EPISODE 1278

[INTRODUCTION]

0:00:00.0

Mark Cira (MC): I would rather invest with somebody that had a negative experience. Maybe had a project that lost some capital or something, and they're transparent about it, explain to you why it happened, and what happened. And if you find out that most of that was out of their control, something like that could be positive, even though it's a negative on their track record. So they're willing to bring those things out and be transparent about it. That's a huge gold star.

0:00:23.2

Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today our guest is Mark Cira. Mark's a co-founder of Cira Capital Group, a firm focused on creating diverse private real estate investments. He's a CFO of a consulting firm and a registered CPA. He understands the difficulties that busy professionals face when seeking quality real estate operators and sponsors. For more than ten years, Mark is focused on finding, vetting and developing relationships within the real estate industry. With his foundation, Mark co-founded the Cira Capital Group to help other busy professionals like himself invest in private real estate. Mark and I talk today about diversifying a little bit. But really we go into vetting operators and why that's so important and some steps that he takes specifically that's been so helpful as a passive investor. But now helping other passive investors make those decisions and think through operators that are quality and some hard stops that he has about experience or track record or transparency that you're gonna hear about that maybe you have not heard before, that you need to know. If you're an operator, you need to hear these things. If you're a passive investor, you definitely need to know these things so you can make the wisest and best decision when investing your hard-earned capital.

[INTERVIEW]

0:01:41.6

WS: Mark, welcome up to the show. It's interesting that you and I have met numerous times at different conferences. I'm looking forward to hearing more about your path to success in the syndication business and how that's worked out for you, what that looks like. And even now, how you're helping others achieve success through investing in real estate and through commercial real estate, give the listeners a little more about yourself and let's dive into that.

0:02:06.7

Mark Cira (MC): Hey, thanks, Whitney. I'm really excited to be here. Let me give you a little bit of background about, like you said, where I come from, how I got involved in real estate, all of that sort of thing. So, just to take it all the way back to the beginning, I graduated from Iowa State University in 2002 with an accounting degree and came out, got my CPA and joined the ranks of management consulting at Navigant Consulting, Ernst & Young, couple of other smaller shops and advanced my career. Eventually, I ended up working for one of my clients around 2010 and becoming their CFO in about 2015, and that's where I am today. That firm continues to grow, and so quite busy in a day job as a professional, as a CFO. But about halfway through my career, I got interested in real estate through my wife, actually, who's a general contractor here in Chicago. And up until then, I didn't really realize that normal people could invest in real estate alongside rich people. I just always thought it was rich people's game. She really opened my eyes when we bought a piece of land that we were gonna build our own house on.

But for whatever reason, we decided that it wasn't quite the right fit for us, so we divided the lot, built two spec homes, sold them and the lightbulb came on for me that this was something that we could do. So, we did that and continue to do some of that on the side with her business in developing single-family homes, condos, that sort of thing around the Chicago market. But as my career got busier, I realized there were other opportunities in real estate around syndication and passive investing. That's really what caught my attention. And around 2016, that's kind of where you and I met at some of the conferences. I started vetting operators, and ever since then, I've been looking deep into who are great partners, what's their track record, and understanding how to become really a passive professional replacing my income from my day job. So, hopefully, someday I can be like some of the other passive investors that are just living off of that cash flow and income, and I have to worry about that day job and those options.

0:03:57.9

WS: Yeah, it's interesting to hear your background, CPA, you're CFO, your knowledge behind numbers and finances, and then all of a sudden you see this opportunity in real estate and it's like, okay, a light bulb moment. Many of us go through that. It's like, finally, there is, I can see a real path to building wealth doing this thing over here in real estate, right? But go ahead.

0:04:21.0

MC: So today, as we grew in our businesses, we realized that there was an option to really help other people like myself find these good operators and really employ maybe a fund-of-fund model to help them invest in some of the bigger institutional type players and really get a foundational investment in real estate that can help diversify portfolio. That's what we do today.

