

EPISODE 788

[INTRODUCTION]

[0:00:00.0] 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]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Frank Patalano, thanks for being on the show Frank.

[0:00:32.7] FP: Thank you for having me, sir.

[0:00:33.6] WS: Yeah, Frank originally, a full-time teacher with a part time job, working seven days a week, gradually invested more and more into real estate, and continually growing, taking risk, he eventually left his job to manage his portfolio for full-time. Frank, I know you and I have known each other for maybe a year and a half, two years now and we talked long time ago and then it's just great to see your success and what you've accomplished. I look forward to hearing just your story of getting to that point where you can leave that full-time job that is most of the listeners probably goal or ones that have already done remember, the difficulty getting to that point and taking that leap.

But welcome to the show, give us a little more about who Frank is and let's dive in to your syndication journey.

[0:01:13.4] FP: Thank you sir, yeah, it was awesome, it can be done. It does take hard work and there are quicker ways to do it than what I did. But basically, I remember talking to you just about two years ago and then in about seven or eight months ago, we met at Best Ever in

Colorado for the first time which is really awesome, right before the big pandemic hit and now, I don't travel as much but I will be and we're still investing in deals.

But let's see, how did I get started? Like I said I was a workaholic. I figured that the way to make money was just to keep working, but the problem was that I was working for other people and I wasn't really working for myself in any way, so as you know, when you're working, your boss is never going to pay you more than what you're worth. You know that, we all know that.

I mean, they be losing money if they had to pay everybody more than what they're worth. So, what I had to do is I had to figure out ways to make money passively or actively but in different industries if you know what I mean.

[0:02:10.3] WS: For sure, wow. Well, you know, Frank, many others have to start by, if you want to get in real estate, your goal is to do it full-time that many of us have to do it while working as well. Tell us a little bit about that transition and how you managed to make it happen. I mean, to the point where you were ready to say okay, I'm leaving this job and I know this is the right way to go.

[0:02:30.3] FP: There you go. Obviously, for everybody, there is a fear factor, there is a risk to it and actually, on my first deal, I actually lost money. I invested in some land. For some reason, I thought I knew enough about building even though I had no experience in building. So, I bought some land at a big auction down in New York City a few years ago actually. Wow, it's about 13 years ago now. That was one of my first investments into real estate.

We also bought our own personal house at the top of the cycle so that was probably not the best idea either. At the same point, my wife and I went up big spenders so we kept generating enough savings that eventually, as you know, the banks are not paying that well, just putting it in a regular bank account so I remember back in about 2005, we had bank accounts paying about 6%. Now, if you have a 6% interest rate then obviously, some of the syndications would be around the same right now but right now, as you know, interest rates are just about one half of 1%, if not less.

Basically, we had to start putting our money to work and I tried some stocks but I lost money on a few deals and as you know, you really can't influence stock prices as much as you can influence real estate.

[0:03:38.1] WS: No matter how many apple phones you buy.

[0:03:41.2] FP: Yeah, there you go, no matter how much shopping you do at Walmart, even if you spend twice as much as you made last year, you cannot really influence the stock price per se. But as you know, with real estate, if you can get a decent deal and do the right rehab or value add, you can easily make more and more money. So what I did is I bought my first small multi-family which is a triplex. I did it on my own and when I say on my own, I mean, my wife and I did it together. We bought it traditional mortgage, a 30 year mortgage, not owner occupied, 25% down and obviously, that's awesome but you really can't do too many of those if you're just doing it small, long-term, buy and hold investing.

So, over time, we had to do is we started to buy a few other styles, we started to do partnerships, we started to do a little bit of fix and flips, we invested in other people's deals and through syndication as well in the past two years we've been able to grow out faster.

[0:04:39.9] WS: So why syndication? I know you've done some different things in real estate but why syndication as supposed to sticking to flipping or single family or something else?

[0:04:48.6] FP: Well, definitely still doing, especially flipping. I mean, this year, 2020 has been like the year of the flip for me. We have three active projects going on right now and we have three more coming out in the next two months. But I still love the concept of syndications because of that symbiotic relationship between active investors and passive investors, and also just being able to be outside of my market.

I live in Rhode Island and Rhode Island is considered tax hell and CNBC I think calls it the worst places to start a business. I love Rhode Island but for growth, it's kind of hard, especially in real estate. I mean, we're just over an hour out of Boston, most of the growth that we've had is because Boston keeps coming closer and closer to us. Besides that, I mean, the overall government is rather anti-business, anti-development, so we don't have any population growth

and while we have had rent growth like I said, it's because of us being so close to Boston and eventually, that might change but I had to put my money into other areas of the country.

