record and the investor group that we have.

0:05:20.0 WS: Yeah. Congratulations on that. That's incredible milestone there as well, and so tell me a little bit about the investor who uses Yieldstreet...

0:05:30.0 MR: Right, so I think we have two groupings that I would highlight, you have what's called the Henry high earning but not rich yet category, people who were maybe on the younger demographic spectrum who are making good incomes, but don't have quite the available investment dollars to put 50 to 100,000 dollars in a specific investment, maybe they're utilizing stocks and bonds, mutual funds, closed-end funds, but I've not really tapped into what I would call the alternative space, whether it be real estate or other asset classes. That's one segment that we definitely cater to.

The second one is maybe folks who have more accumulated wealth and are just more open to and excited about different ways to tap into alternative investment products, and the crowd has been a big source of that, and we've tapped into that network and grow that network through our interface and through our marketing and through our investment profiles, and so the goal is to when we bring an investor on board, have it repeat investors where they come in for one deal with low minimums, the key is low minimums, 10, 15, 20,000 dollars per investment, which means it highly accessible for a broad swath of users.

0:06:37.7 WS: Nice, how does this compare to a reitt?

0:06:39.7 MR: So a reit is a tax classification, as you know, it's a reit is required to pay over 90% or a prose percent of their income, distributions to their investors. We are not a reit each investment stands on its own, so if we say close 100, first mortgage loan, we syndicate it to our investor base, it's either gonna be a K-1 statement or 1099, so we're not issuing equity shares if you're buying a reit, a public reit on the stock exchange, you're buying equity in a public company, we don't issue equity in a company in that nature...

0:07:12.0 WS: Okay, that's a great clarification right there, I know that's probably something people are asking, so speak to like the Yieldstreet versus a Syndication... If somebody's purchasing a 300-unit apartment community and investors thing about investing in that versus something like Yieldstreet... What's some differences? There may be pros and cons.

0:07:30.0 MR: Right, so it's a great question. When you think how people often find investors find these opportunities, it's often word or mouth, it's often through friends or friends of friends who have invested with someone and had successful outcomes and say, Hey listen, I put some money in with Mr. Bill and he invested in the 300-unit multi-family like you highlighted and had a good experience, and I repeated my investments with him or her, and we've grown together.

We should give a try. What we've tried to create is a platform by which investors can get some comfort from some form of vetting, if you will, or underwriting of the issuer, the GP, or the deal itself with us and our partners, and making it a very efficient, accessible format. You're trying a bank account to a wallet that we've created, you fact go on our website and you can read through the investment opportunity. What are the risks, what are the mitigants, pros and cons, things to think about, duration yield profile, borrower profile. It's a very succinct, easily digestible format that we think enables investors to make an informed decision in a fairly efficient time frame.

0:08:36.0 WS: Nice. And what about any tax benefits, anything like that with something like Yieldstreet investment,

0:08:43.0 MR: So tax benefits often arise visavis equity investments, right, the ability to have a K-1 statement, which effectively could pass to depreciation amortization so reduce your taxable income from that specific investments. We are only now, getting into the equity business, particularly in CRA to date, almost every investment done has been the form of either first mortgage debt, a mezzanine loan or pre-equity, and so you typically would not have the same kind of tax benefits that equity would provide.

0:09:12.5 WS: That makes sense. That's why I was asking since there's no equity beneath, you all are getting into that as well, you know, since you all are is... Could you elaborate on the partnership, if an investor is looking at yieldstreet, how do you all get an operator, how do you determine that relationship? And things like that.

0:09:27.0 MR: Great, that's on a question. So the model data as it evolves has been that we wanna partner with regaining partners who have track records we could point to, who have some infrastructure on servicing and operations, who demonstrated the ability to work out loans with things maybe go sideways and have established relationship with borrowers and brokers, and our goal is to leverage those skill sets to partner with them and scale their business, have them focus less of their time on raising capital and more time making solid investments that we could leverage and grow with.

