

EPISODE 861**[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 Herschell Hamilton. Thanks for being on the show, Herschell.

[0:00:32.1] HH: It's a pleasure, thank you very much for having me.

[0:00:34.5] WS: Herschell is the leading revitalization and commercial real estate developer in the southeast United States. He is the guy government agencies call when they need a strategic plan in recapturing the history of neighborhoods. He serves as a board member to the various public and private entities where he leads his expertise on asset diversification, real estate and finance.

Herschell, it's a pleasure to meet you and have you on the show. I think you have a lot of skillsets that you've developed over many years now that I think a lot of the listeners need to know about. I was expressing to Herschell as I'm learning more about his business and what he does is there's probably a lot of people that don't even know somebody like he exists to help people that are in this space.

Herschell, get us started a little bit with your background and just what you do exactly, who you help, and let's dive into a little more detail.

[0:01:21.8] HH: Right. As I mentioned earlier, my partner and I started our firm in 2003. We've been around for plus or minus 17 years and we started that firm as a fee development company and essentially, what a fee developer is, is someone who develops projects on behalf of clients.

My early background was in investment banking doing public finance transactions so I was familiar with financing, big public projects, stadiums, convention centers, waste water treatment plants and things of that nature. My partner, Mike Carpenter is a licensed architect by profession.

But he doesn't design, he spent his career delivering projects on behalf of clients as an owner's rep, as a construction manager, program manager, and developer. When we got together in 2003, we combined my project finance expertise with his project delivery expertise and set up our firm BLOC Global Group.

What we do is, we develop projects on behalf of clients and we also develop projects for our own account. Typically, we work with a team of individuals, developers, co-developers, engineers, architects to execute projects throughout the southeastern United States. It's been a really interesting and exciting ride since 2003.

[0:02:43.8] WS: Explain a little more detail just about your role. Say, working with someone that's going to develop a piece of property or maybe you can give us an example and what your role is in that and how detailed or how involved are you in your team?

[0:02:57.0] HH: Right, I'll give you an example of a project we worked on back in mid-2000, we were hired by a group out of the Netherlands that had a US subsidiary and from a syndication standpoint, Whitney, you'll appreciate this. They syndicated money from investors in Germany and the Netherlands to fund projects in the United States.

They had a US subsidiary that was based in Tampa. They had purchased a number of properties in Birmingham and they were looking for a developer to develop those projects on their behalf. Essentially, in that situation, what we did was we worked with that company and their ownership group, we identified for example, three design firms and we had those design firms submit preliminary design concepts and then we selected a design firm.

Then, we coordinated all of the pre-development work as well as the land acquisition because in this instance, they were developing their – a high rise luxury condominium project in Birmingham that overlooked the city and they acquired an older apartment complex that had to be demoed in order to clear the site to make way for development.

We worked with a local broker to do the land acquisition and then all the pre-development work, we helped them select the contractor that built the project and then we managed the project as the project manager or owner's rep over the construction period and so, what we say is we deliver services from concept to closure.

At the end of the day, we handed the guys the keys and they had a turnkey developed project.

[0:04:39.1] WS: Okay, now, that's incredible, just didn't know someone like you exists, in case we want to get into development, right? You need somebody that's been there and done it I think to help you along the way, especially in development or in almost anything but thanks for walking through that.

I guess, is your client mostly someone who is continually doing development or is it mostly when someone's getting started?

[0:05:00.7] HH: Well, it's a combination. For example, we have individuals who approach us that own an asset, a piece of real estate and they say, "I have an idea for how this real estate can be developed but I'm not a developer." We work with individuals who find themselves in that situation but we also work with institutions and sometimes even large development firms.

For example, I have – that don't have any additional internal capacity but they have another project that they want to advance and so, they'll engage our firm to do so. Then, one of the things that we do is that we initiate projects ourselves. We aren't the type of firm that, waits for people to bring opportunities to the table. We'll see an opportunity and then initiate that project. We'll get the site under control and then go out and engage developer partners and finance partners and investor partners to work to pull a development project together.

