



Understanding the Capital Stack and How to Simplify a Seemingly Complex Investment Structure

Kevin Bupp: Hey guys, Kevin Bupp here and I want to welcome you to another episode of the Real Estate Investing For Cashflow Podcast. Our mission is to help you build and maintain massive amounts of cash flow through income producing real estate investments. Our guest for this week's show is real estate finance expert and VP at George Smith Partners, Evan Kinne. Evan joined George Smith Partners in 2017. Prior to joining the firm Evan was the vice president at Watertower Group, a boutique advisory focused on dynamic and innovative companies shaping technology, consumer internet and digital media. Evan has advised over 20 internet, technology and media companies on Series A to D equity capital formation and M&A.

Kevin Bupp: Evan's other experience includes director of business development at RadPad, an LA based venture capital backed real estate technology company, operations officer at Wilkinson Baking and several other early stage and venture capital backed companies. For fun Evan enjoys being outdoors, skiing, cycling, traveling and spending time with his wife. He is also a Category 1 endurance mountain bike racer and has enjoyed racing for nearly 20 years, completing many races including the Leadville 100, which is something we're going to be talking about today because that is a gnarly race and I've heard that Evan actually has done a few other pretty intense races as well, so I know this is a big part of his life. We're going to bring that up in today's discussion with Evan.

Kevin Bupp: And so in addition to that we're going to be covering an array of topics with Evan here today, including his perspectives on the capital markets and where he feels we're at in the current real estate cycle. We will have a discussion around structured finance and how to effectively work the entire capital stack to create the most value out of any given project. We're also going to talk about a recent project that he spearheaded which was a \$13 million acquisition and expansion project on an RV community. In addition to the business talk, we're also going to shift gears at some point during the show and talk about what keeps Evan at the top of his game in this highly competitive industry, and much more guys. And so I'm very excited to get onto the show with Evan but before we do, here's a quick word from our show sponsor, Sunrise Capital Investors.

Kevin Bupp: Hey guys, Kevin Bupp here with Sunrise Capital Investors, as you are hopefully already well aware if you've been a listener for any period of time, my goal has always been to provide you with as much value as I possibly can through my two podcast, Real Estate Investing For Cashflow and the Mobile Home Park Investing Podcast. As our audience continues to grow literally, we've been downloaded millions of times by folks in over

125 countries. I've had thousands of people reach out looking to get involved in our niche, and that's the phenomenal niche of mobile home park investing.

Kevin Bupp: For those that don't know, I've been a full time real estate investor for nearly 20 years now, and I've personally invested in and have owned apartment complexes, various commercial properties, hundreds of single-family rentals and have interviewed some of the most successful investors in just about every other asset class and I've arrived at this one very simple conclusion, mobile home parks are hands down the best investment I found to date. Why? They provide investors with the best risk adjusted returns out of any other real estate sector that I've seen. Investing in real estate can get complicated and I really want to simplify this process for you. If you're someone who wants to diversify away from the uncertainty of Wall Street and allocate a percentage of your real estate portfolio to mobile home parks but maybe you don't have the time nor the inclination to personally locate good deals yourself then our team will do it for you.

Kevin Bupp: At Sunrise Capital Investors, our team specializes in the acquisitions and management of undervalued and highly profitable mobile home parks. We are now providing accredited investors with an opportunity to participate directly alongside our team and our up-and-coming deals. And let me say this, I believe that we are hands-down the best in our space at sourcing highly profitable off-market deals, that's really what makes us unique in this niche and as investment managers. As stewards of your capital we truly are aligned with our investors. We've structured our investment fonts so that we as a company are incentivized in the same way the investor is, which is through the performance of the investment itself.

Kevin Bupp: In addition, we want to make sure that we not only make money for our investors but that they understand how it's being made. That's why we provide our accredited partners with a private, monthly podcast that walks them through the detailed updates on how their investment is performing, and we're very transparent, providing you with the good, the bad and the ugly at times. And so if you'd like to learn more about the partnership opportunities with our team here at Sunrise, please go visit sunrisecapitalinvestors.com and click on the investors link to get signed up. It's absolutely free and you'll get placed on the priority list of when new opportunities come along, also feel free to call us at 833-cashflw, without the O. Again, that's 833-cashflw, without the O, and one of our investor relations team members will help you schedule an appointment to speak with one of our managing principals. If you have questions go ahead and schedule a call and let's get on the phone and talk.

Kevin Bupp: And with that guys I like to leave with one last thought, from the time that I wake up in the morning till the time that I lay my head down the rest of the evening, my number one priority with everything I do, whether it be recording this podcast, working for our investors, helping each of you reach your investment goals, to providing a great experience to each of our residents who reside in our communities is to add huge amounts of value to everyone that I come in contact with. And with that being said, I look forward to the opportunity of bringing value to you through Sunrise and through this podcast. Thank you for your time. Now let's go and get back to the show.

