Ryan Morfin: Welcome to Non-Beta Alpha. I'm Ryan Morfin. On today's episode we have Bill Shopoff talking to us about real estate development and transaction pricing post-COVID. This is Non-Beta Alpha.

Bill, welcome to the show. Thanks for joining us today.

Bill Shopoff: Thank you, Ryan. Appreciate the opportunity to visit with you and catch up.

Ryan Morfin: Well, you're known as one of the best real estate guys in our industry, and we really appreciate you taking the time to maybe share some of your insights about maybe what happened leading up to the coronavirus in terms of real estate development, land prices, real estate investing, and then how things have changed in your view, and where you see opportunities going forward.

Bill Shopoff: And thank you for the compliment. I'm not sure it's deserved, but I'll try to live up to the legend. The economy was moving well, obviously, through February. We had been forecasting a recession. Candidly, I thought the economy had enough steam to make it to next year. But we had started to be a little bit more defensive in our posture. We were harvesting some positions already, and we were also very cautious deploying capital.

We bought three transactions last year, three opportunities, and one of them took us over two years to do the acquisition and it had a distressed nature about it anyway. And then we bought one early this year. And I would say all of those positions, we're happy with our basis, even post-COVID. So, that's a good thing. I think if there's good news, the good news is if you're expecting a recession and now you're in one and maybe already coming out of it, now we got some runway to work with.

Ryan Morfin: Yeah, it seems that some people are expecting a V-shaped recovery, some people depression. So there's a lot of uncertainty. What are your thoughts? Where are we going?

Bill Shopoff: Well, I think a lot of it's going to depend on things that we can't predict and forecast, namely, what happens with the virus. Do we have a second wave? Do we get a vaccine quickly? It seems like the stock market most days has vaccine priced in, and then it has an occasional day, like it did a couple days ago, where it really got disrupted. But I think that my general feeling is that the economy will have a long drawn out recovery.

It will initially be V shaped because if you're coming off the bottom, if you go to virtually no economic activity, which is essentially where we went to for a month to two months, it's pretty easy that everything looks good from there. I used to have an expression that said we were down so long it looks like up. I think that's a little bit of where we are right now.

It's like everybody got elated because the month of May we had two and a half million jobs when they were forecasting a loss. I think it's natural that we're going to have some good job gains. And I would suspect that if we don't have a big jump in COVID cases, I wouldn't be surprised if we add June, July, and August where five to 10 million jobs created. These are just jobs people going back to a job that they had.

Then the question is, do other jobs start falling off? Do the Hertz bankruptcies and those type things, do those start really wading into hitting more white collar jobs than probably what we've seen already. It's really hard to forecast, so I think when we're taking action today, we're very basis oriented. Can we ride out some bumps? Because I don't think it's going to be a straight line. I think We're going to have some good times, and then we're going to get some bad news along the way, and it'll be a little bit bumpy.

Ryan Morfin: I think going in basis, a lot of people have always said you make all your money going into a real estate deal. So, the pull back, if you will, on valuations, do you think that there's a lot of people that are going to get hurt in commercial real estate and they don't know it yet? Or, are people just going to reset expectations on what their pro forma exit was from something they bought five years ago?

Bill Shopoff: We're all down in value today, depending on your asset type and geography, from where we were in February, or even March 15th, let's say. I think some asset types will recover much more quickly than others. Residential is going to hang in there, multi-family, because I think two things. One is people need a place to live, and at least so far with the CARES Act and the extra money coming in from the feds on unemployment, multi-family collections have I think, across the country, far exceeded people's expectations.

So I think that that's been a good asset class. And cap rates could get further compressed as we stay in this low interest rate environment. There's ample financing in that arena. The flip side of the coin is retail. There's virtually no financing for retail today. I mean, I won't say none, but it's pretty spotty. It's pretty select for what's out there. In fact, we were successful acquiring the note on one of our own centers during the midst of the turmoil. One of our lenders got a margin call, and they offered us our note back, and we bought a performing note for 70 cents on face.

