EPISODE 1447

[INTRODUCTION]

Tilden Moschetti (TM): So it's always about relationships, and it's always about delivering value to your investors, and the investors need to see it, right? So it's always selling yourself, always telling who you are, always telling your story, and always making it investor centric; that's what makes the difference and will make somebody successful. Whereas if it's all about just money and just the returns at the end of the day, there are other people doing other deals. There's a lot of people doing syndications right now. So there are choices on who these people go with and you gotta give 'em a good reason to go with you or nobody's gonna go.

Sam Rust (SR): This is your daily Real Estate Syndication Show. I'm your host, Sam Rust. Today, Tilden Moschetti is the managing partner of Moschetti Syndication Law Group, a boutique syndication law firm serving both small and growth balance syndicators as well as private equity firms. Tilden is also a real estate syndicator himself and has been general counsel on several real estate private equity funds. He works with his client's ambitions and overall vision to help him close the current deal. And fill in that quote "missing piece" whatever is needed to keep adding more syndication partnerships to their portfolios.

[INTERVIEW]

SR: Tilden, welcome to the show. Thanks for joining us today.

Tilden Moschetti (TM): Hey, thank you so much, Sam. I'm really happy to be here.

SR: So, Tilden, you got into law; you got your law degree back in 2003. Did you always know you wanted to head down the path of securities and real estate and kind of the overlay or intersection of those two? And if, what drew you to that special?

TM: Yeah, close. I went to law school thinking I was going to be a developer. So I looked around, and a lot of the really successful developers were attorneys. And so I thought, okay, this would be a good way for me to not only get money but also be able to handle the legal aspects of a project. I got into law school and loved the property and all the subjects that revolved around securities corporations. And then, I took a litigation course, which led me astray for a while. Because after law school, I started litigating. So I was a real estate litigator for many years or anything that touched real estate. And it was just the happiest of worlds right in litigation. You're always trying to attack the other side. You're not developing anything. You're always just tearing stuff down. So I realized that I was missing my calling and looked around. And that's when a partner approached me about syndication.

SR: What was your first thought? I mean, you obviously had some exposure to it, probably in your real estate courses. Syndication is not necessarily a new idea. But what flipped the switch for you of going, Hey, I want to stop tearing down as it were, and I want to start building stuff and helping people build businesses around this model?

TM: It was really— I had done a lot of finance courses. Maybe eight or ten years ago, I got my CCIM a while back. I loved that aspect of it. And I started just looking at it. All. The deals my clients were doing. And when my partner approached me about it and showed me the deal, it was just a small triple net deal in the south. It had great numbers because it was coming in cheap, and I thought, well, there's nothing that these other syndicators don't know that I don't know. So why do I just not have the experience yet? So why don't we give it a try, and let's see what happens? And so we did. And it was really successful and actually quite a bit more fun than deposing people or things like that.

SR: Yeah. Where was your first project and roughly, when did you guys get into that?

TM: It was in Alabama and I got into it in about 2013, 2014, something like that.

SR: Oh, okay. Yeah. So you were early, at least for a lot of the retail syndicators that have popped up since then. That's you've, you've rode a good wave over the last nine years.

TM: Yeah. We've been successful and made good money for my clients and my investors and good money for us.

SR: Yeah, that's the magic Elix is all the way around. In your intro, you talk about working with clients, ambitions, and overall vision to fill in that missing piece, whatever it is. When you're working with clients syndicating deals, what often is that missing piece? I can think of a couple of big ones off the top of my head. But I'm curious, what do you see most often that missing?

TM: Most of the time, it's a lack of focus. So people come into the real estate thinking they're going to syndicate, wanting most of them drawn by the money. And sort of the hotspot to get it done. What they're missing is kind of a guiding principle. And so a principle is why they're investing in this, or an investor should trust them. And it's that vision or motivational statement that many syndicators miss as they first start. That is the difference between really being successful and not. I could find a deal. I could go on one of the exchanges and find a property right now and put it in front of clients or potential investors. Unless I've got a good story to tell about it, they will not invest with me. So what I help them do most of the time is if they don't know what the direction is. We talk about, well, Where's this going? What's the next deal in the next deal, in the next deal? Where are your fees in line? What sort of returns are you looking at?

All those kinds of things that investors care about and are looking for? We wrap it all up in something that I call the founder investment theory, which is the theory of why to invest in this or why to trust this syndicator on why an investor should invest.