And what we're selling to them, we're gonna pitch to them is that we could be a scalable partner for you as you grow your business, and if you were historically capped by a fund, a small fund, maybe where your concentration limits on property type, borrower, geography or single single investment exposure and have kept it five or 10%, we could be effectively an accordion limited partner, someone who can scale with you on a bigger loan, take a piece of that loan and utilize your infrastructure to leverage that investment, and that's typically how we've done it. We've also done direct investments as well, like I mentioned, I've had 20 years experience myself directly regaining and underwriting loans, we've probably done about 15% direct, I'd say 85 at least in CRE, third party... third parties.

0:10:41.3 WS: Nice. What's your choice of asset class at the moment?

0:10:45.0 MR: I think that evolves today, you know, family Industrial are ones that a lot of capital is chasing, I'm quite bullish on hotels, personally, I do think that there will be a fairly robust recovery on the back of new vaccinations and covid. People are getting more comfortable and feeling safer with picky the upcoming summer season and going to the fall as the vaccination rates increase, of the belief that non-business travel, these are travel vacations will be a fairly huge ohm, if you will, post-pandemic, and I think resort communities and vacation destinations will really benefit of the back of that I don't see that same kind of velocity of travel and urban business hotel-type products.

Off... This is really the biggest wild card, I would say everything retail, everyone talked about it at nauseam. It's challenged, it's systemic. It's not gonna benefit from a boom, move more and more spending habits, a move to reit to online. This shopping experience in most retailers is a lot of friction, cost in time and waiting, I don't enjoy shopping in the store for the most part, I think most people don't either, so I think that a lot of the companies want to evolve. I read an article yesterday about how the best retailers that have the most success, Apple, Lululemon and others like that are really gonna try to extract their stores from the mall, which really only benefits other retailers and not themselves and move to more single location properties.

Just in Apple Store. Just a Lululemon store. So I think retail is a challenge in a big trouble spot. Office, I don't know if information had to make a progress addition on that, I do think it's gonna be a challenge. I think that there will be a hybrid model post-pandemic, I think some companies will look to bring back people five days a week, I think some of the other structure will continue to do a fully remote like a Yelp or others like that, and they'll be everything in between, I think the longer we have this model of hybrid or work from home and more in grading, those habits become...

So I don't have a great answer for office, and I think that's probably the hardest asset type right now to underwrite.

0:12:40.0 WS: Yeah, for sure. I'm going to ask you earlier about the investors that are looking to invest in Yieldstreet… For Yieldstreet... What about minimums?

0:12:47.0 MR: So we’re tracking minimums very low, so we have deals that offer as low as 5000 dollars per investment, and so the goal is make it accessible to everyone. Most of our investments is not all of them are actually only available to accredited investors for the time being, but with that said, we did launch a 40-Act fund called the Prison Fund, which is open to any type of investor-accredited and non-accredited with a very low minimum under 5000 dollars, so people can come in and try the product to see what we kind of invest in, to make...

It's a very broad swath of investments across different verticals, so you're getting access to all five of those verticals. CRE I mentioned are marine finance, education, finance, and proposes credit in that fund. So enables, if you're not accredited to get exposure to the asset classes.

0:13:28.0 WS: Could you give us an example of maybe a recent fund or if someone invested the return structure or distributions and things like that.

0:13:35.8 MR: Sure, so I'll speak to the CRE side, just 'cause I'm more familiar with it, and it's what I'm oversee to date, every single investment I stand at its own SPV, so if I make a 10 million dollar loan, we create a limited liability company, we then syndicate investors to investors through that one investment, so they're really getting bespoke exposure to one property or one investment with it be a mortgage loan or mezzanine loan, in some cases, we may secure a little bit of leverage within that SPV to amplify the return profile. I would say we don't do it very often, but for the better quality real estate with the better borrowers, the market is quite competitive on the rate side, you might want a little bit of leverage to juice your return a bit, but very prudently, very cautiously.

We don't ever wanna expose investors to adverse event, and so we're trying to always, minimize, minimize that leverage. We then syndicate that investment through the platform, and we as few as 15 men and maybe as many as 400 investors, and then we close it. And so the investments closed and now those investors will receive oftentimes monthly distributions from interest reserves and our cash off the property, and then when the loan is repaid, ideally, we collect that capital from the borrower and we distribute it back to the investors.