Ryan Morfin: That's great.

Bill Shopoff: So, we might've lost some value in the center, but we made it up on the note side. So, we probably stayed even or maybe even got ahead a little bit. Luck and action ran into one another on that day. We knew what to do and we had the good fortune... was really the bad fortune of our lender. They hadn't made a bad loan. We were a good borrower. But they came to us with an asset that they wanted to move. We were able to take advantage of it.

Ryan Morfin: What do you think about hotel and offices sectors?

Bill Shopoff: Hotel, you've got to divide into full service and select service. I think the select service is going to make a much quicker comeback, and I'm already talking to people that are back up into the 40% to 50% occupancy range. I think the full service luxury product is going to be a longer pathway to recovery. But I think in both of them you're probably 18 to 36 months out to get back to where they thought they were. In fact, we're spending some energy courting some hotel transactions right now.

Ryan Morfin: Do you think it makes sense to buy hotels and mothball them until demand recovers? Or is the startup cost or the close down cost, is it too disruptive to the property?

Bill Shopoff: I think it's probably challenging to just let them sit empty, particularly the select service, because your property costs are relatively low. So I think that you'll see those people... some stop operating, but I think the people who continue to operate have a huge advantage because they kept their place in the reservation systems and on the online searches. So I think they've got a significant advantage.

The luxury product is going to be case by case. I think if you're in a beach market, you might do really well there, because that particular location may be getting an advantage by now people wanting to drive for vacation rather than flying internationally or even far domestically. Where I live, our hotels are pretty full. [crosstalk 00:09:45] about office, Ryan, if I might.

Ryan Morfin: Mm-hmm (affirmative).

Bill Shopoff: I think office has been a bit of a surprise to me. I probably didn't catch on as quickly to how much it was going to be impacted. And in fact, in April our collections in office only slightly exceeded our collections in retail. May, our retail dropped a little bit more. Our office picked up, and said margin widened. But I think the number of conversations had by large companies about work from home, work remotely, at least for some part of their job force is going to be impactful.

It's a long lead time, because you've got people who own spaces or have long leases. And it's unknown if you bring less people to the office, but you need just as much space to get physical separation, is that going to be a status quo? My sense is there's a net out migration in the office space. And I think that particularly CBD office seems really challenged right now.

I can't imagine going to New York City where you get on an elevator with 20 people. So now you can get on an elevator with four or six people. How long it takes you to get to the the 70th floor. There was just an article in the Journal a couple days ago about Salesforce reopening their office and you have to... if you want to come to the office, you get a code, and they only assign so many codes a day. So it's going to be very interesting to see how that happens. We're actually reopening our office on Monday, and we'll have reopened to about a 1/3 max capacity initially.

Ryan Morfin: Yeah, it's going to be interesting to see how that plays out. But a lot of these buildings, you're blessed if you don't have a lot of rollover in your lease schedule. But if you do, it's going to be interesting to see how those empty buildings get re-leased or not in the coming months ahead.

Bill Shopoff: We own suburban office, and we're actually doing some leasing right now, and our collections are back up into the 90s. We've collected about 92% of our scheduled rents last month, so we feel like it's starting to come back together, but it's still... It's a ghost town when you go to these places right now. So a business owner, I'm sure you guys think of it like we do. I'm writing a rather large rent check for one person to sit there and collect the mail.

Ryan Morfin: Yeah. It is going to make us rethink that. You mentioned collection rates. You're really deep in the real estate industry. You have a lot of friends in the space, institutionally as well. Have the lenders been amending and pretending to kick the volatility down the road a bit? Or is there a limitation to when the forbearances are going to stop? You saw what happened with Simon suing Gap for $66 million, not paying its rent. Are there more headlines like that coming? Or do you think a lot of people, just like you said, owners come out of pocket to carry it over, the volatility?

