EPISODE 443

[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]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Andy Sutton. Thanks for being on the show Andy.

[0:00:32.9] AS: Thank you for having me, Whitney.

[0:00:34.6] WS: Yeah, I'm honored to have you on the show, your level of experience, just welcome you to come back as well because I know there's so many things that we can learn from your experience and vast knowledge.

But a little about Andy, he serves the Sutton Group as Principal of brokerage services, focusing on multifamily, medical and retail investment services. His experience in business and commercial real estate is extensive in the marketplace with a wide range of experience in the field as a broker and as an investor.

He's based in Atlanta, been there for almost 30 years. During that time, he's done over 750 million dollars in deals in more than 20 states. That's impressive, Andy and I look forward to hearing a little more about that and you know, just can't thank you enough for your time. But give the listeners a little more about who you are?

[0:01:23.5] AS: Yeah, my name is Andy Sutton. Principal of the Sutton Group, just to give you a little bit of background. Kind of born and raised into the real estate. My father was an old builder and the developer of the commercial which is how I got my feet wet. Every summer I would come home and I'd end up working in the field. Not only am I able to review properties and understand it from a financial standpoint, I also, had my feet in the concrete for a fittings, and so forth.

Again, just extensive knowledge from start to finish before that's concerned.

[0:01:53.5] WS: Nice, okay. Were you a college then, you were coming home over the summer?

[0:01:57.3] AS: I was, yeah. I got a degree actually in mechanical engineering which is not quite what I'm doing but I think it helps with the math and science part of it.

[0:02:03.6] WS: Yeah. You know, that many deals, that many states, you know, you've been doing this, you're very experienced in this real estate business and you know, you're working in different asset class which some people are said, "Nope, I'm only going to stick with multifamily." I know other guys are saying, "I'm only going to stick with retail." You know, that's where it's at but could you give us a little –

Your thought process on opening up your business to different asset classes and why?

[0:02:30.0] AS: Yeah. I understand that and I agree with that for a certain extent. I mean, there are a lot of guys who just focus on retail or just multifamily. Because as typically, they work with institutions or some other different type of investors that way that private equity groups. Most of my guys usually cross over product types. So, I had to learn each and every product type. I actually started in the retail sector, I built office in retail but then I ended up doing investment sell side of it in early 2002, roughly.

I started in a retail cycle side of it and just kind of worked my way from there and learning as I went. When you have these guys decide to do a cross product type, I don't want to lose them or

throw that business out because it can be a tremendous amount of referrals source and also, longevity for the client.

I ended up helping them do that and then as you're in the field and doing different product types, you learn ins and outs and what different types of internal rate of returns are looking for or cash on cash or each investor has their own different goal of what they're looking for. For each type.

[0:03:36.8] WS: Yeah, why don't we talk about a little bit, you know, what investors are looking for or should expect, you know, in different deal types like that. multifamily versus retail, you know, that can be kind of confusing, right? A lot of people have never even heard of syndication or real estate syndication or don't even know that they can invest in real estate passively. You know, it's like we're so trained that it has to be the stock market or 401(k), mutual funds.

You know, it's like, most of us are raised thinking, "That's how we get our retirement, right?" A lot of people don't' even know that you can do this. When we start talking about different asset classes and things like that, maybe you can help us to think through like what are the investors should be thinking about, thinking multifamily or retail?

[0:04:16.4] AS: Sure. Yeah, there's so much looking, I'm sure you're aware of it, when you wanted syndicator but you come an investor in any of these types of deals, it really comes down to what they're trying to achieve? Because there's so many avenues, a lot of investors don't rise, if they can a self-directed IRA. They can put their money in this self-directed which will allow them buy real estate and now they can't touch the money, it has to be a third party that handles all that. But you're able to put the returns back into that investment profile and just let it sit there, similar to any type before at 401(k).

You get a say on where you're putting it which is what I do now. I'm not in the stock market anymore, I haven't been for some time. I'll do what I know best and I know what my returns will be and I know what kind of deals I can look for in the upside in those deals. You know, each asset class is a little bit different, the retail side, a lot of people in the past few years said, "Well, we think the retail is going away, it's not going to be any bricks and mortar."

