EPISODE 1248

[INTRODUCTION]

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Eric Panecki (EP): What we saw in the multifamily space is that on the bridge debt side, there was kind of a need in the market for short-term debt for when you're acquiring these multifamily assets with value-add potential and then growing them in adding value and then refinancing. There wasn't anyone out there really doing the bridge side of things super effectively, we saw that as an opportunity to create our niche in the debt space, and we started lending out money to real estate investors here buying multifamily new construction value-add.

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Eric Panecki. Eric is a co-founder of Leverage Capital Ventures, a private mortgage, and origination company. Leverage Capital Ventures connects investors with financing for all major product types in the growing urban and suburban markets to develop office, industrial, residential and retail spaces. Eric, this business, and they have a very unique business model where they have both equity and debt in-house, it's really cool that they can do this ultimately bringing different skill sets that he and his business partner had, and man, putting them in one house, it's incredible to hear how that is working for them, how that's a hedge or different types of markets for them as well. He is gonna go into interest rates and some of those things that he expects to happen. You need to hear his perspective considering he's a lender. Right? And so I love hearing some of the things he talks about around interest rates, maybe some things that he expects over the next six to 12 months. I know you're gonna learn a lot from Eric today.

[INTERVIEW]

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WS: Eric, welcome that to the show. I'm honored to have you on. Just from what I've learned about you already, you have a unique business. In our world of syndication, you all do some things that are very unique and I'm not sure that I've had anybody on the shadow out of however many episodes now for almost 1300. I don't know anybody that does exactly what you're doing, so I'm looking forward to the conversation. I know the listeners are gonna be intrigued about what you all have accomplished and are doing in your business. But give us a little more about Eric and who you are and let's jump in.

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EP: Yeah, Whitney, appreciate the intro. And thanks again, for having me, it's an honor and a pleasure. A little bit of background about myself, I come from, well, I've always been an entrepreneur. I've always been entrepreneurial growing up, whether that's shoveling snow for money or mowing lawns or starting a party clean up business in college, I've always had that entrepreneurial itch, if you will, and I kinda got started into real estate, just looking for what a lot of people look for – financial freedom, not having to answer to the man and figuring out a way where I can create the life that I wanted around me and not have to answer to anybody else. And so that was what was intriguing for me, about real estate, I got started out in the debt space, lending money to Real Estate Investors, working for a small hedge fund, focused primarily on fixed and flipped investors, hard money, to use the term, and that's how I got my start. I didn't last there super long, probably nine months, I don't think I was ever really meant to be an employee. Left there was flipping a million-dollar house in Montclair, New Jersey, which is if you know New Jersey, it's a high-end market. I was definitely not ready or not in a good position to be quitting my job with a hard money loan and eight grand a month mortgage payment, and I was just figuring it out, so from there, started brokering loans, met my partner, David, who was doing similar stuff, some short sales, some whole sales, we hardened up about three and a half years ago, and I started doing what a lot of people do when they start out in real estate, which is a wholesale fix and flip one to four families faced and as we grew, we both know that's not where we wanted to stay, so we started to focus more on the commercial multifamily space, where we started acquiring assets, five plus units, multifamily in the New York, New Jersey markets, which is a pretty difficult market to do business in, but if you do it right, you can do really well, and that scaled up. We've got an amazing team here and we've grown to do about 100 acquisitions annually, and what we saw in the multifamily space is that on the bridge debt side, there was kind of a need in the market for short-term debt for when you're acquiring these multifamily assets with value-add potential and then growing them and adding value and then refinancing, there wasn't anyone out there really doing the bridge side of things super effectively, we saw that as an opportunity to create our niche in the debt space, and we started lending out money to real estate investors who are buying multifamily new construction value add, and that scaled. We started that business about a year ago, and that scaled to do about 100 million in loan volume just last year, and we're really excited about that business. So, that's my background. We have a really amazing team and we're excited for the future.

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WS: Now, just so the listeners understand that you all are acquiring commercial real estate, but also providing debt as well, so you're kinda both houses there.

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EP: Exactly, yeah, my business partner, Dave, comes from a private equity, and what we saw larger institutions, a lot of them are doing is they have both the debt and the equity platform, which is really a hedge against each other when typically when equities are doing really well, the debt market isn't as attractive, and then when the debt market's super attractive, equities aren't doing so well. So we saw that as a natural progression and a hedge against maybe future downturns in the market.

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WS: Yeah, that's incredible. So Life Bridge Capital, we're at 325 million assets under management, 13-15000 doors being on what we're buying and selling at the moment, we wanna start I'm just This is very hypothetical well, not really, we've never thought of this before, we wanna start getting into the debt business as well, how would we do that?