0:04:39.8

WS: Incredible. I wanna dive into some of those key things you just said too, identifying the correct sponsors or quality sponsors. How are you doing that? I know many passive investors listening, they wanna know that as well, right? How do we do that well? It's time-consuming initially. And you should spend some time on it. It's so important, no doubt about it. Building that relationship, and I wanna get into how you do that. But then also you mentioned the fund-of-fund model, and that's the thing we're hearing a lot more about recently. And I wanna hear more about how you're doing that as well. But identifying quality sponsors - walk us through that a little bit, Even for the active sponsors that are listening, they still wanna know how they're gonna be vetted or interviewed. And how passive investors are determining, who they wanna invest with. I know we do, and we want to provide the best care or quality investments and opportunities for our investors, so how do you do that? Mark, how do you identify those quality sponsors from all the operators out there?

0:05:32.8

MC: From a high level, I kind of employ the 80-20 rule. Generally, just looking at 80% of who the sponsors and what's their track record, how long have they been in the business, what are their ups and downs, how they communicate to their investors, what are the challenges they face and how they have addressed them. So all of those things come through developing those relationships, seeking out other investors and understanding their experience with the sponsors, and then asking some of those questions and interviews with sponsors and their partners. I tend to focus on longer track records, operators who've been in the business for 10 years or more, because we've been in a very favorable market for quite some time now, and I like to see what they did over the last outer. That doesn't mean that new operators aren't well-suited to deal with the same issues that we could see in the future, but it's one of those criteria that I focus on quite a bit, at least in some of the long-tenured operators.

0:06:25.8

WS: Yeah, and you do have to kinda set your rules for yourself, right? These are the things I'm looking for. And we do that in so many areas of our life, and you just do that for focusing on a sponsor as well. There is some kind of non-negotiables for you and it's gonna be different for different people, right? What are some other non-negotiables for you, Mark? You want 10 plus years of experience. That right away, it's gonna eliminate lots of sponsors. It's gonna help narrow it down. Right away, you're gonna give people with a lot of experience. Hopefully, they've exited many projects as well, been through a downturn as well, that gives you a lot of time to ask about it. How did you do during this downturn, what happened? And I love how you said too the challenges - what challenges have they had? And then how did they respond? It's not a matter of if they've had challenges, right?

0:07:06

MC: Absolutely.

0:07:07

WS: This is real estate. You're gonna have challenges growing almost any business. You ask a sponsor, what's some challenges you've had and they say, I've never had any challenge. That's probably a red flag, right? What are some other non-negotiables for you, Mark?

0:07:17.6

MC: Transparency is a big thing to me. Understanding not only how they're gonna communicate what the investment opportunity is, the financials underpinning it, what their assumptions are but also going back to that track record. Tell me about that bad project that you've had, how you communicated, what you communicated to your investors, and how it was resolved. Even if it's negative, I would rather invest with somebody that had a negative experience. Maybe you had a project that lost some capital or something, and they're transparent about it and explain to you why it happened and what happened. And if you find out that most of that was out of their control or something like that, that could be positive even though it's a negative on their track record. So, they're willing to bring those things out and be transparent about it. That's a huge gold star.

0:07:58.1

WS: Speak to any other ways that you'd like to see an operator be transparent. You mentioned about underwriting and assumptions and some of those things, what shows you that? This is probably gonna be an operator that's transparent. What do they present to you early on that says, hey, I really like how they're communicating these things? Anything that stands out to you? I'd love to hear that myself, I know what operators do too.

0:08:19.4

MC: It usually comes very early on when you reach out to a sponsor and say, can you provide me with your track record? And you go through that list of the 15 projects that they finished, and all of them have 20-plus IRRs and you go, okay, let me ask you a question about, do you have any projects that were negative? If they just simply do not offer any challenges when you initially ask, hey, tell me about your challenging project, they have nothing, like you said earlier, typically that's not a great sign around the transparency.

0:08:47.1

WS: Is there any way that you'd like to see that presented, those previous deals? Or maybe somebody that stands out to you, or the way that it was presented to you from a quality operator that you've met?

0:08:57.1

MC: Yeah, usually you'll see the project - what the projection was, what the result was, and then some sort of note on the side that this is a highlighted project we'd like to talk to you about it. I've seen that on some really quality operators identifying the negative project and why and talking about it first.

