EPISODE 1368

[INTRODUCTION]

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Whitney Sewell (WS):
Thank you for joining us again today and every day. I am grateful for your time your attention, I pray that you are learning a lot from the Real Estate Syndication Show. We are definitely putting so much time and energy into finding the best guests we can find and creating the best content for you so you can become a better investor and operator. Please like and subscribe whether it's YouTube, iTunes, wherever you listen. You can always reach out to us at info@lifebridgecapital.com. We would love to hear your comments even your critical feedback. So, would you please like and subscribe to the show, we'll be forever grateful.

Well, today I'm going to continue my conversation with Kevin Bupp. He is the founder and CEO of Sunrise Capital Investors which invests in mobile home parks, parking lots, apartments, offices and single-family homes across the US. He has 16 years of experience educating investors to locate, acquire and create higher than average returns from a widely misunderstood mobile home park investing niche. He shares his expertise through the Mobile Home Academy and also as a host of the Real Estate Investing for Cash Flow podcast which has become one of the hottest real estate podcasts on iTunes. He has a new book coming out and you can find that on Amazon. Of course, today, you can find it for free at KevinBupp.com/free-book. You're gonna learn a lot from Kevin today.

[INTERVIEW]

WS: I'd love to use our last few minutes to get your thoughts on what's happening now. You went through that recession, obviously a very tough time. You know, everything that's happening right now in our economy, the treasury, interest rates going up. How do you see all that? What are you focusing on? From what you learned, are you doing things differently now? What does that look like?

KB: Even back then I feel like I was a fairly conservative investor. That period of time turned me into an even more conservative investor. In fact, probably so much that over the last seven, eight, nine, ten years of a run-up, I probably have actually passed on opportunities that would have turned out quite well. Just from too much of a conservative approach of, I guess, having scars from going through that. I don't want to rebuild it again, I don't want to go through that again. And I'm only 43. So, I guess I have time, but I just rather not. I'd rather just be conservative and buy what I know will make sense. And well, absolutely not necessarily a home run, you can't hit home runs every time but I want to be hitting, I want to be hitting doubles, doubles, and triples. I'm okay waiting to buy the right assets. So, I think nothing's actually changed with our business today.

I would say that we're buying less only because, again, now I'm looking at the shifts in the market and the rates and you know, if you type a property today, there's a really good chance by the time your DD (due diligence) runs out, and you have to actually let your money go hard if you haven't done it already. I know a lot of the multifamily deals that you guys are having to put money hard up front but let's assume that you put a $500,000 up on a big deal that's refundable. You got 30 days DD, there is a really good chance at some point shortly thereafter, depending on the next Fed meeting, that rate is going to change again. And so, it's a such a moving target right now. I'm not sure exactly what advice to give today as far as how to buy the right asset right now until we can see a little sense of stability of, okay, well, there's not gonna be another 75 basis points hit in the next month, and then the following month after that where are we really going to end up. And so, I will say that the things that we have under contract right now, we have an asset under contract that more than likely, it's probably going to die now. The rate literally has changed, at least on that deal, about 1.25%. And it's a $17 million deal. I mean, that changes the economics entirely unless we can get a retrade and we're not in the business of retrading. But inevitably, the target moves and it moves so drastically that the deal is no longer what the deal was when we signed it up.

So, I would say stick to the basic fundamentals. Don't lie to yourself, don't buy a deal just to say that you buy. I see so much support on Facebook, not necessarily for full cycles, that people that took the deals full cycle, but there's so much like congratulations, great job, when someone just either gets a deal under contract or when they disclose it. That's just the start, maybe you made some money on fees. But gosh, like the hard work is just beginning and not knowing what this future path of volatility and uncertainty looks like, there's a good chance that that GP might work for the next three or four years and actually not make anything on that deal. They literally might work for free for the next three or four years. So, I would just say stick to the fundamentals, and make sure that you are absolutely positive that the deal pencils today on in-place NOI. First and foremost, make sure that it pencils today in in-place NOI if you gotta get into a deal today with the bridge loan, and you're gonna have negative cash flow for the first two years while you actually start executing that value add plan. I would second guess it. Again, that's just my opinion. I'm overly conservative. Maybe you'll get lucky and make it work because rents continue at double-digit increases. That might be the case but there are a lot of what-ifs in that scenario. And so that's buying what makes sense today with in-place NOI.

