

EPISODE 1297

[INTRODUCTION]

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Hunter Thompson (HT): If you're thinking that interest rates, you're gonna go to eight and you've been thinking that since 2010, like a lot of people have, it's not that you've been conservative, you've been investing wildly inappropriately, and that's the message that I wanna get to the audience. While there is uncertainty in the marketplace, in today's inflationary environment sitting on the sidelines is something not an option, it is not a conservative approach, it is burning money in your purchasing power.

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Whitney Sewell (WS): Bond yield, inflation, interest rates rising, supply chain issues. Wow. What is going to happen? Well, our guest today is gonna dive into each of those things, and what he thinks is gonna happen in our economy in the very near future, our guest, is Hunter Thompson, he's a full-time real estate investor and founder of ASYM Capital. Since founding ASYM, Hunter has helped more than 400 retail investors acquire over 150 million dollars worth of mobile home parks, self-storage, retail offices, ATM machines, and Cryptocurrency assets. Hunter is also the host of the Cash Flow Connections Real Estate podcast, which has received over one million downloads. I've known Hunter for a number of years now, and it's been incredible to see his business grow, he is somebody that I just respect and enjoy how he takes so much time to educate himself and consistently, and you're gonna hear us talk about that, but he's been on the show, he was show number eight, it's hard to believe it's been that long ago, but he's done a couple of shows since then where we talked about different things. But just economic outlook on the current environment for investing, he's going to go into some of those things that if you've not heard these things, I hope that you will still stay tuned, you're gonna learn a lot that he talks about, and he'll try to break down some of the things that may be initially may sound complicated, right? But if you're in this business, whether you're passive or actively, you need to hear some of these things, so you are more familiar as you are investing or looking for deals.

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WS: Hunter, welcome back to the show. It's an honor to always catch up with you to somebody I definitely respect in our industry and somebody who has just educated, I just see you as somebody that's just constantly educating and learning from some of the best in the business, so, happy to have you back.

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HT: It's an honor to be on. Thanks a lot.

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WS: You were a show number eight I can hardly believe that, and then you've done a few shows since then where we talked about numerous different things, and one of your focuses now, which I think is so good to be focused on, because I also get questions about this often, it's like all the time investors or even other active guys are trying to figure out what's an economic outlook, what are we seeing, what are we thinking, What does interest rate hike means, all these things, right? And so I'm grateful to have you on so we can talk about these things. Why don't you get to start a little bit about what you're looking at and maybe share a little bit about your outlook and how we can dive in.

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HT: Sure, first of all, before I jump in, I know there's a lot of passive investors that listen to the show, but there's a lot of active owners, and I have, in the past, we talked a lot about raising capital, if you're interested in how to create content and how to always be asked on someone's show, if you can get a really solid data-backed economic outlook, it's Evergreen. Because things always change. It's always a hot topic. So I just wanted to say that really quickly. So this is really important for a lot of reasons. We are playing in an economic world, and the lens through which you have to view the investment space is through the lens of economics. If you're not playing that game, you are, you just don't know it. And a lot of us found this out in 2008, and so what happened with me is I was in college at the time, I was very insulated from that risk, when all in on the world of finance started learning like, hey, what is the stock market, what are bonds? What are these things? And something insane happened in 2010 that shifted things quickly, and I've talked about this before, but I just need to set the stage.

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HT: When the European debt crisis happened in 2010, it created massive volatility in the US markets, and all of the discussion around what it means to be “diversified” was thrown out the window. That was kind of the moment that I realized I've gotta go into real estate, I've gotta find something that's simple enough that supply and demand – sound fundamentals – are actually gonna dictate the return profile of the investment as opposed to something ridiculous like big German bond yields, which is whatever was focused on at the time. That moment made me recognize if you're not paying attention to the economic data points, these things are gonna take place, and so right now, there's a couple of things that are taking place that everyone is kind of chattering about recently, the bond yield curve inverted, which we can discuss what that means, inflation is ticking up significantly, interest rates are rising likely because of that, we've got some challenges regarding supply chain issues, and there are some challenges with the amount of debt that's out there as well, so there's a lot of warning signs, but I actually have a reason to believe that we're actually in an incredible, and I mean a potentially once-a-generation type of buying opportunity. And so that's what I wanna talk to you about today.

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WS: That's incredible. I'm excited to hear it. I am. I'm excited to hear it. And so I wanted you to, you said that bond yield inverted, and then there was a second thing that you mentioned there, that interest rate, supply chain, I missed the second thing.

