EPISODE 1358

[INTRODUCTION]

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]

WS: Our guest is Charles Seaman. Thanks for being on the show, Charles.

Charles Seaman (CS): Thank you very much for having me, Whitney.

WS: I'm honored to have you on the show. Charles has some great experience in a recent deal that we want to dive into and learn more about that I know our listeners are going to learn a lot from as well. But a little about Charles, he has 14 years of commercial real estate experience in New York City. He's been focusing on syndication deals since mid-2017 and recently acquired a 92-unit deal in Georgia and has underwritten approximately 200 deals during this time. Actively looking for new multifamily deals throughout the Southeast, primarily in Charlotte and Atlanta.

So, I like how you talked about during that time, you underwrote approximately 200 deals to find that one. Anyway, I feel like a lot of people are – i's like, "Let's look at five deals. One of them has to work." So, I appreciate that even being in your bio. But, Charles, thank you again for your time today. Tell the listeners a little more about who you are and maybe your current focus, and let's dive into this 92-unit property.

CS: Sure, absolutely. So, as Whitney alluded to, I have 14 years of experience working for a commercial investor in New York City. While I was with him, I got to work very closely with him and do a lot of different functions from finding deals, helping them acquire them, doing due diligence, obtaining financing, and leasing and managing them. So, in that sense, I was blessed because I really had a head start. Even though I wasn't doing my own deals, I got a great learning curve ahead of time.

Then as Whitney said, I started having a desire to syndicate my own deals about two years ago, and I started building broker relationships and underwriting deals. Eventually, that led to the 92-unit deal that we're going to be talking about today that I just recently closed on this past Thursday. So, my partners and I had looked at many deals, most of which have come through brokers that we have relationships with, and there was a lot of underwriting and a lot of deals that didn't lead to anything.

So, unfortunately, that's just the course of doing business today. So, you have to kind of get to pay your dues I guess before you get one.

WS: That's for sure. That's for sure. You've got to be patient, right?

CS: Yes, 100%. You know what? A lot of times, it's normal that you do have to look at a hundred deals before you really find out what makes sense. But with the competitive nature, where we are now in the market cycle, it's 150 to 200 for many groups. I can definitely attest to that. I've been in that range now.

WS: I'm hearing that's a lot more common now. It used to be 100 deals. Like everybody said, "Well, you got to look at a hundred deals or underwrite a hundred deals before you find the one." Now, more people are saying 200, and I believe that.

So, let's get started on this 92-unit property, Charles. Give us some background on what were you doing to find deals and maybe before you even found this one. Then we'll talk about how it came about and how you found it.

CS: So almost all of our deals come through broker relationships. If we're doing smaller properties, you could probably go directly to the seller in certain cases. But when you're looking at 100-unit apartment buildings, they're almost always going to be listed with a broker, so you want to have strong broker relations. Most of our deals did come through there. We had looked at a lot of different deals, but the 92-unit actually came to us by way of the person that sponsored it.

So, we had a good relationship with the gentleman that sponsored it. It was somebody that we had looked at previous deals with and something that we submitted offers on but didn't pan out for one reason or another. He's based in the Atlanta market. So, he has a lot of good connections there, and somebody had presented this deal to him. But it wasn't the right fit for him personally, because he does 300 and 400-unit deals. So, somebody just starting out probably saying, "Who wouldn't want a 92-unit deal?" But when you're doing 300 and 400-unit deals, 92 units are like a baby deal.

So, he thought of us, because he worked with us a couple of times. He said, "You know, I know you're actively looking for something. Do you guys want it?" So, we took a look at it. The numbers made sense, and then we went forward from there.

WS: So, it goes back to that relationship piece. I mean, this is such a relationship business, and you'd already built that somewhat of a track record or reputation with that other sponsor, and for him to contact you all right?

CS: 100%, yeah. We've been working with them for about a year already, and we had a couple of deals we looked at and kept the relationship going even when we didn't have an active deal for him. That's what made him think of us.

WS: So, you never know, do you? You never know where or how these things come together, as far as the relationships and the value that you're adding to other people and how it comes back around. But he connected you to this deal. Maybe you could elaborate a little bit on the underwriting process and due diligence process as well.

CS: Sure. So, there are a few different things that we do. So, with our underwriting, our first one, is we have an underwriting template that we use that just kind of shows us where the property is at now and where it will be when we acquire it. Then after that, if it has any potential initially, we'd write out further, usually over a five-year schedule, so we can see what the projections will look like.

