**EPISODE 1290**

[INTRODUCTION]

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**Brad Cartier (BC):** I only see good for this asset class for a few reasons I've already mentioned. The first one is, you know, remote working. I don't think that's going anywhere anytime soon and we all know there's gonna be, there will be a return to office, but there will be some sort of hybrid for most people. So, folks, as affordability decreases, we've seen a dramatic rise in home prices, now we're seeing an equally dramatic rise in interest rates, so people are getting priced out of the market even more so than before, which is gonna push people not only further outside of urban metros, but put people into the rental pool, so I see this missing multifamily asset as well placed to fulfill that growing consumer demand.

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**Whitney Sewell (WS):** Have you thought about investing in the missing middle multifamily? Maybe you've never even heard of that before. I had not until our guest today, Brad Cartier, explained why he loves this asset class and how he's scaling it as well. It's a different way to think about a type of multifamily that maybe you've not thought about before. Brad Cartier is a real estate developer, writer, PropTech investor and advisor, and marketing consultant in the real estate technology space. He is a Co-Founder of Blair Capital Asset Management, which develops and manages missing middle multifamily in the Ottawa area. He is also an advisor and angel investor to a number of property technology startups and a marketing mentor for the MetaProp Accelerator Program. In all, Brad oversees a portfolio of around 100 rental properties, including long middle and short-term rentals. Brad’s developing many smaller multi-deals and he's been going to why that's a great option in our current economy, and even in some different markets that maybe you have not considered before, he's gonna go into how he became vertically integrated and why that's important to them, but even some cons to that. But then, also, even some morning routine stuff that's been so helpful to him. I know you're gonna learn a lot from Brad today.

[INTERVIEW]

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**WS:** Brad, welcome to the show, I'm encouraged by even reading some of your bio and looking forward to getting into just what your specialties are because you do something that, you call it in a different thing than what a lot of us call it anyway, and I wanna dive into what this specialty is that you have, or this niche you've found that you are so focused on that you call the missing middle multifamily. And get us started. What is that and let's jump right in.

**0:02:30.3**

**BC:** Thanks for having me on. Whitney, a big fan of the show, so happy to share with your audience. So, yeah, we've really, over the last 10 years, been really focused on what we call a missing middle multifamily, and this is nothing new, Europe's been doing it for centuries. However, in North America, post-World War II, we sort of lost what we call missing middle, and what missing middle is, it's sort of those, it's that gentle densification asset types, it's the duplexes, it's the triplexes, raw homes, courtyard apartments, small, low rise, multifamily, all that type of housing that fits within a more centralized, low-rise community, and these housing units are compatible in scale with single-family neighborhoods, but our multiplexes that allow for that modest densification that we so badly need at this moment in time, it's affordability and supply becomes strained.

**0:03:18.6**

**WS:** Okay, so it's small multifamily, duplexes, triplexes. Tell me why did you all focus on that type of asset class or that size of asset class anyway, or size of property as opposed to, 'cause typically, obviously the thought is, well, let's scale, right? And we can do that by buying a 100-unit, 200-unit buildings at a time. Tell me about why focus on the smaller ones and let's dive in on more detail around that, and then we will get into also how you're scaling that as well.

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**BC:** That's a great question. I think the reason we initially chose it was because of land acquisition costs. We chose secondary and tertiary markets to do our missing middle development, just because land acquisition cost was a lot lower. Cost to rezone was quite a bit cheaper than doing the high-rise big site plan development and everything that goes into that. So, there was a bit of a sweet spot. Also, just from a macro perspective, we're moving as a continent of North America more towards missing middle, you see a lot of central governments, whether it's federal or state level governments trying to push this modest densification in what we call up zoning. So, a good example is SB9 in California. We're now on any R1, well not any, but most R1 lots in California, you're allowed to build up to four units on those lots whereas before, you could only have a single-family home, so you can build a fourplex by, right now on those R1 lots, and we saw this coming down the pipe, so we knew that there were significant tailwinds on missing middle, multifamily development, and it provides a market need, which is you have a lot of people who don't wanna move out to the suburbs or live in a high-rise, they still want their garden, they still want to live within the community and it'll still be walkable. So, that missing middle asset, it really fits into that because you can build it right in a small community that's close to grocery stores and all that kind of stuff. So, it is walkable. So that's generally why we've picked that asset type.

