EPISODE 550

[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 Meg Epstein. Thanks for being on the show, Meg.

[0:00:32.8] ME: Thank you. Thanks for having me.

[0:00:34.6] WS: I haven't had too many guests that are able to record a show from a boat. I'm happy to have you on and thank you for your effort to make it happen even though you all are enjoying the water.

[0:00:42.7] ME: Yeah, we're in quarantine.

[0:00:45.2] WS: That's one way to do it, that's awesome. A little about Meg before we get started, she founded CA South in 2015 with the idea of bringing to Nashville her sense of design and style of building homes from her days in construction California. The CA South raised its first dedicated commingled fund in early 2019. The firm expanded beyond residential condos to include industrial and office projects.

She has been involved in the development of construction of over 260,000 square feet of residential and commercial real estate representing over 150 million dollars' worth to date. She's a licensed residential general contractor, CCIM candidate and licensed real estate agent.

Meg, you've got all the certifications that's for sure and lots of experience to go along with It. But give us a little more about who you are and let's dive in.

[0:01:34.3] ME: Sure, yeah, I definitely came in to real estate development and fund management the opposite way, I didn't come from you know, I wasn't an analyst in New York or something, I started on job sites out of college and really learned construction and building and fully worked my way up.

When I moved to Nashville, I just knew I had to do commercial real estate and there were so many gaps in the market and under-supply aspect. That's when started my company, about five years ago now. And really dedicated to changing the built environment in Nashville, really doing great, interesting projects in the field to more modern taste and things like that.

Try to build some things better than every project that goes back up there.

[0:02:14.2] WS: Yeah, wow. No doubt that building a business like that doesn't come easy, right? I mean, it doesn't just come over night, no doubt about it. You've worked very hard. Tell me, let's go in a little bit to starting your own business. And I think too, you could speak to the women that are listening. Unfortunately, I don't get too many women guests so, I'm thankful to have you on. Maybe you can speak to them and just starting your business because you don't' meet too many women contractors either and so I'm just grateful for your time and being willing to just share your success and expertise.

Can you just share a little bit about just getting started and in that time, you say you slowly worked your way up. What was some of the things that helped you to build that success?

[0:02:52.3] ME: Sure. I guess it wouldn't be slow relatively right because I'm not very old and I have quite a bit under management but I basically started by doing a house flip and I did it with the developer, he's done other house flips and just basically found a mentor. And I think I raised a little bit of capital on it. I went on BiggerPockets, and got a few people to put in 50 grand, 100 grand and we did a house flip in California.

And I was at the time working as a GC, building really high end homes. So, I understood construction and the general parameters. Basically, I got a mentor to do that.

And then when I moved to Nashville, I did that for several years. I also had a day job as an owner's representative so I was having my normal bills paid. And then when I moved to Nashville, I saw the opportunity to do commercial. And it just helps not being in California where it's so competitive and expensive and people are just so friendly in Nashville and I just found my first project by running along the river.

And I thought, "Gosh, why is no one building anything on the river on Nashville? Water is a big deal in many other cities, Chicago and San Francisco," everywhere I'd come from. And I thought, "Why is there nothing on the river?"

And I was on a bike ride and I saw this sign and it said, "Residential condo building for sale by owner," and I called him and the long story short is that he was a developer and he needed a million dollars and I partnered with him became 50/50 partners and he kind of walked me through the whole process.

And I went out and I went out and raised the capital from whoever I can find. BiggerPockets, everywhere. I was like, "Yeah, I can give you a million dollars," and I had no idea where I could get it, but I just figured it out.

[0:04:27.1] WS: Wow, you called a for sale owner sign and ultimately partnered with that developer?

[0:04:31.7] ME: Right, he was an older guy, he was also from Los Angeles but he has moved in Nashville. He had plans and a performance and you know, he kind of just walked me through it. Later, I ended up buying him out it and developing it myself. It was definitely a learning experience. That's how I got started.

[0:04:48.5] WS: Wow, okay. Talk about raising that capital a little bit, most people were terrified of just raising for the first deal and you call for sale by owner sign, you meet this developer and towns like you seen the opportunity there and you didn't hesitate.

[0:05:00.7] ME: Yeah, I mean, now that I have a fund and I work with much bigger private equity groups and legitimate capital sources and I definitely probably didn't do anything correctly. The legal was shoddy and now I have a whole team of attorneys that police everything. But it definitely got my feet wet and understood the basic parameters of contract and things like that. And really, once you do it once, I think that's why it can be, I remember before them it seems so intimidating and now it has 10 or so projects going in. You do it once, it's so much easier to confront a bigger project or something like that.

[0:05:37.4] WS: Yeah, fill us in a little bit on just the hustle that that took. I mean, that definitely took a lot to get that started in your first deal. What are some steps or some things you could highlight to help somebody else that's looking for that first opportunity like that?

