EPISODE 1494

Marshall Sykes (MS): I like having a bit more contingency, you have a little bit more operating cash that way. So you can have more flexibility if there are some downturns and particularly if for some reason the interest rate goes up and your occupancy goes down, your cash flow is going to be constrained. So you got to have some kind of contingency to be able to fill that gap.

Whitney Sewell (WS): This is your Daily Real Estate Syndication Show. I'm your host, Whitney Sewell, depending on where you are in your career, you're probably recognizing that, hey, when I reach retirement, I need a certain amount of income. And the more sources of income you can have, well, the better, right? Typically, you're going to be diversified more and hopefully have more income.

But our guest today recognizes that he's in the military for about 10 years, and he recognizes, hey, we need to have some more sources of income when we retire. And then it was a matter of scaling. And you're going to hear how he and his wife have done just that.

His name is Marshall Sykes. He's the president of Capitano Investing Group and is a general partner in 2,700-plus multifamily units across 14 properties valued at over 350 million. He's also owned single family rental properties for over 20 years. He had a 30-year career as a construction engineer, project manager in the Navy, and with Exxon Mobil, which you're gonna hear a lot today.

Marshall, welcome to the show. And first I want to thank you for your service honor to have veterans and everybody on this that served and man seeing what they're up to now and just first, thank you for your service. So welcome.

MS: Thanks, Whitney, for having me. It's my pleasure.

WS: Well, let's dive in. You have an interesting background. I know you've had a couple of careers that I think what I'd read the so called like a heavyweight career. I mean, it's like, you know, you've been involved in a couple of different aspects, you know, in a big way.

And I'm wondering, you know, how that shaped and helped you to get into, you know, what you're doing now in multifamily. And let's dive in there. Tell the listeners and myself a little bit about who Marshall is, and let's jump in.

MS: Yeah, so as you mentioned, I had two heavyweight careers. One was with the Navy, I was a Civil Engineer Corps officer, rose to the ranks up to Captain, retired after 25 years of service there and then went to work for Exxon Mobil doing complex engineering projects all around the world.

So both of them required a lot of strategy and a lot of just being showing up every day on getting the job done, and partnerships and teamwork, because all of our projects were done on teams, and most of our projects, definitely multi, multi billion dollar projects, and Exxon but also in the Navy, I had a big five Bay and Donor Program as well in Southern California.

And backing up a little bit. I grew up in a real estate development family in North Carolina, my dad had retired from the Army and wanted to really just work for himself. He wanted to have his own control of his own destiny, I guess. He learned the building trade and started building single family homes. Even my mom would build two at a time. They get some people to help as they need it, but pretty much they did the whole thing. And some of that help is from us kids who would help out during the summer. So I got some exposure to it. I thought I'd never go into construction or and work in real estate really.

But fast forward 10 years into my military career, I realized I needed some multiple sources of income when I retire. I'll have my military retirement income. But how can I supplement that? So my wife and I started thinking about doing real estate, and we built a portfolio of single family homes. And over a few years, then we kept those four, we still have some of those now, after 20 years.

But looking back at that about five years ago, I thought these return on investments probably could be a little bit better. What can we do a little differently? That's when I started thinking about multifamily investing.

WS: Wow, it's interesting, you know, your parents were building, you know, two single family homes at a time and mostly by themselves. And so they knew the value of owning rental property ultimately, right? And are those still in the family? I just wondered, you know how the family has kept those or, or did those get passed down? Or are they still functioning now?

MS: So typically, they would build two at a time and sell one to keep for income and keep one as rental income, right? So that way they could pay them off as they go. They did have a portfolio of single family homes. My dad has passed away, but my mom is still living. She still owns several of them. In fact, one one of the properties we built was a four-plex.

That was my first exposure to multifamily. And I was probably 15 or 16. We were building those and it was pretty hot in North Carolina summers. We still have those in the family today as rental income. I guess 40 years later, whatever we're spending.

WS: Yeah, that is neat. I love stories like that too. You know, they worked hard, no doubt about it to make that happen then and it is still paying them, you know, so 40 years later and will continue, right? It will continue to so, love that. It's incredible and how that how you saw that then and, and maybe, you know, you mentioned that exciting so many listeners that can relate to this.

You know, you started down a career path, you know, and then it's like I never, you know, never imagined I was going to do anything and development or real estate or like that. But then all of a sudden, things change, right? Your eyes are open to retirement years that are coming. And it made you change what you thought potentially about real estate sounds like. Is that right?