So, I started out doing some investing in Texas, Kansas City, Missouri, my first big project that I invest a lot of money in was in Idaho. Stuff like that. I really had to diversify out there. My thoughts for you right now is, I think I made about eight or nine markets in. Some of those are small money but just the fact that if one market doesn't do that well, the other markets will help.

[0:06:12.4] WS: Nice. No, that's a great thought, just the way you diversified and I want to back up a little bit though just like getting into the real estate business and you know, you comment in your bio, you mentioned like honest networking, what does that mean to you and how does that help the listener to understand what that means and moving their business forward?

[0:06:28.9] FP: Yeah, I'm a big fan of networking but I'm not necessarily a big fan of just networking, just to get deals off of someone or just say hello and that's it and build a business through them. I just honestly, I like chatting with people and I have a love of real estate so I talk to people, each and every day and there are people that I've known for 10 years and that I've never done a deal with and that's not because I don't want to, it's because I'm not going to push that when the time is right, the time is right. If I have an opportunity that I think could work for them, I might give them a call once in a while.

But there's no real push that, "Oh my god, you have to invest with me and I'm never talking to you again." I think you understand that a lot as well Whitney.

[0:07:09.1] WS: For sure.

[0:07:09.0] FP: But for example, we have an eight unit commercial building that we own down about 45 minutes from my house and it was about 11 years old when I bought it, it was a great property over all but there always those little things about it that need a little bit of extra and especially when I bought it, I was still teaching. Could I have bought it by myself? Absolutely. But what I did is I found two partners that I know in the area and one's a full-time property manager and the other once's a close friend that I own a few of the properties with and we bought as a three way split and the reason why is because it was benefits to everybody.

I think that's the examples of honest networking. I mean, I go through — I belong to a lot of different real estate groups and I'm always meeting people, talking to people but it's for a good relationship like I said, even if I never do a deal with that person.

[0:07:57.2] WS: No doubt about it. I just thought it was interesting like calling it honest networking, no doubt about it, it's more than just a hello, how are you doing, see you later or you know, don't care about you, if you don't invest with us, right? It's all about helping one another and moving forward. Rising tide raises all ships, right?

[0:08:11.1] FP: Yeah, you and I both could agree that investing is a team sport but not everybody feels that way so there are people that I know that are very dog eat dog and yeah, it doesn't work out for me.

[0:08:23.0] WS: Yeah, no doubt about it. Tell me Frank, a little more about what's been the hardest part for you and just the syndication journey.

[0:08:29.0] FP: With syndications, the hardest part to start out was deciding which markets and then learning so much about so many different markets. I got to be honest with you, I'm more location agnostic, the fact that I like markets that are a little on the quieter side but are growing. I have not invested in any deals in like Dallas or in Atlanta yet. But I like the ones that are like the Kansas City or stuff like that that are growing but not everybody's there.

You know, then besides that, you're going to work on building a network, building a team, building brokers, everything else and it's kind of hard to do that if you're trying to be in five or six different markets at once, as you know. What I've had to do is I've had to rely on some of my partnerships so like the Idaho deal, I have two good friends out of Utah market and obviously, they weren't good friends originally, I had never met them before but they contacted me and first thing I was worried I'm like, is this a scam or something, you know?

People are just like looking for money and this and that but because we have such strong connections in real estate. I was able to find a friend who you know but I won't mention on the phone here and basically, I called him up and I said, what do you think of these people and he

said, well, they're part of my Mastermind group and I said, what's one word that you would use to say what they're about? And he said, integrity.

That really meant a lot to me. As you and I both know, you can lose money in real estate but you can lose money in real estate by partner stealing from you or you're going to lose money in real estate just because you've taken a little too much risk and I'd rather have it from taking the risk than from not being able to trust my own partners. I did invest to that deal.

I've put a few hundred thousand dollars into that deal even though it was a struggle to raise, there's plenty of struggles in the syndication, the struggle that we had, we're all on the first deal, we're all first time syndicators, so, we definitely have anybody that had a big network and my network was actually built of local people who are not accredited. But we did it as a 506(c) so it's a lot tougher to find people but we made it happen no matter what, we fully raised and we are at a 90% occupancy right now so no complaints.