I think the best advice that I can give - don't lie to yourself. Don't push the model to where you're expecting five, seven, or maybe double-digit rent increases because that's happened for the past two years. Be uber-conservative, stress test it and then if your plan is a three to five-year exit, probably not put a four-and-a-half cap in there. You know, I don't know what to tell you to put in there but stress it to the cliff. Stress it and find out where it falls off the cliff. And if you think there's a realm of possibility in the next three to four years that we might be still not in this entry environment, cap rate environment, we might be there. Then second guess it. Know that there's another deal around the corner. There's always another opportunity. I think people get so caught up in the anxiety of, if I don't buy this one, this is the best deal ever, and if I don't buy this one, there won't be another one. And I'm gonna work all this time and I pass on this deal and then there might not be another one around the corner. Just know there's always another deal that will come your way. Just be patient and the right deal will absolutely come along. Most of the time you'll know when, your gut will tell you whether or not you should be doing that deal. My guts never lied to me. I don't know about you, Whitney. But every time I get a little bit of a feeling, and I go against what that feeling is, typically, it bites me in the rear.

WS: Yeah, it's a good alert measure anyway. But you mentioned you're even willing to walk away from a deal. You said it changed what, 1.25%? And I think it's what you said, and it killed the deal. So you all will walk away from this project now?

KB: Yeah, didn't kill it yet. You know, we've got a couple more weeks, we got a few reports away, engineering reports and such. So that when we go back to actually have the conversation, we can kind of lump everything together, there are some Capex items that are outstanding that I think are gonna come back from the engineer report. But I'm already mentally prepared. I kind of know the family that owns the property. They're a small generational family. And it's interesting, they own literally billions of dollars of assets. They literally, the correlation between what's happening with rates to values of property, it just hasn't registered in their brains. So, I don't think their expectations are any different than what they were three months ago, and they haven't adjusted accordingly. So, I'm not thinking it's going to go in a very positive light. I hope it does, I like to be optimistic about it because I think we are the best buyer. And I don't think there's anyone standing behind us waiting in line to basically buy something with a now razor-thin margin, it's a triple net deal. So, there's a, literally, it's a, the value that we cannot do anything different for five years. And so I mean, you're basically buying into a spread. That's it, there's nothing you can do to change that for five years to come. And so I don't know if there's anyone waiting in line to take that kind of risk.

WS: That's helpful. But I wanted to ask you one more thing on this. You mentioned, 2008 was a very different type of recession than now. Speak to that a little bit. A lot of people are confused. They didn't go through what you did then. They didn't experience that and don't have an understanding of what really happened in 2008. So, could you speak to what you mean by different types of recessions?

KB: There are a lot of different factors but let's just speak to housing. Back then, we had an excess supply of housing in a number of markets. And I spoke to some of the markets that were hit the hardest: California, Phoenix, Arizona, Las Vegas and then pretty much the entire state of Florida. We had an excess supply of housing, we were literally building rooftops for populations that were not there yet. In addition to that, a lot of the economies in those places aren't as diverse as what they might be. Today, more specifically, a lot of the major markets in Florida, Tampa, Orlando, Miami, and Jacksonville, they're much more economically diverse as far as employer basis than what they were back then. The same goes with Phoenix. I mean, Phoenix is an incredibly dynamic economy, night-and-day different than what it was pre-2008.

So, that's a big understatement that today, we literally have a shortage of roughly 4 million homes that we need right now. Whether it be apartments or homes, we need 4 million residential units right now. We had such a low on building coming out of the Great Recession. We weren't building, population was still growing, households were still forming. Then, we had this slowdown with the pandemic, to where, you know, there's a little bit of a blip on the radar, and then people want to start building again but then the supply chain completely broke down. And it's been really challenging for us to keep up with even the current demand, let alone make up for the demand that we've built up over the last decade or so. So, back in 2008, massively excess supply of housing for the population that we had at that time. Today, complete opposite challenge on our hands. We have a massive shortage. So, as far as residential is concerned, I don't think it's going to be the same type of crashing, and it's just, it's very different. We don't have the teaser loans that were in place back then, people have a lot of equity in their homes, a lot of people locked in. And incredibly, I mean, historically low-interest rates. I mean, 3% versus back then it was, if you got a six and a half percent mortgage, you were doing great. And a lot of those mortgages had adjustable rates that came into play as well.

In addition to that, for me personally, one of the big differences, I'm gonna speak to Florida, that's where we had the majority of our portfolio back in 2008. Not only was there an excess supply of homes being built but what happened is as soon as the shit hit the fan and basically what occurred was a lot of these builders that had hundreds and hundreds of rooftops, they started renting them out. They started doing whatever they could to pay their monthly.