Kevin Bupp: And now guys without further ado I'd like to welcome our guest for today's show, Evan Kinne. Evan, how are you doing today my friend?

Evan Kinne: I'm doing well. Thank you for having me on, it's an honor.

Kevin Bupp: I appreciate you joining me, taking time out of your busy schedule and just to give a sense of geography, where are you based out of Evan? Where are you calling from today?

Evan Kinne: Yeah, I'm calling from Los Angeles, California, so I'm actually sitting in Century City, which is a little clump of buildings just west of Beverly Hills, and it's a beautiful sunny day here, clear skies, so it's a good day to be alive.

Kevin Bupp: All right, well fantastic. Well I'm real excited to have a discussion with you today. A lot of topics we're going to cover here, but maybe first and foremost Evan, if you would maybe just take a few minutes and give us a little background on yourself, how you got into this industry and then a little bit about what you do there George Smith Partners.

Evan Kinne: Absolutely. I have a little bit of an atypical background but I would say I've always focused on entrepreneurial ventures and finance. How I ended up here in the real estate finance world began when I was actually at a venture capital, real estate company. I got pretty involved with the real estate community and then I was in investment banking and tech and media, primarily what I would call tier one venture capital backed companies. We would advise them on M&A and et cetera. I actually raised a venture capital fund while I was there, but ended up leaving that firm when I finished my MBA in Finance from UCLA Anderson School. In business school, I focused on real estate as a kind of a sub class in the finance program.

Evan Kinne: I met a guy who was here at George Smith Partners and ended up joining his team and it has been fantastic. This platform allows me to combine both my entrepreneurial instincts and my passion for advising people and helping them grow their business and also my passion for real estate in it, so it's just all kind of coming together into one very productive and fruitful time for me.

Kevin Bupp: I know you guys do a lot of institutional or deal with larger sponsors and operators to institutional type capital, has it been hard to adapt to that change? That's a big shift.

Evan Kinne: Well certainly it's a shift but it's actually not as big as you think. So for example, our clients here, they range from a couple of guys with 50 million in assets under management all the way up to groups with billions in assets under management, and so we're working all the way across the spectrum. I think guys are very entrepreneurial where we can add a huge amount of benefit to them as they capitalize their first structured deals, all the way up to very large firms who have very complicated deals that they kind of just need that extra emphasis and extra kind of care and attention to detail that we can give them. Given the way we're structured here, we take a team approach to every transaction, thus my team, I have about seven members of our team.

Evan Kinne: We're focused on that transaction from beginning to end, and that allows us to take on complicated deals, not unlike the deals I used to work when I was in investment banking, capitalizing venture capital backed operating companies, startups and technology and earned media companies. A lot of the principles are very similar, and the finance principles are very similar, and real estate is a great market because there is asymmetric information all over the place and it's just one of those few places I think out there where entrepreneurs of all shapes and sizes can do really well if they're careful and make good decisions and kind of build slowly.

Kevin Bupp: No, I agree with you. Our prior discussion before jumping onto this recording we had talked a little bit about how when your role there, George Smith Partners, you somewhat consider yourself an advisor to your clients, and so your goal is to really help them get the best structure to suit their specific needs in their real estate endeavor, and so I want to talk a little bit about the structured finance side of this business and really how your role plays into working with your clients and how that advisory role really kind of walks along with them, you hold their hand throughout that process and ensure that they get their capital stack right. And so I want to talk about the capital stack side of this.

Kevin Bupp: But more importantly, I think there's a lot of considerations to be had from a sponsor or an investor standpoint when taking on a new project. Different considerations such as debt versus equity, length of time that they intend to be in that particular project, is it a ground-up project or is it an existing value add type play? Is it short term? Is it long term? Is it for appreciation or wealth preservation? Different interest rate considerations to be taken into consideration. I mean there's lots of factors involved here that you guys are kind of mulling around and helping them make the determination of how to get that capital stack right from the get-go.

Kevin Bupp: And so for those that don't even know the terminology of capital stack, why don't we start there, so let's just start with the elementary side of things and really help people better understand what a normal capital stack looks like in the commercial real estate world, and then maybe we'll dig in a little deeper in a granular nature and define each one of those layers and give some examples of when they might come into play or when they might be a good fit.

Evan Kinne: Yeah, definitely, that's great. Let's start very simplistically. So capital stack I think is just a fancy term that means the money, right? And so if you think-

Kevin Bupp: It is a fancy term. It's more fancy than what it needs to be.

