EPISODE WS1611

[INTRODUCTION]

Stephanie Casper (SC): And so to build a culture based on love, which is based on grace, right, and so, to me, this is one of the greatest opportunities that I have at age 53. To try our best to build a healthy culture, in the property management business, I think it's rare. It's kind of one of those things like sanctification, we want to be like Jesus, and we're going to spend all of our life trying to grow in our sanctification. We're never gonna get there, we're never perfect, there's one Jesus, all the rest of us are sinners. So to me, it's the culture. I don't think we'll ever get there. But it's just gonna be this pursuit that we have to build a really healthy culture of love and grace.

[INTERVIEW]

Sam Rust (SR): This is your Daily Real Estate Syndication Show. I'm your host Sam Rust. Joining us today is Stephanie Casper, who is the Chief Revenue Officer at Kiavi, a single-family residential lender. Stephanie is an investor with a small portfolio of rentals herself, and understands the challenges that real estate investors face.

She has been a lender to residential investors since 2015, when she joined CoreVest Finance, as Head of Bridge Lending. In that role, Stephanie worked directly with customers to develop additional loan products to meet the ever changing needs of the residential investor. Stephanie, welcome to the show. Thanks for joining us today.

SC: Thanks for having me. I'm super excited to be here with you today, Sam.

SR: Fantastic. Well, Stephanie, we'll just jump right in, fix and flipping is one of the most common ways that people will get into real estate investing. I feel like you listen to podcasts and you hear people's stories, 90% of people started out there. There's low barriers to entry.

And over the last 15 years, really since the crash of 2008. It's been a phenomenal time to fix and flip. But I see there's some folks out there that are saying because of the rise in interest rates fixing flipping is much higher risk. It's kind of dead on arrival today. What's your response to that you're working in the industry on a daily basis? Is that true? If not, why not?

SC: I think with the rising interest rate environment, it certainly presents a different challenge for flippers today than what they were experiencing, call it the first half of last year, right. And really, that's the certainty of the exit price, or the demand for that property at whatever price point they want to deliver it into the market. Because so many homeowners and homebuyers are going to be very heavily influenced or beholden to the current interest rate environment.

All of that being said, there is still a shortage from a housing supply and demand perspective in the US for kind of entry level homes, to homebuyers. And so regardless of the interest rate environment, there is always going to be a need for housing, there continues to be this need for housing, and flippers are often best suited to delivering those phones.

And so at Kiavi, we are financing all manner of flippers. I would say probably the broader flipping market in general sort of falls into these like three customer cohort buckets, or borrower buckets. One is like people like you and me, Sam, that have our day jobs, and maybe my brother's a GC and his wife is a realtor and the house down the street from where we grew up where our parents live has come on the market needs a bunch of work, it's aged and dated, until we have the means and the some of the skills to be able to sort of do this on the weekend, and deliver it out at a price point where the demand still exists, right? In this current interest rate environment.

On the opposite end of the spectrum, you have super prolific, vertically integrated professional flippers, who know their market inside and out have networks. So they're not buying off of the MLS, they're buying off market transactions at the right price point. They're doing the math and backing into, hey, I believe in this environment I can sell at this price point. So I'm going to pay this number, knowing what I have to put into it in the middle, right?

And so it's this math equation to determine what are they willing to pay, and what do they feel comfortable in terms of that exit. And then they have teams of folks doing this for them and sourcing and executing on those rehabs. Then you kind of have the middle guys and gals for that matter who have maybe quit their day jobs. They partner with a couple GCS in a specific market.

They work with one agent. They have sort of this team of folks but it's not this big, vertically integrated group and all of those customer types or flipper types are still finding success in this current market, because there is still this supply shortage and many homes that are being flipped. I think the average age or median age of a house in the US is something like 40 years right to Carter era home. And if you picture what that looks like it's probably popcorn ceilings and the cut up rooms sort of.

Yeah, exactly. I think actually about the house I grew up in is great and comfortable. But it's not quite what people want today in terms of the big, huge open kitchen, right? And so the only folks who can really have the expertise, and potentially, most likely the finances to actually dig in there and reposition that home for today's first time homebuyers' tastes at a price point that makes sense, is the flippers that you're seeing is still out in this space having success. Yeah, it's a math problem, right? The whole axiom that you make money in real estate on the buy, is really, really true in this interest rate environment.