I'd say the average … from our investment on the series it are at under three years, in most cases, under two years, in fact...

0:14:53.0 WS: Nice. Would you speak to just some market dynamics and even the implications of just the potential rising rates? Yeah, I'm of the belief that this is more of a blip. I do think that rates will continue to stay low for longer while they may normalize a bit, the 10 years now on 120, I believe or 130. I don't foresee... Look, I'm not a rates guy by any means, so I'm just gonna record a what I've read and what I see when you're in a real estate investor, you don't make bets on rate, you make bets on real estate, so I try not to kind of sound overly knowledgeable on this topic, but what I would say is that there's a very clear fed and monetary policy to ensure low rates for longer.

I think the market is reacting to this potential 1.9 trillion federal relief bill, and so we'll be putting my kind of capital into the economy, and you look at what was done previously in oftentimes results in inflation of some degree, I think If you maintain 2%, I think we're good, I don't see it really spiking much higher, but I mean rates to of to normal as of, you know, if you get a mortgage of 2.2%, that probably is not a safe spot to be as asset bubble.

0:15:55.6 WS: What about just your predictions for the commercial real estate market over the next six to 12 months or even next quarter?

0:16:03.6 MR: I don't think much is changing in the next quarter, that was a great article in Bloomberg this week about... You know what the term was Purgatory... Which is really where a lot of CRE investment stand. You have a whole host of federal action and state action that have prevented lenders from taking remedies, exercising revenues against delinquent borrowers, whether it be at any property type retail office, industrial.

If those borrowers in default, most state court systems are closed, so you've been forced as a lender to work with a borrower, to craft a forbearance, a modification, some form of work out, and I do think, looking from March to November of last year, that was the right thing to do, this was not of anyone's doing, and as long as the borrower worked in a constructive way, I, speak from my standpoint, we've worked with them at this point now looking at a year end, you wanna see some come of additional commitment by a borrower to a property that's been delinquent or defaulted.

I may be more capital, maybe some type of guarantee, just something to show that you're invested in the property and seeing it come through, and I think we're at a fluctuation point now where banks and the lenders probably have reached their tipping point and they need to kind of do something about a loan that's on their book that's not accruing interest, it's not being paid interest, maybe taxes delinquent…

At that point, I think there's actually a has to be taken. I would also add that some folks have read that the courts have recently opined that the CDC galleon, the moratorium for evictions is not unconstitutional, so I do think that's an even impact as well, if you've been a renter who not paid rent for nine to 12 months, this could result in people being removed from their home on to true up their rents and work with their landlords.

So I think a lot is gonna happen from now until December of 2021, there's been a whole talk of distress. It’s a very popular buzz word, distress... distress, buying distressed notes, buying distress real estate, I will tell you that we've seen very little to no material distress in the market, and again, that's because of the policies of the federal government and state garments holding off remedies, if those two get lifted, you will see for close notes you will see keys giving back on properties, but I do think it's still six to nine months out, I don't think it's imminent.

0:18:09.0 WS: You mentioned earlier about repeat investors, and that's important in any of our commercial real estate businesses, right? We strive to have repeat investors, could you just speak to that a little bit about how Yieldstreet operates and performs to ensure repeat investors and that investors are satisfied...

0:18:26.6 MR: I think it starts with performance, you wanna put investors as opportunities that are forming a line with expectations, and we're not alone to own shop, our business model is to ensure a principal protection for investor base to work with good borrowers and partners, and to get the cash flow in the current coupon that our investors seek, oftentimes, this is submittal income that they want to amplify if they're getting 1 to 2% from a savings account, even less than that, frankly.

A money market funds are basically at zero percent rates. If we can provide them with the attractive cash flowing return with repayment upon maturity that I think garners goodwill and garners repeat business, and they come in, they try one investment, maybe two or three and they get comfortable with it, they see the efficiency, they see the process, they get comfortable, that process familiarity breeds comfortability, and they come back and invest more, and that's really the way that we create enterprise value here, at Yieldstreet not just for our equity investors in the company, but for our users, and that's where the key...