Bill Shopoff: I think that generally speaking most owners are in better shape than they have in prior positions. Interest rates are low. Leverage was lower than you've seen in prior cycles. I think that many people will be fine. The number of borrowers that sought forbearance, for example in the multi-family arena, was a fraction of what the services were setting themselves up for, partly because the forbearance terms from Freddie Mac and Fannie Mae were not overly favorable.

You had to make too many tenet concessions in most people's minds to take that forbearance. So I think that most people figured out I got a good property, and I got a property that may be not doing quite as well, and you figure out how to make your payment. We've not had to ask for forbearance from a single lender. We're collecting across our portfolio at 89% of the rent roll.

We don't service debt on every single asset because some are, obviously, those are averages. But we're servicing debt across our portfolios. And having no, at least, no current pain. We have some aggravations, clearly. But I think, look, you take the far end of the spectrum, which is a Simon, a regional mall owner. They're collecting 10%, 20%, 30% of their rent roll. They're in a world of hurt.

They're just starting to get their malls reopened with social distancing. If you've got a good neighborhood center, those centers are coming back to life. They'll be okay. But we also think that this is... In our mind, we've been expecting a demise of a chunk of retail. If you look at our retail numbers, our retail square foot per capita, and you look at all the other developed nations of the world, we're significantly over-retailed.

I think that this will be, in my mind, the giant culling of the herd of the retail that needs to go away, and what's going to happen is it's going to make some centers that are well-located and well-managed will be winners, and then others will be redeveloped and re-deployed into something else. I think rather than having two 50% occupied centers, I think the poorer of the two 50% goes zero and gets demolished and redeveloped. And the other center is the beneficiary. At least that's my business premise, and I'm actually making investments based on that premise today.

Ryan Morfin: I agree with you. I think something like 1/3 of the U.S. malls may go away. And that plays right into your strong suit. You guys do a lot of land development, or entitlement work, and horizontal development. How are land prices changing right now in your view for maybe un-entitled land and entitled land? How has this volatility created an opportunity for attractive entry points?

Bill Shopoff: I've got a couple of good data points because I actually have a number of transactions that are pre-COVID escrows. We just had a buyer go non-refundable yesterday, a public home builder, on a transaction that we just got an approval on. Interestingly enough, we did the approval all remotely, all in a Zoom-like setting, which we've gotten municipalities to agree to do.

So, that transaction was in escrow. The pricing pre-COVID was $19 million. They got a very, very small haircut. $18.75 million. And it really wasn't COVID related. It was really that there were some cost issues that they determined they needed to be rewarded for, or ameliorate some risk. But we've got... I think we've got seven escrows that'll close between now and early October, and we have not been re-traded on one. And I wouldn't even consider that particular deal a re-trade.

We gave up $250,000, and we got a profits kicker on the deal, so if they do well we get that money back times three or four. The market seems to be pretty good, particularly single family for sale business. The market was dead in the last half of March and April, but May actually picked back up. And May's numbers were shockingly good for new home sales. In the West Coast, our year-over-year numbers, this May was better than last May, which is shocking, given that tours were virtual.

But I think that if you wanted a home, mortgage prices were great, and also in this time new sounds pretty good. You're not moving in on somebody else's germs. So I think the new home business has got an advantage right now, and that should be well to us. But I think the better thing for us is that it's softened some of the un-entitled land positions, so I think our spread could even widen.

And as I was talking about the retail business, we're buying centers right now with the idea of demoing them and making them ready for redevelopment of either multi-family residential or condo or town homes. So I think the timing could be great for what we do at Shopoff Realty, so I'm very excited about it. I began this business during a time that was not dissimilar to this. Started the company in '92 in the wreckage of the savings and loans crisis. I've been through a few cycles, and I feel like maybe I'm wiser. I'm certainly older, but I'm hopefully a little wiser.

Ryan Morfin: No, I think this environment is shaping up square in the middle of your capabilities and strategies. The question I have for you though is one of these sectors, let's just take retail for instance, the de-leveraging or the de-retailing of America, how fast do you think that will go? Is it going to be something that accelerates because consumers just aren't healthy and not spending the money? Or do you think online sales are going to spike up because people are still going to be apprehensive of safety? How long is this demise of retail, how fast is it going to accelerate, you think, from here?