I disagree with that, I think there will always going to be somebody has to go get the hair cut, get their nails done and they like to go to shop and restaurant so there will be some that do but as you look and see most of that hasn't taken away from retail. Most of the clients that I know of are expanding, even the mom and pops are expanding.

When an investor looks at that, you can get in with a little bit less money when you do it on the retail because you can buy a retail centers anywhere from a million and a half up. It usually will take you know, $300,000 roughly to get in that. The smaller investor's able to get in to those a little bit easier, versus the multifamily.

Unless you're looking at 10, 15, 20 units, you start looking at 50 to a hundred units, you're looking at five million and up. That can get quite costly for someone, you got to put in at least a million and a half so got to have a little bit of money, your percentage of ownership in those is slower but it's still a good investment. People are always going to have to have a place to live and I really believe in the multifamily product itself.

[0:06:18.0] WS: Yeah, as an investor, you know, let's say even a passive investor, what are some things or differences between asset classes or maybe a little more in depth that I need to understand – or obviously we can't go explain that all of them on the show today but you know, just some things that maybe mistake or if we're talking about even different types of returns versus the longevity of this investment or for a multifamily to retail?

[0:06:43.1] AS: Well, one of the differences between retail and multifamily, the retail side, typically, all the expenses are passed through to the tenant. That actually don't have those moving parts of the taxes to go up, the insurance goes up, it's passed through to the tenant. Unlike the multifamily which is more of a similar to run in the business, you're going to have all the operating expenses, you're going to have administrative expenses, you're going to have more vacancy because you're going to have more turn over typically those are 12-month leases. So, unless you keep the longevity of that particular tenant then you're going to see more turn over which in order to do turnover you got to redo all the units that they move out of or the vacancy and that calls associate with it.

The main difference is, at least you know in the retail side what those hard costs are typically going to be year after year versus the multifamily and you're doing that based on market knowledge, experience, and also how the property management company's going to handle that.

Your returns are going to be a little bit better on the retail side as far as the cash on cash, it could be anywhere depending on the type of retail product type whether it's all credit tenant versus a mom and pop. You're looking at probably 10 to 12% cash on cash, a little bit higher than that and then an eternal rate of return probably closer to 20.

The multifamily, you're going to get probably closer to 7% return on your money with an upside probably around 16. I've seen it higher than that but it depends on again, what you said, each deal, they all can be, they can be value-add or increase in rents or below market rents and so there's a lot of variables and that's where I come into play where I can look at all the different angles for these particular clients and kind of give them my best guess, so to speak, what that's going to look like from my experience.

[0:08:26.7] WS: Yeah. You know, given – let's say you know, medical and retail, multifamily, let's say they're on a level playing field, where as far as the operator's experience and track record and maybe even the returns. You know, what's going to be your preferred method or your preferred asset just personally?

[0:08:46.3] AS: Personally, I've purchased retail, office and multifamily. I don't do office anymore because it is a lot different mark that do that client set or South Korea and Sydney both, they bought large deal here a couple of years ago in Atlanta and the occupancy rate has gotten up and the rental rates have gotten up, that's where we're in the cycle. What people forget and don't understand is it's cyclical, every real estate has a cycle, when there's office, retail, multifamily, industrial, medical, any of those has a cycle so you really have to pay attention to where you are in the cycle.

Right now, we're in the best cycle for the office. But if I'm going to do it for me personally, I'm looking at retail multifamily and ultimately, I'm going to have more multifamily for retail, I've done well in the retail sector, I like the retail sector. If the location is good, again, it goes back to

location, location, location. I typically like deals that are inside cities in the limits, some suburbia areas are really good too, pockets.

Again, those are my two favorites and those two that I invest in.

[0:09:51.1] WS: You know, being in the business as long as you have and talking to so many people in the industry, what's been the difference in the ones who – say getting started, a lot of listeners are getting started in this industry and they're growing their brands, their business and you know, what's really been the thing that you've seen in people that's made them excel to the next level versus the ones that don't make it or they don't make it to that first syndication, that first deal?