Unfortunately, not only was the population not coming but people in jobs related to construction, people start moving away. I don't know if you've ever heard the phrase halfbacks. But basically, people were moving out of Florida going halfway back to the northeast, ending up in Tennessee or Kentucky or the Carolinas because there was still some opportunity there where Florida was basically in the toilet. We have a major occupancy issue in our portfolio back then where we were basically fighting against brand new homes that were being rented. They were offering concessions, we had to offer concessions. So, when people say will the rents ever go down? I'm not gonna say that's gonna happen this time around, I'm gonna say that it has happened historically. Our rents went down for a period of time. And I just said, we had to offer a lot of concessions. So, we had a massive occupancy issue. And then ultimately, what that spun out was, we had negative cash flow at some point in time. We had loans that were coming due. It just became a nasty mess that I don't think that most folks in real estate today are in that same position. Again, there's a waiting line of applicants waiting to get into homes in pretty much every market across the country. So, I don't think that we'll go through the same type of challenges. And again, we don't have loans that are basically where, you know, waitresses end up buying five homes. We're on No Doc-type loan statements and things of that nature. We're not going to have that kind of silliness.

But I do think that we're going to have a lot of challenges. I think unemployment, we'll probably see a spike in unemployment. We're always seeing a lot of tech companies having challenges right now. They're laying off by the thousands. Companies will struggle, companies will make layoffs. Inevitably, I think, that will trickle down into real estate in one form or fashion or another. But I do think that people that have those low-interest rates locked in, and I'll just speak to the typical single-family homeowner. I think that people want to hold on to that low-rate mortgage. Even if they lose their job, I think a couple of things will happen. Number one, they'll fight tooth and nail to hold on to that valuable asset which is not necessarily the house but it's actual loan, the underlying loan of that house. But now with technology, the Airbnbs of the world and there's a bunch of other apps like RentRooms in your house and things of that nature that didn't exist back then. And so, I think that people will get fairly resourceful and also rent out rooms in their house. They'll rent out their garage, someone wants to park the car, they'll do things, whatever they can to make that monthly nod and I don't think that those options weren't necessarily available back during or prior to the Great Recession 2008.

I do think that we're going to be in for some bumpy roads. Again, I think just sticking to the underlying basic fundamentals, buy things that only cash flow today, don't be speculative in nature, stress test your underwriting model to the nth degree, find out where that cliff is. And then, don't just take your own perspective. Get an outsider's perspective as well. Talk to others that have been there and done that. Talk to others in the marketplace and try to get their temperature of what they anticipate is going to happen. And then, make a collective educated decision at that point in time and know that inevitably, there will be opportunities around the corner. This isn't going to be, hey, if I don't buy now, we'll never be able to buy again. I promise you the opportunity will come and just be prepared for it.

And lastly, I think, last thing I want to mention is that, one piece of advice that was given to me prior to 2008, which I didn't take to, but I have taken two cents then, and I wish I'd made the decision back then, is that you never lose by taking some chips off the table. I know that real estate's a phenomenal hedge to inflation. It is. There's really not one much better than real estate. But also a lot of folks, they have a ridiculous amount of equity right now in some of their properties. I know you might not have another place to put it right away. Your dollar might get inflated away a little bit but it truly never hurts to have a bucket of cash sitting on the sidelines. You never really lose in the grand scheme of things, you just truly don't lose by taking some of your chips off the table. So, I'll leave it with that. And that's one thing that we've done over the last 10 years probably a little differently. We definitely are long-term holders but we have strategically sold a number of assets. And it's positioned us with a really, really strong balance sheet, a personal balance sheet to where I'll be able to weather any storm that comes my way. And also be prepared for any opportunity that could ultimately come out of this challenging time ahead.

WS: Now, I love that. You'll be ready to weather any storm but also be ready for the opportunity as well. Yeah, stress tested to death. Just some great advice, I just appreciate from your experience, Kevin just being real about what's happening. You know, about the cash, having cash on hand as well. I've heard somebody say that today, "no cash, you crash". So, you can't be so focused on the inflation that you're worried about losing the value of the dollar that you don't have a reserve.

KB: Same thing on a property level too. You know, on a property level, make sure that you, even if it means that you have to, like during the pandemic, we stopped distribution for a period of time until we realized that people were gonna pay the rent. But we \stopped distributions and we stockpiled cash for, I think, about four months before we resumed distributions. And if you don't have six months of operating capital or whatever that means to your particular property-level business, start thinking about that. You're getting your financial house in order and making it bulletproof and be able to withstand. Maybe it takes you a little bit longer to turn a unit. I know you got people waiting in line to get into one of your rentals but you know the labor shortage is real as well. Like finding the right people, you get some that trash your unit and it takes you actually three months to turn that unit when it should have taken him maybe three weeks in a normal situation. But you can't get the right talent in there to get it turned to get it ready again. Just make sure you got that cash at hand to actually pay the debt service and actually float you until you get another paying renter in there. So again, just be financially capable and ready to act in the event that you find yourself in a challenging situation.