0:09:14.4

WS: Yeah, that's great information. And even I would encourage even new operators, we've started doing this and we didn't do it initially, it would have been much easier for you. They're tracking that, keep a list of your deals, what your projections were. You start exiting projects, what were the actual returns that investors received. And then it helps you to create things like Mark's talking about, so you can present it in a way to investors, that's easy for them to see it all in one place. And as you grow, it gets harder to remember. Maybe even find some of those documents from five years ago, that gets more and more difficult. So, it's better to track that upfront. Anything else, Mark? Anything else about that, about identifying that quality, sponsor?

0:09:55

MC: Going back to that 80-20 rule, 80% around the sponsor and their quality and how they present themselves, all those sorts of things. 20% around the deal or the fund, economics, that sort of thing. Looking at the financial projections and their performance, but understanding that those are generally always going to be wrong. No one performs exactly to plan, you almost always see variability on the exit from what the projection was. So, understanding that those are just projections and focusing more on what their assumptions are and making sure that those operators have generally in line with economics - appropriate underwriting assumptions. And a lot of that can be vetted upfront even before a deal is presented to you. You can get familiar with what an operator is expecting in different markets and how they underwrite each project in those markets, generally.

0:10:43.4

WS: Yeah, I love that. How long would you say it normally would take to get a sponsor? How much time should a passive investor commit to with the sponsor or potential sponsor before actually making that commitment?

0:10:55.1

MC: That's a tough question, and it may become a little bit of a gut check on when you get comfortable. Some people, I think, make it pretty comfortable very quickly, if they're very transparent. Here's all the information, here are five investors you can go talk to, all teed up. Assuming those investors aren't just being teed up because they're the biggest cheerleaders or something. Those types of things could get you to the finish line quickly. I would say I generally spend a month or two, a couple of months just looking back at other projects. Maybe schedule a trip to go visit one of their current portfolio assets and walk around and maybe have a trip with the sponsor and then go look at the deal that they're pitching for the next raise and walk the property with them, see how they see the property through their eyes.

0:11:36.0

WS: Yeah, that's incredible. We offer that to all of our investors, but very few are gonna take the time typically to take us up on that, unfortunately. I think it's great walking the sidewalk of the property you're gonna invest in or even a previous deal that the operator has done, just gives you so much face time with that operator. I know, me personally, some of that time allows you just to fill them out more as a person, as much as they're operating experience as well.

0:12:04.1

MC: That's right. One other point on that, if you do go to a property that they've held for a couple of years, you often can see some of the work that's in progress and see what have they done compared to what they plan to do and how quality all those sorts of things on-site as they're managing the property.

0:12:19.0

WS: No doubt about it. I wanted to hit though as well, you mentioned that you are working like a fund-of-fund model, and would you explain a little bit about what that means to you or what you're working on? Let's dive into that a little bit also for those passive investors as they're looking at investing. Why should they be aware of what that means?

0:12:35.8

MC: fund-of-fund, really is in a simplistic way, exactly what it sounds like. So, you're raising a fund of capital from investors in order to place it with other sponsors. And there's a lot of objections to that, like, why would you place your money in a fund that's gonna have some fund drag? Of course, you have organization expenses and operating expenses, etcetera, but there are benefits if you do it right. And that is investing with sponsors who provide either tiered investment structures or the larger investment garners a larger split, a very larger preferred return or a better split of the profits. And so therefore you can offset some of those fund fees through those larger investments, or maybe there's an operator who has a minimum, seven digits, a million dollars or 5 million. Most accredited investors, they're investing 25 or 50, maybe $100,000. They would not be able to get into those funds, or it just wouldn't be prudent to invest a million dollars of your portfolio in one operator or one asset, that sort of thing. So you get that diversification benefit in something like I work on, which is a couple of operators with diverse funds themselves. So, that is a natural portfolio diversifier if you're just a 401K-type investor and you're looking for some real estate. So, that's really where I focus on, why I believe the fund-of-funds is a beneficial model for a lot of investors.

0:13:54.1

WS: Yeah. No doubt about it. Speak to vetting somebody like yourself that's gonna operate a fund that passive investor is gonna invest in.

0:14:02.5

MC: Yeah. So, how would you vet myself if I were someone looking at me? I think it does go a lot of the same way, like what's the track record, who are the sponsors that you're working with. You wanna be able to look through that transparency. That's what we do, we provide complete transparency to those who are investing because that's what you wanna know as an investor. Ultimately, where is my money going? So having that, I think is the biggest hurdle. And then looking at some of the back-end operations, where are the funds going? How are you managing them? Who are your legal team and your accounting team, and what's their experience? All of that sort of thing. So it comes probably more of that 80 than the 20 because the financial underwriting is more related to the investment that the fund is making and more about the quality of who your sponsor is and whether they're gonna be there throughout the life of the fund.