MS: That's exactly right. You know, I think I was going through engineering school at NC State University. I got a degree in materials engineering, but that wasn't God's plan for me. God's plan for me was to go into leadership to expand my horizons in the Navy, and learn construction. And so that is a little different than what I planned.

But it was the path that He provided for me, and just how that interacted with my family, but upbringing in the real estate world has just been awesome, really. And not only that, when he saw something of this, I have seven brothers and sisters, all of us do some kind of construction or real estate investing at this point, pretty exciting legacy. My father, and mom left us.

WS: That is incredible. Now, I did not know that I love hearing though, how, you know, people say this influence me from my parents or whatever, you know how they did that, or what you know, happened to instill that in their children. I have young kids, so I'm always trying to pick those things up. Right? I know, there's many listeners that are as well. So let's move forward a little bit. I mean, you went into the Navy, Exxon Mobil, you figured out though you said 10 years in that you needed some more income, potentially, when you're retired.

And you said numerous sources. And you said you and your wife actually started buying some single family homes, I think then speak to that a little bit. And then you realized maybe multifamily was going to be the way to scale that it sounded like. Is that accurate?

MS: It is. So we had bought our own, our first home, maybe a couple years before we decided, hey, we really need some other income. And in the military life, I was moving around every two to three years. And so my wife's a chemist, it was very difficult for her to restart her career every time we met. So this is pretty kids so we decided, hey, you stick it out on this job until we move again, basically, and then we'll use that income for the seed money for our single family home.

So that's kind of how we got started. It's a matter of planning ahead and being strategic about it, but taking the opportunity where it is, as well, and my brother's a builder, so I was able to partner with him to build some of these rental homes. And that helped me get started. So don't be afraid to reach out to others to help let them help you get started because they usually are willing to do so.

WS: No doubt about it. Many people have helped me along the way to say the least. And then oftentimes that is asked numerous times, right? Yeah. All right. So speak to your path into multifamily. Give us some of the... how you did that. And where you all are now, maybe your focus now.

MS: Well, so we've had those rentals around 10 to 15 years. And I started looking at, you know, there's the income, the cash flow, and what's it gonna be like now versus what's going to be like when we retire? And what kind of cash flow is it gonna really produce? And then I thought the return on investment of what you put into it is one thing when I think it's around three to 4%, the most for my rentals.

Well, actually, the return on investment was a little higher, not five to 10%. But return on equity, what I had in the property was lower than that. So let's say two to 3%. And I thought, well, you got I can do better than that. And I started looking at multifamily. And at the time we were actually living in the Middle East and so we were in Dubai. I was working in Iraq for ExxonMobil. So I had not heard about syndications. But then we came back to Houston and then some colleagues at work and I were talking and I heard overheard about multifamily investing in syndications and, and out I always wanted to get in multifamily, but I didn't know you could do that as an individual.

So, I really took that to hold and we started meeting once a month. Talk about syndications, how you can invest in us. We were all doing passive investing at that point but wanted to meet another guy and decided, hey, we want to do this full time as general partners. And so we figured multifamily investing is gonna get you there and a lot faster than single family. Let's put it that way. You got a lot more scale and you got a lot more the return on investments normally higher or is projected to be hired least and so we joined a coaching group and then we started general partnering with other like-minded individuals and deals.

WS: Awesome, no doubt. I think Interesting, the path that everybody takes to get here and it's so often though they see that scale, more cash flow, all these things. And I think you made an interesting point earlier, or that's so commonly overlooked, especially by passive investors, that it is the time on investment, right? And it's like, well, I can go buy, you know, buy some single family homes and have that same kind of return.

And I'm like, maybe not many people can though, if you consider your time spent, you know, or maybe they've, you know, they've had major success with like, one single family home, they found this amazing deal, right? Or they bought it 10 years ago, they just sold it, made a few $100,000, right? Because of the time period, right? Or the cycle of the market, all these things, then it's like, Well, why don't I just go do that? You know, they're thinking, why don't I just keep doing that? I'm like, well, how many of those can you find? You know, how many of those are you willing to keep taking the phone calls for to manage?

Or, you know, all those things that aren't thought through? I feel like often when compared to investing passively, you know, as an LP or passive investor. So, you know, it was so important to you, Marshall, to create numerous sources of income, and, you know, speak to numerous sources of income, and maybe why that's important, and how you started to do that for you all, as you know, you're planning for retirement.

