EPISODE 1507

[INTRODUCTION]

Craig Berger (CB): We look for an asset that's going to deliver for our investors. Number one, something that we think we can generate cash flow and appreciation from, and we're pretty value conscious and value sensitive.

Whitney Sewell (WS): If you are just tuning in today to this series of shows with Craig, I hope you'll go back and listen to yesterday when he jumped into he had a career in Wall Street. And then he has took a massive pivot to commercial real estate and is completely, I mean, 100% into this business. I mean now 2000 units, hiring scaling, we covered a lot of that yesterday, and he shared even some things about his transition that I was so thankful for. Because I get questions about this all the time. He talked about how maybe he didn't do it the right way. But he's he told you how to do it now the right way. And I hope you'll go back and listen, even his hire, some of his first hires and how he did that. And even some of the current hires, high level hires that he that he's recently hired, that I know is you are trying to scale your business, you're gonna learn a lot from.

[INTERVIEW]

WS: Craig, welcome back to the show, looking forward to diving into how you're finding deals. And maybe there's what you think about the economic market today.

CB: Whitney, thanks so much for having me.

WS: Yeah, let's do that. Let's jump right in. And, I told the listeners yesterday, we were going to talk about how you're finding deals. And, I know for us over this last year, it's been slow on the deal front. However, it's really been good timing for us. I mean, we have done some deals, but it's allowed us to focus a lot internally and build some systems, processes, and things that have really helped us, I think, in a big way.

But we're still looking for deals. So what about you all? Let's talk about, you know, what to look for, you know, when pursuing deals? Let's you know, let's take it kind of basic, what do you look for? What makes a deal for Craig? Let's go into strategies and how you're finding him?

CB: Wow, what do we look for? Well, we look for an asset that's going to deliver for our investors. Number one, something that we think we can generate cash flow and appreciation from and you know, must do that we're pretty value conscious and value sensitive, and probably cost me some deals in earlier years, and hopefully will have saved me during this cycle, some. But we have to, you know, create value for our investors.

Beyond that, you know, we're trying to build a diversified footprint of A's, B's and C's and a geographically diversified footprint as well across sort of growth markets, mostly in the Sunbelt locations. I sort of bucket deals, as you know, could I own this deal long term? Which would probably happen through a series of recapitalizations, every four or five, six years, or is it really just a trade and, you know, four or five, six years and then sell it out?

You know, we do want to build scale, and you don't build a scale by selling off all of your assets. And so recapitalizing deals that we love in terms of demographics, or location or physical condition of a property is something that we think about. But we're looking to create value, we're looking for great locations, hopefully improving locations, growing locations, and you know, obviously, beautiful properties are better than uglier properties and deals that can be attractive to to the next owner is always good.

And then lastly, you know, a four or 500 unit deal is the same amount of work as 100 unit deal, and you make four or five times the progress in terms of scale. So, you know, we are gravitating more towards deals that are, you know, over 200 units, you know, as sort of a baseline place to start.

WS: Nice. Yeah. Are there any specific metrics that that you would say, you know, what if it can't deliver this IRR or this cash on cash or whatever, that we're just not going to look at it?

CB: There's not any one deal breaker. We look at everything when we look at a deal --price per door, price per foot, going in cap rate, you know, your five perspective cap rate right now with Sofer at 400 bips and, you know, bridge that spreads starting at 400 bips, you know, borrowing bridge debt right now at 8% is particularly painful. So we're we're really not looking at bridge debt deals right now. Unless it's just an absolute homerun overall cost basis. So that would be one thing in the in the current environment that sort of, you know, isn't no.

But you know, we we look holistically at the asset. And, you know, frankly, we've looked at so many deals, underwritten so many deals, you know, sifted through so many deals before we underwrote them, that we sort of, you know, have a strong sense for what is value? What's attractive, what's not. I don't know if that's enough on that.

WS: Yeah, no, that's helpful. I just, I get that question too, all the time. And it is it's not just like this one thing, right? It's numerous things that are going to tell you, you know, if this is something we should pursue or not.

You also mentioned you know, is this a long term purchase, you know, or is it something that we're going to trade? Can you speak to maybe that decision making process a little bit, you know, or maybe how you're looking at the deal or why you would take one deal knowing that we're going to trade it quickly versus taking a deal that knowing we're going to keep it long-term?

CB: Sure, you know, it's really just about the location, the demographics, the market growth, and probably the the physical characteristics of a property. But you know, we may not particularly know when we're going into a deal. If it's if it's a deal we want to own for 20 years, or if it's, you know, a deal where we say, "Hey, life's too short, let's get out of this one."