0:14:52.2

WS: Now, it's incredible. At that point too, it's obviously, it's trusting your ability to do what we talk about early, and vet those sponsors. It's gonna take less time for that passive investor, hopefully. Because they're trusting you to do that, right? And you to do that due diligence. I love the diversification of that as well. And I know doing a fund personally as well that it's like investors are not only getting diversification through markets but just cash flow diversification value as well. I'm split up across numerous projects instead of just one, and so there are pros and cons to both investors, gripes, and love both models.

0:15:27.7

MC: Yeah, it's not for everyone. I think that's important to understand. Some people are more risk-averse, some people are more risk-taking, and I think there's a place in your portfolio for both of those pieces of the pie. And having a foundational piece like this, I think is important. Just like the institutions that you see invest out there, they're not all in emerging markets or in Apple stock. They have diverse portfolios, and some of that's in real estate, some of it in private equity, some of it in stocks and bonds, all kinds of things. I think that's important for a healthy portfolio.

0:15:55.3

WS: Speak to the type of fund that you've chosen to operate. Or what should investors even know about the type of fund that you're operating?

0:16:02

MC: So, I'm operating a fund that's diverse in both, like you said, operators, markets, and sectors of the real estate economy. So, we're touching on multi-family self-storage, and manufactured housing mainly in this fund. So, you get a little piece of a lot of assets, more than 40 assets eventually will be in the fund. So, we're talking about a pretty broad diversification and multiple offers, like I said.

0:16:27

WS: Yeah. So, is this an evergreen fund? Is it open forever? What's the time horizon for your fund?

0:16:34.1

MC: So, usually your fund-of-fund will match the time horizon of the underlying investments, and these are 7-to-10 year investments. So, it does not evergreen, it will close as the underlying investments sell their assets and close up their funds.

0:16:48.3

WS: Okay. Anything else about maybe the fund portion of this specifically fund-of-fund that a passive investor needs to know about that maybe they just wouldn't be educated about that you can think of?

0:16:59.1

MC: That they need to be aware of with the fund-of-fund?

0:17:02.2

WS: Right, yeah. Just investing in a fund like that. Anything else that may be a passive investor wouldn't be savvy too. Maybe it's a good opportunity for some, or anything else, other questions that investors may have often.

0:17:14.4

MC: I think there are usually questions about what are the fees? And what's the fund drag? How do you offset that through returns? And I think we touched on that earlier with tiered investment structures and access to institutional quality operators that you may not have in your personal network or reach. Let's see, other things to be aware of, I think the general concept is that it's very familiar to most people in the syndication world. So, if you're familiar with how property is syndicated, a fund of fund is very similar. It does have to be compliant with a few extra rules around the Investment Advisor Act in the 1940s or 30s, Acts of SEC registration. But other than that, it's very similar to what you're already used to.

0:18:00.6

WS: Mark, do you have any predictions for the US real estate market over the next six to twelve months? That's gonna come into play with probably the types of markets you're looking to invest your fund in or operators or asset classes, anything around that.

0:18:12.0

MC: Well, I think we're seeing inflation and interest rates, we’re in an uncertain time right now. I think if you ask me this at the end of 2021, I would have said the future for 2022 looks like the Fed getting after inflation with rate increases that are gonna go through the end of 2022, and I think that's probably still the case. They may be pretty aggressive in the first half of the year, and all of that's gonna be impactful for pricing. I think of assets and what they're gonna trade at, what cap rates. But there's a lot of capital out. They're still chasing deals. So I don't see a major impact right off. The question really becomes what happens after 2022 with this uncertainty around the conflict in Europe, whether that escalates or de-escalates and how that affects our economy towards the end of the year. It’s really gonna drive, I think, real estate in the next year, it’s really the big question mark, in my opinion. There are some clouds around that.