Most times, our goal is that we want to see something that's really going to be delivering at least a 10% cash-on-cash return by the time that we have our value-adds implemented. So that may not be an acquisition. For somebody just starting out who's not aware of it, your value-adds are going to be all the things you're going to do to increase the value of the property. For most deals, unless it's a major repossession with a lot of upgrade work, we try to implement the value-adds in year one. So, by the end of year one, we want our cash-on-cash return for the investors to be at 10%. The annualized rate of return we look for is a least 60% because we find that that's what helps attract investors.

WS: So, if it doesn't meet those numbers, you're going to move on to the next deal?

CS: Exactly.

WS: So, you underwrote this deal. It did come out to meet those numbers I assume. But tell me, what type of property, what type of neighborhood, what was the business plan here?

CS: So, this 92-unit multifamily property, it's a C property in a C area. It's in the Stone Mountain mark, which is right outside of Atlanta, about 25 to 30 minutes out of the Interloop. The Atlanta MSA has become so strong that all the submarkets have benefited greatly with Stone Mountain being no exception. So, the benefit is that we have a strong, diverse economy with many jobs. The property in the area is blue-collar, but one of the benefits to it is; that's really twofold. So, the property itself is a cardinal property, and that just refers to the type of construction. They're single-story, prefabricated buildings that were built in the '70s, '80s, and '90s by a company called Cardinal.

The benefits to them are that you get a lot of single working people and a lot of elderly retired people. So there usually aren't too many kids or teens. So overall, noise is minimal on the property so people like them, and there's less turnover than regular properties because they have single stories, so nobody is above them. They have a little patio area in the backyard, and they have a parking spot right in front of their door. So, it's almost like having your own house with just having some neighbors next to you.

That was really our plan was to cater to workforce housing, and the benefit is that some of the other properties within the adjacent block or two have seen major upgrades in the recent year or two. What's happened is the C-class people that were there for all these years have become priced out. So we acquired a property that was at nearly 98% occupancy, and there was also a strong wait list, because now there are more and more people that were displaced by these renovations that want to stay in the same area, so they are looking to get into properties like ours.

WS: So pretty much – I mean, you knew who your tenants were going to be. You knew who you were going to be catering to, right?

CS: Yes.

WS: I mean, the workforce housing, and you're in an area where you can see it changing. You can see the change happening, right?

CS: 100%, yup.

WS: I know that's awesome. What about what types of doing value-add? Are you changing the property much? Can you elaborate on some of that?

CS: So, a lot of the deals, we look at our value-add. This particular one is actually only value-add through operational efficiency. So, we do have $100,000 budget for CapEx, for unit upgrades, but we're only doing very light upgrades and only upon insurance. So, we might replace the light and fixture packages. They're now at the brushed nickel package. In certain units, we may do flooring, cabinets, and cabinet tops but only as needed.

So overall, it's really through management efficiencies. The biggest value-add is in year one. What are recapture and the loss to lease? The previous landlord recently raised the market gradually this year, but only about 20 or 30% of the units are actually at market rent. So, the big value-add we have in year one is recapturing that loss to lease for the rest of the units as leases renew. Even in year two, we're only using very conservative rent increases so that way we're budgeting to be very conservative.

The other value-add we have was that we're able to build back more of the water and sewer build than the previous owner did. Also, we have a washer-dryer rental program. Being it's a C-class property, all of the units have washer-dryer hookups, but a lot of these people probably won't be able to afford to buy their own washers and dryers. So, what's going to happen is the ones who want those appliances but don't have money to buy them, will have the option to rent them from us. So, depending on the size of the unit, we'll rent them for an additional 29 or 39 dollars a month, and that's additional income that we can bank on each month.

[INTERVIEW 2]

WS: Our guest is Rodney Thompson, thanks for being on the show Rodney.

Rodney Thompson (RT): Thank you, Whitney, appreciate the invitation.

WS: Rodney is a husband to one woman for 35 years, a father to six wholesome kids, and a new grandfather, congratulations on that. After spending 30 years in IT as a system administrator, Rodney was looking to create passive income in retirement and found commercial real estate as a way to accomplish that goal. Rodney, again, welcome to the show I know your story is going to be one that so many of the listeners and I can relate to, and just looking forward to hearing more about that, and just this transition, we talk about it often on the show.

I think it's worth talking about because everybody's story is unique but also, it's something that it's so hard to make that leap and make that transition. Tell us a little more about who you are Rodney, maybe where you're located, and let's jump into just your transition into real estate, the syndication, and why?