[0:05:49.3] ME: Well, what I would recommend, I mean, it really comes down to who you're doing business with. I've been a sponsor myself. Now, I have worked with other sponsors and it really makes all the difference. You really get to know – I mean, that guy I had no idea who he was and went to his house. He had a nice house. He was 70 years old. He looked like a responsible guy.

I just assumed that he knew what he was doing. And I'll spare you the details, but it was very messy and it worked out great and it got me started and I have no regrets. But I would say that you really have to do your due diligence on someone. It's definitely worth hiring an investigator to see your background checks on people before you go into business with them.

And in terms of hustling, I did a lot of cold calling when I first started and I still do actually. I cold call family offices now or have more private equity groups and that's who I raise capital from.But when I first started, I would literally just online and 'real estate investors in Nashville' and just called as many people they can, they really think that it's a lot art and that people don't reach out to enough people.

[0:06:51.2] WS: You mentioned raising capital from family offices by cold calling them. That's not something I've heard anybody talk about on the show. Could you talk about that a little bit? How does that work? Cold calling family offices and what does that conversation look like?

[0:07:03.1] ME: I wouldn't recommend that, especially with family offices. When I started, I did not know the difference between an institutional investor and a high-net worth investor and who you could raise capital from. I didn't know any of that. I literally just Googled 'Nashville real estate investors' or something like that and I just started calling people in networking out of town. And so I just mean that I even still find a lot of value in blocking out some of my week just to reach out to people and find prospects for investments.

[0:07:32.5] WS: Yeah, in your bio, a little bit, you talked about just having a different perspective to real estate development. Could you just elaborate on that perspective a little bit and what that means?

[0:07:42.1] ME: Sure, I found, especially coming from California, when I moved into the south, when there was a gap in the architectural style, there wasn't a lot of modern thin lines. And in fact, one of my main development partners is an architect and the builder and he's up for developer and he is from San Diego and he kind of helps bring a lot of my projects that very modern, cool, California architecture. And so, I think that he's definitely been a part of our success in just bringing in different perspective.

We tend to be a younger team. Whereas, when I first got to Nashville, I kind of made the wrong – It's a very small town. If you want to know someone in real estate, it's one degree of separation. And I noticed that a lot of people were really good or they had family businesses and they're really good at doing one thing like office and that was all that they did and that was the one thing they focused on which is really great. But it left a lot of very traditional, not opportunistic asset classes and it left a lot of room in the market and that was sort of what I have exploited.

[0:08:40.7] WS: Wow. Tell me other ways that maybe you've been able to do things differently when a market like Nashville coming from California or the coast?

[0:08:49.7] ME: My first focus was bringing in capitals. It was just in the beginning when I first started with like 2014, 2015. Obviously now, Nashville is much more of a buzzy investor, on the scene investor city at this point. But when I first moved there, there's more national investors doing multifamily and hospitality but it wasn't as many people from New York in investing and in Chicago. So, that was my focus was bringing in outside capital but to do that, you have to have really buttoned down, underwriting and real market studies and things like that.

When I noticed when I first started looking at deals in Nashville, was very country club back of napkin type underwriting which just wouldn't attract those investors. And so, I think that was one of the ways that I got bigger checks which is also point I'll probably talk about later.

[0:09:35.7] WS: Wow, so just seeming to be more sophisticated anyway having better tools.

[0:09:39.9] ME: Yeah. And better underwriting and to be honest, the first guy I hired used to work Goldman. I hired him off Upwork. I paid him a $100 an hour and he built my super complicated model that I couldn't understand either. But he was smart and I know he knows how to do it. So now I know I can read models and understand them and learned a lot with them but it doesn't mean you have to have some big team either.

[0:10:01.1] WS: So what has been the hardest part of the syndication process for you?

[0:10:04.9] ME: I actually don't think the syndication process is that hard. I think that I never had a problem putting bigger deals together. I find a lot more efficiency in putting 30 million plus projects together. It is much less work than if I had a $5 million deal. And that is something that I think your listeners should know or a lot of people and then BiggerPockets has space tend to overlook. I think just because they can't conceptualize it. But it is actually a lot easier.

And I am not afraid of someone taking my big secrets because no-one listens when I say that. That's been something really having the discipline to stick to stick to the niche of your sized deals that you'd be best at and mine is 30 to 60 million. And I opened my own private equity fund last year. And I really think at least this current situation, what is happening with the pandemic and everything could change this where people might be more diversified, but it is a lot easier to raise capital from family offices and private equity in the direct project right now as opposed to a fund.

So that has been something that I particularly don't take several checks into one deal. I only take funds into my private equity fund, specific individual checks. But I find that it is a lot easier to raise capital into individual deals, you know dollar for dollar anyway.

[0:11:22.4] WS: Yeah, then they can see the property. They can see the market. They can go look at it if they want to as opposed to not knowing what types of deals is going to be invested in.

[0:11:31.1] ME: Yes, for me I am partnering with a private equity group. Or using the fund I set up or they have pluses and minuses. We really don't mind either so the path of least resistance to the individual.