Evan Kinne: Exactly, so if you're going to buy a house or a car or something, anything where someone might take a loan out to purchase something, typically they're going to put down some amount of cash equity, it's coming straight out of their pocket, straight out of their bank account. So when you buy a house, let's say it's \$100,000 you might come in with \$30,000 and get a \$70,000 loan. I would say that in terms of real estate that's a very simple capital stack, and so let's just expand that out. Let's say you're building or just closing a large \$350 million ground up hotel construction deal with a whole bunch of luxury homes and et cetera, I would say we'll get to that capital stack at the end and

kind of explain to you how a capital stack of that complexity looks like, and work our way towards that.

Evan Kinne: So back to the home, very simple, right? 70% leverage, 30% debt. Now let's say we're building \$100 million hotel, you might only have, let's say \$5 million, right? So where are you getting 95 million? It's unlikely that anybody will lend you \$95 million as debt. So you have your project entitled, you're kind of ready to go, you have your plans et cetera, and you're like, "Okay, where do I get this capital?" So there's a couple of things you can do. There are groups out there, private equity funds primarily that invest as a joint venture partner, and so they're going to come into the deal and typically partner up with a sponsor for the equity, and that negotiation and the waterfall can be quite complicated, but very simplistically what typically can happen there is sometimes it's 95/5 split or a 90/10 split, as simple as it gets.

Evan Kinne: So let's say that they were comfortable with 60% leveraged, and thus they wanted there to be \$40 million of equity and the 95/5, you're going to be putting in whatever that is, two million bucks and then in a 90/10 you'd be putting in \$4 million and the private equity firm would bring \$36 million to the table as equity. They've typically raised this equity from pension funds, sovereign wealth funds, ultra-high net-worth individuals et cetera. So typically private equity funds are investing with a certain return expectation, and thus are pretty, I would say, risk averse. And so when they come into a project there are certain parameters that come along with their funds that they need to be making sure they're fulfilling back to their investors.

Evan Kinne: The biggest one of those I think you alluded to very early Kevin, which was time. Typically, these funds are running on I'd say a two to three year investment cycle and a four to five year hold cycle and their entire fund may have a 10 year lifespan, so they want to be in and out of a project typically in five years, right? So that won't work for every project. So let's go back I think just to complicate the capital stack one layer more, and that is let's say you want to capitalize it with a high net worth individual or a family office, then you might have a private equity firm come in and say, "Hey listen, I will give you a high leverage debt rather than non-recourse bank loan, you can get high leverage construction financing, say up to 75, 80% of the capital stack."

Evan Kinne: In this case there might be an opportunity to go and get instead of a joint venture partner, a co-general partner, because maybe you only have \$1 million, and that co-general partner may come in with \$4 or \$5 million of the very, very top of the capital stack, the riskiest portion of the capital stack and then we might bring in another private equity fund as what they call preferred equity, although we have to say 90% of the entire 100 million, ranging from the top end of what they were comfortable with the senior loan is 70 or 80%. And now you're getting into a much more complicated capital stack where there's negotiations going on with four or five parties.

Evan Kinne: In fact, we just closed a transaction recently where there were five separate interested parties in the capital stack, and that's commonplace for us, and that's how a lot of entrepreneurs who are building their first larger projects get their deals done. It's not usually a straight up 90/10 JV with TPG or a Goldman Sachs partnership and then Bank of the Ozarks in there for the senior loan, that's not typically the case, there's always

some movement in the deal and every deal is very unique. And so when we're working on a deal we break it down into its most simple parts and work with the sponsorship groups to help them understand the implications of various capital stacks and what that will have on their overall project. We kind of go from there, but I don't know if that's a helpful overview, I'm happy to dive into any component of what I just spoke about.

Kevin Bupp: No, I think it is, and one of the big questions I have, when you've got all these different parties involved I would have to make the assumption that when you're kind of pairing up the different layers of this capital stack a lot of these, whether it be private equity firms or family offices or just more general lending institutions, a lot more probably work together on projects before in the past. I mean I feel like there's so many different personalities and so many different expectations involved that that's such a complex negotiation, taking two or three different factors and putting them together when they haven't worked together before in the past. Would you find that for the most part? You guys kind of know there at George Smith, like you know who works well with one another, as far as the different layers of that capital stack.

Evan Kinne: Definitely, I think what you're bringing up, it's half art and half science, right? We have a great team, we have some great underwriters that rip apart deals and are able to put together super complicated development models and make something look great on paper, right? Everything looks great on paper. The reality of the matter is that business deals are all about relationships, and relationships I think stem from comfort. So let's just back up for a minute here and answer I think a critical question that you just kind of raised, and that is how do you get someone comfortable with your deal if they've never worked together before?