SR: How do you see the groups that are being successful today projecting their exit prices? And what kind of sensitivity are you seeing people build in? Or what would you do speaking to somebody who maybe wants to get into fixing, flipping, but they're trying to figure out how do I conservatively estimate what I could get on the backside so that I can run the rest of the math problem?

SC: Yeah, look, I think there's a lot of data out there about where home prices are going in most markets, right? Zillow, for one, comes out with home price estimates or HPA estimates in virtually all of their major markets. I mean, they've kind of democratized from a data accessibility perspective, the single-family housing market, right? We all now can access the information on the internet and realtor.com present, you know, represents or presents out their view, Fannie and Freddie represent their view.

So an investor can really dig in, find the information related to what are the projections for home price appreciation or declines in their respective market? And then compare, you know, take that number, I would say and look at what are the most recent comps recognizing that that's backward looking, right? Those properties went under contract 30, 60, 90 days ago, versus what's showing up in the public record today as having closed, and then apply that home price depreciation expectation or appreciation expectation.

But keep in mind, the middle part is the part that I think is the most challenging for an investor and the skilled guys kind of know, how much is that $50,000 rehab really going to translate into in terms of exit price, how much value creation is really embedded there. A lot of the pros, or like the very prolific flippers out there have all of their own models and ways of thinking about this.

One of the things that we try to do for less experienced folks is provide those guard kind of guide rails or guardrails around, not over improving a property, given the specific market and helping the investor think through what is the potential return on this given these elements, and so will provide them with that guidance or input, or at least feedback related to scopes of work on the project, estimated repair value at the time that it's completed, could be six months forward, etc. And just trying to help get people down a path of not being over their skis, I guess would be the the way I would phrase that.

SR: Yeah, I think one of the common problems and you touched on a little bit in both multifamily investing and in single-family fix and flipping as we walk up to a project as an owner, and we're like, okay, what can I do to make this the nicest thing possible? And even like subconsciously, if I wanted to live here, what would I want it to look like? And that's the wrong question to be asking, just like the person before you didn't invest in the property at all, and it needs a little bit of TLC.

That's one ditch, you can also fall into the other ditch of over engineering or over monetizing something, and really shooting past your target market. I know in some of our complexes, we could spend $30,000 a door in rehabbing these apartments. But I'm not going to get the red pop to justify that my return on cost is going to be like 5%. And that's just not fundamentally feasible.

SC: That's right. And I think that that's the central theme to thinking through the current rate environment. In general, it is okay, that the interest rate environment means costs are higher for the buyer or costs are higher for you as the flipper or the investor because your borrowing costs have now gone up, right? And so that math equation starts to change. What I think most new investors do, just like you described, is they're emotional about it, right?

It's not just the business plan and the math problem. It's a bit of an emotional buy, because you want to prove you can do it and have a little bit of the, you know, help your ego along a little bit. And I think that's where a lot of new investors get caught. I will say I've certainly seen a lot of very seasoned investors sort of stretch, especially when we have this crazy housing market, call it the last two years right, where they stretch outside of what they know, is right down the fairway for them.

They get out to the bar to mix the sports metaphors, but like out at the warning track of the baseball field, and they push to do that deal, and they overpay for it. And then there's more work that goes into it, and then it's not quite in their market. So they overestimate how much they're gonna be able to get for it, etc., and that sort of snowballs can happen to the most seasoned investor, especially when they're trying to deploy capital.

But if everyone can kind of get back to basics, which I think is what's happening right now, and really crunched the math, what is the return on your capital that you need? What is the cost? What is that math? That's really how you avoid the emotional buy for sure or the emotional over-improvement.

SR: Yes, yep. I'm curious for you guys at Kiavi. What's the typical term for a loan, if you're doing a standard flipper, I mean, obviously, a professional is going to have a little bit better systems, but just broadly, are we looking at 90 to 180 days somewhere in that window for a typical turnover time?

SC: It really depends. So our loan terms are typically 12 months, but the payoffs tend to be in that six to eight month range, obviously, during the heyday of May of 2020, through colored March of 2022. Those days on market compressed for everybody, right, and so that ability to turn an exit was very quick, it did get complicated, I would say, by labor shortages or other supply chain challenges.

But what we did see versus maybe what some of like the production home builders are seeing is that our customers are building something different, you know, the rehabs are different at every house, so they can kind of be scrappy, and getting getting to the materials they need for a specific property rather than needing an entire street to be done all looking the same. Right. So they were able to manage and navigate that very well. But I would say I think our average exit is something around 187 days, or some somewhere in that range.

