EPISODE 486

[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 Joe Palmer. Thanks for being on the show, Joe.

[0:00:32.7] JP: Thank you very much, Whitney. Thank you for having me.

[0:00:34.7] WS: No, I'm honored to have you on the show. Your level of experience, I'm looking forward to the conversation. Since 2009, Joe has raised over 44 million dollars in capital to purchase, develop, lease and sell real estate. Since 1999, he has invested millions of his own money into the very same deals he syndicates and is usually one of the largest investors in his own deals even going so far as to personally guarantee every loan in every deal.

Joe, thank you again for your time and just your – sharing your expertise with the listeners and myself, give them and me a little more about your background and let's dive in to this syndication business.

[0:01:14.1] JP: Yeah, absolutely, most of us so I think the most of us real estate investors think the way we get started, we often, we might have invested in the stock market prior or other things, bonds, maybe we're more conservative and we find our way to real estate because of promise of better returns. I found it the same way. I had a corporate career that retired when this business got to grow substantially.

But also, what happens with most of us, we join in one particular area. So, I started in multi-family investing. and I did about just a couple of passive deals and I quickly became a lead investor and then a syndicator. And you do what often most of us do and that is you have some success and you parley your returns back into the same thing. More multi-family. That's smart and that's why it's because you're leveraging your learnings, you're leveraging your network that you've developed so it's a smart thing to do.

However, as time goes by and you keep doing that, a couple of things happen: Number one, the market is changing around you and you're slowly starting to notice. Maybe you're not getting the same returns you used to. And you're starting to realize why is this market is changed around you.

Additionally, you start to realize you've got a large amount of your personal wealth wrapped up into one thing and you know, of cap rates, you know, go up on you, Something happens, something up in geopolitical or economic, it could really hurt you. I found myself in that position. I had launched Consilium Capital Group. I started off doing my own deals, with family and friends and then syndicating widely. The group on the whole had noticed this so we had noticed partner returns weren't what they used to be and we noticed something that within our group, we had some serious experts in other areas of real estate.

Our little network had some broader capabilities and we started inquiring and looking and following some of these other capabilities and other areas of real estate and finding that some of those were trending up and they were becoming very attractive.

This let us to do other types of real estate investing. We continue to do the same. We continue to watch the market, watch the economy and basically go to what the market was giving us. And thus, over the years we have done a little bit of everything, we've done residential, commercial, single family and multifamily, we've done development construction, lot development and most recently mortgage notes.

[0:03:30.9] WS: Wow. It's interesting, you came from a corporate background, got into real estate. I like how you talk about you had everything invested and you start to realize, "Okay, something happens here, you know, we need to think through this a little bit," right? But you know, you talk about how the market is changing around you. You know, if you're not careful, all of a sudden, things have changed a lot.

Maybe you haven't been paying as much attention as maybe you thought you were.

But you all have been paying attention and you started to notice that you have experts on your team that are, are people that are experts in other areas of real estate.

[0:04:01.2] JP: Absolutely. The funny thing is we all get so laser focused and that one thing that we know well, we know the best and that has treated us well over the years, we get laser focused on that.

Often, in this industry and all of us real estate investors, we don't lift our heads up and look a little bit longer term, right? I think I was very lucky, by the people I had put around, and the fact that we had these other talents and skills. That's really served us well and it's made us kind of unique as a capital group and as a syndicator. I'm kind of known now around the industry for that. For the fact that I have the ability to do so many things. So, I find a lot of people come to me and they're very involved and very deeply invested in other things but they come to me specifically for basically diversification.

So, what I often say, kind of my Consilium Capital Group tag line is that we syndicate diversification. We may not always be with a lot of our investors, they don't have their majority of their equity in their capital with me but they bring pieces to me where they're wanting to diversify and get, in many cases a little something that's maybe a little bit lower risk, lower return, a little bit steadier.

That's one of the major things that we provide that most others don't.

[0:05:18.2] WS: No, that's awesome, I think it's a great quality. And tell me about your team and just the team of experts that you're talking about?

[0:05:24.4] JP: Absolutely. Obviously as I say, I started off mainly for myself. I wanted better returns in the stock market, I thought real estate was the way to get, good solid, better returns at a reasonable risk level and it absolutely has been that.

But as time wore on, if we expanded to family and friends and then to a broader investment community, early on, you're mostly interested and people come to you, you get to know people and you're doing deals together.