Evan Kinne: Imagine now you're 25, 30 years old, you're a senior analyst at Fortress or something like that, and you're analyzing a bunch of JVs that are coming across your desk. At some point you're going to put your neck out on the line internally within the organization and you're going to underwrite the DL, you're going to work on it, you're going to talk to the sponsor and you're going to put together an investment memo, you're going to send it up the food chain to the boss over there in New York or wherever he is, right? So what we try to do here is make that risk that the analyst or the vice president or whatever at the private equity shop is taking, we're trying to help them reduce their internal risk and help them be very comfortable with the deal, that's very important.

Evan Kinne: And I think it actually brings up another point that you mentioned there, and that is what if people haven't worked together before and what if they have. We're working on a large project over in Salt Lake City right now. It's a ground-up development, I don't know, it's probably an \$80 million ground-up construction project, multifamily project, and we just secured or finalized securing of the joint venture partner, and that joint venture partner is a well-known private equity fund, multiple billions of dollars under management. They're coming in working with a smaller sponsorship group who is successful and has built some larger deals and we expect this be a great partnership, but the private equity shop who's investing the bulk of the money, they didn't have their own relationships on the debt side and people that they've worked with in the past, and we feel like that is spectacular.

Evan Kinne: There's nothing better than building on a prior relationship and the trust that comes with having been successful together in a partnership, even if it's our companies working together, two multi-billion dollar companies that have worked together in the past, they don't forget it still, even though there's a bunch of people over there and it's not like Joe working with Mike, right?

Kevin Bupp: Mm-hmm (affirmative).

Evan Kinne: It's institution plus institution, it still matters.

Kevin Bupp: Got it, so give me an idea what the general profile looks like of some of the clients you work with. Now you kind of gave us a range like \$50 million assets under management, so very, very small investor groups to institutional, that's a big range. But generally speaking, I guess where I'm going with that question is the smaller operators or the smaller sponsors that made that 50 to 500 million dollar range, I mean that's a substantial track record but not so much when you really compare it to like an institutional type client. And so when you get into these more complex structures, I mean what kind of track record are joint venture partners or PE firms or family offices really looking for from that sponsor? I mean this is in a situation where, let's use the example of the \$100 million hotel.

Kevin Bupp: You're not going to have someone that's maybe owned a small apartment complexes, maybe \$5 million worth of real estate come in with this grand idea of building this \$100 million hotel and they've got maybe \$2 million to their name, I mean would something-

Evan Kinne: You'd be surprised.

Kevin Bupp: Really? Okay, fair enough.

Evan Kinne: Maybe not that quite extreme but we're just closing a deal, I'm not going to mention what it is, but it's not unlikely for us to have a situation like that. In fact, we recently closed several multifamily deals approximately I think 500 units that combined, it was two separate deals and I'm going to shy far away from the details here but net worth on the sponsor was in the range of three, four million bucks combined between the two or three partners.

Kevin Bupp: Wow, okay.

Evan Kinne: Yeah, and we actually were able to negotiate non-recourse acquisition and rehab financing like as a value add deal for them where the liquidity covenant was I think 2.5% of the loan amount and net worth requirement was 9 or 10% of the loan amount, and we're talking for, I would say a fairly risky, fairly large I think totaling \$40 million, \$50 million for the acquisition of the apartments for guys that didn't have massive net worth. Now back to I think the other question you said on the construction side. Construction typically has a slightly higher bar I would say, it just depends on the product type. But yeah, we've been very successful in helping entrepreneurs with very little background capitalize very large projects.

Evan Kinne: And some of that happens through some complexities in the capital stack. Sometimes we bring in a co-general partner, sometimes called a co-GP or a co-guarantor. These groups are popping up all over the place because of the type of returns they're able to deliver to their investors. I think at this point in the investment cycle when kind of everything's going up they tend to do very well, and if they're capitalized correctly ideally I would say by an ultra-high net-worth family office, they can also do very well helping sponsors withstand sideways markets. These groups are typically going to come in and kind of partner with the sponsor at the very highest end of the capital stack. Love the limited partner level at the general partner level, and that's something we've been very successful with.

Evan Kinne: We recently closed 140 or 150 million dollar deal in downtown LA, 250,000 square feet of creative office and we used a co-general partner in that transaction to buffer out the sponsorship, who was fairly strong and had great entitlements experience et cetera, but this was a fairly large deal for them, so that would be an example of something like that. But the firm as a whole works for sponsors all over the map. We work for sponsors that are doing their first 10 unit value add acquisition, all the way up to groups who have 20,000 units.

Kevin Bupp: Very interesting.

Evan Kinne: So yeah, we're kind of unique. We're only one office, and everyone's here and that kind of allows us to do that, and the partners and everyone owns the firm rather than ... There's no third party ownership of the firm, so that allows us to I think be a little more entrepreneurial.