Bill Shopoff: It's definitely accelerated. People who had never bought on the internet had to buy on the internet. But still, the lion's share of retail goods and services are done in person. It's high 80s to almost 90% of the retail transactions. The growth is all in online, but it's still a relatively small share of the overall market. But I think it's going to be you have to provide exceptional goods or services.

If you can't do it with better service, because you'd have a hard time beating the pricing of an Amazon driven model, and you certainly can't beat the service of it. I mean, I can get virtually anything I want online, and do many things. There's certain things I like to go support local stores. I'm a big cyclist. I can buy most of the things I need online, but I tend to support my local bike shop, because I also need them to be there to be the bike mechanic. So I want to make sure I'm supporting them from a retail sense.

But I think the restaurateurs are going to have a very challenging time if the social distancing lasts for a long time. Restaurants can't make it at 60% occupancy. Your costs are essentially fixed, other than food. So you don't have a 40% profit margin. You have a 15% to 25% margin, and a really, really well run shop might have 20%, 25% margin, which means at 60% you're losing more money than if you were renting, you just stay closed.

And I think you've already seen some operators, particularly some very high end operators saying, look, until we can figure this out we're just not going to reopen. But we're seeing people open in our markets. I've been to restaurants twice in the last few days. It was reasonably functional. But I don't think it's functional for them. They can't be making the kind of money they need to make to really be in business. I think restaurants are going to be the hardest hit, and I would say quick serve will be fine, but sit down restaurants, probably 25% to 40% of those restaurants fail, would be my forecast.

I was actually talking to a CFO for a friend of mine that owns a large quick serve restaurant. They're actually, in their units that have drive-through, their sales were actually up year-over-year during COVID. So they're taking a dollar that was going to some other restaurant, and their taking that dollar and repositioning it. But I think the consumer is actually in pretty good shape. Look at your credit card bill. I'm guessing you didn't spend in the last 90 days what you normally do.

I didn't take flights. I didn't go on vacations. I was supposed to take 16 family members to Hawaii this month.

Ryan Morfin: You dodged a bullet.

Bill Shopoff: I'm a little richer as a result of that one item. I'm not necessarily richer, but I'm richer because of that. I think the overall consumer is in decent shape as long as they've got a job. Hopefully, we have a robust job growth between now and the end of the year, and we can get back... I think we can get back into high single digit unemployment by year end, which would be remarkable.

Ryan Morfin: That would be amazing. Do you think the government did a good job with the PPP program? Do you think that was a success?

Bill Shopoff: I do. Although, far from perfect, because none of these programs are perfect. But I think they took all of the playbook from the great financial crisis and other things. I think Secretary Mnuchin did a brilliant job, and I know his boss is a controversial figure, so I'll stay out of that. But I will say that the secretary worked very well with the Senate and the House to get several packages through. I think for the fed to step in and support the bond market and financial markets really calmed things.

Because I think for the second time in a dozen years, we were on the precipice, and I think the government moved quickly. Maybe they made some mistakes along the way, but I think it was a program that did function well. We did take PPP. We felt completely comfortable taking it. I feel very pleased that I was able to retain most of my workforce. We did a small reduction in force. We did an across the board salary reduction, because there's no telling how long this thing lasts.

I say the last time I acted too slowly. Maybe this time I acted too quickly. But I knew one thing. Quick is better than slow. And I think that we can always rehire and we will rehire some of those folks.

Ryan Morfin: Yeah. Have you guys looked at the Main Street Lending Program out of the Boston fed? I know a lot of real estate owners are looking at that, and I didn't know if that is a program that you think is going to have a good impact for the real estate industry.