[0:10:15.5] AS: Well. I guess there's two questions there. One is a little – he doesn't make the first syndication, a lot of those guys do it out of fear, do not do it out of fear. You're trusting your money with some third party that you're not familiar with. You have to look at the track record with that third party basically, that syndicator.

I don't think it's really any different than the stock market, you're trusting your money in the stock market, in the business model and everything else. Again, you're probably looking at the history of that, how the stock in the company and it's done. Typically, that's what you need to do as far as the syndicators are concerned and look at that.

You know, again, each deal is different so you have to look at again, what each individual investor's trying to achieve? I mean, if they're in their 30s, they got plenty of time for all hold period. If you're in your in your late 50s, it's a little different on hold period.

But I always look at deals, I had a couple of really good investors over time and one common thing that each one of them had told me and I always want to – when you're in this business, you start talking to these investors and how they sold deals and they've traded up and now they're worth multi-million dollars and one common thing that has always been – you never bleed the turnip, you always leave a little gravy on there for other investors.

If you do that, they say, you always go forward and it always works out for you. That has really been one of my key components that I live by on each deal that I do. But also, you have to make sure you have an experience guy looking at those. So that you know the ins and outs and you know, you're not looking at just what your terms going to be, okay, what's the negative component, what could happen, what's the con?

Those, if you got somebody looking at it from all angles like, that then you're pretty much going to do okay. Now, I don't guarantee anything and if someone does, that's not the person who you should be talking to because everything – every investment doesn't work out, is perfectly issued in life.

[0:12:06.6] WS: Sure, if you could go back 30 years, what would you tell yourself after knowing what you know now?

[0:12:13.6] AS: Be patient. Be sure and do your due diligence and look a little deeper. And really know who your partners are or the investors, each one, any time I do this, I like to meet them a face to face or a handshake, just kind of know, get a good feel about that person. I've had deals in the past didn't work out so well. and it usually is because of the partner.

So, you really have to pick your partnerships accordingly.

[0:12:39.1] WS: Yeah, you know, when you are looking at multifamily, we'll use multifamily for this example but what's your buying criteria that you're looking for now?

[0:12:47.7] AS: Gosh, anywhere from 50 to 200 units and it really depends on the area. They can go for 60,000 unit or go up to 250,000 units. So, it really depends on looking at a deal right now that's locally, it's more of a student housing but it is right next to a college and a belt line basically – it is a trail line around the area, which gets you to and throughout the city and the campus. So, I think the location, again we talk about location, I think that is a fantastic location and it is a local owner that owns it and really wants to get out of that market and get something closer to home. So, for me that's the type of deals that I like. So right now, I am analyzing that one.

[0:13:27.7] WS: Okay, you know in the bio, we have mentioned that you have done deals in more than 20 states I mean that is a lot. It is almost half of the states. So, are you open to that larger market or that many locations or how do you focus the markets that you are looking in now?

[0:13:44.6] AS: I do. I typically focus in Southeast right now. I do like I said I have clients that are international clients that like to buy in different states. They also have clients that are on the West Coast that like to buy in different states. So that is kind of how I fell under, I got a lot of Northeast guys. So, when you have been doing this for as long as I had, it just happens that way. So, it is not as if I can't analyze a property in Arizona or you know Texas or Atlanta or Florida or North Carolina and South Carolina.

The fundamentals are the same, you just need to know the market. You got to do market research if you are not familiar with that market but born and raised here all my life. I have travelled all over the United States. So, I know pretty good bit of the markets. Now they all change but that is why you get to call up the brokers and you get some opinions in those areas as well so.

[0:14:30.1] WS: Yeah, so what has been the hardest part of the syndication journey for you?

[0:14:34.4] AS: I think allocating enough time to it is time consuming and so being able to allocate enough time to be able to chase to get out and get more investors to buy particularly this because there is a lot more deals right now that I can find that I do have the individual investors to invest right now.

And of course, it is in the year from December you don't get really a whole lot done. This is my kind of clean up, get ready for the New Year product, which will happen in about a week. And then that is when you'll start reaching back out. Most of these investors will find out what their plans are for the year and how much they want to allocate for that particular year.

