EPISODE 1245

[INTRODUCTION]

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

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[INTERVIEW 1]

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WS: Our guest is Anthony Griffin, thanks for being on the show Anthony.

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Anthony Griffin (AG): Thanks for inviting me, Whitney.

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WS: Why commercial real estate? Why not do single-family homes and small residential?

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AG: I have done single-family residential and the reason why I don't do more of it anymore is that – well there are two reasons. One is your value for your property is only valued at what your house next door is worth. So being a home builder, I know that you can throw as much as you want into a home but you still won't increase the value if the house next door isn't worth anymore and a lot of single-family investors end up starting out in the roughest areas to try and get a cheaper house. But their property will never increase in value because the other properties are not worth much.

Another reason why I like commercial and multifamily is that when you have one vacancy in a single-family house, you get to flip all the bills every month and that is painful. I've done it before. At least if it is more than one unit, you got some cash flow from somebody else's. It is very, very rare if you manage a property well that everybody moves out at the same time. Unless it is a value-added property and you're moving them so you can renovate.

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WS: So what is your preference over say multifamily or office space as you've purchased?

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AG: I am actually not buying any more office space for the simple fact that when it's really, really good it's good but it takes a long time to replace a tenant. Once they leave, it is kind of especially with all of the WeWork spaces and people working at home, it gets a little bit harder to find somebody to fill an office space versus an apartment building with the economy being the way it is there will always be people who rent and I always tell my son who wants to be in the business also, as long as you keep your property safe and clean and manage it well, you will never have vacancies unless you just want them.

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WS: So clean and safe that is some good advice and we take those like you know that seems so simple but some of us still don't do it or you know?

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AG: Yeah.

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WS: Anything else like in the differences between residential and commercial and why you're sticking with multifamily now?

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AG: Well one thing about commercial when I spoke to the value of a property is only worth what is your next-door neighbor is and residential that's the only way they can appraise it is basically the other properties within a certain area. With commercial property, it is based a multiple of what your net income is. So the first thing you do is you buy a property, you improve it past what it is now so that you can increase the rents eventually.

Well, the other part of that is to save as much money as possible. If you got a lot of bad expenses on a property, clean them out, get rid of them and that makes your bottom line a little bit better than the bottom line is a multiple of what your property ends up being worth and that's why they call it cap rate. I think you have spoken to that on some of your post.

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WS: Oh yeah we have, we have talked about that a lot on the show obviously and that is a great topic but you know, tell me now that you have the government job for that many years and then you have moved to this entrepreneurial field and commercial real estate, what do you tell people to like your son for instance or other people that are saying you know I want to get into real estate as well, what path do you tell them to take?

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AG: I tell them to look at at least two units. I really tell them about looking at bigger than two or three units at a time to start because you still got learn how to manage tenants and tenants are an interesting bunch. You know sometimes they're good, sometimes they're not and you had – it is almost like a three-ring circus and you get to be the ring leader. You got to know how to deal with people and their attitudes and personalities and you still got to provide a good service.

I have a lot of people that work with me in church and we have a life group that is based around real estate and a lot of guys either want to wholesale houses or they want to buy single-family rental and I tell them all that that's a starter mentality. You can start like that and get your feet wet but don't let that be the end-all of your investment because once you get past five or six houses and they're spread all over town it becomes a nightmare to manage them versus five or six sitting in one spot.

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WS: So how are you prepared for another downturn?

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AG: We have recently liquidated a bunch of stuff we're involved in and we are sitting on cash right now because just like 2008, I was a builder when 2008 came, and fortunately, I didn't get stuck with any inventory because we just lucked out purely but I saw a lot of builders lose basically everything behind overbuilding and they have a lot of inventory sitting on the ground so we liquidated in the last year pretty much everything we were involved in except for two office properties and we are sitting back looking for other opportunities to buy back in cheap.

This next presidential election is going to be really interesting, to say the least, and we're waiting to see how the dust falls before we go back in really heavy.

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WS: So how are you increasing deal flow now or are you going to wait until after that?

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AG: We're still looking at deal packages, a lot of areas outside of our area. We are in Mississippi of course so a lot of the hotter areas like Florida and Texas, are becoming overheated as far as I am concerned as far as buying properties. Whenever you see a listing package and there is no price on it to either start with that's overheated. So what we are doing is we're looking at the Jackson metro market which is close to where we are.

And there is a lot of dilapidated property that is seen and sometimes deep rotten it can be renovated. We are starting to look at those now because there is a lot of upside on those instead of going to the class A properties where you are basically hoping that is worth something more in the future than it is now.

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WS: Awesome, so Anthony what's a way you have recently improved your business that we could apply to ours?

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AG: Cut as much debt as possible. I know a lot of people who turn a profit every five years. Our basis on how we buy properties is if we buy them, we buy them to keep them 20 years.

So we hope to never sell anything unless it becomes to a point of somebody wants it really, really much more than we do and that is why we sold a lot of stuff latterly because the market is hot and everybody wants to buy something but my biggest advice would know your numbers when you go in.

Buy cheaply as you can and don't over-leverage a property. You can almost never get from under one if it is over-leveraged.

[INTERVIEW 2]

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WS: Our guest is Shane Melanson. Thanks for being on the show, Shane.

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Shane Melanson (SM): Yeah. I'm excited to be here, Whitney.

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WS: So now, you're also coaching people in the commercial real estate business. Correct?

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SM: Yes. That's right. Yes.

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WS: I would love to know some of the most common issues sorts of you find in people getting started in this business. I guess clarify as well, are your students going to be mostly in Canada or are they in the US as well?