Bill Shopoff: You know, I have not spent as much time on that. I think it'll be useful, but I think that the general lending markets are opening. I got a quote on a ground up luxury condo project this week. Within 25 bips of where I was expecting it to be, and cheaper than where it was 90 days ago because LIBOR is less. So my all in cost... my margin may be wider, but my all-in borrowing cost is less.

I think that you can start to see things open up. But we have ground up hotel deal that we want to do in Las Vegas. That's not a deal we'll even go to the market to ask for money right now. I think if we went to the market today for that capital stack, I think that we would lose credibility in the marketplace. So we'll sit tight and maybe in the fourth quarter we think that market will be receptive to having a conversation.

Ryan Morfin: You're in southern California which isn't far from Vegas, which you just mentioned. You've been to Vegas recently. How is Vegas? Is it alive? Is it well? Or do you think it's just decimated, and until people start traveling again it's going to be tough slugs?

Bill Shopoff: People are very much traveling.

Ryan Morfin: They are.

Bill Shopoff: Lot of drive traffic from southern California, particularly out of L.A. People have been locked up in L.A. under a pretty tight lockdown, and they were ready to get out of town. Between the general lockdown, and then the protests, people were ready for a change of scenery. So the casinos have been pretty full under their new social distancing, but I think Vegas is going to have a pretty good recovery. I think it's going to shock people how quickly it recovers.

People like to go to Vegas. Whatever they do there that they can't do at home, they like doing it, so it's shocking. And rightly or wrongly, Vegas feels pretty normal. I wear a mask when I go out. I went to an office yesterday for a meeting and people were not wearing a mask in that meeting. I tried to keep my distance and do what I could to protect myself because that's my job. But I think that people are seeking normalcy, so I think that's going to have a pretty good recovery.

One data point is the Consumer Electronics Show, CES, announced they will hold their conference, or convention, which is I think it's the largest convention all year in Las Vegas. That conference will be held in January. I think Vegas is kind of a tentative all systems go. And it's a little bit the Wild West over there.

Ryan Morfin: One area that we didn't talk about is industrial, and I don't know what your thoughts are. Looks like this trade war that we paused on with China, because they got to this phase one deal, may be falling apart. And a lot of governors I think are shocked about the supply chains from a national security perspective and from a health security perspective all being outsourced outside of the U.S. Do you think there's going to be a near shoring of manufacturing and hence driving more industrial property usage? Or do you think it's going to pass and we have short memories?

Bill Shopoff: I think we're going to do more manufacturing in the United States for a couple reasons. One, the safety and security aspect. But I've been forecasting it for some time because of low energy prices. But depending on the kind of manufacturing you're doing, energy is a more important product to the cost than the human capital. And so I think that certain things are going to get brought back on shore, because we can beat China or most any other place on energy cost, particularly with low natural gas.

We have a massive supply of natural gas and virtually unlimited for the foreseeable future. And it's incredibly low priced. So I think you're going to see some. You'll continue to see growth in the warehousing logistics. That market is not going away. It's a virtually full marketplace, and I think with the growth of Amazon and other suppliers in the logistics chain, I think you'll continue to see that.

I'm pleased to report with just got a 1.8 million square foot logistics center in Thailand, so we'll be monetizing that deal later this year. Very, very exciting deal for our various fund investors.

Ryan Morfin: Not a lot of people understand or have ever gone through entitling land. How long does it typically take and what are some of the pain points? It can take a long time or it can happen pretty quick. What's the art about entitlements?

Bill Shopoff: Well, that deal took a long time. That's probably the longest... It's one of the oldest properties in our portfolio today. Kind of went through a turn and then changed and changed course. We've held that since before the great financial crisis. That's the rule of what you don't want to do. We've gotten better at analyzing the municipality and figured out how to risk score a site to understand how we get through an entitlement process. And if we're really on our game, we can get through one in I'll say a year to two years in a user friendly market. Probably more in the two to three years in a typical market.