But as we started kind of noticing that the market was changing on us we wanted to do other things, we started to all talk collectively together, often on team calls and often it's be on a particular deals call but we'd wrap up that deal and we chat for another 20 minutes. You just start to learn that you know, this person you've known for a year or two is a lawyer in a real estate firm, right?

You start to talk to them about what they do and what they have done in the past and what they're doing now. That conversation sparks another one and someone else chimes. These were often passive or limited partner type folks.

But as you start to chat about what can we do as a group next and how can we leverage that ability? People are very willing to step up and participate and contribute their expertise in their networks, in their contacts as well as their money. You know, it's kind of like, all you had to do is ask, right? Yeah, we've got lawyers and accountants and real estate professionals, every walk of life, agents and brokers and just you know, property managers and whatnot across the board and kind of never expected real estate and all we had to do is ask. And all we had to do is leverage it.

[0:06:56.7] WS: I mean, you can't be an expert in every part of this business, can you? You have to surround yourself with experts.

[0:07:02.4] JP: It's a team sport as is often said, right?

[0:07:05.9] WS: You had mentioned a few minutes ago, you went to what the market was giving you, things were changing and you're willing to change with it, I think, you know? And keep your head up like you were talking about. Can you elaborate on just how the market changes and then you know, how you all really change as well because of that?

[0:07:22.2] JP: Absolutely. Yes, as I said, we started in multi-family, kind of the classic class C buy and rehab, fill it up and then you know, your mortgage comes due or your note comes due and you look at your exit opportunities. And obviously cash flowing is, it was always our goal but as cap rates were plummeting, we got tremendous value out of these things and we sold off all of those and knowing that we're going to be very happy to sell in this low cap rate market but not to buy in it.

That was one of the first times when we realized where would we put that money if we sold? And what we found within the collective group was construction. That the market was really rewarding developers for constructing new things. We quickly leveraged those capabilities and started building. We built over a dozen condos in the Bishop Arts District of downtown Dallas. We've built over a hundred single family lots up in Sanger, Texas, one-acre estate homes in Argyle, Texas.

We jumped into construction and the timing was good for that but this was three or four years ago and we see that changing around us as we're doing it. Going forward, we're not so much interested in starting new construction projects. Probably still some raw land deals but less construction and our research is now taken us to mortgage notes. Since 2007 and then Dodd-Frank, which came up in the aftermath of that, as you know, the banks have just walked away from subprime lending altogether, pretty much Dodd-Frank kind of forces them that way.

But luckily, the private sector has stepped up and the private sector's providing these notes and they're providing a really good return to really qualify people with good jobs moving into really quality assets.

Right now, we're finding that to be a very attractive investment. We can get eight and 9%, sometimes even 10. We're in the first position lien, these are 80% LTV, they just cash flow so steady and for the return, they're relatively low risk.

[0:09:26.5] WS: Nice. As you went through that, you were talking about some different signs and things that were happening. Anything else like or maybe even signs that you see happening right now just from your experience things that you see happening now and how the market's changing?

[0:09:39.1] JP: Yeah, you know, my group is still focused largely on Texas. Now we're doing some notes outside of Texas. Yes, the assets and notes and most of the markets were doing them in a very solid and stable. We focus mostly on the economics of Texas. One of the most recent reports that came out that was talking very much about the job growth, specifically the Dallas area has had but all of Texas for sure in the past 10 years and it outlined it with all kinds of statistics.

But went on to forecast that they see the same growth for the next 10 years. You know, a lot of people thought the job growth would be slowing sooner than that. This was a group, a very respected group of economists putting this out.

So, that doesn't mean that all of these growth factors within the real estate industry can continue indefinitely, just like the roads are struggling to support this influx. But it does mean that there will be people continuing to move to Texas. Let's take cap rates. Can they go lower? Possibly but not much, right?

These are historically low cap rates, of course we have a lot of money flooding in from California, especially 1031 money, New York as well, the money's coming here because of that growth. But even those investors, there is a bottom limit to what they'll accept for their money. Even with 1031.

So, we certainly don't see cap rates going much lower but with this jobs report for the next 10 years, we do see them as being fairly stable.

[0:11:03.7] WS: Do you plan, let's say cap rates go back up or you know, market takes a big change, you plant to go back to multifamily or development at some time or you know, is this kind of your plan to wait until there's a better time to get in back into multifamily?