SR: Yeah, I think that's bigger why that's one of the phrases that we hear a fair. Amount? Sure. It is really important. Because as you said, humans are hardwired to enjoy stories, communicate in the story, and resonate with the emotion of a story. And especially when you're starting in this business. I tell people often real estate indication is not necessarily hard, but building a business in it is hard. Such a one-off project. Yeah. Maybe you can do that, but building a business. We'll carry on into the future and have an awesome basket of assets. That's pretty challenging. And it takes dimension into who you are and the story you're trying to sell. Is there any story you know, you could be anonymous or not, but of someone who added an interesting dimension to their stories, a result of talking to you and kind of really driving in on the—

TM: Yeah, a lot of my clients come from diverse backgrounds and different parts, but they all have real estate at its heart. If I had to come up with a story, I would probably talk about, well, I'd talk about, two. So probably one of the most successful regular syndicators I know was an appraiser, and he got the first deal because he had seen a ton of big, big commercial real estate deals. One came across as a lap. He called everybody he knew. I syndicated that deal. And now, by the time he did his second deal, it was now a matter of sending out an email, and it's funded within an hour. And these are big deals he's doing. The last one he did was over 150 million. So they're not tiny projects by any means. But he's always stuck with that for him. It's it's value. Add value, add value, add. That's all he does. For others, it's coming up with a creative way to reimagine things, whether it's repositioning an asset from multi-family to some other use or multi-family from a hotel. Things like that are a creative way to do it. And it's that little spark that gets an investor's attention. That makes the difference. It explains the ROI. It explains their fees of why they go with this investor. And it really kind of sets them apart from all the other people.

SR: Yeah. I was talking to a guy who's been in more of the institutional world. And led the acquisition of a multi-billion dollar portfolio. But he said in the retail market, their model was going and getting institutional capital for 90%. But then they still had to syndicate about 10%. He said in real estate, generally for the retail investor, there are two types of investors: there are the folks who want the biggest, highest return possible, right They're-

TM: Mm-hmm

SR: Elephant hunting on the Savannah. And then there's another fairly significant sector of folks about capital preservation. They want to get into low-risk investments. I'm curious. Have you seen that in your career to be true broadly? And how, in your experience, would you assign the percentages between those two groups of investors, at least the ones that you.

TM: Sure. So, yeah, that's part of what I think of as founder investment theory too. So I think every investor is looking at that spectrum of risk, and you need to be consistent with that. I'd tell the capital preserver where you are at on that spectrum. So there, I have a story too. So I was going for this first deal, and I was meeting a doctor that I knew and was asking him for investment, and our IRR would probably land around 15%. So I showed him the deal, and he said, wow, that looks like a really great deal. And I thought I was done. I was like, great. All right, he's going to give me like 400,000. This is going to be terrific. And then I said, perfect. So how much are you in for? And he said, well, I'm not going to invest in it. Like, but you, he just said it was a great deal. Why won't you invest in it? And he's like, no, you don't get it. So you got a 15% return, but that's not what I'm looking for. When I invest in this, I'm looking for; I'm just using my mess around money. I'm just using money that I'll hit a few grand slams, but mostly I'm looking to have fun. I don't want a 15% return. This looks like a pretty normal safe return to me.

Nothing is exciting about it. And that kind of opened my eyes to that spectrum idea. So I think on that low end, you have around 10% to maybe 13% as you're very nice typical things. It should not be a development project because a development project should be getting more. It should be something like a triple net or a just capital appreciation project in multifamily in a major city. I mean, that's what those people tend to be looking for. In that middle sector, I tend to be 13% to maybe 18, 19%. And that's where I play the most. And that is your normal investors. They're looking for a good return, but they're also looking for something reasonably safe. And then you've got your people who are swinging for the fences. And to me, that's probably in the 20% and above range. Now, if you're in a tertiary city developing in the middle of nowhere, something kind of crazy, you better have 40, 50, 60%. Big, big numbers. If it's just developing a multifamily project in a pretty good area, it's probably going to be closer to 20 to 30%.

TM: So I see it kind of on that spectrum. And so you need to target your theory with what your investors are expecting because if they're swinging for the fences all the time, don't bother pitching them at all on those safe assets and vice versa.

SR: So essentially, that doctor said this isn't exciting enough for me. I want something that the risk reward is the variance is higher, essentially.

TM: Yep, absolutely. He did come in on a later project I did, which was a big development project, and did invest a good amount of money. So it just was that deal, it wasn't what he was looking for. It didn't mesh with what his looks were..

SR: How have you structured your development deals for your limited partners? We've done some development, or we're in the midst of doing we're closing on our, or we're the final CEO on our first development is going to be issued here in like two weeks. And what we did was the standard 70, 30 with a PRF. But in the 18 months, while we had investor capital and were building this project, we gave a 10% coupon that will essentially accumulate and be paid out of future cash flow slash refinances.