You know, you might find that out over the course of your first 12, 24, 36 months of ownership when you have conversations with yourself. When things come up, and you figure out, you know, what you really want in life and how much support you have and how the asset really performs. So, you know, we recognize that as sponsors, we really make our money by realizing promotes, we have to hurdle a seven or 8% annualized IRR, lookback return for our investors.

And when we do that, we start to share in the upside basketball, we make our economics and so to really have resources and money to pay employees and to go do deposits and to go do future deals, you have to sell and selling could mean you sell to an independent third party and you realize your promote or selling could mean again, you recapitalize with a new group of investors, and you sign up for another tour of duty with that deal.

And so, you know, we need to fund the growth of our business and realize exits. Also, I don't know very many investors that want to be into a deal forever. So, even if you love an asset, you still have to at some point transact either internally or externally. Unless you're investing your own money, which would be a great place to be.

WS: Yeah, you know, speak to some of the strategies y'all are using to find projects right now or sourcing deals?

CB: So, you know, in terms of sourcing, there's sort of two, you know, high level categories. Is it on market and brokerage, or is that off market? And there's, you know, detailed strategies that we're pursuing within both buckets.

You know, everybody loves off market, it's hard to get true off market deals. I don't mean the same deals that are passed around like bad candy by all of those, quote, unquote, off market brokers. I'm talking about true direct to seller off market deals. Those are hard to source. It's usually if you have a substantial presence in a particular market, you can get an early call. It might be if you're employing virtual assistants or other sorts of outbound resources to find and uncover those opportunities.

The reality is, with co-star, all of the owners, phone numbers and emails are in the system. And now you know, owners are getting multiple outreaches per day per week, hey, do you want to sell this deal, you're getting stuff in the mail, you're getting phone calls, you're getting Robo texts, you're getting everything. So you know, doing the whole outreach to direct owners is difficult and competitive. And we haven't been that successful with it. And we need to do better.

There's also the sort of relationship aspect of sourcing off market which is, you know, other operators, you've met them, you've transacted with them, or you've you know, met them repeatedly at conferences, and you're in the same circle or tangentially in the same circle. And you reach out to those folks and try to make something happen, you know, owner to owner.

WS: Yeah, I can relate to numerous those things you're talking about. And even, you know, as we own project, numerous projects, now I get those same things all the time, stuff in the mail, letters, call, or whatever it may be.

CB: Have you guys been able to buy off market?

WS: We, it's been about broker relationships for us. I mean, it's been some key brokers that we've tried to grow relationships with or done deals with and that have brought deals to us.

CB: I love that because I was going to say that almost all of our deals have been on market deals, broker deals. The reality is multifamily is an institutional asset class. Most of the good deals are institutionally owned, and institutions want to run a process and check that box and, you know, offload legal liability by running a process. And you know, there's not a lot of $50 to $100 million assets where one person is controlling that asset says "Okay, yeah, you want to transact? Let's go."

WS: Right. Have your attorney call me.

CB: Right? A lot of cooks in the kitchen when you're dealing with institutions and institutional assets. And so, you know, what I found is most of the quality assets are brokered are listed, and that's how we've built our business as well.

WS: Yeah, at least at the moment, not to say it won't change in the future in some way, but I feel like the time and effort spent on broker relationships, it's given us more opportunities, more deals. And if we'd spent the same amount of effort, like doing all the things you were talking about, through co-star or just going direct to seller, I think we've received more larger opportunities and more frequent by those relationships and putting effort, you know, they're not to say we'll never do the other. But that's at the moment anyway, for us. I think that's been beneficial.

And now we're going to talk a little more about broke relationships. But maybe this is even a good time to talk about that, you know, any other strategies behind maybe what you all have stuck with, or what's proven best for you all? You mentioned on market, obviously, because of the type of projects we're looking for, it's not normally the mom and pop owner that owns them, which is what your time is not usually one person that owns this $50 million project, it's very rare that you would see that.

Let's talk about the broker relationships a little bit and how you all built those solid relationships or some tactics behind how you've done that?

CB: Well, sure. Well, you're getting into the special sauce a little bit. I'm sure everyone thinks that I probably didn't realize how important the broker relationships were when I got into this business. But they're really behind the scenes, you know, pulling the puppet strings of or, you know, have an early look at opportunities, and so on. So, we do a few things.

