EPISODE 896

[INTRODUCTION]

[00:01] 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]

[00:23] Whitney Sewell
This is your daily real estate syndication Show. I'm your host Whitney Sewell. Today, our guest is Victor Menasce. Good morning victor. Thank you for being on the show.

[00:33] Victor Menasce
Thanks, Whitney. It's great to be here.

[00:35] Whitney Sewell
Great to have you. I was just telling Victor before we got started, I can't believe he hadn't been a guest already. We've spoken at different conferences together. And I've met him in person a few times and actually have his book right here as well. So we're going to talk about that, I'm sure. And I hope that you will pick it up magnetic capital, how to raise all the money you need for any worthy venture. He is definitely an expert at that. But a little about him. He's a developer based in Ottawa, Canada, and he has development projects across multiple markets in the US and Canada. He's the host of the daily real estate espresso podcast. Congratulations, you also Victor. I don't know of many daily podcasts. And I definitely understand the work behind it. Obviously, the author of the book I just told you about and frequent guests and speaker on Capital Management investing. So Victor, again, welcome to the show, you're definitely an expert in this space. And we're grateful to have you. It's a pleasure to have you on the show. So let's jump right in. And maybe you give us what your focus is currently, you know, in the real estate syndication, business, analysts jump in

[01:32] Victor Menasce
These days, you have to adapt a little bit to the market conditions. You know, if you go back a decade ago, you could buy things far below construction costs, it didn't make sense to build. And so of course, nobody did. Today, the conditions are almost the opposite. There's so much money chasing so few opportunities, that if a large multifamily project appears on the market, it's guaranteed, there's going to be multiple offers. And if you're the winning bidder, with 19, or

20 other bids behind you, you're almost guaranteed to pay too much. So it is an auction environment out there. I was attending a talk last night with the chief economist from Stuart Title Company. And he was sharing some statistics about the rate of sales for multifamily apartment complexes nationwide, and as well as in a number of specific Texas communities. And q4 of last year was a record quarter for sales of multifamily product at no time in history. Were there as many sales in multifamily as there were last quarter? So the market is absolutely hot. There's no question about it. So how do you get out of that auction environment? And what is the right product to bring to market so that you are satisfying the demand markets not getting over supplied, all of these fundamentals have to be in play. So that's what we focus on. So today, we're probably 90 95% new construction, whereas years ago, we weren't. But that's been the shift.

[02:52] Whitney Sewell
I appreciate you elaborating on that. And that's great to think about and having those conversations with people like you're talking about so you can better understand what's happening right now. And being able to adapt to market conditions. I just think that's very wise, and not just sticking in your box, right? You think this is your box over here and never looking outside that box and being willing to change? But you know, you mentioned the auction environment, I'm sure the listener, you know, thinking, Okay, wait a minute, you know, the auction environment makes so much sense to call it that. How do we get out of that?

[03:20] Victor Menasce
When something goes up on the MLS? Or maybe even if it's an off market deal, chances are enough people have seen it, that it's going to end up being a multiple bid type situation. You know, everyone who's in this business knows from experience, that if there's a sole bidder, you've got much more negotiating leverage than if there's 20. Just makes sense. So how do you get yourself in an environment where you're the sole bidder, the nice thing about doing new construction and new development is that there's nobody competing with the idea that's only in your own mind, that's strictly yours? So you're not deal finding, you're manufacturing the deal out of an idea out of a concept. And so there's no competition for that, or at least very little competition. The distinction I make is, what's the difference between finding deals versus creating deals, if I can create deals at will, simply by saying, Okay, now it's time to get another deal in the pipeline? Where can we find are there an infill project or raw land that meets the numbers, where there's the demand, and all the numbers work, then you go launch that project, and you basically create your business it will, rather than being necessarily victim to the vagaries of the market.