[0:10:35.7] WS: Nice, what were a couple, or maybe even just one thing you took away from that raise that you'll either do different or that you learned from that to do moving forward.

[0:10:45.1] FP: No matter how much you think you can raise, it's going to be 10 times harder to do it. You know, I'm sure you know, especially with this concept of soft commitments, soft commitments that are nice but with only about 10% of the soft agreements come through it's like wow, some people want to invest it, it's not just the people themselves, sometimes it's timing issues like you and I just had a discussion about an upcoming deal you have going on. For me, I'm not saying I'm investing or not but it's just the concept of I just put \$100,000 into one deal so I'm a little tight this month and we'll see if I have anything coming out in a couple of weeks like I'm supposed to —

I might have money available for it so I'm sure everybody will respect on it then I'll be mean, where they are in the cycle, you know, investors, they have good months and bad months, they have a lot of money in the bank all sitting around one month and then the next month, they're out. You know — just like renting, even with like renting apartments — people always are looking for apartments and it's like, guys, if I need to rent it, I need to rent it like now. I can't wait two months for the perfect situation for you.

[0:11:47.3] WS: Right. Situations change for every investor, right? I mean, life happens and we definitely understand that. You know, people sign up, there will be a few investors every raise that by the time when they're supposed to send money, I mean, things happen, right? They have to buy a new car or the bill for their child's college is bigger than they expected or whatever it may be. Things happen and no doubt about it and you better plan for it and when you're doing that raise.

[0:12:10.7] FP: Yeah, the raise is a bit – the raise is the hardest part for us. I mean, the property was a little worse shape than we thought so we have more plumbing issues and we expected stuff like that but we'll get over all those humps because we're already ahead of pro forma on the rents, it was just the raise was the hardest part in my eyes.

[0:12:25.9] WS: Nice, okay. Well yeah, definitely expect that. Is there something though you'll do different next time just to help with that issue?

[0:12:34.4] FP: One of the biggest things that we'll have to do is just have to build out the network quicker and just go from there. The good new is that, we're performing well on this one. I think it will be slightly easier on the next one as you know because people already see, especially – we plan on paying out distributions by the end of the year which is pretty awesome and especially as people see you doing that kind of stuff, it's really go to makes it easier for people to understand you and trust you. As you know, it's all about trust, we've done 506(c)s so I could try a B but it's going to be a little tougher. I have a few people in my network that would have invested but they were not accredited.

If we try one of those B's once in a while, obviously you can't advertise it but if I call my network around. I think we'll be able to fill that one a little easier.

[0:13:20.2] WS: Wow, well yeah. You know, we learn so much going through like I mean every race that we've done we learn so much and I would just encourage the listener too like track all those things, right? And know that there's going to be problems. You know we track everything and so that way, every race, we learn something. There's different issues, whatever happens but we want to minimize this as much as possible, right?

And we do – we go to great lengths just planning that entire process and so I mean like I have somebody on the team that's like just committed to that and helping investors through that process but by documenting it, we know through the process, we write things down. Okay, next time we need to do it this way or we change it that way. Get it until it just continues to get better. Frank, how do you prepare for a potential downturn?

[0:14:04.5] FP: So one of the things that we've done is we are not overly leveraged right now. Out of my entire portfolio I would say I am about 50% leveraged. We've been selling so the market runs in cycles and every market is a little different but for us, I am in Rhode Island. We have about just over 50 units right now but in the last two years, we've been gradually selling off most of our single family portfolio. You know this is stuff and every market is different, this is stuff that I bought between 90 and a 150,000.

That we have been selling off between 250 and 300,000 or so, and I mean some of that stuff needed work but we have been renting them for seven or eight years and just — some of that have a cash position and some of it is just being diversifying by being in different markets.

[0:14:47.9] WS: Yeah, what about – I know I get this question often. I'd love to have your opinion, I mean you are in so many different markets too and I think being diversified that way like you have mentioned a couple of times is a great idea and something to keep in mind. What do you expect to happen say over the next six to 12 months in the real estate market?

[0:15:03.1] FP: Who knows, right? But overall, do I expect it to slow down? Yes. Do I expect it to crash? No. It be nice if we could just not be as frothy as we have been where we have like a little bit of a slower pace. We'll see though because there are a lot of people hungry. So in my market, I would say it is different than the average syndication market. In my market, we just have a massive supply issue. So we don't see prices dropping that much unless interest rates change.