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HT: Yeah, inflation as well. It's a very critical piece of this conversation for a lot of reasons. Let's talk about the inverted bond yield first. And the inverted yield curves is what they refer to. So, typically bond yields slope up into the right, meaning that the more time risk you're incurring as an investor in bonds, the higher the return profile should be, 'cause you're getting paid in let's say, 10 or 20 years, you'd expect the risk term profile to be higher, not just because of the time value of money, but because of the risk associated with how long it takes to get paid. So that makes sense. And that's in a normal healthy economy, they slope up into the right. Now, in kind of economic unique situation, there's so much concerns around risk that people flood into the bond market, and it's so much so in today's environment, briefly, that the two-year return profile is

actually higher than the 10-year, and that's when the inversion takes place that everyone talks about, and so this typically, I mean, 80-90% over the last 10 years or so is a trigger, like I guess an indicator, I should say, for a recession happening, typically 18 to 22 months after that inversion takes place, and so we can talk about what a recession might mean or whether or not we're heading for a recession, that's just a brief moment as far as why people are talking about this inverted bond yield stuff.

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WS: Where would the listener find information around that data point. And really, I know there's probably some, as soon as you said, bond yield inverted, some terminology like that, they're like, oh my goodness, I have no idea what he's just talking about, so I appreciate the explanation. Right? But where could somebody see that and maybe learn a little more about what that means exactly?

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HT: I've gotta do some self-promotion, but it's free, so Episode 85, I did yield curve inversions and what they mean for real estate investors. And if you search ASYM Capital E85 or yield curve inversions, very smart guests I had Ali Wolf, I believe, came and talked about them, and she specializes in real estate and recession, so it's a good place to start.

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WS: Awesome. That's great. Hunter does have an amazing podcast, by the way, so Episode 85. All right. So, now, inflation, move into inflation.

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HT: Okay. So, there are a big risk taking place in real estate that we are definitely gonna be paying attention to. This isn't like some potential indicator like this is actually happening and deals are changing because of that, which is rising interest rates, and I'll tie it into inflation really quickly, but that's not like some, like, maybe it works, maybe it doesn't. If you're buying a property at a 4% interest rate, and in the 90 days that you're under contract or in escrow, that interest rate quote changes by 100 basis points, that's a significant change in the return profile, the price point, a lot of deals are bouncing out of escrow and getting re-traded because of that, and that's

understandable, but we've gotta put this in context, and the context is inflation. So, during 2020 and also in 2008, '09 and '10 central banks across the world printed trillions of dollars, just in 2020, the Federal reserve created, six trillion dollars and central banks other than the federal reserve created additional four trillion dollars. So, a total of 10 trillion dollars. What happens when this liquidity is created, it creates this massive surge, like a tsunami looking for yield, and it floods the capital markets and eventually works its way into the financial system and into the consumer. See consumer prices.

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HT: Now, there's something to be said, there's a difference between equity prices and consumer prices, these are basically two different types of inflation, but the first thing it happens is there's only one place to really place trillions of dollars, which is the bond market, once that starts to take place it works itself through to private equity, venture capital, to real estate, for example, but trillions of dollars, like to move trillions of dollars into real estate would create a crazy, crazy price inflation and guys, that's what I think we're on the verge of. But once we start to get into consumer prices, we're seeing, let's say, 8% inflation on an annualized basis, which is like a multi-decade high, you're correct to think that renters are going to be squeezed, but the truth is, they will be swept, as real estate owners, inflation is not just a hedge, or real estate is not just a hedge against inflation. Inflation is a massive tailwind to real estate owners across multiple different reasons. Number one, prices likely increase, that's what most people think of, the prices of the asset likely increase to offset the equity increases across the board. Number two, as inflation takes place, it would be a wash to a real estate owner if your operating expense ratio was 50-50, because once you implement a business plan in a real estate deal, for being conservative, you would anticipate that rents would likely increase at the rate of inflation, and also expenses would increase at the rate of inflation.

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HT: Whitney, I know you've done a lot of deals, if you're being conservative, you'd usually try to get to some number like that, where those two things move the walk step. Are we on the same page so far?

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WS: Yes. Yeah, keep going, this is good.

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HT: But in most real estate assets that you and I purchase, there isn't a one-to-one ratio between expenses and net income, it's far weighted towards net income, so the gross, I guess they should say the operating-expense ratio is not 50:50, it's usually something in the range of 60:40 or 55:45 or in self-storage, 70:30 in some cases. So what this means is that inflation is increasing the top line by 5%, increasing the bottom line by 5% or 8%, but because those two things don't have a 1 to 1 ratio because it is far heavily weighted towards gross, high top-line income, the net income significantly increases. Does that make sense?

