**EPISODE 363**

[INTRODUCTION]

**[00:00:00] ANNOUNCER:** Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

**[00:00:24] WS:** This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Charles Seaman. Thanks for being on the show, Charles.

**[00:00:32] CS:** Thank you very much for having me, Whitney.

**[00:00:33] WS:** I'm honored to have you on the show. Charles has some great experience in a recent deal that we want to dive into and learn more about that I know our listeners are going to learn a lot from as well. But a little about Charles, he has 14 years of commercial real estate experience in New York City. He's been focusing on syndication deals since mid-2017 and recently acquired a 92-unit deal in Georgia and has underwritten approximately 200 deals during this time. Actively looking for new multifamily deals throughout the Southeast, primarily in Charlotte and Atlanta.

So, I like how you talked about during that time, you underwrote approximately 200 deals to finding that one. Anyway, I feel like a lot of people are – i's like, "Let's look at five deals. One of them has to work." So, I appreciate that even being in your bio. But, Charles, thank you again for your time today. Tell the listeners a little more about who you are and maybe your current focus, and let's dive into this 92-unit property.

**[00:01:29] CS:** Sure, absolutely. So, as Whitney alluded to, I have 14 years of experience working for a commercial investor in New York City. While I was with him, I got to work very closely with him and do a lot of different functions from finding deals, helping them acquire them, doing due diligence, obtaining financing, and leasing and managing them. So, in that sense, I was blessed because I really had a head start. Even though I wasn't doing my own deals, I got a great learning curve ahead of time.

Then as Whitney said, I started having a desire to syndicate my own deals about two years ago, and I started building broker relationships and underwriting deals. Eventually, that led to the 92-unit deal that we're going to be talking about today that I just recently closed on this past Thursday. So, my partners and I had looked at many deals, most of which have come through brokers that we have relationships with, and there was a lot of underwriting and a lot of deals that didn't lead to anything.

So unfortunately, that's just the course of doing business today. So, you have to kind of get to pay your dues I guess before you get one.

**[00:02:29] WS:** That's for sure. That's for sure. You've got to be patient, right?

**[00:02:31] CS:** Yes, 100%. You know what? A lot of times, it's normal that you do have to look at a hundred deals before you really find out what makes sense. But with the competitive nature, where we are now in the market cycle, it's 150 to 200 for a lot of groups. I can definitely attest to that. I've been in that range now.

**[00:02:49] WS:** I'm hearing that's a lot more common now. It used to be 100 deals. Like everybody said, "Well, you got to look at a hundred deals or underwrite a hundred deals before you find the one." Now, more people are saying 200, and I believe that.

So, let's get started on this 92-unit property, Charles. Give us some background on what were you doing to find deals and maybe before you even found this one. Then we'll talk about how it came about and how you found it.

**[00:03:11] CS:** So almost all of our deals come through broker relationships. If we're doing smaller properties, you could probably go direct to the seller in certain cases. But when you're looking at 100-unit apartment buildings, they're almost always going to be listed with a broker, so you want to have strong broker relations. Most of our deals did come through there. We had looked at a lot of different deals, but the 92-unit actually came to us by way of the person that sponsored it.

So, we had a good relationship with the gentleman that sponsored it. It was somebody that we had looked at previous deals with and something that we submitted offers on but didn't pan out for one reason or another. He's based in the Atlanta market. So, he has a lot of good connections there, and somebody had presented this deal to him. But it wasn't the right fit for him personally, because he does 300 and 400-unit deals. So, somebody just starting out probably saying, "Who wouldn't want a 92-unit deal?" But when you're doing 300 and 400-unit deals, 92 units is like a baby deal.

So, he thought of us, because he worked with us a couple of times. He said, "You know, I know you're actively looking for something. Do you guys want it?" So, we took a look at it. The numbers made sense, and then we went forward from there.

**[00:04:17] WS:** So, it goes back to that relationship piece. I mean, this is such a relationship business, and you'd already built that somewhat of a track record or reputation with that other sponsor, and for him to contact you all right?

**[00:04:29] CS:** 100%, yeah. We've been working with them for about a year already, and we had a couple of deals we looked at and just kept the relationship going even when we didn't have an active deal for him. That's what made him think of us.