Kevin Bupp: Could you possibly elaborate a little bit more on the co-GP scenario as far as ... You'd mentioned there's a bunch of different firms out there popping up that are willing to step into this role, what would that typically look like? Can you give me a hypothetical situation of what they're looking for, what slice of the GPA they'd be looking forward to kind of round out that side of the capital stack?

Evan Kinne: Yeah, definitely. I think the shorter answer is there's no rule.

Kevin Bupp: Yeah, fair enough.

Evan Kinne: And so a co-general partner, and I think in its most simplistic sense is this, Kevin, you and I get together, we're interested in purchasing a 50-unit mobile home park, right? Or whatever, and we go out there and we are like, "Okay, wow it's \$5 million, whatever, we don't have that much money." We go partner up with a rich guy who signs on the debt, that I would say is the most simplistic portion I think you're talking about. On the more extreme end, we might have a \$200 million hotel development, highly risky endeavor, large project, in this case probably high leverage, high yielding hedge fund type of money will come in for the debt. There'll probably be a preferred equity piece from another private equity shop getting a crazy yield and giving that to investors.

Evan Kinne: But they're going to expect someone to be in there who can write a check for \$30 million if costs go in excess of what the budget was. And so I think in that case what we're looking at is someone will come in and they will use their liquidity and balance sheet to sign on the non-recourse carve-outs on a construction loan. These are bad-boy carve-outs, they're kind of performance guarantees that they'll complete the project. There are guarantees that involve funding cost overruns et cetera, and typically I would just say that will cost a sponsor probably 50% of your promoted interest. And if we're looking at a project of that magnitude where the sponsorship group itself is probably coming in with in excess of \$10 million, right? Maybe even more depending on how the rest of the stack looks like, maybe 20, 30, 40, 50 million dollars, that co-general partner is probably going to bring in the majority, maybe 90/10 of the GP level so the top end of the capital stack.

Evan Kinne: And so they're going to bring the majority of the GP money, sign on the debt and they are either going to or not going to sign on what they call completion guarantees, and that's a highly negotiated thing, and certain co-GP firms just absolutely will not sign on those and some will, but typically they will sign on the bad-boy carve-outs and on the liquidity.

Kevin Bupp: Got it, okay. I appreciate the explanation there. It sounds like you don't necessarily have a specific asset that you're tied to. I mean we talked about hotel, we talked about multifamily, you just brought mobile home parks as you know we love.

Evan Kinne: I actually love mobile home parks too. I didn't tell you this before but that's actually how I met the partner here. A couple of years ago I had gone and after I was finished at UCLA Anderson on my MBA and I had researched all the different asset classes in real estate, and I found that mobile homes I think are probably the best asset class there actually is. They are highly-

Kevin Bupp: Shh, don't tell anyone, come on man.

Evan Kinne: They're highly uncorrelated, there are very few large institutional players. The institutional players are coming into the space, you have Carlyle, you have all these groups coming in heavily, Blackstone et cetera. But the difficulty for them is they need to put out real big amounts of money and that's very difficult. And so you can make a lot of value for yourself in mobile home parks I think by getting a good portfolio together, it's going to be valuable to somebody and it's also valuable to yourself because as you know cash-on-cash yields are crazy. People don't move out of them, there's a whole list of reasons why they're just an incredible asset class. But as with anything there are risks involved in any kind of asset class, but yeah, that's actually [crosstalk 00:26:56].

Kevin Bupp: Very interesting. You mentioned one of the big barriers are with the institutional players coming in, it's a good and bad thing. It's good that we're getting into the limelight a little bit in our asset but it's bad because obviously it's going to get consolidated.

Evan Kinne: Cap rates get compressed.

Kevin Bupp: It's only a matter of time until cap rates get compressed, we get consolidate. We're very fragmented still with a lot of mom and pops out there, but the good thing about that is it's just incredibly difficult. It's good and bad. It's incredibly difficult to deploy hundreds of millions of dollars of capital all at one time in this niche because it is so fragmented.

Evan Kinne: But if you build your portfolio into a couple hundred million dollars...

Kevin Bupp: That's it, absolutely.

Evan Kinne: Or 100 million, 50 million, or whatever that number is, your portfolio will have an automatic cap rate compression of 100 basis points or something, which when you deploy from a six to a five or a seven to a six or whatever it is, that's 15, 20% value.

Kevin Bupp: That's where we're running right now bud, trying to find as many as possible. So it sounds like you guys just did a recent project, it was an RV park which is a very different business model than a mobile home park, I mean there's hybrids, there's solely RVs, solely mobile home communities, but let's talk about that RV community, I know that's a much more simplistic probably capital stack, was a \$13 million acquisition with an expansion built in there, what did that look like? The expansion is interesting to me. Again, RV parks are very different, they don't necessarily have the negative stigma that a mobile home park does in the eyes of a municipality and the ability to get expansion. Seems like if there's anything being built nowadays it's more RV parks, more so luxury RV parks than it is mobile home parks.