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WS: And I was trying to think about how, even trying to simplify that for the listener as well.

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HT: I'll say it one more time, these are complicated things unless you're super familiar with the language and the typical rules of thumb. Most people say that real estate trades on a multiple of income, which is where we get this concept of cap rates, this is the net-net of everything. Gross minus expenses equals net, but the top line might be increasing by 8% if inflation is increasing by 8%, but in expenses are only a small percentage of that gross, it's not a one-to-one ratio. If it was a one-to-one ratio, the net would stay the same, but the net is not gonna stay the same, especially in self-storage, for example, you're gonna see significant year-over-year increases in the net because the gross is increasing so much more than the expenses are on a proportional basis, that's part one, so the multiple on which the real estate is traded is going to likely increase, the net income itself will likely increase, and there's another piece that almost no one talks about, which is what inflation does to debt, and this is like the x-factor, especially when it comes to thinking about interest rates, so when we purchase real estate, let's say we're buying a 15 million-dollar piece of property will likely put 33% down.

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HT: We put 5 million dollars down, we borrow 10 million dollars from the bank. That 10 million dollars in terms of purchasing power, that's gonna be significantly eroded by inflation, and the

higher the inflation is, the more that it's eroded so much so that now the bank is on the losing end of this concept of compounding interest.

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WS: You know the lender, gets the roll into the deal.

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HT: Exactly. You've heard of the Rule of 72, the bank is on the losing end of the Rule of 72, and if you're not familiar with that, you can Google it, but it's an easy way to calculate what compound interest kind of does. If you have a 10 million-dollar loan and inflation is ticking at 8% per year, after around 10 years, the purchasing power of that 10 million dollars, meaning the purchasing power that you're gonna have to pay the bank back is cut in half by a 10-year period.

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WS: That's at 8%.

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HT: That's exactly correct. So what this means is that while people are chattering about interest rates being too high, the reality is they're actually net negative on a real adjusted basis, when you account for inflation. The bank is paying you to buy an asset, which will likely increase, not just because equity prices will increase, but also because in a wide net bottom line will also increase as you erode the amount of money that you're gonna pay them back by whatever the inflation rate is, this is the trifecta of opportunity for real estate investors when it comes to inflation.

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WS: So ultimately, who cares about the interest rates going up when, Inflation is going up much more.

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HT: That's the case. But I started the story out by talking about how economic can slap you if you're not paying attention. I don't have this perm of bullish outlook. I said that interest rates rising, that's a serious thing that can blow up a deal for real, we have not yet backed out of the

deal because of this concept, but I know some partners that are very savvy that have, You should be keeping eye on this, but if you can conservatively underwrite a deal that can hit, let's say, a teen IRR without factoring in what I'm saying, if what I'm saying is correct and it does happen, and this multi-trillion dollar tsunami does crash on United States real estate, like, I think it might, we're gonna be in a position of ultra-low cap rates, and I think I was able to interview Ethan Penner, who is credited for creating the commercial mortgage bank security industry, basically. And he says, when I look at the last 100 years of interest rates and people are always asking, when are interest rates gonna rise back to the six and sevens and eights, I think they're asking the wrong question, I think it's far more likely that interest rates will go negative before they hit that and looking at what's going on, the macroeconomic picture, looking at the United States being one of the only industrialized countries with positive interest rates, man, if you're thinking that interest rates are gonna go to eight, and you've been thinking that since 2010, like a lot of people have, it's not that you've been conservative, you've been investing wildly inappropriately, and that's the message that I wanna get to the audience. While there is uncertainty in the marketplace in today's inflationary environment sitting on the sidelines is something not an option, it is not a conservative approach, it is burning money in your purchasing power.

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WS: It's incredible. I guess, tell me how that changes how you're looking at deals right now, or maybe how you would have looked at them six months or a year ago.

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HT: Well, just going back a little bit further, I have always had a very similar approach where I'm looking for favorable risk-adjusted, particularly recession-resistant investments, and that usually includes mobile home parks, self-storage, and multifamily apartments, and the ratio of what I focus on changes as the market dynamics change. So going back 2012, I was jumping up and down. No one cared, by the way, 'cause I was just getting started, but I was jumping up and down saying, the mobile home park business is trading at 10 caps. You can buy a property in cash implement no value add strategy, and you can produce 10% cash flow even if you don't borrow any money, and I thought either this is all (inaudible) game and I don't know what I'm doing, or this is gonna change. And it did change. From my perspective, there used to be about a 600 or sometimes 400 basis point delta between multifamily apartments and mobile home parks

as more people have gotten wind of this, not because of me by the way, but just generally the market kind of figured it out, delta came down and in some cases, inverted where mobile home parks in the market are actually more expensive on a cap rate basis than multifamily apartments.