**[00:04:40] WS:** So, you never know, do you? You never know where or how these things come together, as far as the relationships and the value that you're adding to other people and how it comes back around. But he connected you to this deal. Maybe you could elaborate on a little bit on the underwriting process and due diligence process as well.

**[00:04:58] CS:** Sure. So, there's a few different things that we do. So, with our underwriting, our first one, is we have an underwriting template that we use that just kind of shows us where the property is at now and where it will be when we acquire it. Then after that, if it has any potential initially, we'd write out further, usually over a five-year schedule, so we can see what the projections will look like.

Most times, our goal is that we want to see something that's really going to be delivering at least a 10% cash-on-cash return by the time that we have our value-adds implemented. So that may not be an acquisition. For somebody just starting out who's not aware of it, your value-adds are going to be all the things you're going to do to increase the value of the property. Most deals, unless it's a major repossession with a lot of upgrade work, we try to implement the value-adds in year one. So, by the end of year one, we want our cash-on-cash return for the investors to be at 10%. The annualized rate of return we look for is a least 60%, because we find that that's what helps attract investors.

**[00:05:53] WS:** So, if it doesn't meet those numbers, you're going to move on to the next deal?

**[00:05:56] CS:** Exactly.

**[00:05:57] WS:** So, you underwrote this deal. It did come out to meeting those numbers I assume. But tell me, what type of property, what type of neighborhood, what was the business plan here?

**[00:06:07] CS:** So, this 92-unit multifamily property, it's a C property in a C area. It's in the Stone Mountain mark, which is right outside of Atlanta, about 25 to 30 minutes out of the Interloop. The Atlanta MSA has become so strong that all the submarkets have benefited greatly with Stone Mountain being no exception. So, the benefit to it is that we have a really strong diverse economy with a lot of jobs. The property in the area are blue-collar, but one of the benefits to it is; that's really twofold. So, the property itself is a cardinal property, and that just refers to the type of construction. They're single-story, prefabricated buildings that were built in the '70s, '80s, and '90s by a company called Cardinal.

The benefits to them is that you get a lot of single working people and a lot of elderly retired people. So there usually aren't too many kids or teens. So overall, noise is minimal on the property so people like them, and there's less turnover than regular properties, because they have single-stories, so nobody is above them. They have a little patio area in the backyard, and they have a parking spot right in front of their door. So, it’s almost like having your own house with just having some neighbors next to you.

That was really our plan was to cater to workforce housing, and the benefit is that some of the other properties within the adjacent block or two, have seen major upgrades in the recent year or two. What’s happened is the C class people that were there for all these years have become priced out. So we acquired a property that was at nearly 98% occupancy, and there was also a strong wait list, because now there’s more and more people that were displaced by these renovations that want to stay in the same area, so they are looking to get into properties like ours.

**[00:07:46] WS:** So pretty much – I mean, you knew who your tenants were going to be. You knew who you're going to be catering to, right?

**[00:07:53] CS:** Yes.

**[00:07:53] WS:** I mean, the workforce housing, and you're in an area where you can see it changing. You can see the change happening, right?

**[00:08:00] CS:** 100%, yup.

**[00:08:01] WS:** I know that’s awesome. What about what types of doing value-add? Are you changing the property much? Can you elaborate on some of that?

**[00:08:09] CS:** So, a lot of the deals, we look at our value-add. This particular one is actually only value-add through operational efficiency. So, we do have $100,000 budget for CapEx, for unit upgrades, but we’re only doing very light upgrades and only upon insurance. So, we might replace the light and fixture packages. They’re now at the brushed nickel package. In certain units, we may do flooring, cabinets, and cabinet tops but only as needed.

So overall, it's really through management efficiencies. The biggest value-add is in year one. What is recapture and the loss to lease? The previous landlord recently raised the market gradually this year, but only about 20 or 30% of the units are actually at market rent. So, the big value-add we have in year one is recapturing that loss to lease for the rest of the units as leases renew. Even in year two, we're only using very conservative rent increases so that way we're budgeting to be very conservative.