SR: And you guys, as a lender on so many fix and flips, had a front row seat to a lot of the supply chain issues that happened during COVID. From what you guys can see, is that impact lessening? You mentioned labor shortages, there were also material shortages. Are we seeing somewhat of a return to normal as demand drops a little bit in the housing market? Kind of correct slightly here in 2023?

SC: Yeah, you know, I think, like I said, I don't think the customers in sort of the flipping space maybe felt it quite as acutely, as some others did. That's not universal. I have a group that does some work in Virginia, and they definitely struggled in certain instances related to like windows or getting in a one day it would be that the windows were going to take nine months. Another project, it was the material for the roof, etc.

So there were different delays that those certainly ‘cause those are very big projects, relatively speaking. And by big, I mean, like extensive renovations, not dollar sizes, just just bigger construction projects in general. And I think I think they have seen that correct. And they've been able to move through things quite a bit more quickly. They're really the only one, just kind of cycling through some of the customer conversations I've had, they're really the only ones that I know of who called it out as really causing delays.

I think the bigger area where delays occurred was around permits, and like the municipalities being short on permitting, and so forth, and that would really push timelines out. You know, maybe they were budgeted for a 30- to 60-day timeline for permits, and it took 90 or something of that nature. But we've really seen, I think a reversion to norm for most of our flippers.

SR: So I would guess that over the last year, you've seen your deal volume drop off somewhat. I think there are less people flipping now than there were but how are you guys working to increase your deal flow, which is broadly, what efforts are you guys making on the marketing side or maybe new product side? Where's your focus these days? I assume as CRO, you're kind of in charge of managing that and driving growth?

SC: Yes, for sure. So, you know, where we really saw a fall off was really in Q4. And what we heard anecdotally from our, you know, very prolific kind of customer cohort was that they wanted to de-lever, right? If you think about it from March to January, the Fed funds rate was increased by 450 basis points in a very short period of time that created a massive shock, kind of slowdown in housing that everyone was not necessarily prepared for the rapid rate with which those rates are increased. And so many of our largest customers said, hey, I want to de-lever fearing Q4. I'm going to want to finish the projects. I have sold out of them, and then come back in, not buy new, not start anything new, and then come back in Q1.

Most of the projections are that housing transaction activity is going to be down 20% to 30% in 2023 relative to 2022. And so we adjusted for that. We recognize that given the interest rate environment and the pressures that puts on the exit for our flippers, we are going to, you know, not grow year over year in that space. We are going to deliver new product options in terms of what I mentioned earlier, small multifamily rehab.

Other infill construction projects, hopefully to be held as rentals, but could be for for sale just sort of depends on the market, and offer additional options from that view. I would also say that we're seeing a lot of flip activity or flip loans or bridge loans, right, be used for the purposes of purchasing, fixing, and putting a tenant in to then refinance into a rental. And that business model is an additional way that we're sort of supplementing the traditional flip product or flip demand.

That all that anecdotal evidence, though to or all that anecdotes from our pro customers or those very those very seasoned folks thing, hey, I'm going to come back and Q1 has borne out.

And so we're seeing those volumes pick up. I think the rental place still is very, very strong in most markets, while rent growth is slowing. In most markets, it still pencils pretty well, the whole the rental just sort of depends on the math, like I mentioned earlier. And so using bridge loans to buy stabilized and then refinance that whole strategy for investors is another way that you're augmenting that fix-and-flip demand. And I have one other thing I was going to mention related to demand, and I lost it.

SR: That's fantastic. I appreciate that color. That's helpful.

SC: Oh, I actually remembered that capital markets, the cost of the capital environment is not only just impacting borrowers, but it's impacting all of us in the space, right? Like, yes, we have a balance sheet that we lend from, but we're getting capital from others as well. Right. And so that's sort of just the lending business model.

As those costs of capital have gone up, I think we've seen a lot of stress in the space amongst our competitive set. And so I see it as a time for a lot of consolidation potentially, in the lender space, especially in the business purpose, purpose lending space. And I think we're been sort of the beneficiary of some of that, in terms of volumes coming our way that maybe we're with somebody else that has had some challenges.

SR: That makes sense. So, dangerous game to prognosticate. But here we go. What's your forecast for specifically, like flipped around or just flipping in general as a business model for the year ahead?

SC: Meaning what we're projecting for growth?