Kevin Bupp: And so I'd love to hear about that deal, how it was kind of laid out as far as the capital stack is concerned and also really what the plans of the project are as far as expansion and all the details if you would.

Evan Kinne: No, great question, actually that's a fantastic deal. So I think taking one step back and answering I think one of your prior comments that you made just then, which was RV parks are ... You see them popping up more than mobile home parks, that's for a very simple reason. I mean mobile home parks deliver a very low tax basis to the city, right? So however this asset, the real draw is it's location, it's right on the coast and in California as you're probably aware it's pretty difficult to get essentially coastline property, obviously it's right on the other side of the sand. You can't actually own the water but the location is spectacular and the entitlement value there is just off the charts. The expansion lots were actually entitled and permitted about 10 years ago and there was some question as to whether whether those were still valid, and so we had to work through the process.

Evan Kinne: This was a very simple capital stack, it's just senior loan and the equity was syndicated from a few high net worth individuals and that syndication was run by the sponsorship, and this again is a sponsorship group that I would characterize as a budding institutional manager. They have I think across the different verticals within their company maybe a billion dollars under management by this point. Nonetheless, this is still, I would say a difficult deal to do because it's on the coast. You have to get through a lot of red tape and lawyers are going want to check that the Coastal Commission documents are still

valid, that the lizards that live there have been properly moved, that the construction doesn't happen in certain months of the year because there's butterflies that fly through.

Evan Kinne: You're laughing, I'm dead serious, these are all issues. And so those are some of the challenges with a deal like that. That particular deal, you were absolutely right when you mentioned that luxury, kind of the glamping RV park is something that's going to be very popular, and already is becoming very popular. There are a couple of well capitalized at a corporate level, entities that are building or renovating RV parks into glamping areas, putting Airstream trailers there, that kind of thing. This site will kind of be a hybrid of that glamping atmosphere and also traditional RV park. It's operating well and it is and it has been. I would say that cap rates for this type of product are just extremely tight, especially along the coast, so it's a long-term play.

Evan Kinne: You're going say, "Hey listen, I know I'm getting a tight cap rate today, but if I hold on to this for a long time I'm in some amazing real estate that's irreplaceable, and you just can't build another one. You're never going get entitlements or permits or whatever you need to do that anywhere around this and so it's a one-of-a-kind asset, we like that.

Kevin Bupp: So you guys had to work through all the barriers with the entitlements or at least those aged entitlements to confirm that they were still valid, right?

Evan Kinne: Yeah.

Kevin Bupp: Okay, got it.

Evan Kinne: Yeah, and actually there was still a question whether the expansion entitlements were valid at the closing of the loan and we were able to convince the lender to close the loan and hold back a few dollars and release some money later. So some negotiations, some work there but we try to find lenders who are flexible and understand that we get them out there and look at the dirt together and understand it together.

Kevin Bupp: Is this more of a long term residency or is it a transitional type RV community? I mean to where people are coming for nights or weeks.

Evan Kinne: Yeah, there is restrictions placed on it. I think it's the city actually. The restrictions are you can't be there more than 28 nights in a row.

Kevin Bupp: Oh wow, okay, fantastic.

Evan Kinne: So yeah, it's not a mobile home park, it operates more like a hotel.

Kevin Bupp: What do the all in costs look like? Is that 13 million loan? Does that encompass the actual expansion project as well?

Evan Kinne: Yes.

Kevin Bupp: And what was the projected value once stabilized? Do you remember?

Evan Kinne: That's a great question. I can't remember exactly it's been a few weeks. I think it was 28 million stabilized or something like that, yeah.

Kevin Bupp: Good project.

Evan Kinne: Yeah, it's a good project.

Kevin Bupp: Yeah, well fantastic. I know that you got some stuff working yourself as well. I don't know if you want to mention. I know you do a lot through George Smith Partners and you've also got some personally projects, is that one of the niches that you're putting some of your focus in?

Evan Kinne: No, actually great question. I have a couple of different things. I have some legacy businesses from the tech days. I own a small manufacturing company and hardware and we're getting into software now over in Salt Lake City with some partners. It's a great kind of fun thing to check in on. Got a few real estate projects that I'm involved with, some ground-up development, with my personal investments, I try to find places to put my money where I'm working with great people and I can also add some sort of value and perspective. And I think being in the mix here in LA and in this firm allows me to have a very interesting perspective on the capital markets in general. I think before the show we were talking about interest rates and what that's going to do to cap rates, I think.