We've done those type of deals from a developer perspective as well as buying and operating assets that have potential for redevelopment and better position on the cash flow side.

[0:06:12.4] WS: You knew I was going to ask you, "Like, why not do it yourself?" Right? If you all have this team and skillsets, why not develop the deal and keep it for yourself?

[0:06:21.6] HH: We do and it's really interesting. We have this adage within our firm that says, you have to know when to be in a transaction and when to be in a deal. Essentially, that was born out of having written the ups and downs of the economic cycle. For example, you don't want to be a developer along in a deal when the market turns down like it did during the great recession, right?

From our perspective, what we do is, we look at the macro-economic conditions and determine when is the appropriate time for us to be an owner in a deal, to have an ownership role, taking risk in a deal and in their other situations in times when people want to advance projects and we don't necessarily think the macro-economic conditions are most advantageous.

They will provide services during that period of time. Development services. It's a combination of things and for us, it's just an evaluation of the market conditions at that time.

[0:07:19.2] WS: In a deal where you're assisting a developer through this process, are you all strictly fee-based?

[0:07:25.9] HH: Yes. Typically, when we give people to realize is, if you're doing a development deal, the most critical time is the implementation and execution phase because you pull the money from your investor partners, you've gotten your bank loan and now, it's all about execution and time is not your friend. You have to deliver it on budget and on time.

The most important part of the development process is the execution process. We get paid a professional services fee over that development period and also, a success fee at the end of the project and so that's the way we operate.

[0:08:06.5] WS: I know you pride yourself in just the impact when you just revitalizing communities, right? Maybe you could share with a little more detail about that and just maybe what most people ignore when thinking through that as a developer.

[0:08:18.5] HH: Yeah, a lot of work that we do is in cities and over the last 20 years, there's been this re-urbanization trend in the US. People had been moving back in the cities, empty nesters coming out of the suburbs, Gen X, Y, and Z who really like living in cities and all the things cities have to offer.

Actually, I should caveat that by saying pre-pandemic. It was a lot of interest in cities but when you talk about urban areas in cities, you have a lot of interesting dynamics in those places. You have politics, you have race and culture and being a developer, you have to manage through all of those things.

Because our firm has primarily been an urban-focused firm that's worked with both public and private sector institutions to negotiate participation in projects and worked with community-based organizations and neighborhood associations.

We understand the dynamics of race and culture and politics and demographics. That way, we're able to help and navigate our partners through projects in those areas. The other thing I would say that you really have to kind of focus on — while it's been a lot of growth in cities and a lot of great investment opportunities in the cities — think about Austin, think about Nashville, think about Charlotte, think about Atlanta.

Well, the growth is great but on the other hand there's some challenges that the growth creates, you know? Essential workers are priced out of the housing market, you have income inequalities, displacement occurring in cities.

You have to manage through all of those things and really take a lot of that into account as you plan for development in urban areas.

[0:10:12.9] WS: What about just the importance of legacy like working in local communities. I know you spoke to that a little bit but I thought you could elaborate?

[0:10:21.0] HH: Yeah. Every community has a history and every community has something that is known for and a lot of times, you wind up tying your development concepts and themes to those things that those communities are really known for or that they evolve towards.

We try to tap into that base of knowledge and make sure we understand the history and legacies that exist in communities and as well as one of my associate says, the who's and do's, the movers and shapers in any community and who is doing what in order to make sure that you have the good will of the community that you're going into in order to make your work in those communities as smooth as possible.

[0:11:09.5] WS: Give a couple of tips on that, I like that, the who's and do's. How do you meet somebody like that, how do you all go about approaching that community or those who's and do's like you talk about?

[0:11:19.1] HH: In every community, you have the political structure, you have mayors and councils, you have economic development offices and economic development authorities. You have active nonprofit organizations and then you have community-based organizations that promote different community-based programs and neighborhood associations as well.

These days, all of those entities are active and they have been given a voice and what happens in neighborhoods and communities and even central business districts. What we do is we survey the territory and we find out who all the players are in any given market.