The other value-add we have was that we're able to build back more of the water and sewer build than the previous owner did. Also, we have a washer-dryer rental program. Being it's a C class property, all of the units have washer-dryer hookups, but a lot of these people probably won't be able to afford to buy their own washers and dryers. So, what's going to happen is the ones who want those appliances but don't have money to buy them, will have the option to rent them from us. So, depending on the size of the unit, we'll rent them for an additional 29 or 39 dollars a month, and that's additional income that we can bank on each month.

**[00:09:35] WS:** Yeah, that's a great little value there that I think a lot of people don't think of is having rental appliances, especially in that case. Most people are going to come up with a few extra dollars to be able to have those units in their house, or in their homes, or in their unit as opposed to having to go to the laundromat if they can.

**[00:09:51] CS:** Yeah. Much more convenient.

**[00:09:54] WS:** Right. So, you're capturing the value-add through property management. So, tell me a little bit about how they were being managed before. Maybe go – why was the seller selling and how were they managing?

**[00:10:05] CS:** So, the seller is a reputable seller in the Atlanta market. He had only owned the property since 2017, and he was selling because basically he'd hit his price dollar and they wanted to get out. Same as what we're looking to do. He had actually managed the property fairly well. When he took it over in 2017, there was a lot of deferred maintenance. There was a lot of issues. So, for the most part, he cleaned up the bulk of the deferred maintenance. He did about $450,000 of work during his ownership.

 

We have a little bit left to do. Most of which is exterior work, but overall it's in pretty decent condition. So, his whole objective while he owned it was to clean up deferred maintenance and also get the market rents up the way they need to be. So, the market rents are still laying some of the comps, but they're a lot further along than when he acquired it. Our goal is to have them be much further along by the time we sell to somebody else also.

**[00:10:57] WS:** All right, Charles. So, what's your hold period and tell us a little bit about the structure of the deal.

**[00:11:01] CS:** Sure. So, the hold period is going to be two to five years. Our goal is that as soon as we hit our year five at a Y number, that we sell the deal. So, if that's in year two or year three, if we happen to hit it ahead of schedule, then we get a broker on board and we sell it as soon as we can. The goal is that we don't want to be greedy. I mean, it's nice to be and to make extra money. Our goal is just to hit the target and get out. So that way, we're not overstaying our welcome. We're able to return money to the investors and make them happy.

In terms of the actual plan for the actual structure is a 506(b), as in boy. So that was open to accredited and sophisticated investors, and what we get is on this particular deal, we only had a $25,000 minimum, but we also knew it was a smaller equity raise between the down payment and the CapEx budget. We're at an equity raise at two million, 225, so we're okay with that. On a larger raise, you might want to do a higher amount. One thing I definitely realize is as you do this, there are many people who go for the minimum.

**[00:12:01] WS:** Yeah. So, I wanted to ask you though too. Through this process of getting to the closing table, could you tell us a couple of problems or issues that arose going through that process?

**[00:12:11] CS:** Yeah, 100%. So, the biggest issue that we had and that I had personally was raising capital. My partners that I work with regularly and myself, we have a pretty good network. But what we realized is, is it's not the right type of network for this business. The network that we have, we have been involved in real estate for a long time. We know a lot of people that are involved in real estate, but most of our connections, even though they have money and they invest, they're out there actively doing their own deals. So, they're not people that are generally going to be passing investments or somebody else's deal. Logically, it makes a lot of sense in retrospect if only I was so smart to have realized that beforehand.

So, we were fortunate that our sponsor being he's raised capital many times on his own deals, he was able to help us out, and he was able to get some capital in there, which definitely helped a lot. But the biggest lesson we learned coming out of it is that we need to develop a new type of network with people that are looking to passively invest in our future deals.

**[00:13:08] WS:** That's great advice right there. I mean, it happens very commonly. Unfortunately, it happens often where people or they feel like they can raise a lot of capital. But when it comes down to it, it's kind of a harsh reality if you have a deal that you're hoping to close soon. But it went back to your network though. You did have somebody that could help you and that helped made it happen. So, congratulations on getting into the closing table. Tell me a bit about what you plan to do going forward, how to develop this new type of network.