We've got some stuff in coastal zone that we think will be more in that four to six year timeframe. We score those differently. We want to get paid obviously substantially more for the time. And the one thing we know is none of them are easy. But we looked at the site a couple days ago. We went out on property review with several of the team members. And you can do a lot with Google Earth and remotely, but there's nothing like seeing a site, particularly a site with some warts. And we drove by this one site and all four of us looked at each other, and we kind all at the same time said not cheap enough pricing for this entry point. There's no price we would take this deal on. I wouldn't say it's no price, but no price you're going to be able to get it for.

It's just a site that life's too short. I've got better things to do with my day. And the one thing I know is if you put your capital into something challenging, you're harming yourself in two ways. You've tied up your capital, which is sin number one, and sin number two, which may be worse, you've got to expend too much human capital to try to preserve the capital that you put in that deal. Just got to be very careful about those decisions, but I think we've got a good evaluation system today.

And it doesn't mean we don't make a mistake every now and then, but I think what we do is build a portfolio where we've got enough winners to carry any loser you would have.

Ryan Morfin: That's great advice. People don't think about the return on their time, and that's really one of the limiting factors we all have on a transaction. Do you see that the properties you're buying today, you think that they're going to be shorter duration holds? Or do you think... Looking back at what happened in 2008 and '09, some people said they got into the market too early and maybe had to wait a little bit longer to exit. Do you think the velocity of this downturn is going to also reciprocate a mirror image of velocity on the upside for exits?

Bill Shopoff: I think if we buy correctly, I think we can exit relatively quickly on things. I'd say most of the opportunities we're looking at are consistent with how we've been. We've always been a relatively short term holder, not that we have to do that but we have found that we'd be pretty efficient in getting in and out of deals in a two to four year timeframe for the most part, and we think that still exists. So we're focusing our efforts on those things today quite honestly.

That's not to say we won't go into longer deals. We've got a couple deals that we actually think are more perpetual deals where there's good durable cash flow and our entry point is good. I think because of the nature of them, they're probably things we will just buy and hold.

Ryan Morfin: Bill, one question for you, what are you optimistic about today in the U.S. economy? What are some silver linings that you see that you hold and you say this is going to be a good outcome?

Bill Shopoff: Well, I'm probably most optimistic right now about the brilliant science minds in our nation and the world. I think we're going to have a vaccine, maybe more than one option. And I think almost certainly before the end of the year. Because this is such a global issue, the amount of capital that's been allocated to that where you have people like AstraZeneca already going into production on spec before their vaccine is approved, where they think they can have two billion doses by the end of the year.

That's a lot of money that they could be throwing away, but it's a bet that you have to take because we need to save the globe. Because it's the economy that's really more frightening to me than the virus. For most of us, the virus, we're going to get sick and we're going to get well. If you're elderly or infirm, it's a worse story for you clearly. So that, I think, leads to my general sense that there could be a pretty good recovery here.

That's countered by the uncertainty of the election in November. And I think that anybody who thinks they know the outcome of that... Because from my perspective, Ryan, I think you could see several scenarios. You could see a Democratic sweep and you could see a Republican sweep, and you could see a mixed government in between. I know not many people are forecasting that the Republicans will take the House back, but it's certainly a possibility. Because there are some districts like where I live that they're Republican districts. And they went Democrat, but I'm not sure they all stay Democrat. I think several of them will turn back this session.

But I think who knows what's going to happen? I certainly don't have a forecast, and I think that the polls don't tell us the answer. We know that. So I think we'll know some time in early November.

Ryan Morfin: It could be a contested election. There could be another Bush versus Gore type outcome. Who knows if it's razor thin? But you live in California and you brought up a good question. The political handling of locking people down, whether it's privacy or personal freedoms.

It's going to become a big issue for a lot of small districts, the local political and local congressional races. Do you think there's a lot of angst built up amongst folks in California?

Bill Shopoff: I think there is. Interestingly enough, our governor's ratings are quite good. I'm not sure that I share that vast majority of Californians that approve of how he's done his job. I'm not sure how you send half a billion dollars to a company to buy some masks that's never made masks before. To make a half a billion dollar deposit seems a little bit suspect. They've unwound that and they're getting some of the masks.