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HT: So, if I'm comparing those two asset classes, the desirability of multifamily apartments is now far more desirable to mobile home parks in today's environment, that's just my perspective, doesn't mean I don't invest in mobile home parks, but you get the point right. The percentages will surely change as the market dynamic changes, so that's been a big part of the thesis. I was very heavily into mobile home parks in 2012, 13, 14, 15, 16, and 2017 started to focus more on multifamily apartments, and I'm proud of the results that we've created for our investors, but the percentage is always changing, by the way, if you were just in multifamily apartments in 2012 did pretty (inaudible) good as well.

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WS: No doubt about it. What does that look like now, as far as the asset classes you're focused on and based on the information you were just sharing with us.

0:16:38.6 HT: Okay, so I wish I had some cool little hook that I could share with you and you get your mind blown, but I'll say it in a way that's a little bit inflammatory. I was just recently at The Best Ever Real Estate Conference, and I was kind of explaining my outlook, I really said to the audience, a lot of you are sitting here and you're doing what the largest private equity companies in the world are doing with all time high cash reserves, publicly traded companies, the BlackRocks, they all have the largest cash reserves that they've ever have, and they're all sitting there waiting for this massive buying opportunity, and I'm here to say that it's happening now that crazy, back-the-truck-up moment might in fact be happening now, because of the combination of the 10 trillion dollars, the inflationary environment where interest rates currently are, despite the recent raises and this insane problem that no one has an answer to, which is the affordable housing and generally housing crisis in the United States, the supply and demand imbalance is just inarguable to the tune of millions of units, depending on who you talk to, is from between four to five million units under developed, and so in this debate, I was in The Best Ever, which everyone in the stage was very bullish, generally speaking, I basically said, hey look, if my

counterparts over here, have a solution for that. I'll sit down and just let them do a one-hour presentation 'cause I don't see it, what I do see is this massive tsunami looking for yield, and the United States real estate with a crazy supply and demand imbalance and very favorable legal system and supply development rules and such compared to other countries, it's just very, very, there's a massive tailwind.

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WS: Unfortunately Hunter, we just have a few minutes left, but I wanted to make sure that you could share with the listeners where they can find more information about all four of these things you're discussing today, right? And even to learn a little more about each of them, and so even the person that's listening to this is brand new, maybe, new information or time that they've heard a lot of this stuff, where can they learn more about each of these things, but then also on a day-to-day basis, what are some of the maybe outlets that you trust where you're finding these things?

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HT: Okay, so first of all, we do have a show, it's called the Cash Flow Connections Real Estate podcast, and I've been able to interview some very high-level people, if you're already a listener to the show, to say that I'm grateful and I'm sure Whitney understands where I'm coming from, it doesn't even scratch the surface. I owe you listeners my life, and part of the reason it's fun is I can, because of you, I can reach out to people like Dr. Linneman, who is a Wharton economics saint, as far as I'm concerned, it very dialed in, he did a one-hour presentation on my show about his outlook, which a lot of these data points, him and I are both looking at tons of economic information on my show to be honest with you, I actually don't view myself as being a source of this information at all. I don't even look at the sources I prepare for those interviews and interview people and learned quite a bit during those shows. So, if you're interested in following the economics of things, that'd be a good place to start, but I just launched, which I'm so excited about, you can go to it right now, the 100K to invest summit, which is where I talk about mixing economics with different niches in the real estate sector, which niches are specifically best positioned in this economic environment, and it's a free summit, of course, you can upgrade for \$97 it's awesome, but it's 100ktoinvest.com and some really great people are gonna be speaking there and so check it out.

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WS: That's awesome. Is that virtual or is that in-person?

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HT: A good question. So it's a 100% virtual, and all it is is like first name, email address, you get access to the link, we always make it so that people have to pay attention, so they only get access 24 hours, so unless you can block your whole day out, you gotta upgrade to the VIP section where you can watch these for lifetime over and over again, and you get some collector bonuses as well.

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WS: That's awesome. Tell me, just a couple of final questions, though, I wanted to get a little different direction for just a moment, so the listener can learn a little more about you. Tell me, I know you are, you're an expert at working with investors, right? Tell me your best source for meeting new investors right now.