[0:15:11.8] WS: Wow. So, you know you mentioned you have more deals in your investors for and there is right at the moment. So can you elaborate a little about how you've grown your deal flow to that point? Most people I feel like you know where they can't find deals right now and so

how have you grown your deal flow maybe a couple of ways that you have really increased that?

[0:15:31.0] AS: Yeah, a couple of ways. I mean again just being in this industry for so long, I probably get a 150 potential deals across my desk or my email I should say on a weekly basis. Now, they are not all multifamily but there are a tremendous amount of retail and multifamily can buy and there is some medical on here as well. So that alone sends me a ton of deals.

But I also have a lot of relationships with the brokers through the Commercial Board of Realtors and throughout the United States that I have dealt with previously or talked with or shown deals.

Again, and then you have your typical we need market deals you have more investors reaching out for that. So, I do investment sales as well. So when you look at it that way, you probably get 200 per deal that you push out there and so when you do that, you create a database and with that database, you are able to see more and more deals or reach out five more owners and more deals.

[0:16:24.7] WS: What is a couple of tips getting through that many deals like a 150 emails, deals a week? You know somehow, we have to quickly narrow this down to the ones that we need to spend more time on, right? So, what is your first couple of steps in narrowing that down to the couple or three that you really need to focus on?

[0:16:42.3] AS: Which ones are realistic and are not, you know? We want to target particular ones but yeah that is the concern. I typically allocate the time in the morning or on the evening not here in the productivity time and when you see, you typically will have an email blast something. I just look for the bullet points. Okay, what are they asking, what are the cap rates, how big is it? And I can do a quick calculation where I think that is more.

If it is something I am interested in then I dump them into a folder in my email and then I'll follow on that, get the packages and it just takes time. You know when you get these packages a lot of them could be 20 pages, they could be 60 pages. So, I know which ones to go to and what to look for and where are the hidden things are, where they value add proforma numbers. Those I just dump in a folder I don't even look at those. I might even look at those pretty quick.

[0:17:28.8] WS: Yeah and so how do you prepare for this potential downturn that everybody is talking about?

[0:17:33.5] AS: You know I am not sure 2020 is going to be and will be a downturn. I think that the interest rates are great so the money is easy to borrow and the returns is still good for these guys. I think you have to be prepared or that. You always have to keep that in the back of your mind and you try to go ahead and do the whole run while you can save money away. I can't tell you how many young guys that wanted to come work for my previous company that I had with a partner. And we ended up selling with Grubb and Ellis.

Those guys came in very young, hungry, making a ton of money and they just didn't prepare for the future. They even put money away. I told them, "You need to put money away and I am not talking six months." You need to put in a couple of years' worth of travelling money away to pay your bills and little comfortably.

And then at the same time, you are purchasing deals where you get reoccurred income. I mean you really want that what I call mailbox money, a reoccurring money each time annually there is coming in for you so you don't feel that pressure and you ride the cycle out. And while you are riding the cycle out, you have cash on hand to purchase it as the prices go down and that is where you make big money: is you buy low you sell high. Typical. But that is the truth in any type of industry, especially this one.

[0:18:46.1] WS: So, what is a way that you've improved your business recently that we could apply to ours?

[0:18:51.0] AS: Actually, I am 57 years old but I've got more on the social media and more pages that way following multifamily groups and retail groups and making more connections that way. Because you would be surprised how many people will ship things through there and push things through there that I haven't seen at all on the market. So, I am trying to get more involved with the social media aspect of it and reaching more out and also mentoring.

I do a lot of mentoring, I have a couple of young guys now that are working for me that I enjoy giving back, mentoring them and helping me achieve hopefully some of it success or more success than I have.

[0:19:25.1] WS: Wow, that is awesome and yeah, I appreciate that and I can't stress enough having a mentor and just to change that the way that that excelled myself and the business and many things, you know having different mentors for different things too. So, I appreciate that and what is your best advice for caring for investors so they want to return to the next deal?

[0:19:43.3] AS: Well, it rock for the first deal to be an asset of the home run for because then the money just keeps coming back ad that is what we really try to focus on. If we get some new investors, we want to make sure that it is a good home run for them. We are closing one next month. Similar to that it is a larger retail deal. It is like 3.5 million. We pulled in 1.2 from investors and syndicating that deal and then we are giving them a break for return plus a huge upside on that one.