Problem is now they're getting the masks when you can get the masks from anybody at a price that's a 300% premium over what the current market is for KN95 masks. Those kinds of things I think will come back to haunt them a little bit, and I think there's some people that are just questioning some of the decision making. I'm not opposed to flattening the curve. I think that the way it was done maybe was some of the things were a little arbitrary. I think we could've managed this better. I'm not sure that there weren't better solutions to how we did this.

And I think that the voters are going to let people know that they thought there were different solutions. Devastating the economy, borrowing another three-plus-trillion dollars. For me, it doesn't make any difference. We could borrow our way to the end of my life, but sooner or later it's going to make a difference to somebody.

Ryan Morfin: The bill has got to be paid at some point.

Bill Shopoff: It does, and I think that the governments of the world, because they all had to go to the till, there's going to be a lot of pressure to keep rates low for a very long time period.

Ryan Morfin: That's a great point.

Bill Shopoff: If you had a 100 basis point rise in rates and you have 20-plus-trillion dollars to service, that starts to have a pretty serious impact on your budget. I think we're going to stay relatively low rate for a fairly long time.

Ryan Morfin: That's a great point, and I think servicing the debt could be catastrophic, but if the U.S. Treasury comes back and refinances a 100-year bond at these rates, may have covered up or swept a lot of sins under the rug. One of the questions I had for you is you look at Texas and Florida and Georgia. We're sitting here in a situation where we've reopened very aggressively, end of April, early May. Sometimes 30 to 60 days ahead of other states.

Do you think that's the right call, to let people be responsible for their own safety? You see Oregon is still closed for the most part. Where do you see the right public policy mix here from a business owner standpoint?

Bill Shopoff: I know there's a lot of controversy because many of those governors opened early. They defied some of the health practitioners' logic. But I think that... And you are seeing some case increases in some of those states. The question is are those really increase cases, or are they just increased discovery of cases because testing has also increased at or above the same pace.

I think that's something that we don't know and we won't ever know. What we know is that the number of cases that existed in the United States and in the world in March far exceeded the number of cases that we have identified. So the line doesn't look perfect because we didn't test enough people. Look, I think you've got to get back to work. You've got to do so sensibly. You have to be cautious about it.

Myself as a business owner, I've got people around the country and different areas have different societal norms. One of my wholesalers is hosting a dinner this week. That's happening in one part of the country. It's not happening in many of the other markets. But I think that people need to be responsible for themselves and the people they're around, and understand that they might not know it but they could be a carrier, and they need to be kind to their friends and neighbors and be appropriate.

Ryan Morfin: No doubt. Elon Musk has put a lot of controversy out there about reopening against county orders, state orders. Now he's looking to leave to Texas or Nevada. Do you think there's going to be a lot more of that? Or is he just looking for attention? Is there what I'll call a business sense in California to look at how they've been treated in the tax changes and 1099 changes? And do you see more flight out of California and do you worry about that, being based there?

Bill Shopoff: I have some concerns that our system is not user friendly. It's a great state with a very robust economy. It's hard to say that we're going to disappear off the map, because we have I think the fourth or fifth largest economy in the world if we were a standalone nation. We have incredible intellectual horsepower. The people who come out of the UC systems and our private universities are among the top minds in the world. And then they start great businesses here.

But I think that you have to look and say can you really rationalize staying here. I have two friends who've left in the last year and moved to Nevada. In one case, one of my friends owns a number of car dealerships, and a lot of them are here in California but they're not all here in California. He figures that he'll save four to six million dollars a year in state income tax by that move. That move pays for the house, the boat, the airplane.

Ryan Morfin: Yeah, that's a hard cold math equation there.

Bill Shopoff: I had another friend. His savings for moving is staggering. I don't know if this number is accurate post-COVID, but pre-COVID he was saving $80,000 a day.

Ryan Morfin: Wow. [crosstalk 00:48:43].