WS: Alright, Kevin, I want to move to just a few final questions, very quick questions. I just want to get your thoughts on a few final things before we go. What's your best source for meeting new investors right now?

KB: Going to events. Live events are back again. You know, the Zoom thing was great, while it was great, definitely enjoy meeting in person. So, I attend a number of different masterminds, different boot camps, and things of that nature on an annual basis. That, by far, is the best way of meeting new investors and new colleagues in the space.

WS: What are the most important metrics that you track? And that could be personally or professionally.

KB: That's a great question. So today, our breakeven throughout our entire portfolio. What that breakeven is as far as occupancy, of what each one at property level, what each property needs to be at as far as economic occupancy to actually be at breakeven as far as expenses and debt service.

WS: What are some habits that you are disciplined about that produced the highest return for you?

KB: Steady exercise. I get up at least three to four days a week at four o'clock in the morning which I am not a morning person at all, and I still struggle to get up at 4 am three to four days a week. I take very, very long bike rides. It's kind of one of my things. It allows me to listen to audiobooks and get healthy while I'm getting educated and just puts me in the right frame of mind for the entirety of the week. It's been a habit of mine now for about 15 years,

WS: Nice. So, three or four mornings a week. It's not like every day, you're getting at 4 am?

KB: I do other workouts like on those off days. Pull out the grind workouts, the ones that yeah, 4 am and typically I ride about 40 to 50 miles on each one of those rides. And so I put it in a few 100 miles a week but it's one of those sports where you know, riding a bike, you can actually do something. You can listen while you're doing that. And so I get a lot of audiobooks and a lot of podcasts in. Whereas it's challenging to do that when you're sitting in front of a computer all day long, or your own phone. If you're not driving a lot for your occupation, it's really hard to get those hours and have good quality content.

WS: What's the number one thing that's contributed to your success?

KB: My family. My wife and my family.

WS: How do you like to give back?

KB: One of the big things that I've done, this also spun out of the '08 recession, I formed what is called the "72 Hours To Key West" bike ride. Again, 2008 left me with no money and a good friend of mine, Rod Khleif, I've known Rod for many years, about 20 years now. He's got an organization called the Tiny Hands Foundation where they have a lot of different initiatives here in Florida. They give back food baskets during the holidays, teddy bears to the local police departments, and a number of other initiatives. Rod used to fund that endeavor entirely out of his own pocket. He lost a lot of money during the great recession as well. And 2008 to 2009, we went from feeding 3,000 people during the Christmas season to like 300. And so I put together these bike rides, I didn't have money but I had legs and I had my health. I, basically, vowed to donate all the proceeds from this ride to the Tiny Hands Foundation. We're going on our 12th year. We missed a year due to a hurricane and another year during the pandemic but we're going on our 12th fiscal year of doing the actual event. We, ultimately, raise anywhere from $50,000 to $70,000 on an annual basis for his foundation and there's one other charity as well. It's a beautiful thing, basically taking my love for cycling and tying it into my love for giving back and helping others.

WS: Love that. I appreciate you sharing that. That's significant, I mean, 50 to 75 grand done in 12 years. I appreciate you giving back in that way. Kevin, grateful for your time, and flexibility today, as well. I know we went very long, you just shared some amazing content. I mean, even from the mentor and that relationship and what that did for you, but even through the hard times of the recession. And you and your wife during that time and sticking together during those hard times. Just being real with her about what was coming even before you were married. That was wise and really caring for her, I think, as well. But even how you went from mobile home parks to parking and helping us walk through that, even that deal, that $34 million deal. I think that's very helpful for many of us who have not thought about the parking lot that may be next to where we walk to every day downtown or you know, we've not even considered that. But then, even more depth in the recession 2008 versus potentially what we're experiencing now and your thoughts around that. We're very grateful.

How can the listeners get in touch with you? And also, I know you've written another book, tell them how they can get their hands on that book as well.

KB: Yeah, absolutely. Thanks, Whitney. Yeah, you can see it on my shelf back here if you're watching the video. It's called "The Cash Flow Investor: How to Create Legacy Wealth Through Commercial Real Estate Investing". I just launched the book about a month and a half ago. You can buy it on Amazon for $20. Or you can just go to my website and I've got a free copy up there for a period of time. Just go to KevinBupp.com/free-book and grab a copy of that. You can also contact me through my website, KevinBupp.com. Just go to the Contact Me page, and that's where I host my podcast as well. If you want to learn about what we've got going on as far as in the investing world through our company, Sunrise Capital Investors, you can go over to InvestWithSunrise.com.

[END OF INTERVIEW]

[OUTRO]

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