**[00:13:39] CS:** There's a few different things. The biggest thing is really building my brand and, say, for my partners, we're going to be building our brand collectively, and our individual brands. The way we're going to do that is we're going to be having more of our social media presence. One of my partners and myself, we're each on different Meet Up groups in the Charlotte area. So those are things that we're going to be more actively promoting and more actively displaying our expertise. So that way, people feel more confident investing with us in the future. We're also going to be actively marketing for new investors.

We realized that in our estimation, the most likely passive investors are the high-income-earning professionals. So, they are doctors, they're lawyers, they're accountants, they're software engineers. So, we're going to focus on these professionals that may make six-figure incomes and have some money stashed away. But they don't have the time, the desire, or the expertise to go out there and invest it themselves. So, they want to just give their money to somebody else in exchange for a passive return.

So those will be the people that we focus on going forward. We're going to very actively market to them, as we market for them, then we'll speak to them on an individual basis and just start building relationships with them.

 

**[00:14:43] WS:** I want to go back to the 92-unit. So, give me some I guess details on how you are going to manage better. What are things that are going to happen or anything that we haven't discussed already? I know we talked about the renting the washer and dryers and doing some minor upgrades inside, but anything else as far as the management side that maybe the last group didn't have that you all see is going to add value.

**[00:15:05] CS:** I can't really say as much as they didn't have. They seemed to do a good job from where the property was when they first acquired it. But the thing is there was still money left on the table. So, the biggest thing we're going to do is just make sure that we're charting the right rent rates. If we see that the adjacent comps in the area are going to be charging you 50 or 100 dollars more for market rents than we are, then we want to be at that same rent too.

Some of the other comps actually are in Stone Mountain. Some of them were sponsors of Stone Mountain property. So, if they are charging more than we are, that's mistake number one. We need to be at the same level they ae. So also getting on the market and doing that, aside from building back more of the water and sewer, and then also the washer-dryer program.

**[00:15:47] WS:** So, you're talking to brokers now pretty often. We talked about how important that relationship is and how at most deals, you're going to come through brokers. But when they ask about your deal criteria, what's your answer?

**[00:15:58] CS:** So, my deal criteria is usually the B or C properties. For a while, we had downsized to 20 to 100 units. But generally speaking, I only want like less than 50 if they're somewhere close to where I live in the Charlotte area, because I realized that unfortunately, you may need to be a little more involved with day-to-day matters than you want to be. But I'd like to be playing back in the 100 to 300-unit field as soon as possible. My goal is to do a couple of around the 100 units, build a track record, and then use that to segue into larger deals.

So, B and C properties are ideally value-add. I'd like to see at least a 10% cash-on-cash return after the value-adds are implemented. But obviously, the broker's pro forma looks a little bit different than mine. But generally speaking, that's my high-level pitch to brokers on that.

**[00:16:44] WS:** What's been the hardest part of the syndication process for you?

**[00:16:48] CS:** So, the hardest part of the syndication process was definitely raising capital. We realized once we got down to that, we had the wrong type of network for people that were going to actually want to invest in these deals passively. What we're going to do is have a plan to action and market to investors going forward. So, the same way we're spending time out there looking for deals, we realized maybe we should be spending equally as much time looking for investors.

**[00:17:11] WS:** So, we always hear about this potential downturn that's coming, right?

**[00:17:16] CS:** Mm-hmm.

**[00:17:16] WS:** So, Charles, how are you preparing for that?

**[00:17:18] CS:** So, in particular with the 92-unti deal, we prepared for it by being very conservative with our projections. So, our year-one value-add is really recapturing loss to lease, which is money that's pretty much on the table already. Year-two, we only assured a 4% increase. Year three and four, 3%. Year five, 2%. So, anybody that's familiar with the Atlanta NSA, they would know that last year they stressed rent growth with a 5.3% year-over-year. So that's pretty conservative.

Generally speaking, most of our underwriting on different deals will have conservative increases, just because we want to be realistic that you may not see the same increases we're experiencing now if we do have a downturn. But also, there are certain deals that wind up using 25 or 30% as a down payment amount, as opposed to 20%. That way, there's a little more equity built right up front.

**[00:18:06] WS:** Nice. So, tell me a way that you have – something that we haven't talked about but a way that you've recently improved your business that we could all apply to ours.