Bill Shopoff: -a huge earner, and he could afford to pay the tax. I said he's a huge earner, and yes he can afford to pay the tax, but why should he pay the tax? If I believed that, whether it's the federal government or my state government, is a good steward of money, I don't mind paying taxes. I want to pay taxes. It's essential part of our economy. But where I don't like paying it is where I think they're poor stewards of our money, and in the case of California where I think that, I'm going to be very controversial here, I think that unions run the state.

I think unions have a place, but I don't think unions should be running state politics where our state has a super majority of Democrats where they don't even have to ask a Republican what to do. You may not like what the Republicans have to say. You might not like what the Democrats have to say, but I don't think that the country works well when either party doesn't have to ask the other one's opinion.

Ryan Morfin: Agreed.

Bill Shopoff: So I find that probably to be my most disconcerting thing about the state of California. And I think they're going to try to figure out how to extract more taxes, and if they continue to do that they will kill golden goose at some point. It'll take years, decades, but sooner or later they're going to have to have a reckoning.

Ryan Morfin: Bill, are there any books or documentaries, or films you're watching or re-watching to help shape your thinking through this period?

Bill Shopoff: You know, I just got through reading one of Howard Marks's books on cycles. Howard Marks is the founder of Oaktree, co-founder of Oaktree. And I would say for anybody, by the way, you can sign up and get his newsletters off the Oaktree website. He's a great thinker. He normally writes about four a year, but he's been writing them every week or two, and I think they're just thought provoking, and I would think your advisors would get great benefit out of reading his information.

I always read Buffet's annual letter. I actually have a binder with every one of his annual letters on my bookshelf at the office. And I re-read many of them just to get reflections on how he thinks about the world.

Ryan Morfin: What did you think about... I don't know if you watched the annual shareholders meeting this year in Omaha. I did. I do the same, by the way. What did you think of his view, never bet against America? But he's sitting on a lot of cash right now, so it was kind of a contradictory statement.

Bill Shopoff: Well, it's been surprising because I kind of expected that he would make a big move, and I think what happened was that the feds stepped in so quickly that it precluded the big move that he wanted to make. And so now he's going to have to wait patiently. The problem is I don't see him being a big buyer of bankrupt enterprises. I think he's over his discarded cigar butt theory, take the last few puffs off of an old company.

That's not really his enterprise anymore. That was one of his expressions for many years. And I don't see that. Because you just can't deploy enough capital in that concept. I don't know. My guess is he's probably pretty frustrated. He's sitting on 100-plus-billion dollars of liquidity, and the for sale sign came out for about 60 seconds. They probably made some trades, I'm guessing. The CMBS markets, some of the bond spreads were probably so attractive that they had to take positions, I'm guessing.

But they probably already exited those because they cured so quickly that if you were on your game, you made a lot of money very quickly. I don't know what it'll take to get him to make a big deployment. I know one thing. It's not going to be in the airline industry. I think he, candidly, made a smart decision to dispose of his airline interests. And shocking that he actually had ever gone into them because he's had a couple of sayings, and I won't do justice to this one, but he said the worst day for aviation investors in history was when Orville and Wilbur were successful.

He said more money has been lost in the aviation industry as an investor than any other industry. I don't know if it's accurate or not, but it's been his opinion and probably pretty close to correct. Very sexy industry, but I'm not sure. I've never been an investor in that particular realm.

Ryan Morfin: Yeah, I've only gone in and out quick in American Airlines, and I'm out right now for the foreseeable future. Bill, thank you so much for joining us and sharing us your thought. We'd love to have you back on a future episode and wish you the best of luck. And we're definitely huge fans in support of your real estate investing activities. So thank you so much.

Bill Shopoff: Thanks a lot, Ryan. Appreciate it.

Ryan Morfin: Thanks for watching Non-Beta Alpha. Before we go, please remember to subscribe and leave us a review on Apple Podcasts or our YouTube channel. This is Non-Beta Alpha and now you know.

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