EPISODE 1505

[INTRODUCTION]

Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today we packed a number of shows together to give you some highlights. I know you're gonna enjoy this show. Thank you for being with us today!

[INTERVIEW]

WS: Our guest is Frank Patalano, thanks for being on the show Frank.

Frank Patalano (FP): Thank you for having me, sir.

WS: Yeah, Frank originally, a full-time teacher with a part time job, working seven days a week, gradually invested more and more into real estate, and continually growing, taking risk, he eventually left his job to manage his portfolio for full-time. Frank, I know you and I haver known each other for maybe a year and a half, two years now and we talked long time ago and then it's just great to see your success and what you've accomplished. I look forward to hearing just your story of getting to that point where you can leave that full-time job that is most of the listeners probably goal or ones that have already done remember, the difficulty getting to that point and taking that leap.

But welcome to the show, give us a little more about who Frank is and let's dive in to your syndication journey.

FP: Thank you sir, yeah, it was awesome, it can be done. It does take hard work and there are quicker ways to do it than what I did. But basically, I remember talking to you just about two years ago and then in about seven or eight months ago, we met at Best Ever in Colorado for the first time which is really awesome, right before the big pandemic hit and now, I don't travel as much but I will be and we're still investing in deals.

But let's see, how did I get started? Like I said I was a workaholic. I figured that the way to make money was just to keep working, but the problem was that I was working for other people and I wasn't really working for myself in any way, so as you know, when you're working, your boss is never going to pay you more than what you're worth. You know that, we all know that.

I mean, they be losing money if they had to pay everybody more than what they're worth. So, what I had to do is I had to figure out ways to make money passively or actively but in different industries if you know what I mean.

WS: For sure, wow. Well, you know, Frank, many others have to start by, if you want to get in real estate, your goal is to do it full-time that many of us have to do it while working as well. Tell us a little bit about that transition and how you managed to make it happen. I mean, to the point where you were ready to say okay, I'm leaving this job and I know this is the right way to go.

FP: There you go. Obviously, for everybody, there is a fear factor, there is a risk to it and actually, on my first deal, I actually lost money. I invested in some land. For some reason, I thought I knew enough about building even though I had no experience in building. So, I bought some land at a big auction down in New York City a few years ago actually. Wow, it's about 13 years ago now. That was one of my first investments into real estate.

We also bought our own personal house at the top of the cycle so that was probably not the best idea either. At the same point, my wife and I went up big spenders so we kept generating enough savings that eventually, as you know, the banks are not paying that well, just putting it in a regular bank account so I remember back in about 2005, we had bank accounts paying about 6%. Now, if you have a 6% interest rate then obviously, some of the syndications would be around the same right now but right now, as you know, interest rates are just about one half of 1%, if not less.

Basically, we had to start putting our money to work and I tried some stocks but I lost money on a few deals and as you know, you really can't influence stock prices as much as you can influence real estate.

WS: No matter how many apple phones you buy.

FP: Yeah, there you go, no matter how much shopping you do at Walmart, even if you spend twice as much as you made last year, you cannot really influence the stock price per se. But as you know, with real estate, if you can get a decent deal and do the right rehab or value ad, you can easily make more and more money. So what I did is I bought my first small multi-family which is a triplex. I did it on my own and when I say on my own, I mean, my wife and I did it together. We bought it traditional mortgage, a 30 year mortgage, not owner occupied, 25% down and obviously, that's awesome but you really can't do too many of those if you're just doing it small, long-term, buy and hold investing.

So, over time, we had to do is we started to buy a few other styles, we started to do partnerships, we started to do a little bit of fix and flips, we invested in other people's deals and through syndication as well in the past two years we've been able to grow out faster.

WS: So why syndication? I know you've done some different things in real estate but why syndication as supposed to sticking to flipping or single family or something else?

FP: Well, definitely still doing, especially flipping. I mean, this year, 2020 has been like the year of the flip for me. We have three active projects going on right now and we have three more coming out in the next two months. But I still love the concept of syndications because of that symbiotic relationship between active investors and passive investors, and also just being able to be outside of my market.

I live in Rhode Island and Rhode Island is considered tax hell and CNBC I think calls it the worst places to start a business. I love Rhode Island but for growth, it's kind of hard, especially in real estate. I mean, we're just over an hour out of Boston, most of the growth that we've had is because Boston keeps coming closer and closer to us. Besides that, I mean, the overall government is rather anti-business, anti-development, so we don't have any population growth and while we have had rent growth like I said, it's because of us being so close to Boston and eventually, that might change but I had to put my money into other areas of the country.