[0:11:17.4] JP: That is a very insightful question. And that's so much so that that was the conversation I just had today with the team. The team is very interested and I think this report spurred the interest on. That you know, one of the reasons we kind of got out of apartments was because of fear of cap rates going up, right? Now, this thing says that they're probably not going down but it does say they're probably pretty safe and stable.

A lot of my group having come from multifamily apartment investing is now very much getting reinterested in it. If they think we can get in and out a couple of times, and still relatively safely without the fear of rising cap rates. So, absolutely, we do think we'll be heading back that direction.

[0:11:59.6] WS: Nice, just from your level of experience and listener that's getting started in this industry that's wanting to be an operator, maybe they're having some of the same thoughts that talked about, "I'm not sure if this is the right time to get into multi-family, maybe I should think about notes or maybe it is?" I'm just wondering you know, could you give them some guidance?

[0:12:18.6] JP: Absolutely. I think the advice I would give and it's something I wish I had picked up on sooner is that thing we talked about earlier which is lift your head up once in a while, look around the industry, look around the market, read the economics, the forecasts, everything that's going on. But absolutely, learn one aspect, be successful with it, parley that, reinvest, but also, lift your head up once in a while and look around and sometimes there's some really cool stuff going around you, some really profitable stuff going on around you that if you don't lift your nose off the grindstone once in a while, you won't even notice it.

That's where I think we've become like I said, around the industry, we've kind of caught out for consulting gigs, we've been sold out for mentoring.

I think the reason is that it's that message. When you lift your nose off the grindstone and look around the industry, what do you see? And then of course, my team's case, they come to us and say, "Well, can you help us get involved with that, can you help us put an investment together to go after this, right?"

[0:13:15.1] WS: What's some of the – or maybe a really good resource to help us to monitor the market or maybe something you read every day, something that we could also educate ourselves on the market with?

[0:13:25.1] JP: Yeah, funny thing is I'm a fan of *The Motley Fool.* strangely enough. They have a pretty broad base of resources out at their website and they do talk a lot of real estate at times in investment so I visit that one a lot. Again, it's – I think it's partly it's entertaining, it's kind of fun to do but also, you do pick up and learn some things on there.

Of course, if you just like I said, right now, the mortgage notes attract us. If you just Google investing and mortgage notes, there's some wonderful resources out there. And of course, our website is investccg.com.

I'm still mostly email based. So, when you go to their website, you'll find kind of small snippets of what we're involved with, what we're doing and what we're raising capital for now which happens to be the mortgage notes. You can click on that, you'll get some photos and some info and then it will lead to if you are interested in more click here, send an email and it's saying I am interested in more. And then of course, we can inundate your inbox with all kinds of resources and information.

[0:14:20.4] WS: Nice. So, Joe, what's been the hardest part of this syndication journey for you?

[0:14:24.7] JP: So, I can answer that question and it also semi-answers your previous question about someone who is starting up. I found for sure it was the beginning, getting started doing your first deal. There is a lot of fear that comes with doing your first deal. And my first deal involved a $2 million note I had to sign. So, there was an enormous amount of fear. Luckily, I had a mentor who got me over that fear and I signed that note and it was fantastically successful, right?

So, I think the fear factor and then just pulling the trigger, doing your first deal I think every investor will tell you the second deal you'll do is hugely more easy than that first deal was.

[0:15:07.6] WS: Yes, so I know we've talked about this a little bit but I always ask how are you prepared for this potential downturn that everybody is talking about?

[0:15:14.9] JP: So right away we're real estate investors and being real estate investors, we're already – And I tell this a lot to people I coach and mentor, you are already inherently within real estate and you are partly protected against certain things. Inflation. You are going to be very protected against no matter what happens economically even if the jobs slowdown in Texas, you still own real estate. The word 'real' means something. That is not going to evaporate on you, right?

What can happen is your ability to exit, your ability to monetize these things can change quickly on you right? Where something is very, very sellable today and six months from now it could take you a year to sell it, to move it to the price you want. So, what we mainly do is make sure we're never too heavy in one thing. So back to diversifying thing, we make sure we are always somewhat balanced.

