EPISODE 1200

[INTRODUCTION]

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Sam Rust (SR): This is your daily Real Estate Syndication Show. I'm your host, Sam Rust. With me. Today is Kevin Dureiko. Kevin is the founder and fund manager of Birch and Dobson, a private real estate debt fund located in Connecticut. In addition to being a fund manager, Mr. Dureiko is also retained by a hedge fund as a monthly consultant to the private lending industry, Birch and Dobson is a private real estate debt fund that focuses on lending against multifamily assets in a variety of different forms that I'm sure we'll dive into.

Kevin, welcome to the show, thanks for joining us today.

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Kevin Dureiko (KD): Thanks for having me, Sam, I appreciate it.

[INTERVIEW]

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SR: So, Kevin, as I was diving in, getting to know you and your firm a little bit, you guys have been in the industry a while, Birch and Dobson was founded back in 2007, so you've achieved the fame, lived through a cycle, in one of the worst ones we've seen at that. I'm curious, the origin story behind the name Birch and Dobson, could you maybe share that with us as well as how you got into commercial lending?

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KD: Yeah, absolutely. And generally, that is the first question people ask, 'cause they say, who's Birch and Dobson? But it's really a much simpler conversation than that, it's the two streets I grew up on. I have the idea you don't know where you're going until you know where you've been, and keeping those grounds makes me understand, don't stop 'cause you end up going back to where you were.

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SR: Yeah, it is interesting. I'm 30, still fairly fresh in this industry, but we have moved away from home, and yet often my thinking, my inclinations, they do return to where you've come from, not just axiomatic that we're always asking, where are you from? Where are you from, tell us a lot about you as a person.

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KD: Yeah, absolutely, I grew up in a real estate family. So, my father owned at one point a street, so to me, I didn't know anything different. When I would go back to school, when I was out at lunch at school people say, oh, what'd you do this weekend? It's like, oh, I went mowed the lawn at seven houses, to me it was normal and everybody else are like, you're out of your mind.

When I had the idea of coming up with the name, it was just like what really built me. What really gave me the ideas, what gave me the mentality, what did my dad teach me, and a lot of that has stuck with me up until now and still will in the future, because learning is something that we're never gonna stop doing, and no matter what I'm going through, I can just look back. The name is on the card. The name is on the masthead, and I understand what I have to do.

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SR: There's so many different ways to get into real estate, and you chose the private debt origination side, why get into commercial real estate on that end of the spectrum?

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KD: Well, to me, I'm a little bit of a weirdo, when we be listening to the radio or watching TV, I'd see an advertised for a bank or a car loan, and I would always ask like, why does the bank give you a loan on a car or how does it work, or how can they afford to give you a loan at 3%? And I

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would ask those questions. Those questions would be answered. My dad would tell me, oh, this is why they do it. And it just always sparked an interest in banking, which would be a weird thing for a young guy to be interested in, but it never left me, and then when I first started Birch and Dobson, it was a debt purchasing company.

My grandfather was a share-up and he would buy debt. He would rehab it, get people paying again, anybody, give out mortgages. So, it just sparked my interest from a young age. And then when you try to get into this business at a high level, it's nearly impossible, like everybody can be a broker. To be a really good businessman at this type of thing, you have to have kind of insider information just as to syndication you have to start somewhere, and to really understand it, you have to align yourself with other people to really understand how to underwrite things, how to get things on the books, who to talk to, how to build it and simulate a team.

Just going through all of that, basically gave me what I needed to do to get into this business. There's no real rhyme or reason how I ended up here, it's just an accumulation of experiences past people in my life, and this is just how I ended up here.

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SR: So, you fund a wide variety of stuff, I was looking at your website, and it could be single-family homes to fourplexes as a product, you’re funding flips in that range, also helping fund syndicators with some bridge-type product and maybe even some longer-term transactions as well. I'm guessing that in your 14 plus years in the industry, you've seen a pitch deck or two from folks on our side of the table, and I'm curious if there's a common thread of those operators you find yourself working with again and again, versus those who may be fly by night and don't have the same level of success.

Is there some commonality that you can pick out from how they approach the lending process that maybe would inform how some members of our audience could approach the lending process?

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KD: In any industry, the best package deal gets the most eyeballs. So, to make your life a lot easier, do the same thing with your emails, do the same thing with your pitch deck, the simplest things as including the zip code in the deal that you're sending to me, or any lender or syndicator,

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actually really makes a big difference 'cause then I don't have to spend 15, 20 minutes trying to go through and figure out which county, which zip code at that deal. Something as simple as that can really change the outlook on how your deal is presented to somebody.

You can go as simple as just Googling pitch decks, just pull up a random pitch deck, doesn't even have to be in the same industry to see how a professional company puts pitch decks together and just mimic it. Mirror it and send it out. And I can guarantee you you'll get a much better response, whether it's through your LPs, your brokers, your lender, put a nice ball on it and send it out, and you'll be absolutely amazed at the response that you get as somebody that professionally puts a deal package out.