[04:32] Whitney Sewell
It's an interesting thought, obviously, like you said, it makes sense if there's one better or compared to if there's 20, obviously, the price is going to go up, you got 20 buyers, right. And you do see that for most deals. Now, anything that's even remotely close to making sense. And usually by the time it's done, it's not going to make much sense, right. But being a developer, I

can see how thinking through it's your creativity, right? It's your thought process that's making this deal and there's no other competition for the same idea. Guess is that accurate?

[05:01] Victor Menasce
That's exactly right. And you now have the opportunity to be a community builder, you have the opportunity to design product for which there is pent up demand. We'll give you a simple example. Years ago, we were developing in Philadelphia in the shadow of Temple University. And what we found was, there was a surplus, we discovered this by accident, we found there was a surplus of three and four bedroom units within the shout of Temple University. And the way we found that out is, there was a lady who wanted to rent a three bedroom unit and one of our triplex buildings close to temple. And it was just for herself, we said, Why is that? She said, Well, I can't find a one or two bedroom. And it was like, Oh, the light went off. Okay, we need to pay attention here. So we did more research. And following that, we only did ones and twos, because there was a mismatch in between supply and demand for that product. Even though if you just look at vacancy rate in the market, or just look at some of the macro numbers, you would come to the conclusion that while you might come to a different conclusion, but we saw a shortage of that one and two bedroom product close to the university, presumably for graduate students, because they don't want necessarily the frat house we experience and that's what we built after that. We didn't do any threes and fours after that

[06:12] Whitney Sewell
Nice, you know, speak to any of the same call, like about the line or move the line strategy and playing or at a smaller scale, but the big developer game, can you speak to that?

[06:23] Victor Menasce
Absolutely. Yeah. This is a strategy that we started in Philadelphia, we've been applying it in other places as well. And it really conveys the notion very clearly. So what is that line we say buy on the line, move the line, that line is on one side of the line, you've got that hot gentrified neighborhood, you've got all the local coffee shops and boutiques and art galleries. And on the other side of the line, you go two blocks too far, you're in the hood. And every city in America has that line, wherever you're sitting listening to this, you can visualize it, I know that. Now if that line is arbitrary, as it often is, that line is movable. If the line is a hard boundary, if it's a municipal boundary, or a school district or a freeway, it's going to be more difficult to move the line. I think about you know, places like Austin, Texas, you've got a 35. Cutting the city in half used to be that west of I 35 was the hot area east of I 35. He didn't want to go. And then it took University of Texas to build a baseball stadium on the east side by 35. And then everybody said, oh, it's okay to go east. He's divide 35. Now, the east side of I 35 is a hot area. So you can find those lines and redevelop on the line. And guess what now the lines on the other side of your property, which means you can go do it again. And again. And again. Now, if you just do one or two, the marketplace might not take notice. But if you put a little bit of scale behind it, and you do five or six, maybe bring some friends along, and you put a little scale behind it. Now the marketplace says Oh, blind is moved, I get it. And here's the beauty. When you buy on the wrong side of the line, you can often buy that land for pennies on the dollar compared with a hot gentrified neighborhood next door, you might not get 100 cents on the dollar in terms of rents,

and maybe you only get 95 cents on the dollar. But if you're paying 10 cents on the dollar for the land, the numbers work, you're able to create tremendous value. And in reality, when you go to get that property appraised, there are no comps in the hood. So where are they going to get the comps from? They're going to go a block away, you're going to get 9095 98 cents worth of the value compared with the heart area next door. And so this has been a very successful strategy for us over the years, we continue to do it. You know, a lot of people say rent is 1800 bucks in the hot area. Am I willing to live a block away for 200 bucks less a month? Most people will say yes. And then a little bit over time, you'll find that those rents will normalize and you're getting basically full rent.

[08:50] Whitney Sewell
What do you find? Is the timeline for moving the line like that?