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SM: It's a good question. I have a client or clients, mentees, whatever the proper term is in both Canada and the US. And really, I would say the fundamentals are very similar in the sense that I kind of break my coaching into kind of three pillars, finding the deals, financing the deals, and then I call it fixing just so there's three Fs. But at the need of the day, it's really optimizing your deal.

And so, financing is certainly different from the US to Canada, but the principles are very similar. I don't know if I'm answering your question, but you asked kind of what are some of the questions or like challenges there?

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WS: Yeah. Like the biggest pain points that you see across. I like to ask people who are mentoring numerous people. Just what are some of the common things that they have that are holding them back and then how have you seen people breakthrough that as well?

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SM: Yeah. I would say there's a couple of things. Number one would be like just a belief that they can do it. I mean, I think that what happens is especially a lot of investors will come from either real estate like residential real estate investing and then trying to break into commercial. They say like, "Shane." And these are guys that have done 100 deals to people that have never invested, and they're like, "I want to do what you do, but I don't know-how. Like where do I even start?"

I think a lot of people have a fear of sounding stupid, because if you've ever dealt with a commercial broker and I was one, this isn't anything negative, because they just have to be tough and they can come across as very abrupt. So, I think what happens sometimes is it's not like when you phone up a residential realtor, and the residential realtor is kind of happy to take your call. This is – I know I'm generalizing. But when you call up a commercial guy, 9 times out of 10 you don't get them. You might get kicked down to a junior person. They're going to qualify you immediately.

So, if you don't understand the language and the terminology, what happens is I think guys or girls that are kind of trying to break into it get scared out very quickly. And so, one of the key things I do is I explain to them who are the players? Understanding the motivations of everybody involved is really important. And then once they have that kind of foundation of what's the game, what's the terminology, just dropping in just some key terms.

I had a client I'm working with where he started to sprinkle in some of the kind of key terms that I've taught him to use. As soon as he did that, the agent on the other side really opened up and talked to him for 30 minutes, and he's like, "I didn't understand anything he was saying, because he started to kind of [inaudible 00:16:47]." I said, "Well, that's okay. He trusts you, and it is a relationship, so now, he thinks you guys are on the same board." I said, "You're not going to learn this in three weeks, but now, you can have conversations. He's going to start to send you deals." So actually, we looked at a deal that he's looking at right now.

So, I think that that's really big – "How do I find the properties?" " Well, you need to be able to talk to the brokers. Well, how do I talk to the brokers?" So, it's just kind of going back and back and all the way to the very beginning, which is you can do this. Here's what you need to understand. It is relationships. How do you leverage me to talk to some of these people or whoever your coach is for that matter?

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WS: That's awesome. It is difficult. I mean, learning the lingo initially and being able to breakthrough like you said, the belief that they can do it. I hear that often. It's just so much mindset. As you said, somebody that's done 100 deals, even though if they're just single-family, but then they want to get into commercial and they feel like they don't even know where to start. It surprises me when that – I run into people like that, and I'm surprised like, "You've done this many deals. I don't know what you're saying."

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SM: I agree. I agree.

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WS: But anyway, that's great that you can help them get through that tough time. Specifically, for you, what's been the hardest part of the syndication journey?

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SM: I think one of the – Well, there's a couple of challenges. I would say the two challenges I run into are – I would say that anybody that's really successful, I see a ton of deal flow, but deals that really make sense. Because of the type of deals, I'm looking at right now, I used to get quite excited about five years ago or three years ago. But now, I've started to see just more lucrative opportunities. So, I like to see more and more of those. So, I like to see really asymmetric risk where I have high, high returns, and very low risk.

Before you and I got on the phone or onto this call, I was sharing with you some of the industrial properties I'm looking at right now, and I feel that that – As long as everything pans out, I think that that will have very asymmetric risk to the upside.

But then the second part of that is, "How do I get enough time from the vendor?" So, in Calgary, our market is soft. I would say that's probably the best way to put it. We're very oil and gas-centric. When oil went from 110 a barrel down to 30 or 40, the market here – There was no fire sales. But what it did is it took a lot of investors out where I've got more time now to be able to do my due diligence and prevent any kind of loss or risk.

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WS: That leads me right into – I tried to ask like how are you preparing for this potential downturn that everybody is talking about?

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SM: So, what I've learned over the past couple of downturns – I mean, I'm not that old, but I've been in the market since about '04. So, I've seen a few cycles. Then obviously, my father-in-law, my mentor, he's been through many more. So, when we sit down to have conversations, and this is probably one of the real advantages I have is to be able to kind of leverage someone that has 30- or 40-years' experience. They've got a company that's been around for 90 years. So, we have these conversations, and a few kinds of principles come up. I've kind of put these into my nonnegotiables if you will.

So, preparing for this "downturn," I'm looking at prime location properties. The reason for that is even in a soft market, you'll find that there's always a buyer for a property that's well located. At least that's been my experience. I'm always scared to say definitives because you can always find an example when you count. But at least from my experience, really good locations, proper debt service coverage. So, I'm always making sure that I've got enough equity, that I'm not going to put myself in a situation where I'm going to have to cash call investors or run out of equity if you will.

So, make sure you've got long-term leases, proper financing, and frankly investors that are going to be with you. I would say the majority of the investors that come into my deals, they're not putting their last $10,000 into a deal. I mean, just the fact that my friend would've allowed my parents to refinance their house and put a 100G into it, I would never even allow an investor to do that in any of my deals. So, I think that that's something else, right? When you've got really good backing, then you've got more confidence too.

[END OF INTERVIEW]

[OUTRO]

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