

Interview with Ken Mulford @ Rebar Capital

Introductions

- **Who are you?**
 - I'm a 35 year professional in the financial services industry, primarily in credit (mortgages in particular)
 - Formal training in the production of securities
 - CFA (chartered financial accountant)
 - Rebar Capital is a boutique private equity company
 - We invest in both equity and debt
 - We will either raise (or provide) debt capital or equity for commercial real estate
 - "We have some views around certain segments of commercial real estate"

- **How'd you get started in the Investment Banking / Commercial Banking industry?**
 - "You either grow up in it or your don't"
 - When I was 9 years old, my father and I read the Wall Street Journal together.
 - Started out in commercial banking after college
 - Formal Credit Training
 - Becomes a commercial lending officer
 - After graduate school, wound up in the securities industry (Merrill Lynch)
 - I quit the big banking world about 2.5 years ago.

- **Why did you start Rebar Capital?**
 - When you work at large institutions, creativity can be stifled
 - There is always the game of workplace politics, no matter what level
 - You can be pigeonholed.
 - Creativity has to be approved by the "boss" and their view might not coincide with mine.

The Opportunity

- **What is the Mega Trend?**
 - **Fed Policy + monetary policy**
 - The dollar is a broken reserve currency in the world, not just the US
 - “I see a world where the Volker Rule and Bassell III has shrunk the world of banking, material
 - **Shadow Banking**
 - Derivatives and non-bank lenders has dried up the availability of dollars in the world.
 - This has created a reaction from the Fed.
 - They’ve flooded the world with a safety net of US Dollars
 - Their involvement in liquidity has stabilized things short term, but has set the stage for inflation.
 - Maybe not hyper-inflation, but certainly inflation.
 - **Implications...**
 - Decreased purchasing power
 - Impact on your investments (especially fixed income)
 - This will be exacerbated as millennials replace Baby Boomers in the workforce (2-4 years)
 - What to do?
 - Get yourself involved in businesses and assets that don’t suffer from inflationary bouts
 - Find assets that might find protection against debasement of the currency
 - Real estate are stable assets that can be held
 - They also provide income over the long term
 - Monthly Cash Flow + Inflation Protection
- **How big is the opportunity?**
 - “The Next Big Thing...” :Commercial Residential Real Estate
 - **Workforce Housing**
 - Housing that is located near economic drivers
 - Example: Large company who is a major employer has contractors that come from out of town and need short term rentals (12 - 24 months)
 - Cheap housing available to families who want their kids to go to a decent school, but can’t afford high rent in nicer neighborhoods or a down

payment

- **Affordable Housing**
 - **Mobile Home Parks**
 - There are ~44,000 mobile home parks in the US
 - Most communities don't allow for the reconstruction of mobile home parks or new ones
 - Often have a bad reputation of being crime ridden places
 - Primarily owned by Mom & Pops
 - They are in their 70's -90's
 - You're probably not as actively engaged in maintaining the property as you were in your 40's/50's
 - Want to exit their obligations
 - The goal is to up level these parks and make them nice
 - We want residents to have a pride of ownership
 - "The joys of landlordship don't entail maintenance"
 - You own the pad underneath the home
 - The mobile home owner is responsible for repairs and maintenance.
 - **Section 8 Housing**
 - Housing for people who are on public assistance
 - People who don't have the means to pay rent, buy food, on their own
 - BENEFIT: It is backed by HUD (Housing and Urban Development)
 - Rent payments is made by the US Government
 - Tends to be a low risk proposition
 - PERCEIVED RISK
 - Negative reputation
 - "Don't want to be involved in bad neighborhoods"
 - You have to do a lot to maintain section 8 zoning
- **Single Family Residences**
 - "I'm a former New Yorker and have lots of friends there"
 - Many of them left to their country houses and never returned to their city apartments.
 - Friend who is also an investment banker...
 - Has seen all cash bids, over asking price, for non-complete property.
 - This isn't a common occurrence, but happens when credit is widely available (this isn't one of those times)