And an exercise we like to do is if we needed X amount of dollars next week, where would we go to get it? And if we went there to get it, what would the return be like if we had to liquidate that, right? We do that at least once a quarter to be sure that we're well-balanced and well-balanced is one thing a lot of real estate investors are not and that is the one thing that Consilium Capital Group brings to the industry.

[0:16:34.4] WS: Nice. So yeah, I love the diversification and just thinking through that and kind of being flexible in watching the market.

[0:16:39.6] JP: Absolutely and being ready that you know, diversifying and being a little bit safer and being able to add liquid cash available to you if a downturn happens when you knew it. It might mean taking a lower return than you're used to. But you must remember that also comes with a much lower risk. So, all your money in high risk, high return things it can eventually burn you. So, we are big on preaching that as well.

[0:17:04.3] WS: Do you ever get people would say, "Well Joe, you know I really feel like I am better off focusing on this one thing like multifamily." Or whatever they're in, self-storage, you know? “So, I just learned that and I know that really well no matter what the market is doing,” as opposed to switching asset classes.

[0:17:19.0] JP: Yeah, I get that a lot. In fact when I got started, I was a huge and I am still am a huge Kiyosaki fan and of course in his most famous book of all that first book, *Rich Dad Poor Dad,* he clearly lays out that there is big benefits to be had from being an expert in something and putting all your eggs in one basket, right? I don’t know if he said it that way but he does make the case that leverage your strengths and go with it and make a bet on yourself and I am all for that as well.

But there comes a point where a little bit of common sense comes into that equation as well and in some of his other books, he does talk about that. He does delve deeper and talk about diversification. I don’t know if that is the word he uses. But it is basically the same principle that all your eggs in one basket can roll the quickest and the best by leveraging your strengths, weaknesses, resources, network. But it can also burn you just as fast if a combination of events happen when you are not expecting it so –

[0:18:13.4] WS: Sure. So, Joe, what is a way that you have recently improved your business that we could apply to ours?

[0:18:18.6] JP: I would say most certainly it’s these mortgage notes that we’re investing in now and again, it is an 8% return and it is funny that new investors, new real estate investors will hear 8% return and will turn their nose up at there, right? Like, “8%? That is so low, I am not in this for 8%.” But it’s the older, more sophisticated, more experienced investors their eyes light up when they hear, “When you say 8% what do you mean?”

I say, “8% APR on the note every month, every month your account gets dinged. Ding-ding-ding with these monthly payments at an 8% return.” And sophisticated investors recognize the value of that and what that means to their overall portfolio. And that has been a revelation for our group and not only is my previous, experienced investors eating it up but I’ve got new people flocking in for the list off.

[0:19:07.3] WS: Nice, so I like to ask as well other than the 8% every month, what is a way that you stand out with your relationship with your investors?

[0:19:16.3] JP: I think the number one biggest thing that is different and about, my group as well is we're basically entirely transparent. And let me tell you how far I mean by entirely transparent: Every investor when they invest their money as you know in most cases in real estate syndication, you'll want an LLC for that, for that one investment. That LLC will have a bank account. All of my investors actually have a log in to the bank account anytime they want. It is utterly full transparency. And I don't think I have ever heard of anyone else who does that.

[0:19:48.5] WS: We've done almost 500 shows and I have never heard of that. So that's incredible. That is transparency right there.

[0:19:54.3] JP: It adds little bit of work load but it is absolutely unique and our investors love it. I hear it from a lot of them that they have also never seen anyone else do it before.

[0:20:02.2] WS: So, what is a way you're finding investors right now?

[0:20:04.6] JP: So, until recently we really weren't looking very hard. Basically, because we basically had our plates full. You know just in terms of pure ability to take down new projects and manage them properly but now we've had just in their past several months we've had a few of them complete, conclude, and final distributions and it just was good timing when we started to really see the value of these notes and gain experience with them.

So right now, it's been mostly word of mouth. We've had some consulting gigs that have worked out well for us from marketing. Getting exposure to new investors and then just our website and LinkedIn and that type of thing. So, we haven't done a broad marketing push to attract new but I think now with this note thing doing so well and getting so much interest, I think we are about to re-look at how we do go out and do a little bit of more of a broad-based marketing approach thing and attention for that and get some interest in the door for those mortgage notes.

[0:21:00.9] WS: What's the number one thing that's contributed to your success?