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EP: Go get some money. It starts from money, right? I guess technically, it really does, right? So, the debt business, even the bridge space has become a lot more institutional over the past couple of years, so in the mortgage business, generally the originators don't hold the notes, they're selling up their paper to, whether it be mortgage-backed securities or they're selling to the bigger banks, and the same has become true more in the bridge space, so there's investors that are buying notes, so if you're gonna lend out money on either one to four family or a commercial property, typically at the end of the day, there's a loan buyer that is gonna buy that paper from you for a premium, so the originator gets paid and the loan buyer gets paid, so the loan buyer's aggregating a bunch of these notes, and then they're collateralizing them and then selling them off again to larger institutions, whether it be Wells Fargo or Chase Bank or one of these bigger banks. So, the first thing to do, I mean, you can absolutely be a balance to lender and keep logs on your books if you're just looking for a set return, and I think it's really define what your investment goals are, so if you just wanna have a nice return on quality assets, you could absolutely do that.

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EP: If you wanna scale your business and you have limited storage to capital, you're gonna have to have a loan buyer, you can turn that money over quickly, so for us it was starting to find out those loan buyers and then going after money and make sure that we could capitalize these loans.

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WS: Yeah, yeah, no, that's interesting. We can raise money, but we've never thought about providing debt. Right? So anyway, just an interesting thought how you all have both of those dynamics in your business. I guess, tell us, how do your investors see that if they're partnering with you all, what does that look like from their point of view, maybe questions that they have or concerns, or does it just give them warm and fuzzies that you all have both of those things in-house?

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EP: On the debts side, we went about it, first, we were basically doing what I said, we were funding loans and then we're selling them off, and we didn't have a fund structure, we didn't really have it all figured out initially, so it was more like, hey, if you give us the capital for this loan will return your money in a month and pay you out whatever perfect return, whether that be 50 basis point until we figured, we turned it into a well-oiled machine, at which point when we had a proof of concept, then we went out and we raised a fund with that concept, so the debt fund is pretty attractive because it's got pretty safe returns, we're giving us 7-8% preferred return to our investors, plus 50-50 on the upside, so depending on our execution that could, it models out to be about a 12% return, and it's backed by real estate assets that are discounted at market value, so that's a little bit different than on the equity side of things where you're really raising on a deal by deal basis. So, both are interesting to our investors, but I think what people like about investing with us is that we have control over both, and we can understand what the debt's gonna look like, our assumptions aren't really assumptions because we already know it. So, having that all-encompassing approach, I think has alleviated a lot of concerns for investors when they're investing with a company that's been a bit around for a year or two years or three years, or I'm only 28 years old to have that knowledge and that basis backing us, I think has been really important.

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WS: That's incredible, it's not, you say, you know, it's not an assumption anymore because we know. We know what it's gonna be. That's incredible. Speak to a bridge debt right now. Is it too risky to have bridge debts right now, or floating rates, things like that, what should the listeners be considering right now around bridge debt or the type of debt as, you know, just in our current state of the market?

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EP: Yeah, I would say it's always risky because especially in the commercial world, cap rates are really centered around that assumption as interest rates rise, cap rates also are going to rise instead of compressed. Right? So, your valuation at the end of the day is a lot contingent on the take-out financing, and over the course, in the last four weeks, we've really seen a large jump in interest rates on a lot of these DSCR loans the debt service loans that we're doing. We've seen 70 to 80 basis point jump over the last four weeks, and that can really make or break your returns at the end of the day. So, I think everybody should be thinking about the worst-case scenario always, and you wanna be able to build a business that you can feel confident about for the long term. So, there's a lot of these attractive five, 10-year arms with interest-only options out there right now, it's very competitive, but at the end of the day, after five years, you might see a 200 basis point jump in your interest rate, and then you're holding all of these properties that might not make you any cash flow, and you might not be able to sell, not because the cap rates have gone up drastically just because of a debt, so what we try to do is assume the worst-case scenario and try to get when we go into long-term debt, we're looking for a 30-year term financing, even if the rate's a little bit higher now, just to be able to sleep at night at the end of the day and not have to worry about rising interest rates and keeping an eye on the economy at all times.

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WS: So, before we go into that a little more, maybe I'd like to know any predictions that you have just for the real estate market over the next six to 12 months?