Kevin Bupp: Yeah, rub your crystal ball and tell me what it says.

Evan Kinne: Okay, let me get it out first, dust it off. Well I think there's one thing that people predominantly agree on, that is interest rates will rise. LIBOR is now ... probably 2.3 or something like that. A year ago it was one.

Kevin Bupp: That's a big jump, yeah.

Evan Kinne: And it was. Think about it in absolute terms relative to where interest rates are up for your development project, for your permanent loan or something the increase is smaller but LIBOR itself has increased dramatically. Now I think that there's no question that interest rates will continue to rise, I think that people agree on that. But there are I think two distinct camps when it comes to what the impact will be on the marketplace, and I think the first camp of people say interest rates are rising, there will be a corresponding or correlated decrease in property values because debt is more expensive, right?

Kevin Bupp: Sure.

Evan Kinne: And so that's one camp I think of people. I think the other camp is, "Look, interest rates are going to rise but there's more liquidity right now on Wall Street trying to find its way into every type of project." You even see Goldman Sachs and firms like that making investments and hard money lenders lending on \$800,000 speck single-family builds, right? So there's a ton of liquidity out there, and that liquidity is not going away anytime

soon, and the amount of liquidity that is there in Wall Street will continue to keep property values at a very high level irregardless of cap rates going up, they're just going to take a smaller yield, and those are the two camps.

Evan Kinne: I think the second camp is probably true for a while here, but will just delay the inevitable which is at some point the liquidity will dry up a little bit, people will be less willing to pay for that. They look at the cost of debt increasing and they're going to shift the way they're thinking about values. And I am not an economist, I don't profess to be an expert in economics but I do find it fascinating being that really everything around us boils down to I think one thing and that is what someone deems to be "worth their money" at this point.

Kevin Bupp: Yeah, absolutely. I mean are there any asset classes? Just being that you guys have a multitude of connections with family offices, with private equity firms, with national, regional banks, I mean you've got a lot of different debt and equity sources that you guys deal with on a regular basis, and are there any asset classes specifically that you see some starting to shy away from? Saying, "You know what, we would have been issued a year ago in this project but not today."

Evan Kinne: That's a great question. I would say that hotels are a risky business. We do a lot of hotel on our team, I don't know what the number is but I would guess that our team will close upwards of \$500 million of hotel financings alone this year, whether that's equity, preferred equity, mezzanine debt or debt. And I would say hotels are a risky asset class that investors are becoming more and more careful as they look at projects, extremely prodigious with their efforts and what they're looking at investing in there, and where they want to be from a last dollar perspective on the capital stack. So I would say it right now, if you have a hotel project and it's still being entitled or something like that, it better be a pretty darn good project in a really amazing location if you're going to build in this development cycle unless something just continues for a very long time or unless you have high net worth money that's willing to come in and capitalize that deal for a very long period of time, say 10 years or something like that.

Evan Kinne: The institutional guys need to turn their money around quickly are unlikely to come in and fill that equity gap in your capital stack, whether or not the project is great, just because they're going to say, "Listen, I need to be out of it at a certain amount of time. I know the economy will be able to be supportive of it in the next 10 years or something like that, but what we're seeing is a big emphasis on preferred equity et cetera. So in other words, hotels are difficult but we're still getting them financed all the time, and then I think high-end multifamily is becoming more difficult especially here in LA. There's a lot of new supply and all of it tends to be in that very high-end. And I think there's like kind of a bit of a flight to safe, longer-term assets, so B class multifamily, we discussed mobile home parks already, industrial assets, things where it's more difficult for people to pick up and leave.

Evan Kinne: A hotel, it's more of an operating business, everyone leaves every day basically unless someone's staying for a week. There's absent flows, but everything is yield driven, so if a guy thinks he can get great yield being a mezzanine position on a hotel he's going to probably do the deal.

Kevin Bupp: Sure, okay, fantastic. Well I want to switch gears, I want to be respectful to your time as well Evan, and I know that I've held you for longer than I promised, but I'd like to switch gears. I'd like to cover just a couple more things before we wrap this up for the day. You're definitely a mover and shaker, right? You're making a lot of things happen, you had some great successes in really a short time. You're a young guy, I don't know how old you are but you're a good-looking young guy so you haven't been at this too long, you're not like 40 years in the business or anything and you made a lot of great things happen in that period of time. I want to know what are some of the secrets that you attribute to your success and how you stay balanced in life in general?

Kevin Bupp: Like for example we talked about health and fitness a little bit before we started this interview here and I know you're a big mountain biker but are there any other just general daily or weekly routines that you attribute to your overall success?