So, we want to make sure that that is absolutely a home run and that is what we try to do. If not, we at least want to communicate and let them know on a regular basis what is going on with that particular deal. I think communication is a big lost skill but it is a big huge thing for these guys.

[0:20:26.8] WS: What is the main form of communication for you all and how often?

[0:20:29.8] AS: I mean everyone likes to email, text nowadays but I don't prefer text that much but I usually like to email them or personally call them.

[0:20:39.2] WS: And what is the one thing that has contributed to your success?

[0:20:42.8] AS: Again, I think patience. You have to be patient in this industry. You are going to have ups and downs. You are going to be good deals and bad deals. You are going to have something that falls through. Thank goodness, I had one deal that didn't quite work out in my career but no one could have picked the recession.

We were going to buy a deal right next to where Trump is going to put a brand- new tower and he then backed out of the tower. I mean everyone knows what happened in the recession at that point. It just ended up not working out. No one wants to get an office building and it would have been a sweet deal but you know it happens. So, I would say patience.

[0:21:16.9] WS: Yeah patience, most of us don't have enough patience, right?

[0:21:21.1] AS: Right, exactly.

[0:21:22.7] WS: Willing to wait, you know.

[0:21:23.9] AS: That's why I am trying to stress that as much as I can. You know even though I am not the best at it, I am still learning.

[0:21:28.8] WS: Yeah, well you know before we have to go, tell us how you like to give back other than mentoring?

[0:21:33.7] AS: As far as like do I like to give back?

[0:21:35.8] WS: Yeah just how you like to give back.

[0:21:37.7] AS: Well, I do a lot of mentoring. I know not only do mentoring from the business standpoint, I also do it personally. I actually help underprivileged kids who don't have fathers in their lives and I have been doing it for 12 years. I have been getting them through school, working with their anger issues, getting them into a trade school or college and helping them through that. That is a big passion of mine

And you'd be surprised – Now this is kind off topic but you'd be surprised how well a young man will do with just a little mentoring from an older person or a man in his life. It is truly amazing that I have been blessed with it. I am going to continue doing it for as long as I can.

[0:22:14.5] WS: Yeah, I appreciate you sharing that because it is. It is so important and ultimately, they desire that leadership that they think they do or not. They really desire some of that leadership and someone to show them.

[0:22:24.8] AS: Yeah, they actually Whitney, they crave it, it's amazing how much they crave that and all you have to do is just spend a little time. Spend an hour with them a week for lunch and now I do that much more but that is how it started out. It's been a blessing now.

[0:22:38.5] WS: Is there an organization that you do that through or maybe the listeners or myself could get involved in?

[0:22:42.3] AS: There was. It is called Lion and Cubs. I started with elementary kids and helping them throughout that was a good time that one particular one, he has been in my life for 12 years. I am getting him into a trade school now. But he has some anger issues, always getting in fights and I worked through that and now, he is a fantastic young man. So that's one of them. There is a ton of them out there. There is one other organization that I am looking through and I can't think of the name right now with me but they do more of that and I am actually going to reach out in that first year and see if I can get more involved in.

[0:23:10.1] WS: Nice, I know there is Big Brothers Big Sisters.

[0:23:11.9] AS: Yeah, Boys and Girls, all of that but you just need to pick one that you feel you're passionate about, feels good for you and it will come.

[0:23:19.7] WS: Wow, thank you for sharing that Andy and giving back in that way. I appreciate your time being on the show today and just sharing from your vast experience and tell the listeners of how they can get in touch with you and learn more about you?

[0:23:31.9] AS: Well they can check out my website, which is suttonregroup.com. They are welcome to email me at andy@suttonregroup.com or they can call me at 404-429-8566.

[0:23:44.4] WS: Awesome, thanks Andy. That's a wrap.

[0:23:46.8] AS: Thank you, Whitney, I appreciate your time.

[END OF INTERVIEW]

[0:23:48.8] 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.

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[OUTRO]

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