So, I started out doing some investing in Texas, Kansas City, Missouri, my first big project that I invest a lot of money in was in Idaho. Stuff like that. I really had to diversify out there. My thoughts for you right now is, I think I made about eight or nine markets in. Some of those are small money but just the fact that if one market doesn't do that well, the other markets will help.

WS: Nice. No, that's a great thought, just the way you diversified and I want to back up a little bit though just like getting into the real estate business and you know, you comment in your bio, you mentioned like honest networking, what does that mean to you and how does that help the listener to understand what that means and moving their business forward?

FP: Yeah, I'm a big fan of networking but I'm not necessarily a big fan of just networking, just to get deals off of someone or just say hello and that's it and build a business through them. I just honestly, I like chatting with people and I have a love of real estate so I talk to people, each and every day and there are people that I've known for 10 years and that I've never done a deal with and that's not because I don't want to, it's because I'm not going to push that when the time is right, the time is right. If I have an opportunity that I think could work for them, I might give them a call once in a while.

But there's no real push that, "Oh my god, you have to invest with me and I'm never talking to you again." I think you understand that a lot as well Whitney.

WS: For sure.

FP: But for example, we have an eight unit commercial building that we own down about 45 minutes from my house and it was about 11 years old when I bought it, it was a great property over all but there always those little things about it that need a little bit of extra and especially when I bought it, I was still teaching. Could I have bought it by myself? Absolutely. But what I did is I found two partners that I know in the area and one's a full-time property manager and the other once's a close friend that I own a few of the properties with and we bought as a three way split and the reason why is because it was benefits to everybody.

I think that's the examples of honest networking. I mean, I go through — I belong to a lot of different real estate groups and I'm always meeting people, talking to people but it's for a good relationship like I said, even if I never do a deal with that person.

[INTERVIEW 2]

WS: Our guest is Kevin McGrath. Thanks for being on the show, Kevin.

KM: Yeah, thanks for having me, Whitney. Glad to be here.

WS: Yeah. Kevin began his commercial real estate career in 2007. And in that time, he's been involved in leasing, acquisition and disposition of more than $1 billion in industrial real estate throughout the United States. Kevin had a successful 12-year career as a Senior Vice President with CBRE specializing in industrial brokerage. And in 2019, switched to investing full-time as he became a Principal with Cardinal Industrial and owner and operator of 12 million square feet of industrial property. He is deeply passionate about investing in real estate as he sees it as a vehicle to produce passive income, thus creating time freedom.

Kevin, welcome to the show and you have a great background and I know you're going to be a great guest. Looking forward to this conversation. I just want to hear a little bit about your background, how you transitioned from CBRE to getting in as even passive and also active. But then just your specialized niche to an industrial, and how it's been working right now through COVID, pre versus post-COVID. Get us started a little bit with your background and your movement into the active space.

KM: Yeah. Well, thanks for having me on again, Whitney. I got started in real estate, commercial real estate in 2007, like what you said. In brokerage in Columbus, Ohio where I'm from originally. My niche at the time was — still is — was industrial real estate. When I got into it, Whitney, I didn't know anything about industrial. It just so happened that the team I interviewed with, I got along with them well. Our personalities meshed and they had a spot on their team for a junior broker. So, in a way, I just kind of fell into industrial.

I'm sitting here where I am today, I'm glad I did. There were certainly some bumpy times getting started because I started 2007. Had a one year of salary then came off salary in the fall of 2008, which if you remember, that was when the market collapsed and the start of the great recession. It was not a great time to get started in real estate, especially coming off a salary going to 100% commission. But was able to fight through it, to persist. And it was really helpful to have two senior-level partners who helped me a lot, were great mentors for me. And continued with a successful brokerage career.

Fast forward to about 2018, I got the bug to start investing passively in real estate. I was tired of my money not doing much in the stock market. I was investing conservatively in index funds and it really wasn't going anywhere. I wanted some passive income that I could really provide kind of a safety net or a cushion because of the grind of brokerage. Where you're starting every year at zero. I got started, like I said in 2018. Had some friends who are syndicators full-time. Started learning more about what they're doing, all the tax advantages that were involved. I knew that this was something I wanted to get into full-time. I made the leap about, really, the spring of 2019 when I left CBRE and joined Cardinal Industrial, which owns about 12 million square feet of industrial across the country. Mainly in the Midwest and the southeast. It's been a great ride since.