TM: Mm-hmm .

SR: How have you kind of tried to bridge that gap? Cuz there's usually an 18 months to 24 month period where there is no cash flow. Obviously, it's a high risk investment. The first step to getting a successful development is making sure you're in the twenties. At least in my opinion. Higher our perspective, but just curious, how have you attracted investors to those types of projects?

TM: Get as high of an IRR as possible. So know your live levers, which trigger them. So I kind of start backward, and I advise my clients to start backward too, is to know your client and know what kind of returns they're looking for and then underwrite deals to that. And so if I'm doing. An 8% pref with a 70, 30 split, something like that. I'll draw it out on paper first and see, okay, is this lining up? Am I making money on it? Right? First, the syndicator has to make money, or there's no reason to do it. And where are my investors going to get it? And what kind of return are they getting with that? If they're getting a 25% return with something like, great. Okay, I know I'm in the ballpark. If they're getting a 40% return, maybe I have more room to take more money for myself. And if they're getting a 15% return, I probably need to get put back more into the system. So I work my way to the middle, with the middle being what my investors expect.

SR: It's Always trying to balance that risk-reward profile. And yeah, as you're in the business, the network grows, and you're going to get people across the spectrum. And that's why one of the things that we did recently was we did a fund with some development in it, and some value add kind of bridging both those worlds, giving you a little bit of upside, but also raising the floor a little bit as you've got multiple.

TM: Yeah. And I have clients that do exactly that, and it's great. So if they're doing a fund, we're doing 20% swing for the fences and then 40%, 40%, 40% the middle of the road and then 40% super safe. And they're very successful because they're kind of- if they miss for the fences, they're still giving their investors returns, which keeps our investors.

SR: You talk a fair amount on your website in a couple of blog posts about selling yourself first as an indicator. Yeah. What do you mean by that?

TM: I mean, investors are choosing to go with this indicator. So I was on a call with a potential client, I thought, just yesterday. And what my advice is this is still a relationship business. Suppose it's all well and good to think that you can just put some ads up on the internet and find investors and never have to talk to them. And the money's going to come flowing in. And if that works, fantastic. You've solved the puzzle, but I've never heard of it working. I've heard of a lot of people trying that. So it's always about relationships, and it's always about delivering value to your investors, and the investors need to see it, right? So it's always selling yourself, always telling who you are, always telling your story, and always making it investor centric; that's what makes the difference and will make somebody successful.

TM: Whereas if it's all about just money and just the returns at the end of the day, there are other people doing other deals. There's a lot of people doing syndications right now. So there are choices on who these people go with and you gotta give 'em a good reason to go with you or nobody's gonna go with you.

SR: No, that's something that we've talked about often internally is how do you both sell yourself in an attractive way? Differentiating yourself might be another way to say it, but also be authentic in that.

TM: Mm-hmm.

SR: Like we're evaluating our go-to-market strategy right now. We traditionally have done a little bit of development with primarily value add. But we've been generally priced out of the market for the last 12 months. It's been a really difficult environment to buy in if you're targeting that 13 to 19% spread. Right?

TM: Yep. That's very-

SR: And so just you can either change your assumptions and get more aggressive, or you can sit on the sideline, or you can go after a lower cost of capital and change your business model. And though those are the types of things that we're wrestling through and just fundamentally not willing to change the way that we do our underwriting.

TM: Right.

SR: Who are we as a conservative nature? I want to be able to sleep at night. I get that question. How do you sleep at night with all this money that you've raised, and you're stewarding and blah, blah? Well, it's because we've gone backwards and forwards, and we're highly confident in our underwriting. Not just you know, because it's not some random person investing in our deal. It's my dad, or it's long-time friends. And you just look at things differently, and I don't wanna lose that aspect. So I think that yes, selling yourself. But also being true to yourself,

TM: Absolutely.

SR: What you're trying to accomplish, because investors will pick up on that. Everybody has a BS meter. And usually, folks with money have a decent one. That's not always for, of course, or you wouldn't have hucksters all over the place, but in our world-

TM: They won't stay that wealthy for long

SR: Yeah, yeah, exactly. What is it? A fool with his money will soon parted.

TM: Right.

SR: But that's not who our traditional investors are. Our investors are usually pretty thoughtful people working professionals that have a good sense of people.

TM: Mm-hmm.

SR: And so you don't wanna put on an act just to raise money, it likely will not.

TM: Yeah, I've told many people before that if you're not in this for the investor and if you're not willing to think of them first, you might as well not be doing this business. If you're not acting conservatively and just making numbers up and kind of winging it, you'll lose people's money and have a very short business. Whereas, if you just do it right and just do the right thing, and just be as truthful and honest and check your numbers, and to take their money more seriously than they do, you'll always have repeat investors. They'll always keep coming back.