[0:21:04.0] JP: I would say my faith. Certainly, like I said that initial fear comes into play but then also you are partnering with people and being able to partner with people you want to trust those people you are partnering with. You need them to trust in you. You are all going to go do something together. And definitely having that Christian base and being able to feel comfortable and safe that you know, no matter what you do it's in bigger hands than yours.

And of course, every time we were talking earlier in the show about economics and the potential of shifts in marketing and all that kind of stuff that is all out of your control. These experts you're reading, these expert economists that you are reading it is out of your control. No one knows, they can't predict the future. So, having a good solid foundation for those things is really, really helpful. It lets you sleep at night.

[0:21:52.2] WS: Yes, I could not agree with you more Joe. I am glad it's not all in my hands, you know? Because I would mess it up. So, tell us how you'd like to give back.

[0:22:00.9] JP: Yeah, I am glad you asked. So, within CCG, we just all kind of happen to follow each other to a group called Family Legacy. They're actually out of Coppell, where I live. They are a tremendous ministry who's focus is African orphans, primarily Zambia, almost entirely Zambia. And so, these are AIDS orphans and the numbers are staggering when you see the numbers and they have built and put together a network of schools in Zambia for these orphans that is amazing.

In fact, anyone listening can go to familylegacy.com and just spend 20 minutes reading that website and it is amazing what you are going to learn. They're one of our top favorite places to give. I've been to Africa. I have spent a week with them in Zambia with the orphans. A remarkable experience but remarkable of what they have accomplished for these kids in a relatively short period of time that they have been in existence. So that is one of our favorites.

We also, you know one of the reasons we like these notes, back in 2007 and 2008 when it all went bad and the banks between Dodd-Frank and just the bank's, you know, knee-jerk reaction in general even without Dodd-Frank basically walking away from so many millions and millions of people who are absolutely hardworking, honest people with good jobs, families but now they cannot get a loan for a house. It's like the American Dream evaporated on these poor people.

So, like I said the private sector stepped in but as the private sector of America, which is a capitalist country so of course, capitalism steps in from the private sector. There is going to be an equilibrium of profit that's made on these notes. So obviously these are sub-prime, these are high notes. So, one of the things that we are now doing is kind of originating and refinancing these at a lower rate.

So, you know a lot of these notes comes from real estate investors who might be single family rental people, they buy a single-family home, they rehab it then they want to sell it. What I think a lot of them are finding is they go to sell it and the majority of the people of the shoppers, of the buyers for this single-family home can't get a loan to buy the house. So often that team themselves will seller finance that house to them and then move to sell the note, right? On the open market.

So, one of the things that we are doing is that we do a lot of just buying those notes but we are also now trying to get word out, starting to get word out to not the holder of the note but the home owners to say, "We'll re-fi that note for you at a lower rate." And when these things work out, it's a win-win. They get a lower payment, a lower interest rate and we get a very good guest, very good borrower and it is still a good return on a good asset. So, it's a win-win and it certainly improved the situation for them and still gives us a nice solid steady paying return on a good investment.

[0:25:04.3] WS: Wow! Well I appreciate your time Joe. You've been a great guest. I like how you talked about your team and team of experts and how you have been able to keep your head up, watch the market and also know how to change the different asset classes depending on what the market is doing and kind of be flexible in that way and then also how you give all of your investors access to the bank account. I think that is very interesting, I am going to look into that because I have not heard of that before as many people and operators that's been on here but that is definitely a way to be more transparent and to stand out and I appreciate you sharing that and the way you give back and about your faith as well.

But tell the listeners how they can get in touch with you and learn more about you.

[0:25:39.2] JP: Absolutely. So obviously I think probably the number one way is on the web, investccg.com. So that is invest CCG as in Consilium Capital Group dot com. Like I say, it's not an elaborate website. It will give you a little bit of a taste then click on one of the links and send me an email. I read every one of those emails and tell me what you are interested in.

And we are still small enough that it is very boutique. There is not one of our investors I don't know. I have at least spoke to at least a few to several times. So that is the best way. I am also on LinkedIn. I don't spend a lot of time on LinkedIn but I am out there and I get the messages. So that is another good way to reach me.

[0:26:19.1] WS: Awesome Joe, that's a wrap. Thank you very much.

[0:26:21.5] JP: Thank you, Whitney. I really appreciate you having me.

[END OF INTERVIEW]

[0:26:24.1] 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 are 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]

[0:27:04.5] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time.

Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

[END]