[08:54] Victor Menasce
Yeah, that's a great question. It depends on the influx of population. So you know, a lot of people think about what's a bargain. And you know, you might go into a community like, say Detroit, where you can buy gland infill and very inexpensively. The problem, though, is that it's a shrinking city, you've got a shrinking population. So that's why you can buy these properties, so inexpensively. So they're inexpensive, but doesn't mean they're a bargain. On the other hand, we want to see influx of jobs, you want to see influx of population. And when you have those conditions, where there's that upward pressure on demand, that's when those market conditions make sense. And so you've got to look at absorption rates, you've got to see what's bringing people into the area. It's always hyper local, always hyper local, you may find a boundary where there's, let's say, there's a river, and actually you see this all over Florida, Florida has tremendous coastline. And you go one block inland and they're still nice houses. You go four blocks inland and there's nothing. I mean, it's just a wasteland. You see this all over Florida. It's insane. That line exists within a block of water all over Florida. I mean, it's crazy how that exists, those market conditions exist. So you just need to be attached to those good areas. And now you can create tremendous value

[10:15] Whitney Sewell
Do when we talk about buy on the line or individually blind moves or you move the line over time, is this development specific, or would you say this could work for existing properties. Also,

[10:26] Victor Menasce
It can work for both. When we started, for example, again, go back to Philadelphia, we're buying historic homes that were built in the 1920s. Many of these houses were in terrible, terrible condition. If the structure was salvageable, we would demolish the inside put a new building on the inside. So there's a heavy renovation. Okay, so almost new construction, but not quite. So we were able to preserve the brick facade, these buildings had a lot of character, you could do expose brick walls on the inside, which are super cool. So you could really do things that were mix of modern and historic together, that just really works, you get all the features of a brand new construction with the character of an older property. So we did quite a bit of that as well.

And we love doing those types of projects. It's sad when you have to tear something down just because it's a little bit too far gone.

[11:16] Whitney Sewell
That's great to know, I know your focus right now is development. So I just wonder where you see that right now. But on that same train of thought, just as far as demands in our current market today, or just the state of the market? What products do you see that are in demand your focus as far as development or even existing product?

[11:33] Victor Menasce
I think there's a lot of people looking for medium density, not necessarily high density, rental product, or even low density rental product problem with low density, of course difficult to manage. So what product can you deliver to the marketplace that lives and feels like a single family home, whereas it gives you the density and the concentration so that you can manage it effectively. What we love, frankly, are townhouse developments, because you know, if you think about back to 1970s, you would see a lot of four plexus being designed where you'd get this queue before apartments put together, and it felt like a multifamily type setting. But if you have a row of townhouses, executive townhouses, that lives like a single family home, you can put four of these together, you can call it a four Plexus, or you can call it for executive townhouses. And you could sell that block of four, say to a doctor or dentist if you want, if you want that as an exit. And you can't tell by driving by you can't, you know, people aren't going to say, Oh, this is rental product, it lives, like an owner occupied single family home. And so people grew up in a single family home, that's the experience that they want. They don't want to be necessarily living up on the fourth floor of a garden style apartment complex. Now, some do. And that's great. And we're building plenty of those. But for those that are looking for that single family home experience, you can get a much more cost effective build in a townhouse product, you get some fantastic layouts, you get very efficient land use. A lot of things really work with that product, we have a number of land development projects specifically for that product.

[13:05] Whitney Sewell
Can you speak on a small scale? Right? And maybe that's what we're talking about when we're talking about for plexus. But as far as somebody trying to get into the development space here, you say, okay, 90 to 95% of your focus is on new construction right now. And they're thinking, Okay, you know, I've done a few small or multifamily deals, or maybe even a few large ones, but we've never been the developer, right? We've never built anything, what do you say to that individual that's thinking about transitioning because they want to be, you know, in the market like you are Victor and being able to do those things be creative? What do you say to them when they're thinking about making that transition?