0:19:03.7

WS: I ask a lot of operators, how do you prepare for a downturn. Maybe you can speak to when you're looking at operators and even vetting them like we were talking about earlier. What do you like to see there? When you think about, are they prepared for hard times, potential hard times, or maybe foreseeing things. What do you like to see?

0:19:22.6

MC: Well, this is one of the reasons I go with operators that have had a long track record. Because I've seen these downturns, they usually have very long track records with their lending partners, they have access to capital that most younger operators may not have access to. So, if they get into a situation where they need to pull on a short-term loan or line of credit or something to withstand a short run in revenue, they can do that. Where I think a lot of younger operators may not have that ability, having that experience in how to weather those types of situations is important. And then again, that's why I think diversification is so important because you just never know on a single property. The worst thing you can have is a property or a piece of your portfolio go to zero and have a goose egg because those take forever to climb out of and recapture your capital. In my opinion, you gotta avoid that as much as possible.

0:20:15.3

WS: Great advice. What's your best source for meeting new investors right now?

0:20:19.3

MC: New investors? It's a little bit tough, right, with the Covid stuff? At least we're getting out of that now, and conferences are happening again. I think getting out there, what I've learned over the last, probably, two, three years is getting out there on podcasts like this, Whitney, is very important to meeting investors. Going to meet-ups, so I'm happy that we can get back out there into conferences and meet-ups. I'm really excited to be getting on more podcasts like this.

0:20:44.5

WS: Awesome. Yeah, it's definitely very valuable. Get your story out so people can meet you. What about some habits that you have, Mark, that you're disciplined about that have helped you achieve success?

0:20:54.2

MC: Yeah, two things. Over the last year, what has really helped is time blocking. So, finding specific (time blocks), especially since I have a busy day job. Finding time to do the real estate as well, I have to block off specific periods of time to talk to investors, to do podcasts like this, to do underwriting, and all of those sorts of things to go along with running a fund. Same thing, finding help. So, employing “Who Not How” and figuring out who can help you around.
You got that one there?

0:21:21

WS: Yeah. “Who Not How”, a good book.

0:21:24

MC: Doing some of the blogs and those sorts of things, helping you proofread those articles and things like that. There are all kinds of things that you can outsource that you don't realize until you start to look at your time blocks and figure out what you're doing with your time.

0:21:38.5

WS: How do you like to give back?

0:21:39.4

MC: So, I'm busy, so usually what I do is provide support to various groups. Two groups that I support a lot is “Surge For Water” which provides sanitation and clean water to developing countries around the world. A very good friend of mine, Shilpa Alva, is the founder of this organization. And so I help her. The other one that I'm a big fan of is “Thresholds” here in Chicago which helps homeless and mentally-challenged and sometimes addicted people around the city which we see is a huge problem and a growing problem in many large cities around the country. So, I really suggest people find ways to help the mentally ill and homeless find shelter and recovery.

0:22:22.3

WS: No, that's awesome. Mark, appreciate you giving back in that way and even giving us today your time. I understand that it’s the business of running a business and you're also working full-time. It's a lot, it's a lot to make all of that happen. But I just appreciate your background as a CFO as well, and how you're even, I'm sure you're using those skill sets in a big way - to vet sponsors, look at underwriting, and in ways that a lot of investors just don't have the skill set or the experience behind numbers alone, much less the other things behind vetting a sponsor, so you know you're making a quality decision, quality investment. The 80-20 rule, the track record, communication, the challenges that they faced and how have they been addressed, I thought that was crucial. And even seeking other investors out and asking about their experience and thinking through the transparency, I love that piece. You talk about, yeah, it's a must. It's a must. We work hard at that. It's like, are we giving investors everything we can? But not only just throwing it on them, but is it in a way that they can understand? Does it make sense?

And thank you again for your time, Mark. How can the listeners get in touch with you and learn more about you?

0:23:28.6

MC: You can head out to our website at CiraCapitalGroup.com, that's C-I-R-A Capital Group dot com. You can send me an email through the contact page at CiraCapitalGroup.

[END OF INTERVIEW]

[OUTRO]

0:23:40.6

WS: Thank you for being a loyal listener to the Real Estate Syndication Show. Please subscribe and like the show. Share it with your friends so we can help them as well. Don’t forget, go to the www.LifeBridgeCapital.com where you can sign up and start investing in real estate today, Have a blessed day!

[END]