0:19:25.0 WS: I said anything else about the platform itself that you wanna highlight just for us that are not familiar with it yet, that would be beneficial before we move to a few final questions.

0:19:33.6 MR: I would say that what makes us unique, there are plenty of different real estate crowdfunding platforms out there, there are very few, if any, that I know. Or we think we're the only one that is really broad exposure to multiple different asset classes, and so you think about one location to try a bunch of different product types, and again, I mentioned private business credit, I mentioned Art, which is very unique. It is actually an article recently about our finance really growing as very affluent owners of RF.

I've tapped their art for cash flow, and so we're unique in that positioning, we have asset classes that others do not. I would also add that we are not a traditional crowd platform in the sense that we do have a balance sheet, so when we make an investment, we close on that investment in warehouse it on our platform, on our balance sheet, and then syndicate it on the follow...
Whereas other platforms are really the best efforts, water broker capacity, they're gonna post that investment to the website, solicit capital from investors, collect that capital, then close on the investment, so from a counterparty perspective, we think we provide with a lot more confidence and we're gonna be there, close on time with the borrower, have money funded, an escrow and title, and then we're gonna respond to sundae that risk after we close. That's also a unique feature, I think.

0:20:47.0 WS: That is unique, and I appreciate you elaborating on just that time line and laying that out. Mitch, do you have any daily habits that you are disciplined about that have helped you achieve success.

0:20:55.0 MR: I don’t, to be honest, my viewpoint and life is work with good people, like too short to do with people who just won't treat you well, you people with respect. Kindness be gratitude. To have a lot of gratitude. Who appreciate everything you got... I do have friends who really have all these different kind of alternative, they meditate, they take cold showers, the exercise let us say everyday, I've kind of vacillated through different parts of those things, but I think trying to stay grounded is really the key that I have found.

And it's not so easy all the time, anxiety, stress, life, those curve balls at you at different points in time, and having good support network to deal with those, I find in working hard... I'm a hard worker, I like what I do. That's also I shall... On that note, you join what you do, I do at coming to work every day, Yieldstreet work with the team that we have, good people who really wanna see this company succeed and grow and help our investor base. That's really important.

0:21:43.0 WS: What is your best source for meeting new investors right now?

0:21:45.0 MR: You know, it's things like this, it's trying to get the word out and making people aware of who we are, what we do, and what value add we can provide to them. Again, I think about my own investment habits, five, six years ago, it was really the same things that my parents did, it was bonds, it was stocks, it was mutual funds, it was closed-end funds, more of a push model, a selling model to you.

I think people nowadays, particularly younger generation, really wanna control their own habits and their own investment parameters, there a lot of companies out there that I'm trying to target that, and we think we're one important component of that pie, I don't think stocks a ban should be removed from a person's investment portfolio, but I don't know if the old 60, 40, 70, 30 split is still the way in which to do it. If you think about, family offices are very affluent, high net worth families, often times 20% is in the real estate, I maybe 25% and alternatives, and so the goal is to maybe explore and educate users about those different buckets and how to efficiently and access them. And that's part of the office's mission.

0:22:47.0 WS: Nice. It's been a pleasure to meet you and just hear about your path through commercial real estate and a 20 years plus and different things about debt that you laid out that I feel like all of this should be familiar with when you're in the commercial real estate business there. A lot of listeners getting sorry, it's great for them to hear those things and just talking about YieldStreet versus syndication, vetting operators, minimums returns, repeat investors, all those things that you all are doing very well, and we're grateful to have met you and have you on the show. Tell the listeners how they can learn more about you and Yieldstreet.

0:23:17.0 MR: Fantastic, well, I wanna say thank you as well, when you take the time and for having me on this great job, I'd watched a bunch of them and you do a great job, so it's a good service for your users to learn more, so thank you for that. As far as Yieldstreet, www.yieldstreet.com, that's Y-I-E-L-D-S-T-R-E-E-T dot com. It's very easy to sign up. You'll get our emails, you'll see our offerings. We have an IR team that is happy to respond to any questions or requests about information and check us out, we're happy to respond to any questions you guys have.

[END OF INTERVIEW]

[OUTRO]

0:23:45.0 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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