SR: Yeah, not necessarily for growth, but like, well, I guess it could be growth. What do you see as areas or possible success stories? I mean, you've highlighted several things in here that you guys are doing of different products that you're rolling out to take advantage of trends. But where are the potential diamonds in the rough? Where are the pitfalls that people need to be watching out for as the environment changes?

SC: Yeah, I think there's kind of three things that really, investors should be kind of thinking about right now. Sort of how to put their best foot forward in an environment that has a potential lot of volatility. And I would say that make sure that they have this plan, and they have done the math, right, this unemotional math equation related to buying the property right, not over improving for the market. And knowing what price point has the greatest demand. Right? And so I think that that's a really important element for them.

The other piece is, what does the downside scenario look like in terms of if you're not going to be able to exit right this minute into it to an owner aka to a homebuyer does the math work for it to be held as a rental for a period of time, right? Higher interest rates are still going to be around for a few years, but they're not going to be around forever. And at some point, that refinance or that exit into a known rock is probably going to come back in a very strong way given the supply demand imbalance.

So I would say that that's one one sort of area that I would advise people to kind of focus on from a projections or forecasts perspective. I think also having just realistic expectations, given the current market doesn't get too far beyond what you are comfortable with what you know, from a market or project perspective is going to be really, really important and, and, and sort of not getting over extended. And then the last piece is like preserving your credit, right, as a lender, that's what kind of what we care about, we just want to make sure we're gonna get paid back. Right? We want you to be successful, so we get paid back.

But if ambassadors sort of take those three things that, you know, take them to heart, in my view, the opportunities still exist to deliver, like homes that most people can continue to afford, given the current interest rate environment, and the flippers, who are out there doing it every day know exactly how to do this. And they're delivering homes at that price point where I saw a graphic that showed sort of as rates went up, how many millions of households, sort of no longer could afford x $100,000 mortgage, why 100, right, and it just kind of compresses down?

Well, in your respective market, the entry level price point is where everybody is sort of moving down to, right. And so if you're able to deliver houses into that space and and buy them at the right, you know, buy them right, and then deliver in a timely way, I see that as still going to be a very, very lucrative process for most flippers, even in this current environment.

SR: I appreciate you setting some light on that, Stephanie, we focus a lot here Life Bridge Capital on personal and professional development, what's something that you're doing or have done over the last six months that you've implemented in your life to drive development and one of those areas that you'd like to share?

SC: Oh, that's a good one. I am working with a professional coach. So that I can work through, maybe not taking, not holding everything quite so closely. If that makes sense. I'm very passionate about what I do. Very passionate about Kiavi. I'm passionate about the customers that we can support. And I love the single family space. But that can be a blessing and a curse. And so how do I not not internalize things so much?

And I'll tell you, it's been remarkable. I think I've had four sessions so far. And just thinking through that sort of human hierarchy of needs. It's a little different from Maslow's. But just when people are starting to behave in a certain way, think about what it is about them versus taking it as something in me, right. And that's been really, it's had a very dramatic effect on my day to day to be perfectly clear, perfectly candid. Yeah, I think that's hard, right? You want me to be competitive? I want to win. And so I think just kind of not holding out quite so tight. So working with this coach has been fantastic.

SR: Yeah, I appreciate you opening up and sharing that, Stephanie, I think a lot of folks would resonate with that, where a lot of people that listen to this are entrepreneurs, right? Whether they are in real estate, or they're wanting to invest in real estate, you can let work become the only part of your life. And there's a lot more to life. And then there's also like keeping it in balance, and just we all want to take ownership of things we all want to win. We want to drive those successful outcomes. But recognizing what is in our control and what is not, and being able to still live a balanced life, even as we're in the arena swinging for the fences as it were.

SC: For sure. Awesome.

SR: Very good. Well, Stephanie, if folks want to get in touch with you, or Kiavi and learn more about the products that you guys offer, how can they best do so?

SC: Yeah, absolutely. So come out to Kiavi.com. You can find us on all the socials though LinkedIn, Facebook, Instagram, I'm available on LinkedIn and feel free to reach out to me as well. happy to chat with folks at any time. I love this space. I love helping customers. I love the way that Kiavi is helping to democratize capital available for investors in our space, and helping you know, improve the aged housing stock by enabling more and more investors to do so and so love love to talk to folks in the space or folks thinking about it and just learn more and more from from everybody that I talked to him anytime. So yeah.

SR: Fantastic. Well, thank you, Stephanie. Thank you to our listeners for joining us on another episode of The Real Estate Syndication Show. I'm your host Sam Rust signing off.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about the Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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