SR: Yeah. From a national market perspective, you have an office, a law office in the LA area. You have another office over in Raleigh. Your first deal was in Alabama. You have visibility into a lot of different markets. Are there any macro trends you see developing now that you find interesting or informing your investment strategy?

TM: So certainly the rise of secondary markets is very prevalent. Here in Raleigh, we have an amazing market. Austin is traditionally is a secondary market and is currently still the number one growing market and the nation, followed by Raleigh. And that's interesting to me that the primary markets people are leaving and coming to these secondary and even tertiary markets. I get many calls with really interesting deals from people in those secondary, third, and tertiary markets. So that's exciting. Multi-family it's always been popular and probably always will be popular. But we're getting more creative ways to get into multi-family with, whether it's repositioning hotels or ground-up construction with something special about it, like whether it's, eventually, conduit it or things like that. That's a new way for people who are of getting into multi-family in an exciting way. Office and retail are challenging places right now, which isn't surprising. But retail's coming back pretty strong as long as it's not a mall. So now it's really, can we think of good uses for mall space? Those are kind of the bigger trends that I'm seeing.

SR: Yeah. Yeah. It makes a lot of sense and reflects a lot of what we see as well. It has been interesting to watch retail do pretty well over the last year or so as an asset class. But man, there are some deals in the office space, and I put deals and air quotes.

TM: Yeah.

SR: On a historical basis, it's amazing. But I think we still are working through what's the new, normal after COVID.

TM: Yeah, no one knows.

SR: Yeah. Unless you're in a newer building in a big city center. Man, I just wouldn't touch the office with a 10 foot pole right now.

TM: Yeah. And even then, I'm not sure I would touch something, even the city center. It would have to have some sort of there'd be basically no office in the area. And then that would be compelling. And I like the executive suite model a lot. There's a lot of money that can be made in that. And I've done syndications where we've used executive suites as kind of the way to make more returns for investors. And that seems to work pretty well. The medical office is generally pretty good, but the cost of getting a medical office or converting to a medical office is really expensive right now. So I wouldn't really do that at this point because it's just, it's still way too expensive.

SR: Yeah. Ten improvements in that space.

TM: Yeah, exactly.

SR: So that's something to keep an eye on. As we're winding down here, you're an attorney. You're on the, yep. You're obviously familiar with securities law and real estate law. There are some folks, some syndicators, that will split those roles. Right? They'll have a different attorney for their securities and a different one for their real estate law.

TM: Mm-hmm.

SR: Where do you come down on that? Obviously, I assume you're gonna have some sort of a bias answering that question.

TM: I do.

SR: I'm inviting you to share your bias, make an advocate for your bias. Convert us.

SR: Sure. Maybe it's self-serving, but I think it's split. I think I've been a real estate attorney. I've practiced as a real estate attorney. I've done leases. I've made purchasing sales. I've done. I've litigated. And when you're doing that, you're getting one specific mindset that is very important for that role, but it's also very different thinking that goes on when we're talking about securities. When we're talking about securities, I'm always thinking about how I protect investors. Or how do I ensure that my syndicator is talking to investors in a way that will ultimately protect them by conveying the right information to their investors? And they're just two very different worlds. So I don't even try and play in both at this point. It's I only do securities, And I work with a lot of real estate attorneys, and for the most part, they refer to me and don't try and do it themselves. The securities work just because I wouldn't be the best real estate attorney right now for them. And they're not going to be the best securities attorney. Yeah.

TM: Yeah. That makes sense. What's one habit that's contributed most to your success?

SR: Oh, good question. Just absolute fundamental commitment to my investors. I will lose money or my clients. I will lose money myself over them losing money. So that way, I'm walking the walk, or I'm walking the talk that I'm doing, and it shows that I'm committed to them. So I think that's the most successful thing anybody could ever do.

SR: Yeah. Well, Tilden, really appreciate you joining the show today. If folks want to reach out and learn more about securities law and the services you can offer, where can they reach out to you?

TM: So our website is www.moschettilaw, and that's www.moschettilaw.com. Or they can send me an email directly. And if they have a couple of questions, feel free to send me an email and see if I can answer 'em. And if not, I'll at least get back to you with where to go if I'm not the right person. And so they can just email me to @info.moschettilaw.com.

SR: Fantastic. Well, thank you to our listeners for joining us. Tilden and I on another episode of the real estate syndication show. This is your host, Sam Rust signing off.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being a loyal listener to the Real Estate Syndication Show. Please subscribe and like the show. Share 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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