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**WS:** That's awesome, it's just interesting just to hear more details around why as well as the listener is thinking through maybe their next acquisition or maybe as deal flow is flowing right now to what other types of properties should we be considering? So, you mentioned secondary tertiary markets, well, what does that mean exactly to you, and as we're trying to figure out, maybe that secondary market that we should be considering that maybe we haven't before?

**0:05:43.5**

**BC:** Yeah, so a great question, and we actually focus on these smaller markets, even pre-covid, and what happened during covid just accelerated that trend, so we really like those secondary and tertiary markets just because they were much more affordable for one, and in most metro areas in North America, there's a willingness to commute, so it really depends on how far that commute is, We saw, at least in my home on City of Ottawa, we saw that urban sprawl started to happen. Similarly, we saw a consumer intention that people didn't want to live in these cookie-cutter suburban neighborhoods with mansions and all that kind of stuff, so that was the push towards the missing middle to provide that different rental asset type. And secondarily, I think, well, I know that these smaller markets, the secondary and tertiary markets, don't have much rental supply. So, what I mean by that is, there might be a couple of single-family homes, there might be one apartment building that might be older, the stock of new and rental supply just really isn't there. So, as you develop these newer missing middle multifamily units for rental in these secondary and tertiary markets, we have almost zero vacancy just because the demand is so high because there's not much else supply out there in those smaller markets.

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**WS:** Yeah, that's an interesting dynamic and think about the competition too, as more people are trying to do that and there's not much supply there. But tell me, speak to scaling this type of business. You are focused on smaller assets, how have you all scaled that and how is it scalable? And speak to having to do that process over and over again, right? Where it’s duplex, triplex, duplex, triplex, fourplex over and over as opposed to doing the typical route of 50 to 100 units or more like a lot of people try to do?

**0:07:29.8**

**BC:** Yeah, so, I mean the life, the construction life cycle is quite a bit shorter, obviously than a high-rise or a medium rise development, and because I call our company vertically integrated real estate development company, that is we source, we acquire, we finance, we build, and then we stabilize the long-term property managed each of the assets in our portfolio, it's kinda like the Amazon model, but in real estate, they control everything from the servers to their trucks to deliver the actual goods to the consumers, so because we built that team early on, that's how we're able to scale and even the builders are on-site and the companies that hold these individual properties, so we're not over-paying, we're not paying a premium on any of the construction, so what we're able to do is a typical life cycle of a project for us is about 12 months from acquisition to completion, upon completion, because the builder is a partner in the project, we're able to get a really nice refinance out and then rinse and repeat. So, the only downside to the scalability of this model is because we're focusing on secondary and tertiary markets, we don't wanna over-supply these markets. We’re talking about communities with anywhere from 5,000 to 20,000 residents, so there's only so much you can build.

**0:08:40.6 BC:** It wouldn't really be sustainable to build a 30-story condo unit in these towns, nor would it be sustainable to build 26-plexes. It just doesn't really make sense. So, we're able to scale across all of these, we're able to put maybe half a dozen of these missing middle multifamily units per market and just move around the area with our different teams, whether it's the acquisition side or the construction side, or the property management side.

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**WS:** You mentioned that you’re all, you're vertically integrated, and we hear that often, but not typically, I don't think anyway do we hear too many groups that are financing their deals as well. Is that correct? You all are doing the financing side too?

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**BC:** Some of it. So we have some investors that we have as partners in some of these projects, so we have brought on outside capital, we do leverage construction financing as well, and we do have a mortgage insurer here in Canada called CMHC that actually, because we're providing so much rental supply that they have some really interesting terms, kinda like Fannie and Freddie for affordable housing. So, we have been leveraging that kind of debt, but we have the brokerage side of everything we have in-house as well.

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**WS:** Okay, no it’s interesting, and just so the listeners are aware, in Canada the legal structures are much different as far as syndicating and obviously SEC doesn't regulate Canada, right? There is some confusion in there, right, when we're talking about people from Canada or maybe you are doing large commercial deals and you may raise money, but it's gonna be structured a little different than we typically would in some ways, so on the legal side. So, talk about the future of this type of asset class, where do you see this going for you all, and is it good? Bad? What do you see?