[13:35] Victor Menasce
I think the key is to get people in your team that have experience. And I mean, contractors and GCS, in particular fall into a couple of different categories. At the one end of the spectrum, you've got the two guys in a pickup truck. And those are the ones you don't want to work with. And there's some good ones at that level. But for the most part, you don't want to work with

those. You want to work with the ones that are used to building larger projects, they've got systems, and they’re much more professional. And you obviously have to get referrals to find out the character of those businesses. Some of them will low bid and change order you to death. But then there's others still, that are just a machine, they are a development machine. And they deliver high quality product at a good price. They're just experts at what they do. And if you get those guys working with you, to some extent, they will lead the way because they're not going to change their systems and processes for you. If they're doing projects for how to prove developments. That's their process. They don't have multiple processes, they only have one. So they're going to manage your project the same as they would for that upper echelon of the industry. Get people in your team that can help you do that, execute those projects, and it's going to give you better cost per square foot in terms of construction. It's going to give you better execution. It's going to give you access to better sub trades. All of the things just seem to work better. And one of the biggest mistakes that I see rookies make is by trying to start too small. Because when things are too small, you don't have the revenue, you don't have the profit to afford all of the skills that you need to fully build out team with all the skills. So simple example, you know, if I'm building let's say, 250 unit apartment complex, as compared with, say, a triplex, the effort from my standpoint is kind of the same. As an investment manager, the effort is almost exactly the same. But for that 250 and a complex, there's a developer fee there that can pay for skills that you can hire, you can hire consultants, bring them into your team. So now you're playing with a full deck of cards, as opposed to just hoping that jack of spades is the only card in your deck. And so I'm hoping that's going to be good enough.

[15:46] Whitney Sewell
Your team is extremely important, right? And I think it's neat that you talk about doing a deal too small is often a problem. It's such a mental block, I find you with most people, right? You feel like you just have to start small. It's just as assumed transition to larger deals. But how can someone add value to someone like that an experienced developer when they're trying to partner with them, I guess, have that experience on their team to get started the challenge,

[16:10] Victor Menasce
Okay, so we often get, for example, people volunteering, saying, oh, can I just intern in your business, and learn that way. And that rarely works out that when it does work, here are the conditions where it does work, we're running a business, this is not a hobby or anything like that, when we need something done, it's a real deliverable with real deadlines that have to be mad. So if you're going to volunteer in a business, you got to make sure that that's a priority, they're not getting the leftovers. If they're just getting the leftovers, they're not going to count on you. And then you're basically going to get sidelined within weeks. But if you really want to get into the center of the action, then you have to be willing to commit the time and the effort. They'll pay you, by the way, if they can, you know, for example, we have someone within our team who is transitioning out of the military. So as part of his military transition, he has the government paying for his salary for a year for that on the job training. So his salaries being paid for by the government. He's doing amazing work, I know we're going to hire him when we're done, or when he's done with the military, or they're done with him. Because it's such a great thing. And he's getting something fantastic out of it. He's on a steep learning curve. He's contributing in a

meaningful way to the business. He's delivering real value. And it works. We've had other folks where we give them a deliverable, and then three weeks later, where is it? Well, I got busy. Okay, well,

[17:34] Whitney Sewell
How bad do you want to enter? Right? How bad do you want to learn in this business? Victor, pivoting just a little bit, and obviously, with what's happened over the past year, so personally, how do you like to prepare for a downturn? You know, we're looking at new deals, what are some just non-negotiable things for you,

[17:47] Victor Menasce
We haven't changed our standards at all. If I think about the way we're underwriting deals, it's frankly not very different from the way it was back in 2013 2014, the market ran up, and we saw that it actually got a whole lot harder to meet our criteria. So we actually slowed down in 2018 2019, because it was just getting too difficult to find or even create those opportunities. Today, we're busier than ever, we're busier than ever, because there is product coming to the market, there are opportunities coming to the market, there are demographic shifts, that COVID-19 is accelerated. Now, thankfully, we're not in office, we're not in retail, please, not very much. So we don't have some of those exposures, we're able to play off offense in this market where a lot of people are playing defense. That's a nice position to be in. Now think about it. We have a baby boomer transition happening with 10,000 baby boomers retiring a day 75% of those Boomer owned businesses have no succession plan, one in 13 of those businesses will shut down without a buyer because they have no succession plan. So how would you like to be in an environment where there's 13 sellers? For every one buyer, that's the reverse auction, you have a lot of leverage. If you're the one buyer at that table, we're buying a business, we're in the middle of negotiating business right now. That it's not a huge business, it does need a little over a half million a year and then maybe 150 grand in cash flow. We'll buy that business for about 1.3 years of earnings when you're almost buying them with their own money. And those types of opportunities are all over the place.