[0:11:44.0] WS: True, a lot of times I'll ask how do people prepare for a potential downturn, but now since we are in the middle of the one potentially, how were you prepared for this kind of downturn?

[0:11:53.3] ME: Surprisingly I don't want to say I planned for it, or even thinking of it but I was very lucky because I set up a credit facility, debt fund for my own projects not to operate as a debt fund but just my own credit facility essentially. And that was one thing that really helped me in getting my projects off the ground. So I started doing condos and they're horribly under-supplied in Nashville or in Southeastern cities because it is lot harder to finance than multifamily. You have to do pre-sales and I don't want to do luxury condos.

I wanted to be selling to people for $350,000 price points. Those people aren't buying condos two years in advance. And so, I built relationships with different funding courses that didn't quality our presales and that has been one of my very successful actions in selling out some of my projects. One project was 80% full when we opened it. We didn't have to sell 30 or 40% of that before we broke grown.

So I set up my own credit utility to be able to fund my projects. If the credit market freezes or right now I don't think a lot of banks are lending, I just closed two very large constructions loans in the last week and we're well underway. So that was one way I've prepared. Obviously it gives you control of the whole capital stack, which always helps. I have amazing partners that has been through this themselves. And I have an incredible board that is several generations older than me that has been mentoring me and giving me their advice with what they have seen.

But this is the basic stuff you know, which is don't over-leverage. And my projects tend to be very opportunistic. So I am looking for very high yield, 20, 30, 40% IRR's. And so if it takes me a little bit longer, a year or two longer, I am still not losing principles. It might not be as profitable but my asset class is – I really shop and find the right project and it has to have a lot spread and I am not building into something that is going to building into something at six, six and a half cap.

I am doing it four, four and a half cap or five cap or something. So I think because I really pick and choose and I focus on these asset classes, as long as I can hold the project long enough to get through it, which I can, then I think – Everyone makeS that mistake of over-leveraging and getting into mez debt and things like that.

[0:14:03.9] WS: Nice. It seems like a common theme that I have heard you talk about. It was really the experts you surrounded yourself from the very beginning whether it was the for sale by owner guy that has been doing it for a long time to the guy from Goldman Sachs to now the board that you are talking about. It sounds like you are good at finding people that are really good at these things, surrounding yourself with experts seem so important to anybody that's had so much success in real estate. But what is way that you have recently improved your business that we could apply to ours?

[0:14:30.4] ME: The board is a new development and I think that a lot of people don't do that enough. I basically reached out on LinkedIn to people that are like, "Oh I want my company to be like that." One guy has eight funds, he lives in New York. One of my main investors just people that have done this and they're on my board and I give everybody a little piece of the back end of all of my profits to keep everyone motivated and on the same page. And I don't want to pay monthly stipends or something like a traditional board but that is definitely even something that's been helpful. Especially when going into something like this, you really feel like you have a competent team.

And then I keep my team really lean and mean. But I've found the right people that are just really intelligent and has given me the ability to compartmentalize my time because I think as a developer or a syndicator or one of the people listening it was really easy to do is you end up kind of doing everything. And I would say that in order to scale — I would be rather doing eight or nine projects at once than doing one project by myself.

And that diversity in case different things go wrong in different asset classes. And I see a lot of developers just focus on one project at a time and do that for like four or five years and it's basically them and maybe an assistant. And they kind of hire everything out. And I just chose a different model, which is kind of build a better team. Lean and mean still. Not a ton of overheads and scale that way to give diversification.

[0:15:59.9] WS: Yeah love that. And maybe this goes into the next question but I like to ask, what is the number one thing that's contributed to your success?

[0:16:06.3] ME: It has to be the people and making sure everyone is aligned for the same goals. I've had a handful of really great partners. We've just work really well together and I think that's the point. And sometimes when through the first deal I did but didn't end up being the best partnership. I learned a lot but you have to just find the right people. You think that sounds a little cliché but I am trying to think of something more specific. I think it is just about finding the right people.

And making sure everyone's interest are aligned you know? Even down to the contractor even if they get a little cut in the bonus just the money to be in.

[0:16:38.6] WS: I like the abundance mentality, right? Wow. Well Meg I am very grateful for your time unfortunately we're out of time. But tell the listeners how you like to give back.

[0:16:47.9] ME: I noticed that there is a lot – the National Bureau for Development, which is really great because I am a developer. But I also think it is really important to shape parks and recreation and the green ways. So I am very involved in the community in that way. I am also part of a women's entrepreneur group that basically helps women scale their companies and get to more employees. So I do a lot of mentoring through that.

I am always trying to help women in real estate and commercial real estate or just entrepreneurship because especially in different various parts of the country you tend to be misconceived.

[0:17:21.5] WS: Yeah, wow. Well how can people get in touch with you and learn more about you?

[0:17:25.3] ME: My website is casouthdevelopment.com and there is a contact email on there, assistantestate@development.com and find out about me.

[END OF INTERVIEW]

[0:17:35.1] 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.

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[OUTRO]

[0:18:15.7] 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.

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