**0:10:20.6**

**BC:** I only see good for this asset class for a few reasons I've already mentioned, the first one is remote working. I don't think that's going anywhere anytime soon. And we all know there will be a return to office, but there will be some sort of hybrid for most people. So folks, as affordability decreases, we've seen a dramatic rise in home prices, now we're seeing an equally dramatic rise and interest rates. So, people are getting priced out of the market even more so than before, which is gonna push people not only further outside of urban metros but push people into the rental pool, so I see this missing multifamily asset as well placed to fulfill that growing consumer demand. As well as what I mentioned before with municipalities, state, and province-level governments and federal governments pushing for up zonin,g for gentle densification, we have, British Columbia here in Canada is debating even removing all of or most of the site planning approvals from all the municipalities and centralizing it at the provincial level, we're seeing in Oregon, the same thing happening in California, like I mentioned. So as governments continue to be more allowing of gentle densification, which is missing middle, they're not gonna just, allow 50 units to be developed without going through site planning and rezoning, but to go from one to four, or one to three, or one to five, or two to six, that is gonna be increasingly allowed, which is gonna reduce development costs long-term of these missing middle multifamily assets, so I only see positives in the future for it.

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**WS:** Do you believe you would focus on this size of properties if you were not vertically integrated?

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**BC:** No, I know a lot of development companies that do track single-family homes that do condo, big condo developments that do have the vertically integrated model, I think generally, you see it on the bigger development side, so the big builders, the big condo developers, I don't think you see it as much on the smaller side, so I think we're unique in our space, but I think more and more, we will see that as crisis continued to increase it, developers are gonna realize that the more that they bring in-house, the more of their own supply chain that they can control the more profitable that their assets are gonna be in the long term.

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**WS:** Speak to becoming vertically integrated and maybe the order that the listener or myself even should think through like the next course of action or the next part of the business that we should bring in-house, or maybe the order in which you did that.

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**BC:** Yeah, I mean, obviously, it didn't happen overnight Whitney, and you know as well as everyone that nothing happens without challenges and proverbially speaking, we've been punched in the face a bunch of times, and that set facts and challenges and disagreements with partners, but it all starts with your current real estate investing team, as a real estate investor who even has an inkling that they wanna add more properties to their portfolio, you have to have a team, whether it's a lawyer, it's accountant, it's broker, it's all that kind of stuff. And they have to be real estate-focused, I think starting to build that team and getting a sense of who your partners should be as you look to vertically integrator scale-up. That's a really good start. And then what we did is, once we knew it was a good culture fit, and we just presented options to these different parties, whether it was the builder or property manager where there was a revenue and equity-sharing component to our model. And really, it's hard to say no to that type of proposition, especially when you're looking to scale up and you're looking at the performance of the long-term wealth generation that it’s gonna provide so, but it all starts with that team and the networking and surrounding yourself with like-minded people. Their expertise is one thing, but if it has to be the right culture and personality fit and that was the biggest challenge for us as we scale up this model.

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**BC:** What's your biggest challenge right now in your business, housing prices, I think finding properties that pencil is getting harder and harder and harder. So yeah, that's our biggest challenge now, because one downside, Whitney, to the vertically integrated model is that if we don't have enough work, then people are gonna be twiddling their thumbs, and it's not like we're dealing with some trades that we can contract in and out. We have a team of people that we have to keep busy, so keeping that pipeline full is critical to our model, so that's the biggest challenge for us now, but I think just looking at reading the tea leaves, I think we're in for a, I don't think at all, we're in for a housing crash, but we're definitely in for a cooling over the next probably 24 months of the housing market, which is good, a cooling housing market is a balanced housing market, and that's good. I've been a little uncomfortable the last two years, and some of the prices I've been seeing come across my desk, it's been disheartening, but overall, I think we're on the right track.

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**WS:** So, speak a little more in-depth there to, like, what you're doing even more. Like how are you overcoming that? Because I think everybody listening is probably having that problem in one way or another – is finding those next, finding those deals. You talked about that being vertically integrated, it could be a negative, you obviously, like you said, 'cause you have all this staff, but how are you finding the next deal? Is there anything else that maybe we haven't thought out there that maybe you haven't mentioned?

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**BC:** I think Whitney, I've heard this on your podcast before, so I'm not reinventing the wheel here, but I think off-market deals, it has a lot to do with your relationships. So, the best deals we've had over the last couple of years have been people who have brought deals to us, or we've approached people and ask them, here's our criteria, here's what we're looking for, we found some really, really good deals that are off-market through brokers in our network that weren't on the market. The seller wasn't really looking to sell, but we were able to look at the property and the current zoning and say, this really makes sense for us, so I think that was the game-changer for us in this type of market, it was sourcing those off-market deals.