Professional Investor Workshop

- Almost entirely a ground up construction or infill deal
 - On the higher end, we have the same evidence of strong demand for this kind of lending and this kind of investment.
- **Multi Family Residences**
 - Secondary and Tertiary markets (not big cities)
 - These are 300 people [Metropolitan Statistical Area (MSAs ie. a city) with good underlying fundamental economic drivers
 - Essential Jobs:
 - Government
 - Education
 - Healthcare
 - Agricultural
 - Lots of small apartment buildings that are 8-12 units that were built in the 40s/50s that need repair
 - Maybe they're stabilized, maybe they're not
 - Great deal of deferred maintenance.
 - You can take these properties which are in demand, where tenants come in, and almost never leave.
 - These can be refurbished and rented, with good solid stable returns.
 - You get tenants that form communities
- These things have huge demand and a short supply of stock
- Production of new properties is now less expensive than it is to acquire new properties.
- **Who are the major players?**
 - Large institutional investors are in Mobile Parks
 - Sam Zell
 - Blackstone
 - Carlisle Group
 - Residential Real Estate
 - Post GFC, big funds like Blackstone were buying everything. Now, it's less the case.
 - Institutional investors now represent an exit strategy
 - Can you acquire multiple lots of properties and package it up and sell it to a bigger fund?

The Problem

- **What are the major problems no one is talking about?**
 - **Expertise: You have to run it like a business.**
 - The level of due diligence to find and research these properties is challenging
 - To get any sort of scale and wealth accumulation, it takes a lot of time and effort.
 - Ken has a 100+ page document with questions that need to be answered.
 - It's hard to get ahold of the portfolio managers
 - You need a network of people to get access to these deals
 - **Knowing who to trust...**
 - Who out there is good?
 - Title Insurance
 - Closing / RE Attorney
 - **Time Kills Deals**
 - The longer it takes to close, the lower your chances of closing
 - Negatively impacts reputations
- **What are the major problems investors face they don't know about?**
 - "If you don't gain education first, you are investing blind and you are in trouble"
 - In your education process, find someone who can co-invest in some deals with you and tag along.
 - These are complex deals with a lot of moving pieces
 - "I've never seen a HUD1 closing statement get done the 4th or 5th time.
 - If you're gonna go at it on your own, go small.

The Catalyst

- **Why is NOW the best time for this type of investment?**
 - There is only a small window of time for this opportunity (2-4 years)
- **What happens if they don't act right now to solve this problem?**
 - Real estate is a key part of wealth building.

- Not knowing how these deals work is bad.

The Mechanism

- **How do people take advantage of the new opportunity?**
 - **Rise of Regulation Crowdfunding Real Estate (Reg-A+)**
 - Most people don't know what an IRR or a Cap Rate is.
 - There are nuances in the way you evaluate a deal based on the tools you use.
 - What does the "rent roll" look like?
 - This is a crucial indicator that tells you whose in there, how long, what they pay, when their lease is up.
 - You can look at historic rent rolls, but often this stuff is hidden
 - Location is everything in real estate... but so is the performance of the property.
- **Start Small and Start Local**
 - Get involved with the local real estate investing club
 - **Go network. Ask questions. Get referrals.**
 - Do you know a good attorney in XYZ location?
 - Brokers
 - Commercial
 - Residential
 - Realtors
 - You'd be surprised how many residential realtors are in touch with a LOT of real estate sellers that are commercial real estate sellers
 - Maybe they have a house that is a dump and will flip it wholesale
 - Title Insurance
 - Closing Attorneys
 - People who are active in wholesale, fix and flip, and buy and hold
 - Developers
 - Horizontal – They prepare the land for building (like road, utilities, street lamps)
 - Vertical – They build the buildings
 - You can look up a national directory and find all the local chapters.

- **Find a Deal**
- **Go Make a Bid**
 - Never bid your highest possible, but also don't bid your lowest
 - You need an attractive offer that will solicit a counter offer
 - You're not obligated until you sign a contract
 - What will give you the highest odds of success with the least amount of work?
- **Perform Due Diligence**
- **Secure Financing**
 - Any bank considering financing you will look at your overall position (the global debt service analysis)
 - If you're an individual, they look at residential mortgage, auto loans, credit cards to see if you are a responsible borrower

The Solution

- **How can people watching this interview get started with this new opportunity (and using this new information/strategy)**
 - Sam Zell wrote a really great book called "Am I being too subtle?"
 - This will demonstrate what it takes to engage in real estate investing as a businesses
 - Story of how he went door to door and started acquiring property.
 - There's great research - for free - on Marcus and Millichat, CBRE
 - You can learn about cap rates, asset classes, sub asset classes, geographies
 - "There's a whole way of thinking you need to get accustomed to"
 - The language, the deal terms, the mindset.