MS: Yeah. So I felt like that financial advice across America is to save a bunch of money, put in the stock market. And then you can start drawing down on it to live off of and your retirement years, I felt that was too simplified of a way of doing things and maybe risky, really, I mean, and looking looking at now, I think it's risky, particularly if you retire, and then one year, and then in that same year, the stock market drops 20 to 30%, then it's gonna be hard to recover over your retirement years.

But I like the idea of having new income coming in every year, not every month, really, not just trying to draw it down off the stock market. So I started looking at how can I create these multiple streams of income. And there's a lot of different ways but mainly for you, if you own real estate, you're kind of owning a business with every piece of real estate you own. So you have a different business and a different source of income every time. And that's kind of where I felt like with my background, with my family and in construction, I felt very comfortable with doing that.

The more I learned about multifamily investing, the more comfortable I got, and I tested the waters with as a passive investor as well, for the first three or four investments I did, and they've done quite well, a couple of them go and cycle full cycle, and they've done better than the projections. It's really comforting to know that there is a way to mitigate the risks and take advantage of real estate, the real estate market and to maximize what you can get out of it. As a passive investor. If you have a career and you love your career, you don't have to manage real estate; you do it passively. And let the general partners do the active piece where they do all the work and you're providing money.

WS: What would you say are some good lessons learned? You know, from your LP investments for your passive investments? Or maybe things you know, now you wish you had known before you started investing passively?

MS: Yeah, I think when you do that first opportunity as an LP investor - limited partner investor - is a big leap of faith. But yeah, I felt like it was a big leap of faith every time I did an investment. Whether it's stock market, or buying my first home or buying my first rental property, it was always a leap of faith in some ways. But I felt like that the big thing is you can trust who you're investing with, of course.

I felt like I needed to test. I tested three different general partner sponsors, basically, in three different markets. And I wanted to see how they operated differently from one another. And how they operated the same. Similar to those that have gone full cycle one probably could have, but they just have chosen to keep it longer. Because it's based in Austin, I think they keep thinking Austin is going to keep going up and in market value, right. So it's done really well.

But I think just the things I've learned from them or different operators up, they operate a little different from one another. They might give you more information than others, some are more accessible to you than others. This kind of things you gotta test out, I think as a passive investment,

WS: Marshall, do you have any predictions just for the real estate market over the next six to 12 months? Or maybe ways you're doing things differently? Because of what you expect, whether it's underwriting or buying or selling or anything,

MS: You know, I think I'm not the biggest forecaster on those things. But I think the prudent way to do that is obviously to study a few different people because if you only study one person in the future is probably not going to be accurate but if you get multiple forecasters, I think you'll get a better view of it.

But the one thing I think and your underwriting in mind, I want to test a higher interest rate. Because more than likely, the interest rates are gonna go up a little bit more before they go back down. I guess they're meeting this week even to do that again. They meet once a month, it seems like that's the one that pays. If your mortgage is very well, it can make a big difference and just like in taxes, or insurance. So those are the big three, I think you got to look at as far as money is concerned.

WS: What about if you're looking at a deal or you know, or even as a passive investor, what do you like to see, as far as you know, the operator being prepared for a downturn? Or, you know, for some kind of economic downturn?

MS: I think it's a great question, I think what I like to do is have a little more, you know, construction projects, so we had a lot of contingency, we would put in at least 20, maybe even 40% contingency, depends on how risky the project is or where it was located. I think one of the things I've seen in an underwriting is the tendency to only do 5%, contingency, maybe 10.

But I like having a little bit more contingency, you have a little bit more operating cash that way. So you can have more flexibility, if there are some downturns and particularly if, for some reason, the interest rate goes up and your occupancy goes down, your cash flow is going to be constrained. So you gotta be able to rely on you gotta have some kind of contingency to be able to fill that gap.

WS: What's your way that you've recently improved your business that we could apply to ours?

MS: I think, you know, I'm always trying to improve my marketing. I've done okay, okay, I'm gonna but I think if I can improve that, and focus on that a couple of hours a day, I think things will be a lot more smoothly for me. For us. I think that's the biggest one because I'm not an engineer, right? So I'm not really about marketing. And that worked for the Navy and I worked for Exxon Mobil. I didn't do any marketing in my career. That whole world is just something new for me.

WS: Yeah, maybe you should outsource some of that, so you can use your skill sets on where you're really good at. You know?