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HT: Man, best source for meeting new investors. So, if you're in the world of capital raising, I would highly suggest being willing to niche down to attract your dream audience, and I think that sometimes you can see some in it myself or Whitney has been the game for a while. Whitney, when he launched the show there were so many reasons not to call the show the syndication show, because the only people using that terminology is like me and him and Joe Fairless. And then all of a sudden, he predicted similarly this massive tsunami of interest into the world of syndications. So, when Whitney launched this program, it was a niche, and he's been able to ride that wave, so I don't suggest that you do some, 'cause now that term is so frequently used you gotta go niche, so if you're going to be creating content or something, I would pick a very specific avatar and go all-in on that avatar and that will really increase the amount of buy-in that your clients have with you, and so what we do is we have very specific focus on economics, and so we try to attract all the economics nerds and I can speak directly to them and it makes the whole process a lot easier.

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HT: I don't try to sell our investments at all, it's basically like, hey look, you follow the work, you understand the data, this is what we think. So makes it a lot easier.

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WS: What are some of the most important metrics that you track?

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HT: In my business or otherwise, you mean just economically?

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WS: You can answer in any way you want, in your business or personally.

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HT: Gosh, man, so I wanna answer the question honestly. So the first thing that came to mind is we have a Monday dashboard which shows pretty much every data point in our whole business, and that would include things like number of podcast downloads, number of recent comments, and are mostly, recently LinkedIn post, number of Instagram followers number of dollars raised, any deals that are coming down the pipeline and the respective anticipated closing amounts for those. That is all available one click, no meeting, and it really systematizes our business quite a lot, so if you don't have a Monday report, you should definitely have one.

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WS: Is that through a CRM, is that through some other system, how do you, is that all-automated or do you have somebody typing all that in somewhere?

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HT: Good question. So, all of that is pulling from so many different software that I have not found a way to automate it, but I don't do it myself, and I know that you've had a lot of success with this as well, but VAs, particularly VAs in the Philippines, have just completely revolutionized my life and changed our business' profitability, and by the way, the cultural, Philippines kicks butts, but that's the reality of situation, So [onlinejobs.ph](https://www.onlinejobs.ph), we've hired three full-time complete rock stars from

there, and it's just awesome, so big fan of that group.

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WS: I do agree, you can double or triple their normal salary and just pay them so well, and it's so much cheaper than what you can typically hire. So it's a great, great hire in addition to most businesses. What about some daily habits, Hunter, that you are so disciplined about?

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HT: Definitely working out, and that just basically solves everything, and I'll kind of give some additional color for that. I like to lift weights, and specifically, I like to train low reps, like heavy weights basically, so subs of sets of three and five, and the reason I say that is that if you do that, if you do heavy sets of deadlifts, heavy sets of squats, not heavy in terms of, it's a big number, but in terms of, so much so that you can only do three or four or five or six reps, it puts your body in a situation where structurally speaking, you're trying to recover all day every day, and what that means is that you're gonna eat right, you're gonna need sleep and then all of a sudden, all these problems start to go away because you're putting yourself in a life and death scenario, and you're actually training, not just working out or exercise, and you're training, putting a lot of weight on your back is like a very cool thing and this is not just for guys, I am very grateful that women lifting is now in trend because the something so confidence-building about not trying to be small, not trying to be quiet, but to be loud and strong, both from women and men, I think it is absolutely awesome. So get out there and train.

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WS: Number one thing that's contributed to your success?

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HT: Definitely mentors, just being able to model what works and not trying to figure it out on your own.

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WS: How do you like to give back?

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HT: We just did something really cool, we partnered with the group that helps, Gelt created a foundation, dealt has a billion dollars under management, they have a foundation where they help people who are going through acute problems stay in their multifamily apartments and not Gelt multifamily apartments, they just happen to create, I think less than 1% stay in actually Gelt Apartments curing homelessness through philanthropy, especially people that are going through some small multi-week problem as opposed to a lifestyle choice is so, so impactful. It's really great for us as well as real estate owners.

0:24:48.4 WS: I appreciate you giving back in that way, Hunter. Also grateful for just your time today, man, I love just how you are able to dive deep on some of these topics that most people won't touch, and it shows that you've done research, it shows you, you interviewed these people who have shared these things with you, and you spend time learning, and I look forward to go and listen to some of the shows you're talking about on your show as well, 'cause I want to continue to educate myself as well as I know you are doing, And so I love learning things like that from your show also, but how can the listeners get in touch with you, learn more about you?

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HT: I always tell my students one thing, 100K to invest, I don't wanna confuse everybody, 100Ktoinvest.com. Check it out. I'll see you guys there.

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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, go to LifeBridgeCapital.com, where you can sign up and start investing in real estate today. Have a blessed day.