[19:27] Whitney Sewell
What kind of businesses are you focusing on there for you? Okay, maybe we should consider buying a business.

[19:31] Victor Menasce
You know, the beauty of buying a business is that it's already a proven business with revenue and customers and all the rest. Now the key, of course, is to make sure that when you extricate the owner from the business, that there's still a business left. So my definition of a business, as opposed to someone who simply purchased a job is one where you can remove the owner and it continues to run itself. So, you know, do they have a staff do they have employees if you take the owner out, and maybe replace them with a salary General Manager does it still function? That's what we look for, you know, whether it's a service business or could be a manufacturing business that all types of these businesses, there's businesses out there that have been run in a very old school way. I talk with people all the time about this. I was speaking with someone, just

last week about a manufacturing business. You know, the seller is leaving money on the table because he didn't want to do deliveries. He just wanted to do manufacturing. But nope, don't sorry, don't do delivery. So he's turning business away. So you can buy that business for what it's doing right now. Add the delivery component. And now all of a sudden, you've grown the business by adding a component that was so simple. You know, there's just so many opportunities out there like that. Businesses that have been sunset in their sunset for years, and they haven't been invested in the proper way.

[20:52] Whitney Sewell
Victor, what do you predict to happen over the next six to 12 months in the real estate market?

[20:57] Victor Menasce
Well, I wish I had a crystal ball on this one. And believe me, I'm looking to peering deeply in the crystal ball. There's headwinds and tailwinds and the net some of that is to figure out which is bigger, the headwind of the tailwind in any particular instance. There's no question that office is forever changed. That's clear. We think about you know, major law firms, accounting firms, they're shrinking their footprints, you know, you have companies like EA XP Realty, or real estate brokerage that owns no real estate, I mean, what's up with that? 40,000 employees. I mean, if you think about the math, just do the math on 40,000 employees, at say, 200 square feet per employee. And even if the real estate was free, and you just pay the operating expense, maybe 13 $14 per square foot of operating expense. I mean, the savings from not having that real estate on 40,000 employees, that's like, I don't know, 150 million a year, just in operating costs. So what if you took that 100 50 million a year and did something with it, to grow the business? It's extraordinary what you can do. I know major law firms in Toronto, they occupy four or five floors of a major office tower. And with a huge floor plate, they're going to skinny down to one floor, and it's all going to be conference rooms for meeting with clients, lawyers all working from home. That's what it's going to be going forward. So things are changing, there's no question. We see a lot of buildings when we look at them. Now we say well, that these buildings are functionally obsolete, because you just fast forward even a couple of years. For example, we've got projects in construction right now. Just this past week, we made the decision to eliminate all the cable TV wire made the decision to eliminate all the telephone wire from the new construction. And we're only putting an Ethernet, only Ethernet. Now, is that the right decision? I think so. We're also future proofing. And because we're going to put in conduit, so that if we have to pull fiber in the future, well, there's fiber in there too. But if we have trouble fiber in the future, we can do that. We're not ripping up drywall having to fish wires or any of that stuff,

[23:02] Whitney Sewell
Victor a few final questions quickly before we run out of time, what are a couple of daily habits that you are disciplined about that have helped you achieve success?