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**WS:** What predictions do you have just for the real estate market over the next six to 12 months, and how is that affecting what you all are doing, buying/selling those things?

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**BC:** Interest rates are a big one, so obviously interest rates are going up. I'm not convinced that they're gonna go up a lot more over the next 12 months, I think they're gonna plateau at some point. So, I think it's really important that investors, you know, A) if you can walk in lower rates now, I think that's a smart move B) you need to stress test your portfolios, if you're acquiring right now, you have to be very careful about the interest rate you're locking yourself into. I'm always jealous of the American real estate investors because you guys can lock in rates for 20 or 30 years, we can't do that here in Canada. The max we can get is 10 years, and even then, it's a pretty high premium you pay, so you guys definitely have an advantage there. Inflation too is a big concern and that is directly related to interest rates, so keeping an eye on inflation, inflation tends to be good for real estate assets because rents go up, asset values go up. However, if there's runaway inflation, then that's really gonna hit the pocket books of your renters, and that's gonna put a downward pressure on the amount of rent you can charge and your vacancy rates are gonna go up, so investors really need to keep an eye on inflation. And then supply, we're not, we're just simply not building enough. In the US alone, there's a shortage of five million homes. In Canada it's similar, it's less but similar. So, watching how builders are keeping up with demand will give investors an indication of where prices are heading in the future, so I would definitely, I always keep an eye on supply as well.

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**WS:** How do you prepare for a downturn when you're buying a project, and you can use one of your projects as an example, but you're buying it, you close on it, what have you done to say, be prepared for the unexpected?

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**BC:** Two quick things, just internally, so every property we buy, we stress test with various interest rate adjustments as well as stress test for various vacancy adjustments, so we make sure that our property still pencils if we have 10% interest rates and 10% vacancies. And then we're able to see where our breakeven point. So, that whole underwriting aspect and proforma aspect before you press play on a property is extremely important. Another thing we do to fight default is for the first year of the life cycle of any property we have, we allow all of our cash flow to accumulate into an emergency fund. So, for instance, on a six-plex that generally ends up being about 20-30,000 after the first year, and we just let that sit there. So, long-term, if we ever have any big CAPEX or anything catastrophic happens, we have that buffer that we can dip into, if there's ever any significant downturn. And the third is we build a very unique type of properties that are missing middle, so when you see a downturn, you generally see a move from the top, so we're not building Class A luxury rentals, those typically hurt a lot more during a downturn than sort of the Class B rental assets. So, we specifically chose those particular assets because during the downturn, you don't generally see those hurting as much. And then the last thing I'll mention, Whitney, is exit strategy. So, one thing I forgot to mention about missing middle is that if I have a 50-unit condo building and then a fourplex, my exit strategy on the fourplex is way better than the bigger condo. I can sell it to a first-time home buyer. I can sell it to a resident or I can sell it to an investor, so your exit strategy on those assets that are smaller, it's just much easier than a bigger asset if there ever was a downturn, if you never, ever didn't have to liquidate anything.

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**WS:** Yeah, I like it when people have great answers for what happens when the worst happens, you have some type of plan, does it mean we have to know everything that could happen? Well, of course not, but if you don't have a plan then guess what? You plan to fail, right? But I also like how you brought up exit strategies 'cause that's so true, right. Selling a family home or a fourplex is a lot easier than you can a 100-unit apartment building, typically. Alright, definitely a different buyers pool to sell those projects, so, that’s great, I love that answer. And many of those there that I hope that the listeners are thinking about as you're moving forward and buying your next or your first apartment building or duplex, triplex, quad, whatever it may be. But Brad, what about your best source for meeting new investors right now?

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**BC:** Yeah, I mean, it's the same old, it's always meet up, getting out there and talking to like-minded investors in different meet-ups and real estate groups, and if you can find mastermind groups or coaching, nothing meaningful happens in isolation, you have to surround yourself with like-minded people and investors, and that's not to say you have to be best friends with all of them by getting out there and hearing what people are doing, I found my best partners just by getting out there and giving talks or listening to talks or networking or buying someone lunch or just providing value to people like, “Hey, what are you doing? How can I help you? How can we help each other? How can we learn from each other?” It's the giver mindset, Whitney, that folks need to adopt and just get out there, and especially now with things opening up, get out there, go to conferences, go to meet-ups, go to lunches, go to talks, just get out there and network.

