EPISODE 1530

David Cruz-Palmer (DC): Yeah, industrial seems really strong. There are a lot of macroeconomic forces, factors that also point to the fact that industrial might remain strong for years to come. Things like interest rates are high. So that means that there's gonna be less development because there's less yield. Normally when there's a shortage of supply, you get developers. So there is some development but only in the incredibly hot markets like the Central Valley in California or Savannah, Georgia, where new ports are being built. There are very many places where you can put it either in shortage or just supply increased costs, all the reasons why it's hard to build things.

Sam Rust (SR): This is your Daily Real Estate Syndication Show. I'm your host Sam Rust. Joining us today is David Cruz-Palmer. David's been in commercial real estate for over 15 years with experience across the aisle -- broker owner, investor and developer. After helping a wide range of companies to plan and execute real estate strategies.

David founded Corridor Capital Partners and has transitioned into being a full-time real estate investor and operator based out of Charlottesville, Virginia corridor focuses on syndicating investments and industrial properties that generate passive income and tax advantaged returns for their equity partners. David, welcome to the show. Thanks for joining us today.

DC: It's great to be here. Thanks for having me.

SR: I like to dig in on people's background. You've been in real estate, I was browsing through your LinkedIn profile, a lot of different stops, you know, in the intro -- broker, investor developer, what started you into commercial real estate?

DC: Initially, I was a couple of things. When I was an undergrad, I had some friends who wanted to just do real estate development. I helped them find 40 acres and that one of the guys had some money from his family and found 40 acres and subdivided it into five-acre parcels and split that up. And then right after undergrad, I was what I call the world's worst mortgage broker.

I did absolutely zero deals for probably three to four months when my best friend's next-door neighbor put together a mortgage company and he's like, "You guys are young, you went to college, you can figure out how to be mortgage brokers," and I was terrified of cold calling. And I didn't want you to know, people are sitting at home at dinner. And it's that whole thing like, you know, they don't want to hear from me. It's just, you know, all the reasons to not do things are so present in your head, especially when you know, this was in 2003. No one was talking about mindset back then. Or maybe they weren't, I just wasn't aware of anyone other than maybe Tony Robbins.

So that was hilarious. I also knew that I liked real estate, I found a job where immediately after that I actually started making 200 cold calls a day. I'm not doing real estate, but I learned that you know, it kind of doesn't matter what I think sometimes that's the job. And that's the hard work. And when I found the job that I was doing 200 cold calls a day, I figured out what being a commercial real estate broker was. And that was in San Francisco, I was like, you know, that's what I wanna do. But to get into that type of job fast, you need to have some kind of connection, like your dad needs to be a CFO and his best friend was a broker, or something like that. And I didn't have any of those connections.

So I spent about a year networking my way into being a broker at a tenant rep commercial real estate firm in San Francisco that actually ended up acquiring Cushman Wakefield and using their names. So I did that. And then I switched to a company called Savills also doing what's called tenant rep commercial real estate real holding companies that are looking to be occupiers of space and did that for 15 years.

And the funny thing about being a broker is you say that every broker you talk to you probably says they want to own real estate. But so few of them do, even though they're absolute a lot of times just absolute experts, and frequently quite good at it, but they don't usually own any. I made the leap I had, you know some time during this thing we call COVID. And I made the leap and learned, filled some holes in knowledge that I didn't have just kind of put my head down and figured it out. So I've been doing it ever since then.

SR: Fantastic why industrial real estate? Obviously, you've been in that space for a while and there's been ups and downs over the length of your career. It definitely seems like industrial is coming to the fore as a maybe a sexy class to invest in. But you were in it long before it was hitting the front page. What made you pick that route?

DC: Yeah, from my perspective, it's you know, I say industrial and that asset class focus could change at some point in time. Initially, I called it Corridor Industrial and then switched it to Corridor Capital Partners. The answer is what I focus on or what I think is valuable real estate, commercial real estate for investing is there isn't a lot of there hasn't been enough, not enough of it has been built.