MS: Exactly. My niece has done a lot for me. I did outsource some stuff with her, and I do need to get back in touch with her to do a few more things.

WS: That's funny. It's interesting. I interviewed our analyst today, so that is like a team series. People always ask who's on our team? Well, they do. And he was way out of his comfort zone;

he was so willing to do it even with short notice. I was thankful. But he talked about how, you know, it pushed him out of his zone a little bit because he's used to looking at spreadsheets and not talking on a podcast.

So anyway, well, what about your best source for meeting new investors right now? What would that be?

MS: I think for you know, for me, given my lengthy career, my investors, mostly our folks I've known throughout my career, and if I'm marketing on LinkedIn, or elsewhere, or they just want it, they've heard something about it from one of my other investors. It's kind of like, folks I know already but those are my new investors for the majority of that, and then I get referrals as well.

But as far as people I don't know, then you meet some folks in conferences. I do that. And I try to attend some of those as well as the especially virtually, I think you can meet a lot of people that way, with the conferences or virtual conferences. Those are the big things I use for my new investors.

One thing I've always said is just stop going to multifamily conferences and go to some other conference, like a medical conference, and you can really meet some people that, you know, might be new to this.

WS: Yeah. You know, I've heard a lot of people say that we've done some of that ourselves, as well. What would you say is your best tip for passive investors?

MS: I think it's to get educated. There's a lot of education on YouTube. You need to sort through a little bit, but you also can get a few books that you could read up on it. I think you gotta have a little bit of education but also, to test this is gonna be something that you're comfortable with. You can test it somehow or another whether you do one investment or you do multiple investments. You gotta test it to see is this gonna work for me or not?

WS: What would you say are some important metrics that you track, Marshall? It could be something personally or professionally, I tell people, it could be your bench press number or you know, it could be the mornings you get out of bed on time, or it could be how many deals you're underwriting. You know, what would you say are some of the most important metrics that you track?

MS: I think how many investors have interacted with that week, as well as how many partners have invested I've interacted with per week. I try to be consistent in those because I feel like you keep up on the partner side, you're going to keep up with what you already have. Let your partner on with what deals you partner with and you learn more and more information, if you're staying in touch with them on the investor side, that investor relations is always important. Investors want to know that you haven't forgotten them, and that you care about them. Right? And I do care about my investors, and I want to provide them top-notch service still.

WS: What are some habits that you are disciplined about that have produced the highest return for you?

MS: I think for me, you know, I've always had, I've always gotten up early, even when I was a five year old. I was kind of early and I do an exercise first thing in the morning has been really good for me, read my Bible, having coffee with my wife. Those are the kind of my habits that keep me focused and grounded for the rest of the day.

WS: Love that. The listeners are probably thinking you and I know each other. 'Cause that's exactly what I do first thing in the morning that I talk about it often, so coffee with my bride early in the morning, and we read, pray together and say it's great. I don't know where we'd be without that time together in the morning and with the Lord. Marshall, what would you say is the number one thing that's contributed to your success?

MS: Well, I think, you know, being open to learning, I guess, for me, whether that's wisdom from God or wisdom from other people, or learning from their progress within real estate, or just having the mindset learning I've learned a lot about mindset from folks just learning. I'd be open to learn.

WS: What about how do you like to give back?

MS: I think for me, I have several friends throughout my time who have started charities, one does an orphanage and or orphanage or village in Uganda. Another one built playgrounds in Kentucky for children that were wheelchair-bound, so they could also go and play at the playground. Those are the kinds of things I like to get involved in to help other people.

WS: Awesome. Marshall, it's been a pleasure to meet you, have you on the show, really hear how you started in real estate, maybe even with your parents years ago, and even came back to that I think it's interesting that all your brothers or sisters or siblings are in some type of development of real estate as well. That's very interesting to me.

But then, you know how you've come back to that and now see the need for numerous sources of income and retirement and, and even encouraging others to do the same thing. It's so important that we're not just relying on the stock market, right, you know, or our own 401k Potentially, it's yeah, when we can do so much more than that which you are doing, and so grateful for that even your lessons learned from some LP investments, and how to move forward thinking as a passive investor. How can the listeners get in touch with you and learn more about you?

MS: They can always go to our website at Capitano Investing Group. Also they can reach out to me on LinkedIn. I like to post on LinkedIn and be happy to interact with your listeners.

WS: Thank you for being a loyal listener of 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

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