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SR: Yeah, it's something that I would encourage folks to do both on the debt side, and when you're going in soliciting for equity as well, take the time to build your pitch deck correctly. I've seen firsthand a lot of different styles of pitch decks, and there's no one right answer, but they're also, it's very hard to short-cut it.

If you don't put the time and if you don't bring the resources to the table that are appropriate, you're gonna have something that's subpar, and we've seen several deals even recently in this environment where capital is just looking for a home we've seen several deals that had significant problems coming together, and a lot of that was because people assume the money would be easy to get to and didn't take the time to put it together well.

It almost speaks more to the quality of the operator in general, than it does the deal, if you're willing to take that extra time, proofread your text, make sure that the answers that either your lender or your investor are looking for are contained in that package.

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KD: Absolutely, the little things really do matter in this business, and much like any other business, and we understand the time that you put in to put a pitch deck together, so if somebody puts the time into putting the pitch deck together that I can understand, articulate and figure out what's going on and within five, ten minutes, that's the deal that I'm gonna look at, the other ones are basically gonna have to go on the back burner or bad enough, they’re going to the trash. Save yourself the aggravation, put a little extra time in an upfront and life will be much easier for everybody.

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SR: So, we've talked a little bit about lending packets and all of that, Kevin, I'm also curious. Just how the industry has changed over the last couple of years. Back in 2018, I remember being in a lot of different real estate meet-ups and people wondering what inning we were in, as far as the market cycle, and everybody was waiting for the hammer to drop or the bottom to fall out, whatever your favorite term is, and then Covid hits and we all run for the hills for a little bit and the huge unknown that ends up not being maybe as bad a headwind as we had anticipated for the industry.

I'm curious from your side, on the lending side, how did that process unfold during Covid, what are some of the maybe what-ifs that we missed that are positive and or negative, and where do things sit today, in your opinion?

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KD: When Covid first hit, nobody honestly knew what was gonna happen, so the lenders that were basically backed by Wall Street and big bank money, the money just disappeared. I would have frantic phone calls, 'Hey, can you save this deal by next Tuesday?' Being the Thursday beforehand, it's like 14 days to underwrite, and you're trying to get me to close in four. It's just not gonna happen. I watched a lot of earnest deposit money, I watched a lot of just general money just disappear in like the first six months of what happened during Covid, and then we really got to see who is controlling the money.

When you have a private lender, you really figure out whether or not, they're private, whether or not their funds are backed by bonds or big banks, and that really opened up my eyes, especially now as to who can really fund the deals, and it kinda changed my marketing a little bit. To be able to target syndicators in this particular business really gives you an idea of how much money there is out there in the private space. As bad as Covid was, it gave us in the lending industry like, okay, the real players are A, B and C. Not throwing my name into that mix, I'm still a small fish in a very large pond. But it gave me the idea of who I was really competing with.

And we just watched what Zillow tried to do with buying up single-family homes, it didn't work.

And I think when we got through most of Covid, a lot of that institutional capital realized that this isn't just the greener side of the fence, and that you need to be here, or you're not gonna get the phone calls. So, I think in general, we might have come out better on my end on the private debt side, because the big banks got scared. Will they come back, 'cause I kinda saw how really the industry didn't get shaken up as much as they would. They could, but I think they're still a little shy and scared about it.

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SR: In my estimation, that seems like a healthy thing, whenever you have an industry get centralized, I always worry what systemic risks are being introduced into the market, and you can see that in the great recession of 2008 with the mortgage back securities and how that introduced a variable that nobody really could see at the time, and yet in retrospect seems so obvious.

Do you think that maybe we dodged a bullet by not going through a wave of consolidation on the debt side during Covid, and you didn't have a Blackstone or a Morgan Stanley or somebody like that, get a wild hair and go accumulate hundreds of these smaller shops?

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KD: Absolutely, and it doesn't just wouldn't have stopped on the debt portion, we were probably two or three months away from them realizing that Covid would not hit this industry as hard as they thought it was going to. And we just needed a one multi-billion-dollar hedge fund and just to start walking down Main Street and buying up apartment buildings. We would have been having a very different conversation had they come to that realization sooner and what would have happened.

And it's not just our industry, it's like what would have happened with the renters, if Blackstone comes through and they just did this and has Blackstone or one of the large hedge funds, they walk through Pennsylvania and bought up hundreds of single-family homes at one time, and if you look at that area and you do a price comparison for rentals, they raised the prices up to 30%. That's not what we serve, that's not the industry that it should be.

Our job is to give people homes. In the syndication space, my job is to lend money for syndicators like you to provide good homes for people at a rate that they can afford. We're seeing it now with the single-family homes being completely run-up in prices, who's to say that wouldn't have happened with multifamily as well.

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SR: Well, in many ways, I think multifamily just moves a little bit slower because it's not quite as transactional, and even there in some of the local markets that we transacted, December was a record month, both for a number of transactions for total volume, dollar volume, or seeing pricing records fall, it seems like that wave is only continuing to build in the multifamily space, just like we've seen in the headlines for single-family.