If it's a market that we're not familiar with, we may hire a local land use attorney for example who has local relationships or we may hire a local broker who has local relationships and they can bring us to the table in a way that allows us to kind of maneuver it through all of the relationships so that we can effectively get the things done that we want to do.

[0:12:24.8] WS: Are you all using opportunity zones to help you all build wealth or your clients build wealth or not?

[0:12:31.3] HH: Well, we are exploring a number of projects within opportunity zones but we're not opportunity-zone focused. It's an interesting program that is providing tax benefits for those investors who participate in opportunity zone funds. We have yet to do one of those deals but we're sort of looking at a number of –

[0:12:51.3] WS: How have you seen just individuals just really build their portfolio through development? Maybe you can just provide some tips there, maybe how you all have done that or how you see some of the best -in-class operate.

[0:13:03.4] HH: Right. At the end of the day, it all starts with a vision, the real estate development business is really driven by creatives, you know? When I say that, I mean, people who can look at a parcel, an empty parcel and envision something that goes there, who can look at a building that has a current use and then who can envision an adaptive reuse, who can look at any project and say, "There's a path to creating greater value on this piece of property."

We started out there, you work to cast a vision and then pull the team together in order to work to capture the essence of the vision in the form of a real estate project.

[0:13:49.9] WS: Herschell, what's been the hardest part of the development business for you?

[0:13:55.7] HH: I can't say that there's necessarily a hard part, it's just dealing with the cyclical market. For example, between my partner and I and then other firms that we work with, we have a very robust and experienced team from a development perspective.

What sometimes is challenging is just working with partners and teams to effectively get things done. For example, if you work in multiple jurisdictions like we do, we can take the same team but the individuals we interact with for example on a city's planning side or zoning side or legal side or on the private side. The investors that we deal with, they may have different perspectives regarding their respective projects.

For us, it's just managing people. That's probably the most challenging aspect of it because if you think about the nuts and bolts of real estate, capital can be syndicated. I was talking to somebody, they made the statement that the world is a wash-in capital.

I think what they meant was, that globally, there's so much money looking for real estate opportunities that money in this day and age is really not the challenge. The challenge is finding good projects that pencil and when I say pencil that you anticipate can make a profit in a volatile environment that exists and then once you identified those properties, delivering on — executing on the development plan whether you buy and apartment complex and renovate it and then populate it because in a development world, one of the things that I always tell people that they have to realize is, when you develop a piece of property, you spend money first before you make money.

What I mean by that is, you get the property under control, you do due diligence, you spend a bunch of money before you even know you're going to close on a property. You have to do all of your pro formas and assessments and then make a determination and then the development and the construction period, it's a 12-to-18-month period. All this time, 12-to-24-months of pre-development, you are spending money.

Then when you bring that asset online, you have to lease it up before you start making money or before you start selling units to recoup the money that you spent. Managing people but also the reality that the development process is a long leads process and you spend money before you even begin to make money.

[0:16:31.9] WS: Are there a couple of quick things you could tell us to how you've learned to manage people well? I mean, I completely understand, that is one of the hardest parts of business, right? It's managing people whether inside the company or organization or outside as well and like you said, you're in so many different jurisdictions. I can only imagine that difficulty and you're having to teach your team or ensure they know how to deal with all of these people too. How have you done that just quickly?

[0:16:55.3] HH: Well, I think it starts with you would first giving everybody a voice and working to be patient as people express themselves and so we always go in that way but we're problem solving focused. We deliver solutions. I laugh because I heard my partner having a conversation with an architect once, around a project that had had some challenges and what he said to the

guy was, “You know, how we got to this point is irrelevant. What we need to do now is determine the things we need to solve in order to advance the ball and move this thing forward.”

You always run into challenges and that’s what we tell our teams. You’re always going to run into challenges but the mastery is how do you manage through those periods of time and manage through those challenges and we start with giving people a voice, taking the time and working on our level of patience to listen to what people have to say but then being solution-oriented so when there’s a challenge, when there’s a problem, we don’t just put the problem on the table.