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**WS:** Tell me about some daily habits that you have that you're disciplined about that have helped you achieve this level success.

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**BC:** There's a couple, I have four young daughters at home, all under the age of 11, so.

**WS:** Congratulations.

**BC:** Thank you. So, I have to be very, very disciplined when it comes to my schedule and when I do my deep work, so I, since I can remember, I've been getting up at 5 00 AM every morning, and then from five to seven in the morning, I get the most important task of my day done, and I think the discipline, And I'm getting up early. And some people are night owls. And that's totally fine. So, blocking off a certain period during the day, where nothing else bothers you, turn off your phone, turn off your social media, turn off slack or whatever it is, and just get that one task that if anything else happens during the day, you can look back and say, "Well, at least I got that one thing I accomplished." So that's definitely my number one productivity hack.

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**WS:** How do you plan for that 5-7 am time so you're most productive?

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**BC:** Yeah, so I do all my planning, usually, I'll plan out my week on a Sunday, and I'll set my schedule and I'll put in all my links for my meetings, and so I have my weekly schedule already planned, so going to bed and knowing what I'm gonna do the next morning, it takes that mental stress off me at least personally, so I wake up, I know exactly what I have to do, I just get to work and get it done.

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**WS:** Yeah, and then This seems interesting to me 'cause I'm very big about structured morning and being up early and you know myself. What time are you trying to get in bed? If you're up at 5-00 AM.

**0:22:56.8 BC:** All the kids go to bed usually around eight, and then, as you probably know, Whitney, it's get the dishes done, get the lunch kits ready, and then get into bed, maybe watch one Netflix show for if you're lucky, so I'm usually in bed and asleep by probably around 10.

**0:23:12.6**

**WS:** Okay, I just wonder, 'cause sleep is so important and so underrated. I feel so much different when I get seven hours versus four, and so I just like to know what other people are trying to do around those things. So, Brad, how do you like to give back?

 

**0:23:27.0**

**WS:** Education, if there's any way I can provide value to anyone in this industry, especially new investors, just before this call, I had a half-hour call with a young developer in DC and just happy to (inaudible) on real estate and development, and, I love education, I think we're getting better as an industry for real estate investors and providing actual good content, I think there was a time, and there's still people out there that have to get rich quick schemes that really bug me to the core. So one thing I've been doing over the last two years is just writing a free weekly newsletter called the Briefcase. It's briefcase.email. It's once a week, we take a deep dive into one particular topic related to real estate investing and providing that so-what aspect of investing, 'cause very often, we read information, we read headlines, but it's hard to actually think about what does that actually mean for me and what should I be thinking about as a real estate investor in terms of labor shortage or construction materials or supply chain, or all those things that seem peripheral, that actually impact our day-to-day business, I think education to me is really important in how I feel I'm giving back.

**0:24:34.3**

**WS:** Awesome. No doubt, education is so important that we're investing in ourselves and consistently, right? Every day, I hope, even during that 5-7 am like you're talking about, I hope there's a time in there when the listener and myself as you're reading and you're staying up to date on things or learning new things from other people that are way ahead of you.

Brad, I'm so grateful for your time today and your investment in us and the listeners, and thinking about that missing middle multifamily type of properties that maybe we should be considering ourselves and not to give you more competition, but we should be probably looking at some of those types of properties as we're trying to scale and grow and even in other markets right, the secondary markets and whatnot. So, just grateful for your time in really opening our eyes to some of that, even thinking through vertically, becoming vertically integrated and how you did that to some extent, 'cause it definitely does not all happen overnight and without some times you get punched in the face like you said, it's gonna happen.

**0:25:34.2**

**WS:** briefcase.email right? So, thank you again and tell the listeners how they can get in touch with you to hear more about you?

**0:25:38.8**

**BC:** Yeah, no, thanks, Whitney, for me for having me on. Like I said before, I'm a huge fan of the show. I listen to every episode so this means a lot to me and happy to connect with your listeners too, like I mentioned, briefcase.email, if you sign up there, I write every newsletter, it comes from my email address, so sign up and reply to an email just to say Hey, or if you have any questions or topic suggestions or anything, I'm, like I said, I'm an open book, happy to chat any time with anyone about anything related to real estate, obviously, I'm passionate about this as you are.

**0:26:05.9**

**Whitney Sewell:** Thank you for being a loyal listener of 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 LifeBridgeCapital.com, where you can sign up and start investing in real estate today. Have a blessed day.

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