So for example, Boston is just over an hour away. They need 200,000 new housing units in the next ten years okay? So that market is going to slow down but it is not going to crash in my eyes. We are nearby, we probably need a solid 70 or 80,000, but we are not building anywhere

near that. I mean the number of housing starts in our area is minimum. It is a combination of just the tight zoning regulations and that we are already rather developed over here.

So I mean in my local market, I see a slowdown. I definitely do not see a crash. I worry more about especially if interest rates move, I worry more about the Dallas and the Houston's. I know there is a lot of movement to people moving there, especially from California, but I just worry that the prices have been so crazy lately.

[0:16:19.2] WS: Yeah, what about Frank, I find that people that are successful in business and especially in real estate have a high level of self-discipline. How did you gain such a high level of self-discipline?

[0:16:29.6] FP: Well, I don't know if I have a high level of self-discipline. I am definitely willing to take some risks here or there. Yeah but you just have to work hard every day. There are people that have a lot of excuses, okay? There are people that just expect either the government or their family or their job, their boss or somebody to take care of them and as you know and as I know, you got to set out to go out there and kill things and bring them home once in a while.

I mean you got to be out there in order to make money. Last year, I probably did one flip, maybe two and I was worried about the market. This year, we have transitioned a little bit and I basically have new people on the team that are out there hustling and building connections every day and okay, you want to do this deal. This is how much it costs, this is so much work that needs, this is what we can sell it for in six months or less and it is like, "Yeah, I want to make a few bucks that way. I got to do something so let's do it."

[0:17:19.2] WS: Nice, well you have to be willing to take some risk to make anything happen, right? Or to make big steps forward. What about some daily habits that you are just very disciplined about to achieve that's helped you achieve success?

[0:17:31.8] FP: So I was huge on habits last year. I had a whole list, I want to say I have fallen back on them but I still have habits. I try to eat at least two healthy meals a day. I try to exercise every day. Obviously, open up your email and make a few phone calls each and every day. Always checking on some of our employees or some of our deals. I actually made a new

spreadsheet recently. We have so many different deals going on right now that I had to make a spreadsheet of where they are, where they came from, the lead, how much money we are putting into them.

Stuff like that because it's like, "What do you mean you have four more possible deals coming up?" and we'll probably end up getting one of those but especially if you are trying to do it mostly by yourself, you start to get a little forgetful on where things are coming from, etcetera.

[0:18:14.8] WS: Yes, taking that daily action though like you talked about, right? Whether it is just committing to making phone calls every day, whatever it may be. What about a way Frank that you have and recently improved your business that we could also apply to ours?

[0:18:26.9] FP: Let's see, improve the business, like I said one of the things is just probably something you are already doing but the way I've just recently improved my business like I said is to take the spreadsheets and start seeing what deals we actually have going on. When you got things all over the place going on it's like sometimes you just push them through but we've recently gotten organized, is what I am saying, and you probably already been there.

But I got to work on organization more by adding more things to the calendar especially it is kind of weird right now to shoot with the corona going on. I pick up my kids, I have the luxury of walking my twins to school every morning. So I can't complain about that. It is about 12 houses away. I walk down about four streets but it is just weird and be able to spend that every single morning. Well what happened this year was that it got bumped up so now it's later.

I don't drop them off until 9:15. It's like, guys you have to calm my day a little bit. Obviously it's worth it and then I pick them up twice a week. So sometimes go look at a house, run around, meet somebody for lunch, it's an organizational nightmare as you know. So that's what I've been working on improving as of late.

[0:19:32.9] WS: Yeah, it really can't stop working on organizing I think but what a valuable time though. I mean it's priceless that you get that time in the morning. So that's just you know, you wouldn't have that if you were still teaching, right?

[0:19:43.5] FP: Right, no definitely not. So I actually take a picture with them every single morning walking to school, which is really awesome. I have boy-girl twins and my oldest, she's in 8th grade, and I pick her up twice a week and sometimes, she's also at home distance learning. So once a while surprise her, her and I will go out to lunch on a Wednesday, stuff like that, which is really cool. Yeah, I definitely won't be able to do if I was still teaching.

[0:20:06.4] WS: What's your best source right now for meeting new investors?

[0:20:09.0] FP: So right now, it's mostly Facebook and Instagram but we are pretty big on the social media site especially with everything going on. It is hard to meet a lot of in person. Last year or actually two years ago was definitely in person meet-ups. Last year was a combination of all of the different big events like the one I met you in February, stuff like that and then this year it is mostly probably Instagram because we post every single day content.