We come to the table and talk about the problem and then put potential solutions on the table and so that’s the way we most effectively manage the challenges of working with individuals and people and situations.

[0:18:11.1] WS: How do you prepare for a downturn? Whether you are just the fees side, you’re just helping someone or you’re in the deal either one, just provide some highlights on type of downturn that you are preparing for or obviously, the next question is going to be what do you predict to happen in the real estate market in the next six to 12 months, right? But speak to how you’re preparing for that from your line of work.

[0:18:32.4] HH: Yeah, so, interestingly enough, during the last downturn or the great recession, which was the recession prior to this corona virus induced recession, you could pretty much see the writing on the wall. When I say that I mean because if you’re in the business, everybody starts getting into the business. Anybody you talk to in the corner says, “I’m in the real estate business. I am doing a development deal.”

That is like the first sign. Then you begin to see also the broader economic signs like capital is flowing, banks are lax on their requirements, it is easy to get loans. If you look at the volume of outstanding loans that exists in any particular segment of the marketplace and so you start to see signs that the market may be overdone and typically, what you try to do at that time is look at the projects you have and then make contingencies.

For example, if I am a developer and I am developing in what I consider a challenging period in the marketplace, I'll probably build more contingencies into my development budget because if something – if the market turns down for example, if commodity prices increase during this development period, if anything unforeseen happens you may be able to buy your way out of the process or even have a reserve in place that gives you more stay-in power than the next guy.

As it relates to on a going-forward basis, how do we prepare for what we think maybe the next economic cycle? We just are cautious. As I say, back to our strategy, I have to know when to be in a transaction and when to be in a deal. When you see the preponderance of our projects trend from development to fee development, for example for us an indication that we were concerned that the market may be a little too frothy and maybe subject to a downturn.

The thing that is interesting about the market these days is that interest rates are so low and capital is readily available but federal reserve has indicated, for example, that they don't plan any raise rates over the next three or four years and so a lot of people are taking that as a sign to actively step into the marketplace from an asset ownership standpoint, may be it a home ownership or investment properties and so we just have to be careful.

Because as we have seen during this coronavirus turndown, retail was impacted by the Internet previously but then when the coronavirus hit was devastating. The hospitality industry was saying, "Wait, some of those things are very difficult to anticipate." I wish I had a crystal ball that would tell me what would cause the next downturn because for example, with the current one that we're going through we knew the market was frothy but what you don't know is what's going to be the trigger that causes the market to turn down.

[0:21:23.4] WS: Right.

[0:21:23.8] HH: In this instance, literally, you could not have told me it would be a global pandemic that would decimate the hospitality and retail and commercial office market as well but it is really interesting to see it unfold.

[0:21:37.8] WS: What do you expect over the next six to 12 months or how are you all – you know, are you operating any differently now than say a year ago or is it more on just the development side you're helping or are you trying to take ownership right now as well?

[0:21:50.6] HH: Yeah, so we are still looking at opportunities in markets. For example, we're comfortable with commercial office assets where the tenants have ownership interest or the owners are tenants, I guess I could say that in a different way because they are committing to the long-term to occupy those assets and I think the market is an active and robust market right now. It has been moving forward fairly aggressively those sectors that are now strong sectors.

Data centers, logistics and warehousing, multi-family — especially suburban multi-family, urban multi-family still holding on but it is being supported by the dollars that are coming out of the federal government for rent support, for example. When you start to see those things, you start to watch the metrics in those markets. Long story short, we feel comfortable with the market over the next six to 12 months, that opportunities will continue to present themselves.

You just have to be much more cautious in your selection process because if you're a developer, the development cycle is a two-to-three-year cycle, which means if I start a project today, it won't be finished until 24 or 36 months from now. What is the market going to look like at the time? You really have to be comfortable that the product that you're delivering is going to be viable two to three years from now because that is where you're going to be delivering that product in the marketplace.

We're primarily working on multi-family project these days from a development perspective and we're comfortable that that market is still strong and resilient as we speak, I should say.