**[00:18:13] CS:** So, a way that we have recently improved it is just by starting to brand ourselves more, and that's something people can do right away with, whether you have a deal or not. So, you should always be building your own reputation, building your own brand, and letting people know who you are, because that's what's going to make them want to invest with you. It's also going to make brokers want to send you deals, because they'll feel more confident that you could actually close on that.

So, somebody just starting out, if they're listening to this, I would say maybe start getting involved with your local Meet Up groups. Find out how you could put yourself in a leadership position. Even though you may not be an expert yet, work at it until you become an expert. Then eventually, you can maybe start your own group or start building your brand more in line with the expertise that you have.

**[00:18:51] WS:** So, Charles, now that you've closed this 92-unit, you've been in the commercial space for a good while. But now, you've syndicated a deal. I like to ask every guest that's operating a deal like how you care for investors. Give me one way that's like above and beyond, or how you're going to stand out to your investors.

**[00:19:11] CS:** I don't know if it's above and beyond, necessarily. I'd say it's may be commonplace. But the problem is that it's probably not as common as it should be. It's just keeping in touch with them on a regular basis. If they're invested in a deal with you, they should definitely be hearing from you at the very least monthly if not more than that. If they're not invested with you yet, you want to be calling them every two, or three, four weeks at the very least the same way that you would a broker. So, you want to be staying in touch with them, sending a text message here and there just to say hello and to reach out and to build rapport with them, giving a phone call. Maybe old-fashioned things like sending a birthday card. Things like that make them feel special and they may think of you when they go to make an investment decision next time.

**[00:19:50] WS:** Those are great tips to have fun things like birthday cards and things that people don't hardly do anymore, but it can be a great touch. Just to say you remembered or you cared enough to do that.

**[00:20:01] CS:** Yeah, 100%. 25 years ago, it's like people are so excited to hear you've got mail and AOL. Now, it's the opposite. It's like "Oh, I received a piece of regular mail and I'm actually excited now."

**[00:20:11] WS:** So, Charles, I like to ask every guest before we close how you like to give back.

**[00:20:17] CS:** There's a few different ways. But right now, the way that I'm actively doing it is by people in my own network, people through Meet Up groups and through Facebook groups that I've met that are actually starting in the syndication business. I like to give them guidance. I don't charge for mentoring or anything like that, and they most likely know why it's just not who I am, but I do like helping people in giving information. I always look at it like it comes back in other ways anyway.

So right now, I actually have three people that I'm working with who I've met at various Facebook groups, and they were starting out in the syndication process. I figured, if I can give them some guidance and help them along their way, that would be my way of giving back. In the big picture, one thing that's always interested me that I've always wanted to do is there's a lot of things that our education system lacks. But to me, one of the biggest is financial education. I think we're producing a society of people that have good academic skills but very little else and they're not prepared to see in the real world. Accordingly, we have 70% of Americans that will never retire, and we have a lot of people that are going to struggle financially throughout the course of their lives, because they don't have access to good information. They're being programmed with bad programming by the school system.

What I like to do is eventually start a nonprofit where I can spread financial education to more people in a widespread level, but that's more futuristic. I'm not there just yet.

**[00:21:36] WS:** Awesome. That's a big need. That's for sure. No doubt about it. We're not trained in school to understand how to balance a checkbook, much less how to invest. It's awesome that you're wanting to do that, Charles. But most importantly right now, tell the listeners how they can get in touch with you and learn more about your business.

**[00:21:52] CS:** Sure, 100%. So right now, we don't have a website yet. We're in the process of getting one of those. But I'll give you a couple different methods. First is by email. Just C as in Charles Seaman, cseaman@316@gmail.com. You could also find me on social media, Twitter, LinkedIn. You can just find me either by my name, Charles Seaman, or cseaman316. You can also reach me by phone, 347-306-3278.

**[00:22:21] WS:** All right. Thanks a lot, Charles.

**[00:22:22] CS:** Whitney, thank you very much for having me. It's a pleasure.

[END OF INTERVIEW]

**[00:22:25] WS:** Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get the latest episodes. Lastly, I want to keep you updated. So, head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the Contact Us page, so you can talk to me directly. Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

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