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EP: It's hard to say, right? I think anybody that gives you a real prediction is guessing. (Sure.) But I'll give you my best guess. I'm an economics major, so I definitely love to keep an eye on the economy, my thought process here is that rates are gonna rise to have to. We're seeing massive inflation right now, and the best way to combat inflation is to raise interest rates. That said, the United States in particular isn't so much into national debt that it can only raise rates so much. Right? They can't raise rates to the way they were in the 80s, 90s, right? Because it would put us in a position where we can never pay back our debts. So, I think rates will rise to one effect. I don't think we're gonna see 10-12% interest rates at any time soon, but I think they have to combat inflation to an extent, so I would assume rates to continue rising over the next year. Maybe another 50 basis points. Maybe a point, I'm not sure, but I don't see them going down. I'll put it that way.

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WS: Yeah, yeah, I think there's some good things there just to consider to think through just maybe how our government would look at things, I just think it's interesting, you know, they can't raise it too much or we could never pay back our debt. Speak to how maybe just what you know about that, and even majoring in economics and is your debt experience those things, how has this changed how you all are underwriting deals?

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EP: Like I said, we're primarily focused on the commercial real estate space, so commercial for us, I'm talking about five-plus units, multi-family, so the majority of our loans are in that space. So when we're looking at funding a bridge loan, we're looking at the after-repair value, right, just like you would in a fix and flip situation, the difference is the driver of that ARV is really dependent on the cap rate, and then the cap rate is gonna be really dependent on what the take out financing looks at the end of the day.

So we're modeling these out and we're asking our appraisers to assume a little bit higher interest rate on the take-out, so that'll allow us to basically factor worst-case scenario, if rates do rise, that the value is still gonna be there, and I think investors should do the same, right? I think nobody really knows what's gonna happen, but at the same time, I'll say, we can't sit here and wait and say, oh well, I'm gonna wait for the market to crash before I do anything either, 'cause we all know those people. And they would have been waiting for the last 10 years, a really, really long time for a market crash.

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EP: Exactly. So, I think it's a balancing act, right? I think you have to be okay with some risk in this

business and you can try to plan for the worst, hope for the best, and that's kind of what we do.

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WS: I know you just raised for a fund, tell us some lessons learned around that.

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EP: My biggest lesson is people invest in people, you can have the best pro forma, you could have the best pitch book, you could have the best anything. At the end of the day, if they trust you and they like you, they're probably gonna give you money. If they don't, then they won't. And for me, that's been a good thing. I think at the end of the day, when we started to go raise money from people that I realized that they were investing in us, and it wasn't really. We spent a lot of time, money, and energy building this crazy pitch book and pro formas and waterfall structures right, everything that everybody does when they go to raise money, and that's important, but at the same time, just being, open your eyes and making sure that you have a good product that you can stand behind and you believe in, and being able to deliver on your promises is I think the most important thing.

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EP: So, when you go out to raise money, just remember, I think, people are investing in you, and whatever you say you're gonna do and make sure that you're able to execute on it.

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WS: What's your source for meeting new investors right now?

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EP: For us, it's been word of mouth we raised money from someone, they refer us to someone else, and then they, you know, once you're in with a group of higher net worth individuals and you deliver on your promises, that leads to another one for us it’s been word of mouth.

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WS: What are some daily habits that you have that you're disciplined about that I've helped you achieve this level of success?

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EP: Whitney, I was actually listening to another one of your podcasts yesterday to prepare for this, and I think you said something along the lines of 80% of successful people have a morning routine that they stick to, and I couldn't agree more. For me, when I'm in a routine, when I'm very consistent with my morning routine, it's an absolute game-changer, and when I'm off, I'm off and everybody knows I'm off, right, so I think it's really just being super disciplined, I wake up every morning at 5 o'clock, I set my alarm, I go to the gym. I make sure that I plan my day, I've reviewed my calendar, I set my priorities, but just having, I think you could have, I don't know if there's a set morning routine that is the best, but I think just having that discipline every single morning, very consistent and meaningful with your mornings, I think is super important.

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WS: Yeah, I just find that there are people who say no, I don't have any kind of more routine, I just get up whenever and do whatever, there's no consistency, and they're very ultra-successful in whatever business they're in. That does happen. However, I just find 1300 interviews, man, more times than not, people have a consistent routine and they're constantly educated, constantly moving things forward, and whatever that looks like in themselves and in their business, and whether it's physically or mentally and their family and kinda applies to all those parts of your life, right. And so, yeah, I appreciate you listening. And even bringing that up. And if you could pick one thing that's contributed to your success in maybe 28 years old, you and Dave have accomplished a lot, what would you contribute that success to?

