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Bruce Fraser outperformed the S&P 500 by nearly 286% as a hedge-fund manager before switching to real-estate investing. He details the strategy he used to amass more than 1,600 multifamily units.

By Christopher Competiello

Bruce Fraser, a managing partner at Elkhorn Capital Partners, isn't your typical real-estate investor.

"My background is different from most multifamily investors," he told Business Insider. "I ran a sutccessful hedge fund through some of the most trying economic times that most people can revmember, itncluding the financial crisis, or the Great Recession, as they now call it.

"Because of Fraser's laser focus on macroeconomic research, he saw the financial crisis coming from a mile away. He knew the implications of a housing crash would be widespread and was able to sidestep the worst of the mayhem.

"Price-to-rent ratios had literally gone hyperbolic," he said. "If you look at the graph, there's no way you could say you didn't know something was coming."

That clairvoyance helped amplify Fraser's returns.

According to documents viewed by Business Insider, from 2000 to 2013, Fraser's MSP fund etched out a 285.98% return using a sophisticated strategy revolving around financial derivatives.

During his time at the hedge fund, which would eventually morph into a registered investment adviser, Fraser dabbled in real-estate investing, buying and selling properties with a partner. When the dust finally settled from the housing crash in 2010, Fraser formed Elkhorn Capital Partners and put an emphasis on multifamily investments.

Today Fraser still oversees capital in the public markets but doesn't let that sidetrack him from his real-estate investments. In total, he oversees about 1,600 units spread across Texas and Oklahoma and has no plans of slowing down.

The Strategy

Fraser applied the lessons he'd learned from his first real-estate ventures to his new business at Elkhorn.

Instead of buying, fixing, and flipping properties for a quick profit, he focused on income specifically derived from multifamily assets. This let his investors benefit from advantageous tax treatment, and he also unlocked steady streams of cash flow instead of having to constantly flip properties.

"We're underwriting everything for income," he said. "We want to make sure it can derive a significant portion of its return from the cash flow that we expect to distribute from that property."

For Fraser, it's a win-win.

"I knew I wanted to be in income properties," he said. "I just liked the risk profile of that and the steady nature of it."

He added: "I think there's a tremendous demand for the simplicity of multifamily."

Fraser specializes in distressed situations. He's looking for either a property "that's not in great condition," or one that has fallen victim to terrible management. Furthermore, Fraser says he prefers to be in markets where institutional ownership is minimal.

Fraser differs from traditional investors by focusing more on occupancy and less on rents.

Since Fannie Mae and Freddie Mac will not support commitments on properties with low occupancy rates, Fraser leverages bridge loans to get his deals moving. The goal is simple: Use the bridge loan for the initial purchase, and then refinance into a longer-term more traditional commitment after the property has been rehabilitated and occupancy has been restored.

For the uninitiated, a bridge loan is a short-term obligation that leverages the equity in a property to complete the purchase of a new property.

Though bridge loans carry higher interest rates, their advantages include interest-only payments (generally) and additional funding for capital expenditures, Fraser said.

At the end of the day, Fraser hopes to distribute 8 to 12% of returns to investors after the property at hand has been rehabilitated.