RT: Well, I am currently residing in Minnesota. I am from Texas, got to get that in there, and we moved up here about 13 years ago, we were looking for a little more terrain and some cooler weather, and I think we kind of jumped from the frying pan into the freezer. Other than that, it's not too bad. My past is you know, I tried various things and ended up settling in IT and I'm still actually involved in IT. I plan on retiring next June from IT and that's kind of a story all on its own because you run across a lot of people, why do you want to retire? Or why do you want to quit or transition to a different occupation?

There are a lot of people out there that have various reasons for doing it. Whether it's just to do something different, for me, I wanted to get to a point where I would have the freedom to have income, be able to spend time with my wife and my kids and my grandkids and be able to travel, and do those things and still have a business that was producing income. We have had single-family houses here and there over the years, where we rented those out and property management, not property management.

Right now we currently have a single-family home that we use as an Airbnb, but my wife has always been saying we need to be in self-storage. I had no idea about anything to do with syndication and all I could say to her was, "Well, that's a great idea babe, but how are we going to plunk down a quarter-million dollars to buy this facility, and manage it?" And that type of thing. We just put that off and right up, two years ago now, I heard about this awesome thing called syndication and I started learning more about it and I came about it because, you know, we were going to look at wholesaling, we were going to look at just buying more single-family houses, duplexes, and that type of thing, which I think is where everybody kind of tease on real estate.

I was listening to a podcast and somebody started talking about multi-family syndication I started researching it, and there were some pretty compelling reasons to be in multi-family. I started down that path. I got my start in that in April of 2019, and I made a goal for myself that, by September, I was going to have a deal. I just put my nose to the grindstone, I started getting up at 4:30 in the morning, actually 4:00. It was kind of a progression.

I said, "Well, I'll get up a little bit early, let's do 5:30," and then it was 4 and then pretty soon I just said, "I got to get up at 4," because I was running out of time before I had to go to my W2 job. So, 4:00 in the morning, get up, get after it, you know, answer emails from brokers, make broker contacts, and just start the whole process of analyzing deals one after the other.

Pretty soon, I found a deal that looked like it was going to work, and we started working on that, which turned into an LOI, our LOI was accepted, and then the fun began.

WS: How long ago was that?

RT: We closed on that in December of 2019.

WS: Nice. Good for you, congratulations.

RT: Thank you. There were some heated moments that I can tell you about because we had a hard close date, it was an REO property, which means it was bank-owned, so they wanted to have it closed in 2019, and there were no extensions, which made it quite exciting.

WS: Wow, I would love to hear more about that but you know, also, what I want to hear more about though, right now is your thought process around making this happen. Because it's a difficult one, and you and I briefly talked about it before the show, but just you know, you made the goal, he said, deal by September, but all of a sudden, your daily habits – it sounded like anyway. Maybe you can highlight this? Your daily habits changed to make this happen, is that right?

RT: They did and if you're working a current job and you want to make this transition and you want to make it a smooth one without just doing an abrupt quit, which I didn't have that luxury. Then I had to rearrange my schedule. My family was completely behind what I was doing, and so they understood that I was going to be up early, and sometimes I had to go to bed late, but my goal was to be in bed by nine so I could get up by four.

But that time gave me a solid three hours of work on my business before I went and rented my time out to somebody else.

WS: Gave you a solid three hours, wow. I mean, think about when you're that focused too, knowing you only have three hours, I bet it was pretty productive and you think about over or a long period of time, what you can accomplish with three hours, extra hours a day because you're purposeful about when you went to sleep and when you got up.

RT: Right, you know, one of the things here that you were asking about the success and of course, it's an ongoing journey, right? I don't' think that too many of us arrived, maybe we do but you know, work late, the deadline is that afternoon is what I have to say that you have to have in your mind.

WS: Highlight more on what did that three hours every morning look like? Were there specific things you knew to focus on and maybe other things you had to say, that's just not important, I just can't focus on that and say no to.

RT: Yeah, it was social media can be a time suck and I would make sure that that was not in front of me until that evening and just concentrate on answering emails from brokers, emailing brokers, and analyzing deals, and those three things – and email right then, you know, when I was kind of getting started out, I wasn't getting the deal flow that I get now through my mailbox. It's just finding a deal and going through the numbers. Putting it down to see if it's going to work, and if it doesn't work, then you move on. You can't get married to it.

If you sit there and you try and make it work, and make it work, and make it work, which I've caught myself doing before, you're wasting time. There are things that you can do to make a deal work, and the more you do that, the more you learn about things that you could adjust to make a deal work. But being able to recognize that a deal is worth spending that time versus not spending that time, I think, is something that's really good to learn quickly.