WS: Nice. Well, grateful just to hear some of your story. I find that most of us didn't have a direct path to becoming an operator or buying large commercial real estate. There are something else we were doing or something that led us there. It wasn't like you're five years old, typically thinking, "You know what, I'm going to be a syndicator." So it's interesting just to hear your story. Definitely a great background to become an operator and get into the space. No doubt about it.

Let's dive into just the industrial world a little bit. I know you said you fell into it as a junior broker. But even at that point, obviously, that's post-COVID and all that stuff. Why industrial versus multifamily or senior living, or anything else, all the other asset classes that you could have gotten into.

KM: Well, I think what industrial has done, and I'll talk about it post-COVID kind of where we are today. Not to pit one against the other because I still invest passively in multifamily. There are several great vehicles to invest in throughout the different sectors in commercial real estate. But I think what industrial has proved over the last really six, eight months since COVID how resilient it is. Supposedly right now we're in recession, but in my world, it's anything but. I mean, it's probably as active or competitive today that it's ever been anytime over the last 20 years. A lot of that is because of e-commerce. You've probably read a lot about it or heard a lot about e-commerce and I'm sure you had a lot of hands-on experience buying goods and services over the internet. That's been the absolute game changer for industrial.

We can talk more about that in some of the stats and research that have come out since COVID. At the end of 2019, e-commerce accounted for roughly about 15% of all retail sales and was growing at about a 15% clip year over year over the last 10 years, so it was really steady growth. What COVID has done is really accelerated that. This year, in the 12 months since, e-commerce now is going to count for about 25% of all retail sales. There's a huge job because of COVID because people couldn't get out to shop. And they were forced to buy products online.

I think what we're going to see through the holidays, this holiday season is even more of a jump. It's going to be absolutely going gangbusters for these retailers and the amount of — they call it adoption. How many new users are coming and buying things online? There's a stat that recently came out that e-commerce sales are projected to hit about $700 billion this year. By 2025, that number is going to go up to $1.5 trillion. What that means, Whitney, is that $800 million delta is going to create a demand of one billion square feet of industrial space that's going to be needed. It's such a huge significant number because it doesn't matter if it's industrial, multifamily or office. What drives investors in what we do is tenant demand. You need tenant demand. That's what e-commerce is giving industrial real estate, is just significant tenant demand that the developers really can't keep up building enough warehouse space before it gets absorbed.

WS: Can you talk about that tenant just a little bit? Maybe just how that's changed over the last year or two, and then through COVID or maybe how you see that changing over the next years as there is such a demand? Is it more just warehouse space now or are there other types of tenants that you're looking for?

KM: The biggest driver again is e-commerce and e-commerce users. Again, this could be the Amazon, Walmarts, any retailer that has an online presence could be considered an e-commerce user or occupier. That they account for about 25% of the overall industrial base or industrial users. It's only about a fourth of all industrial users. What we're seeing is, it's really the rising tide lifts all boats theory — that these e-commerce users are growing at such a clip. It's creating such demand that these other industrial tenants such as manufacturers. It could be retailers but retailers that are distributing to stores. It could be third-party logistics companies, which are if you're not familiar, they are basically when a company outsources the warehousing or their logistics. They are having to go out and find spacing, compete with these e-commerce companies. What it's doing, it's raising rental rates and it's causing these other users to go out and lease space that the e-commerce companies are not. They're being driven down to the class B product and e-commerce users, a lot of them are occupying only class A products.

WS: What's the biggest risk right now. Let's say for a passive investor, when investing with an operator that's purchasing industrial property?

KM: I would say, the biggest risk is, a lot of the industrial buildings — I shouldn't say a lot. It just depends which type of product, but what we acquire mainly, Whitney is single-tenant assets. Leased long-term to creditworthy tenants. And sometimes when the lease expires, tenants don't renew. I would say that's probably the biggest downside is, if you're investing in a single-tenant asset and the tenant does not renew and moves out. Having said that, we go into a deal when we acquire it, knowing that this could happen. We set aside a significant amount of reserves. And then also the tenant must give us notice, typically six to nine months before the lease expires if they're going to renew or not. That six or nine months is kind of a buffer where it kind of allows us to go out and try to lease the property out to another tenant.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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