And for whatever reason, there is not enough industrial real estate out there. Most of it was initially built and likely started in the 1940s. Like after World War II, we started building these neighborhoods, and then we needed warehouses and a lot of those had low-ceiling heights. And then we build them as needed for either manufacturing and always in the outskirts of town and the requirement or the need for industrial has kind of expanded and changed from just like these small buildings, you know, 10, 20 Maybe 50,000 square feet with roll-up doors where your plumber can like have his supplies and like have a truck that comes and goes or like a manufacturing place where General Electric right does their thing.

It's changed from that to with e-commerce and the Amazons, and the Staples and all of these different companies that need to have these big box industrial facilities located near big cities and near highways with 30-foot ceilings, to 30 to 100-foot ceilings, there just hasn't been enough of that made. And as the population grows, there's a demand for that old stuff with roll up doors, right? There's a real shortage of demand for what's called Flex warehouse or shortage of supply for what's called Flex warehouse. And there's a shortage of supply for these 30-foot tall ceilings, because that concept of building it to that size is relatively new. You ask about why industrial, specifically, it's just because there isn't very much of it. When I was a broker, one of the things you do when you represent a tenant is you go and you analyze the market.

So the companies I worked with were based out of San Francisco primarily, but they'd have office locations across the country or across the world. So you go into a market where this company has an office, or maybe they wanna open a new office or an industrial location. And you look at the supply, what's the availability? What are the prices, you look at what's the availability of labor, and so you just cross reference all these data points? And then you can kind of pretty quickly figure out like, which market makes the most sense by sort ranking? I did a similar analysis when I decided to choose industrial because an office is kind of a weird animal. Retail is also a strange animal.

I'm glad I didn't choose office. And I know some people are trying to be contrarian right now and actually invest in office. I think it's a really scary proposition. Yeah, industrial seems really strong. There are a lot of macroeconomic forces/factors at play that also point to the fact that industrial might remain strong for years to come. Things like interest rates are high. So that means that there's going to be less development because there's less yield. Normally, when there's a shortage of supply, you get developers.

So there is some development, but only in the incredibly hot markets like the Central Valley in California, or Savannah, Georgia, where new ports are being built. There are very many places where you can put it either. Shortages of supply increased costs, all the reasons why it's hard to build things. And then there's increased demand from like deglobalization, where China shuts down cities for months at a time and China produces 20% of the world's goods.

So these companies that have shipping and receiving that manufacture things in China bring it from China to the US, they have a facility in the US that gets distributed there. And they say, “You know what? We need more predictability.” So more manufacturing is coming back to the US. With more manufacturing, there's more storage for products. And that just means that there's going to be more strain and need for industrial space, that there's already a shortage of supply. So 3-4% vacancy rate across the country.

SR: Yeah, the reshoring concept, I think it's gonna be a fascinating story to watch unfold over the next five years. COVID just scrambled so many supply lines and really exposed just in time manufacturing, just in time inventory practices, those practices are very efficient on a balance sheet. And they please shareholders when everything is running smoothly.

But when you have the constraints of COVID lock downs, and everything else that has happened over the last 30 months, there's not a lot of slack in the system. And thus, you know, it's one of the reasons that we're seeing all the inflation we are today on top of all the money that was printed. So you mentioned earlier, David, that one of your first jobs was 200 cold calls a day. I'm curious, what did you learn through that experience? It doesn't sound like you were at that job for terribly long.

DC: But I was there for two years.

SR: Okay. Yeah, that's a long time.

DC: The writing was on the wall at the end of year one. Yeah. What did I learn when you mean? Like, what actual skills you know? I think there was a sort of a mindset, you know, have you got to do the work and don't be scared of it. And don't be scared of failure. Right? I learned sales skills, I learned how to talk to people on the phone, I learned that a lot of perspective on things like you got people have to like you.

And even more importantly, I think you have to like them. And if you like someone, then they're more likely to like you, which just sounds so silly to say out loud. But I find it to be incredibly true even today. So you know and pitch syndicating and talking to investors about my deals, and I'll just have this feeling like, it's funny. I think in the end, it's like I don't know if I want to work with this person. But I don't realize it because I'm pitching this thing. I'm trying to sell this thing that's important to me.