WS: Yes. You know, I wanted to go back to and you know, maybe you can highlight, I like how you said, you know, you're family was behind it. You know, they were behind this decision. The schedule had to change completely you said, how did you manage to still be at home while you're at home, you know? Or you know, when I was in that transition as well for a couple of years, I mean, it was difficult, when I'm having dinner like that's what's going in my mind constantly, business stuff. Emails I need to get back to or investors or whatever.

You know, it's difficult to actually be there, you know, I missed most meals for those two years with the family, but even when I was there, it was difficult. Did you have a way of segmenting that or that you stayed with the family?

RT: Most of the time that I was working that everybody was still in bed. Well – it's two things and part of it is, you know, this COVID situation that we're in, where a lot of people moved to work from home and you know, they're working at the dining room table, or they're working at a desk in their bedroom, and the one piece of advice I have for that and for if you're trying to work as a syndication business is get a separate space.

Whether it's a spare bedroom, a cleaned-out closet, or a corner in the basement where you can close it off, that is so key and so important to be able to concentrate so you're not distracted from noises that are going on in the house, you can carry on a conversation without interruption, and you mentally can stay focused on what you're working on.

Those two things, finding a separate space, getting up before everybody else, and then there's always going to be some evening stuff because you can't do a deal presentation at 4:30 in the morning for most people. You going to have to have some evening time and I'm a little bit fortunate because my kids are older so you know, I don't have a two-year-old or a three-year-old.

That can be a totally separate set of challenges and I think that having the family together, and everybody understanding, you know, dad is working now, and having mom behind it – it's really important to be all on the same page. I think that it makes things easier.

WS: I could not agree with you more, I'd like to say, you have to paint a vision for the whole family, right? So they can see where you're going too, they don't just see dad missing every day but they actually can visualize, where the family –

RT: We sat down and we said, "Hey, right now, if we spend this time doing this and we're all pulling in the same direction, this is what we're going to do, we're going to be able to go to Europe for a month." We're going to be able to you know, get in the truck and pull the RV around the country for a month. That's the stuff that not a lot of people can do, and that got them excited, and then they understood why I was doing what I was doing. Then in the evenings, we still had dinner, unless there was some odd meeting, but I always try to schedule the meetings around family time.

We can't just dump your family, you got to really make sure that they're included and they understand what the end goal is.

WS: They're definitely part of the team, right?

RT: Absolutely.

WS: I couldn't agree with you more, it's what you said about that Rodney and so tell me about it, I know you mentioned this a little bit before we started recording as well but you know, staying encouraged during that time. You mentioned it being a lengthy process, can you elaborate on that and just how you stayed encouraged? Because it's hard, especially after you're 6 months in or a year in our 18 months in.

I mean, still hasn't paid off yet. People start questioning more, right? You really going to keep doing this and, you know, all these things, can you elaborate on what that looked like for you?

RT: Well, everybody always says, you know, you're your own worst enemy, right? You can be your own worst enemy but you can be your best cheerleader too. And then having your wife be a cheerleader as well. Whoever is in this journey with you, if they're all pulling for you then when you do get discouraged, and you can talk about it, then – you know, there's a lot of times where I would be discouraged and I just sit back and I think about what my end goal is. Where I want to be.

That will push the reset button on your brain a little bit and, you know, maybe it's putting something aside. You know, if you're working on a deal and it's just you're beating your head on the wall, put it aside, work on some other aspect, whether it's your website, or get on LinkedIn and do some networking on LinkedIn, because, even though that's "social media," I spend most of my time on LinkedIn and that time is well spent, in my opinion, because I'm foraging networking relationships with people out there that are not only in my industry but not in my industry because I have investors and things like that monitor that type of thing.

When I comment on somebody else's LinkedIn post, then all of those people see my stuff at the same time. There's a lot of engagement that goes on there. That to me is as important as doing all of the deals because you're building your network. Then come back and work on whatever you're being frustrated with. Now, if' you're just frustrated because you don't seem like you're going anywhere, that might be a bigger pep talk but, you know, you hear a lot of people talking about the magic of the first deal. I do think that that exists. If you can just tell yourself to get that first deal, get that first deal, then it is easier to talk to brokers. The deal flow increases, you gain confidence, and your knowledge will grow, just by working the numbers and working in the industry and talking to people, your confidence grows and that really helps to energize you. It does me at least.

[END OF INTERVIEW]

[OUTRO]

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