[23:11] Victor Menasce
Probably number one producing a podcast seven days a week. So I think there's not many of us on the planet that are on that hamster wheel. I know you're one of them. But it's been both a

blessing. It's been a discipline, the way that I think about it is I imagine the National Art Center orchestra filled to the rafters with folks that have come out to listen to me for a few minutes every day. And that connection time, would you go to the Kennedy Center in Washington, DC, and have that place filled to the rafters and come in unprepared. Some thinkable. And so that's how I visualize the podcast. And that's why we're now what 11 150 episodes without missing our heartbeat. You know, that's a blessing. I take time to read every day, I start my morning actually reading the Wall Street Journal, I make time to meet with my team, we have a standard meeting every day with a whole team doesn't have to be very long, but it's a tight meeting with the agenda. And we make sure that people are following up on interactions and we keep things moving.

[24:15] Whitney Sewell
Could you highlight that agenda quickly?

[24:17] Victor Menasce
Yeah, literally the first few minutes. It's a 30 minute meeting. And we say the first thing we do is we set the agenda for the meeting we say okay, what do we need to cover today, we're going to cover five or six items in that 30 minutes. And if it's going to be anything more than that, then we have to schedule a separate time for that to do a deep dive if we have to. It's really that simple. We have multiple projects underway. We're making sure that the most urgent items are being managed. We project manage using Asana, so everything is tracked that way and it's just having that discipline that makes it work so we know what some of the critical items are coming up over the coming days and weeks. There's a lot of activity as you can imagine in a single project little on multiple projects. So we have to be on top of that. Make sure that number one, we don't run out of time we don't run out of money we don't run out of fill in the blank.

[25:08] Whitney Sewell
I've heard different people talk about even on the show that people I've interviewed talking about that daily stand up meeting, and we've not implemented that we meet numerous times to the week. But I think there's a lot of value in that even that just a short communication, but that often that consistent, but you know, you wrote the magnetic capital. And quickly, what's your best source right now for meeting new investors,

[25:27] Victor Menasce
we are mostly their warm introductions, the projects that we're doing are of a size where, you know, we've done a fair bit of syndication, but we're kind of doing less than less than syndication, if that makes any sense. And that's because we're attracting larger investors that have the ability to write a single check. So most of the conversations we're having right now are with family offices. We know family offices, and we're in discussion with family offices that are looking to deploy in the 10s, or hundreds of millions this year, in the next 12 months. So they have to put their money to work. And so then our job is to say, Okay, are we your team of choice? Where it's not just one deal, but maybe a stream of investment over a period of time? And what does it take for us to be that team for you to choose us and work with us on a sustained basis. So it's a win scenario, we have pretty much an assured stream of investment

dollars, you've got a team that you can count on. Now you have something that's sustainable, and you're not going back to the well and drilling a new Well, every time you've got a new project.

[26:33] Whitney Sewell
How do you like to give back?

[26:34] Victor Menasce
I love to help people with introductions, I love to teach, and I love to contribute to a few social causes. I've got connected with a lady who is doing some amazing work lately in the realm of human trafficking. So there's a project that we're working on together, that is super cool. We're having so much fun, and think making a difference. So those are a few ways that I like to do,

[27:00] Whitney Sewell
obviously grateful to know you and have you on the show, finally, but just grateful for the discussion today and talking about the importance of being able to adapt to market conditions and how you've done that and focusing on new construction and getting out of that auction environment. And then talking through buying on the line. I like that thought process. And Lisa, you're touring that market and you're driving around, you're looking at deals thinking about do you know where that line is? And considering you know, can we bow on the line? Where is it at what's hindering that process? Or is it being hindered? So great discussion there and there's even the products that are in demand today and having experience on our side so Victor thanks again. How can the listeners get in touch with you and learn more about you? Well,

[27:39] Victor Menasce
You can connect with me directly through my website at Victorjm.com that's Victor James calm and would love to connect with you as well through the podcast. That's the real estate espresso podcast like the Italian coffee. It's literally your morning shot of what's New in the world of real estate investing. It's a daily show seven days a week weekday shows is just me five minutes in the weekend edition are interviews Notable people from the world of investing, love to connect with you that way as well. And it's available on virtually every podcasting platform out there.

[OUTRO]

[28:08] ANNOUNCER
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