[0:23:40.1] WS: What are a couple of daily habits or any daily habits that you have that you're disciplined about that have helped you achieved success?

[0:23:46.8] HH: I think it is just a function and, for me, it's like a daily routine. Checking in with our partners to find out what they see and what they're hearing and what they're doing because what you always have to realize is that no individual knows everything and, as a developer, we don't know everything and so we do a lot of touching base. Every morning when I wake up I

have a series of calls that I make just to touch base with some of our partners and associates to make sure I am connected to what is going on in those respective markets.

Then from a company perspective, we have financial metrics and financial bogies and risk tolerances that we like to manage and so it's a function of looking at our internal financial landscape and saying, "Are we too far out on the risk curve? How much capital do we have deployed? If we want to do this project, we really need to bring in our partners so we can manage risk better." Those are the things that at least that I do that I think are really important to know on a daily basis.

[0:24:52.9] WS: What's the number one thing that's contributed to your success?

[0:24:55.7] HH: Finding good partners and creating a solid team of people to work with because it goes back to what I said just a few minutes ago. No one individual knows everything. If you have a solid team that covers all the basis, it just puts you in a position where you don't miss any blind spots or it is harder to miss blind spots. For example, I described the relationship with my partner and how we started our firm. I mean he is an expert in project delivery and he lives and breathes it.

Well, my strong suit is on the creative side. I can negotiate deals, I can get us into any deal but it is his job to get it out and when I say get us out, he's going to execute us out, you know? Symbiotic relationships, mutually beneficial relationships internally because you have to complement one another. I think the thing that has led to my success is the ability to find good team members that complement one another whose skills together are much greater than any individual. We work well together and execute on projects very well together.

[0:26:13.0] WS: Great answer. Finding good partners is the number one thing and I would agree completely. You can't know everything, right? Whether it's development or whether it's owning a coffee shop, you need partners to have been there and done that, right? How do you like to give back?

[0:26:27.3] HH: Well, so I'm involved in a number of philanthropic organizations. My wife and I and a number of a community members created an organization called The Ballard House

Project years ago to restore historic building in Birmingham, Civil Rights District and the restoration is one thing but the reprogramming of the building is a thing that's been really special for us. You know, we host workshop, community gatherings, community conversations.

We do oral of histories in effort to really help people understand the history of the community because a lot of times, if you think about the world today, there's a lot of dissension in the world and that's because people don't know one another and so what we do is we act and actively work through this organization to help people learn about the history in Birmingham and we hope to do it in other cities as well.

The history of all the people in the community because everybody, if you think of any community, everybody across social economic and racial spectrums has contributed to the growth and development of the community. As people learn about other people's historic contributions, it gives them a greater appreciation for their neighbors and their co-workers and the people that they work with and so that is one of the main ways we give back.

Then, otherwise, we like to work with young people within our company to help them understand and learn the real estate business because we think the ownership of assets is a way to build wealth and we really like working with young people who are interested in this arena. I recently spoke to a group of young men in Birmingham who have an interest in the business I just make myself readily available to them.

Anything that I can do because so many people help me along the way. I just always wanted to be in a position to help others and so that's how I give back.

[0:28:20.9] WS: Herschell, grateful for your time and just being willing to share about what you do and allow – just open the eyes of the listeners and myself just to someone like you that's in the business that can help us complete a development successfully. I know initially looking on, starting a development company or thinking about developing a project can be pretty overwhelming and can give you just a great deal of confidence to have somebody like you and your team.

On our team when looking at something like that but also just managing people and how you all have done that and finding good partners and the importance of that, I appreciate that. Share with the listeners how they can get in touch with you and learn more about you?

[0:28:56.3] HH: Yeah, so the best way to reach out to me is in LinkedIn. Our company Bloc Global Group, has a LinkedIn page and then I have a personal LinkedIn page, Herschell Hamilton, so that's the best way to get in contact with me. I have become much more active in using LinkedIn and I find it to be really resourceful too.

[END OF INTERVIEW]

[0:29:15.1] 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]

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