Evan Kinne: No, I appreciate that question. This is something that I've put a lot of thought into and still I think formulating my beliefs in this area. I've been actually working on a little manifesto of my notes that I would like to put out on the internet some time here in the future, so you might see that from me. But I think the core of my belief is that you have to develop systems for your life, and this is something I think I struggle with my systems on a daily basis, I'm not perfect. But my ideal system, I think the most important thing you can do is figure out how much sleep you need and get it. For me I don't need a ton, fortunately I need maybe six and a half, seven hours, but I think the first thing you need to do in the morning is get alive, and so what I try to do, I try to literally roll straight out of bed, under the floor and do push-ups.

Kevin Bupp: I'd love to actually see that happen.

Evan Kinne: My wife will be like ... Sometimes I won't and she'll like open up her eye like, "Evan, where are your push-ups at?"

Kevin Bupp: I'm envisioning you rolling out in a big thud and your wife's like, "Oh God, Evan's at it again."

Evan Kinne: Exactly, and then I try to set aside a morning routine that involves reading, it involves some meditation and clearing of the mind and focus. It involves focusing on what my long-term goals, short-term goals are. I like to exercise in the morning. I find that starting your day off is awesome. If you can do some stuff before ... We have a 10 month-old kid and so that's kind of changed my life recently, and if I can get up and have a couple of hours before the kids awake I find that my day is not only more productive but just much more peaceful, and then throughout the entire day I'm just more productive with everything I'm doing.

Kevin Bupp: Yeah, well now your life's a little bit more unpredictable though with the 10 month-old around.

Evan Kinne: Exactly.

Kevin Bupp: You just have to tiptoe through the house as you're getting about that routine so you don't wake that little one up, right?

Evan Kinne: Exactly.

Kevin Bupp: Yeah, well fantastic. I want to move in now to what we call the golden nugget segment of the show and this where we're going to wrap things up after this Evan, and if you could, if you had just one final golden nugget of advice or wisdom that you could leave with our listeners today that may inspire and motivate them as they progress in their real estate investing career, what would that one last golden nugget be?

Evan Kinne: Stay focused. I mean focus is something that I've struggled with. I'm a bit of a person that likes to try to get their hands on a ton of different things, and I've recognized by looking at mentors of mine and people that have been extremely successful. Most people that have been extreme successful set up good routines in their life, they try to live with healthy habits and whatnot, but notwithstanding that, they typically focus in one area for a while and become very good at it, and build something big there and then move into a different thing. So if that's real estate that could be, "I'm going to do single family flips until I'm really good at it," or, "I'm going to build apartment buildings until I have ..."

Evan Kinne: And it's just to stay focused and learn from what you have accomplished and from your failures as well, but to try to narrow your focus. Like Bill Gates got wealthy on one business, people look at him today and they're like, "Wow, he's involved in so many different things, I want to be like that," but no, when he was 30 or whatever he was pretty focused, and so I think that's one thing I noticed.

Kevin Bupp: No, that's fantastic. I wholeheartedly agree, in fact I'm in the process of writing a book right now and I was just actually on the phone with the girl that's helping me, the ghost right or whatever, and there's a whole section that we're going through right now on focus, and more importantly putting the blinders on. I mean I'm writing this book for those that are really ... It's really a transitional book getting from single family, small residential into commercial real estate, but it's actually applicable to any line of business out here, and it's really all about, when you're an entrepreneur there's so many things that get thrown your way, whether you're in real estate or you're in tech or whatever it is.

Kevin Bupp: I mean if you're building a business or you're starting a business, there's so many other opportunities come flooding your way that will dilute your focus, and I could promise you they might look like great opportunities but if you dilute your focus from one and move on to the other opportunities then you haven't given it 100%, it's not going to work out either for you. And so really put the blinders on, stay focused on one thing, one-track mind, try to ignore everything else coming from every other direction because at the end of the day, like in real estate for example, there's a million and one different ways to make it in real estate, right? I mean you can attest to that. You've got so many different clients that come from all different backgrounds, are in all different fields, different types of projects, and there's so many ways to make it, focus one.

Evan Kinne: A great example of this is actually a hotel project we are working on. It's \$160 million ground-up development hotel project and the Sponsor there is a very wealthy, older guy. This is his second hotel, very late in his career but he has done I don't know how many gazillion senior housing facilities in his career and became extremely good at that and now took him a long time to shift over. He became a complete expert, made a pile of money there, so I think that you're spot on there, be patient.

Kevin Bupp: Well, Evan this has been absolutely fantastic, I've had a lot of fun with you here on the show today and for those that want to learn more about Evan and his group at George Smith Partners, they can visit him at gspartners.com. And to Evan, absolute pleasure my friend. I'll look forward to staying in contact with you and the best wishes for all your future success in business and with your cycling adventures that you were taking on and your new family as well, so you take care of my friend, okay.

Evan Kinne: I appreciate it.

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