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EP: I would say building a good team for us, and we started out thinking that we had to do everything, and the minute we realized we can empower these people and help them become the best versions of themselves, and allowing them to grow the business along with us. We have a very, very open culture here where everybody has to say, everybody has an opinion, but I think everybody here will tell you they feel like an owner. So, sometimes it's bad because we're arguing with each other and you don't wanna say, oh well, hey, I'm on the boss, sit down. You can't do that, right? And it creates a little bit of inefficiency, but I think everyone here cares more about the job than any other culture I've ever seen, so we all feel like owners and that's empowered us to grow without necessarily having to force the issue all the time. Everybody here understands our goals and where we wanna take this thing, and everybody's bought into that. So, my biggest thing is building leaders and understanding that I don't have to be the one in charge all the time, and allowing our people to take charge and build this thing along with us. We would be nowhere

without our team, and we have a really amazing teammate.

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WS: Give us a corner to on building a culture like that.

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EP: It wasn't easy, for sure. We've hired consultants and management structuring companies to help us get it there, the culture has always been pretty open, but allowing people to run departments has been huge for us. We created KPIs for each department, so even if you're not involved in that department, you have somebody else leading it, you can quickly check in on last week's progress and all the measurable and see how that department is doing. And what that's allowed us to do is instead of being involved in everything, being able to just a high-level look at numbers and see how that department head is running their numbers, so we have what's called the scorecard for each department and the company itself, and we can run our numbers and look and see, and what that's really allowed us to do is empower our leaders to take charge of these departments without totally relinquishing control entirely, we still can get insights into where that department is doing and how it's backup, but that's been huge for us.

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WS: How do you like to give back?

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EP: How do I like to give back? The best way I can give back is I have a passion for financial literacy, I think it's one of the things that this is just not taught in school, and it's almost so simple to me, and I think a lot of people in our space, it's not known it's just not, there's little things you can do as such us like getting a credit card when you're young. Right? And starting to build your credit or not signing up for 200,000 of student loans without knowing what career path you wanna take, right? Or getting a car loan on a brand new Mercedes when you could have bought a 2010 Honda Civic for four grand. Right? And these are things that almost, to me, are intuitive, but if you don't do things the right way, you can really dig yourself a very, very deep hole, and I'm not a Dave Ramsey fan where no doubt, don’t think of any doubt. But at the same time, I think there's smart things you can do through the course of your life that can really set you up for future of success where you don't have to be burdened by the white picket fence and your wife needs a Range Rover and you gotta make sure you keep up with the Joneses all the time, where you can actually have your own financial freedom just by making a few smart decisions.

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EP: So, my best way to give back is, I'm always trying to teach that in our company, we're starting to do some philanthropic things around our city to teach financial literacy in the city of Newark, that's where we're located, and just ways that we could give back and teach that so then later on, these people can live a life where they don't have to be so buried in by debt.

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WS: That's awesome. We've done a disservice to so many generations by not teaching any kind of financial advice or just how to think about money through middle school, high school, (**EP:** It's crazy.) all those years here, where, man, just some simple things could have gone such a long way in helping so many people, but I would also say, I bet Dave Ramsey doesn't have too many fans that are in the debt business right. Now anyway, I think a lot of Dave Ramsey as well, but it might apply a couple of things a little differently than what you would do around it, but anyway, Eric, grateful to meet you, have you on the show. I just need to think about, hey, having the equity and the debt in-house, I mean both, and having a business in both of those fields, I think that comes from both of your backgrounds as well. Right? And having those skill sets, and it's building that team, finding those experts that can bring things like that in-house, whether it's equity and debt or whether it's other asset classes or whether, or whatever it may be, it's man, so much about building the right team, and sounds like you and David have done that very well.

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WS: I love the culture you all built there as well, and how you describe that as everyone feels like owners, and there's a lot to be said about that type of culture, you know what I mean? People take pride in what they're doing and they see it less as a job, they're ready to get there and want to do it well, and so grateful again to have you on the show. Tell the listeners how they can get touch with you and learn more about their value.

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EP: Instagram's a good one. Eric Panecki, you can move us up, leverage companies. I'm on social media, Instagram, Twitter, Facebook, definitely. You can find us on LinkedIn, search our website. My email is Eric@leveragecompanies.com. Feel free to reach out any time. We'd love to have a conversation, whether it be debt or equity, we're really trying to blow this thing up, and when they were grateful for you having us on and everything you're doing, I've learned a lot from your show, and it's been really awesome seeing you grow and we appreciate it, thank you so much.

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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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