One, first of all, we try to be kind and appreciative to the brokers for all the hard work that they do, and for the role that they play, and appreciate and recognize them. Secondly, we try to stay in front of them and have regular communication. You know, sometimes if you know, an opportunity comes for an early look, or there's a neighbor who will sell or deals just coming to market, the sellers open to preemptive or early offers, just having regular communication and being front of mind with these brokers and being one of the last 10 or 20 groups they've spoken with can be helpful towards securing those sort of early opportunities.

'21 was an incredibly challenging year to buy 2'2 is an easier year to buy from a competitive standpoint. Now, there's less supply out there of deals. But you know, we're hanging around the hoop right now. We're just constantly in touch with the brokers asking them, "Hey, what do you have that has fallen out of contract?" It's a broken deal, you know, sellers who have to sell their market sellers, for whatever reason. There's a number of reasons why folks would be market sellers in late 2022. Some of those reasons are death, disease, divorce and a fun life distress at that property or in other parts of their portfolio, maybe they took a bridge loan in 2020 that's, you know, floated meaningfully higher, and I can't get an extension there, you know, either selling that deal or selling other deals to raise cash for that deal.

We're looking for market rate sellers, who will sell at a lower price, or who have some other reason to sell or maybe a deal that's broken and is going to trade at a at a meaningfully lower prices that are that I would have three or five months ago. So we're just in constant communication with brokers, canvassing, you know, keeping a dialogue going.

WS: It's interesting, you know, one of the first things you mentioned was like, be kind and appreciative. Like you would think it would go without saying, but it does need to be said. Everybody appreciates being appreciated, right? Or somebody being kind to them, brokers included.

Can you elaborate on that any or even being one of the last 10 people they've spoken with or constantly staying in touch with them. Do you all track that? Do you? How do you reach back out? What's kind of the system there?

CB: I'm too busy to spend too much time doing that. And just pounding the phones on that myself, we do have a couple of acquisition analysts that are sort of in charge of that. And we sort of assigned sign them various states. So you know, one analyst zones, Texas, and other ones Florida, and we sort of divide and conquer from there. I do, of course, make my own outreach, you know, but I am sort of driving the team to come up with ideas.

And so twice a week, we have an ideas meeting, where two or three members of our team are sort of required to come to the table with one good idea. And so we are motivating and pushing the team internally, to come up with ideas. And the way you come up with ideas is you have broad reach, broad outreach, and constantly stay in front of folks.

And so we're, you know, I tell these analysts, these aquas are our acquisition team, you should really be on the phone with the brokers from nine to one nine to two nine to three, whatever it is, and then after that, you start underwriting the best deals that you've that you've sifted through, and you know, we don't stutter, we screen first and if it makes sense, then we underwrite for effective time management. But, you know, that's sort of the process. I'm pushing them. They're pushing to come up with two ideas. is a week basically.

WS: And these ideas would be around deal sourcing? Is that what you mean?

CB: Yeah. Like, "Hey, what are we? We just closed an acquisition last week. What's next?" Right? We need to feed the beast.

WS: That's awesome. I love that. It just that yeah, pressure they come knowing, "Hey, we gotta have some ideas here." It makes them constantly thinking, or it keeps them constantly thinking. I like that and even the helping segment their days a little bit. First half, you're focused on beating the phones, right pounding the phones, and then the second half, like okay, what do we have? What should we be underwriting right now?

So any other tactics? Or how about what do you see most investors doing wrong? When it comes to broker relationships or networking with brokers?

CB: You know, I don't see stuff other people are doing wrong. I think it's a highly, highly competitive field. And a lot of our competitors are probably doing a bunch of things, right. And I just have to work harder or be smarter than those folks, I guess when you sort of joked if you if you bought a deal in 2021, you're you're the smartest guy in the room or the dumbest guy in the room or, or both, you know. But firms that have are big and have built up scale. They know the importance of broker relationships. And you know, a lot of those folks are doing everything right, and then sort of taking the time to learn the business.

WS: Yeah, well, I want to, you know, jump in, in this next segment a little bit about your thoughts on the economy in the market. I think, you know, to kind of come right from what we're talking about right now, even you said, if you bought a deal in 2021, you're either the the dumbest operator or the smartest.

But yeah, I want to jump into that a little bit. And just get your thoughts on what's happening, what you expect over the next 6, 12 months and maybe how that's changed how you are looking at deals and how you're underwriting deals? What we know right now that makes a deal, you know, for Craig or for us.

Thank you again, Craig, for another great session today. How can they get in touch with you and learn more about you Greg in your business?

CB: Whitney, thanks so much for having me. If anyone wants to get in touch with me they can find me by emailing craig@avidrealtypartners.com Reach out anytime.

[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 The 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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