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KD: Right. And of course, everybody's in the business to provide value and the more value you get, the more rent you should be able to charge. And of course, that's the idea, one that we all have to work by, but to have somebody or a big entity come in and just be a number and raise those prices without providing a value to give renters a better lifestyle, life standard for that money could have been a very big concern when you have to pay for nothing just because, you have to placate the shareholders and get your stock price up. It's a different conversation.

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SR: You mentioned that during Covid, as it started unfolding, you realized who you were competing against and that changed your marketing, could you go and elaborate on that a little bit more, going a little bit more detailed on what you found out, what you discovered, and how that's impacted your business over the last year or so.

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KD: We were able to get more focused into social. It made more sense for us to spend more time talking to people, whether it be through a smaller channel, like BiggerPockets or Facebook groups, just getting the word out there, like hey, this is what we can do. These are the references I can provide for you. Advertising is not gonna work for us mainstream because the market is so niche, and we were able to see what was working for the people that were staying around, and what completely fell off when the ones that got scared ran away.

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SR: It is interesting watching those groups that either did pivot or those that just hunkered down, and I think it's a reminder for all of us that conditions are always changing, we should always be evaluating what's going on and then making decisions and taking action based on those decisions. There's a lot of people that decided not to blow capital in 2020 as an example, in Life Bridge Capital, we deployed quite a bit in 2020, and we've actually already exited one of those deals to fantastic returns because we developed an investment thesis, we went on next kid now, you're not always gonna be able to time it just right, but if you don't take action, nothing's going to happen.

So I think you're proof of that Life Bridges is proof for that, and I would just encourage folks that as we hit 2022, it's going to be a unique year, in some ways, we've got an election year, we're coming out of Covid, I think the nation is ready to put that in the rearview mirror, but that's gonna come with its own set of challenges. What's the Fed going to do? There's a lot of rumors that they're gonna push rates maybe four times this year, they're gonna ease back on tapering, what is that vacuum of liquidity? What's it going to cause? Do you have anything that you're watching in particular as we head into 22 on more of a macro sense, Kevin?

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KD: The Fed as well is a concern. We wanna be able to see what they're gonna do if the Fed drive single-family homes more than anything else. In my area specifically, the homes are being sold for 50,000 over list, and my street is very small at this point, my wife and I are like, we should probably just move to Florida because how can we even leave 50 grand on the table and that's, unfortunately, that's gonna be the mentality of everything, and then once the Fed ups or lowers or whatever they decide to do, if they make the debt cheaper it inflates the homes, if you make the debt more expensive, it drives the lack of inventory.

So really, what can we do to sub get it? It just doesn't make any sense. I wish I could say, hey, I could go out and buy some bonds at this particular rate, or sell some bonds at this particular rate, but we don't know until the Fed decides to move, so we'll just sit around. We'll, wait, like everybody else. Not make anything too crazy. And then continue to reach out to capital investors that want to invest in our funds and just go from there, we know what we can provide, we won't know what the Fed's gonna do, so we'll just sit around and we'll wait for that.

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SR: Take action accordingly. Once the details are known. We're entering 2022, what's something that you're hoping to improve in your business this year, Kevin?

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KD: We would like to be able to get into more mid-market deals to where there's a lot of value add, I'm on this kick to where I wanna be able to take a C property and improve it to B+ or A-, somewhere around there. I'm not a big kick for that. We see a lot of value in that, especially in the southern states, it seems where everybody's gonna be going, so to change that over, there's probably gonna be something that we're really gonna focus on.

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SR: It's interesting, the demographic trends, it's either the Rockies or the South Southeastern quadrant of the country. I'm curious to see what happens in the Midwest in 2022. I think there's some markets that could do well in those areas, especially as the hunt for yield continues, a lot of these assets in cities like Nashville or Austin or Dallas, are just getting beat up tremendously, and it's hard to find cash flow, speaking as a syndicator, and so maybe folks will go to places like Little Rock or Kansas City or some of these other places, looking for a little bit more stability, we'll see.

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KD: Obviously, we're looking at those areas. Looking into the less populated come-up areas in Florida, you basically can't drive anywhere in Florida without seeing out at least 15 family somewhere, and just because it's not in Tampa does not mean it's not a good deal, it just might take a little while to realize those games, so everything's on the table or just like I said, we’re gonna sit back, continue to service what we have and just watch to see what happens in the first and second quarters.

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SR: Certainly. Well, Kevin, if folks wanna reach out to you, learn more about your lending platform and the products you guys will lend against where can folks reach you?

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KD: It's very simple, Birch, B-I-R-C-H like the tree, Dobson.com (birchdobson.com).

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SR: Fantastic, well, thanks for joining us, Kevin, thank you to our audience as well. This has been another episode of The Real Estate Syndication Show. I'm your host, Sam Rust, signing off.

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Whitney Sewell: Thank you for being a loyal listener of the Real Estate Syndication Show, please subscribe and like the show, share it with your friends so we can help them as well. Don't forget to go to LifeBridgeCapital.com, where you can sign up and start investing in real estate today. Have a blessed day.

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