And we've actually began a lot of even local wholesalers connecting with us through that, which is pretty amazing. You know I don't want to give away too much Instagram but let's just say that three of my accredited investors on my deal came through Instagram.

[0:20:49.5] WS: Okay, no that's awesome. Yeah, different platforms, I don't know it seems like a learning curve for me personally for every new platform but tell me the number one thing that's contributed to your success Frank?

[0:21:00.5] FP: It is all about networking and partnerships for me especially when I was teaching full-time every single deal that I did are almost every deal I did. I did with a partnership even though it was just my wife. I have a solid four partners in our local market and when I say that I mean I have most deals that I do I have one part of them, my 50% owner, 50/50. I actually have one buddy, we will not do any deals without finding a partner.

He almost feels like even though he is wicked smart with real estate, he just feels that he needs someone else to throw ideas off of. He needs someone else to make sure he keep his emotions in check and I do too. So I don't do a lot of things on my own, investing is a team sport I am a firm believer on that.

[0:21:42.9] WS: No doubt about it. Is there a way that you could just quickly speak to though on that because you had mentioned it earlier as well like being a team sport, partners, all of those things like in syndication business it's a must or I believe anyway. What's a way that you are able to vet that person or that potential team member or partner?

[0:21:59.9] FP: Yeah, vetting is tough. I'll give examples on the local side. So on the local side, we have one solid local real estate investor's group. It's called the Rhode Island Real Estate Investors Group and I have been a member for over 15 years and I try not to partner with someone unless I have known them through the group for at least a year. It is a little tough right now but it is about meeting them. You don't always bring up partnerships.

Obviously, you never bring up your partnerships to begin with but just meeting them as a person, learning what they are doing and overtime, going up to lunches and I am not saying you try to break them down but you want honesty and you don't want to hear stories about, "Oh my God that guy screwed me, this and that," you know or "Hey, listen and hear how I got this great steal." So it is definitely a learning curve and it takes time.

Because like you said, you're putting a big investment into them. You are investing not only sometimes six figures or more. You are investing a lot of time and you are risking your name, your brand as whenever you do a partnership.

[0:22:57.6] WS: No doubt about it. All the hard work you've already put, you are putting on the line.

[0:23:01.1] FP: Yeah, what does Warren Buffet say? Something about it takes 15 years or 50 years to build a name and 15 minutes to ruin it.

[0:23:09.1] WS: Yeah, something like that. It is pretty accurate either way. Frank, how do you like to give back?

[0:23:13.1] FP: Oh I give back all the time especially because of my teaching background, we are always giving away way too much free advice and mentoring. I love helping others and at the same point, you hope the universe brings it back to at some point and in many ways it has.

So for example, yesterday I had a nice Gen Z investor. His name is Jack and he's in our local market. He mostly does stocks but he wants to learn about real estate.

So I took him out to lunch yesterday and then we were just having a drive and I showed him a few properties that we own and then we surprise visited two projects that we have rehabbing right now and you get to learn so much. We did an Instagram live on and everything else and it was just a lot of fun and overtime, you hope that you build relationships like that and they keep learning and even if you don't build a relationship, you know you have given back.

[0:23:59.5] WS: Right, no doubt about it. Who knows who he'll tell about Frank and how Frank helped him and make those connections? I have seen that happened personally so many times. So I appreciate you giving back in that way and just being willing to first off Frank and great to get to know you a little better and just hear more about your story from teacher to real estate professional and it is a path that many people want, think they want to take anyway.

But are they doing these daily things like you are talking about and working hard on that and just being consistent but thank you for just going into your difficulties in the first raise, the importance of not being over-leveraged, your market predictions and even just the value of the time with your kids. I think that is such a good motivator for all of us that are just are we getting the time and then if you want to do the real estate business inside you should just push you that much harder to go out there and make it happen.

Thank you again for your time Frank, tell the listeners how they can get in touch with you and learn more about you.

[0:24:47.8] FP: Thank you sir. So the easiest way is we have our own podcast. We have an Instagram called The Cash Flow Kings. We are all over social media, my name is Frank Patalano. You're welcome to send me an email at any time, my main email address is frank@ribuy.com because we buy in Rhode Island. So frank@ribuy.com. Thank you sir.

[0:28:53.1] 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

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