And afterwards, they end up not committing, and I have a little bit of relief. And I think that's probably not the right person, that I probably didn't want to work with that person. But there's so many people that I meet that I do like, and that I think that's kind of who I am as a person I just, you know, I try to see the best in people. And when I do see them, when I do like them, it usually works out well, both from a sale or from an investor or you know, obviously just from relationships in life.

But I think recognizing those things pretty early on in my working life has been really valuable for me. Also just heads down 200 cold calls a day, man I'm not scared to make a single phone call to anyone.

SR: I did some quick math. That's 100,000 calls over two years.

DC: But it does not surprise me.

SR: That's a lot of rejection.

DC: I'll never forget the first day I walked into the room is probably 20 people who do the same job. And I remember interviewing and I had to like have these like mock calls with a few different people. It was not a glamorous job, but the people that I worked with, I'm still really good friends with, we've all gone on to like varying levels of success.

You walk in, and everyone's making cold calls. And I don't know what I'm going to say, I don't know how it's gonna work. I don't know what the next step is in the process, but you just get on the phone and you say, this is David, I'm selling this thing, would you be interested in the thing? And then you do it a hundred times -- just the repetition, getting the reps and you eventually get good at it, or you leave, or both.

SR: Yeah, usually both. It's a great skill set. It's transferable. I find a lot of people who've been successful in real estate have some sort of cold calling in their background, even before they get into real estate. It seems to cultivate a healthy edge, kind of reduces the fear of failure and gives you a lot of practice at building connections with people. You say that you pray to like people. And I think that's very perceptive.

People can tell I was in a sales position for 10 years, people can tell when you're trying to make an effort. And it's genuine, there's a lot of different ways that people do that. How do you try to get to a spot where you're genuinely enjoying/liking the person on the other side of the table or phone?

DC: Yeah, it's a matter of just trying to relate to people and understand their perspective. I feel like that's my best way of, you know, trying to make a friend or brightening up, maybe fit in with other people, something like that.

SR: I'd love to hear a story from your time in the industrial market. Do you have anything that comes to mind, a transaction that was especially hairy, or they pulled together? And just anything at all that you think would be interesting for our audience?

DC: Sure. Yeah. I mean, so every deal is different. Every deal is unique. Every deal has a story to it. I'll talk about one that was actually the first one that I did. And maybe that'll help explain a little bit about industrial real estate at the same time, industrial building 250,000 square feet, 20-some acres. And the goal is to, you know, it's an NOI game, right? You're trying to figure out, what's the NOI, what are the cap rates, and then you can figure out what the value is and what your value add play is, right?

So in this scenario, there's a company that leases the majority of the space, it's a credit publicly traded company. And they've got two years left on the lease. And there's another smaller company, and then there's some vacant space. And so I found this one, it was off-market, I knew the broker, he's friend of mine, and we put in an offer, and it's clear that there was value because we're getting an at an eight-and-a-half cap, which is just, it's on rail, and it has this really high credit tenant, and their lease is expiring. And so what's interesting about this is the things that are good from an investor's perspective aren't necessarily good from a bank's perspective.

So you can go in and you can get bridge debt, or you can go to a bank. I had a lot of banks not like this, not only because it wasn't my first deal, you know, that's a, that's an obvious reason to have really deep scrutiny. But beyond that, they didn't like that they were 24 months left, and what if the tenant leaves? And so all the analysis that I had to do as an investor, or that I would have done as a broker to figure out, can this company go anywhere else?

Where else would they go? What are their options, just doing that market analysis to figure out how captive, or how likely they were to stay was relevant in talking to the bank, but also to my investors. So we're actually in the middle of lease negotiations now, where we're gonna add somewhere between, we're going to add some number of years to their lease, and that will increase the valuation because it was undervalued, based on how little term there was.

So the appraiser will increase the value, who will probably increase the rent a little bit, and ideally, fill the vacant space increase, NOI, do a cash out refi, or a sale depends on how things work. And then that'll end up being a really good deal.

SR: That's fantastic. I appreciate you sharing that. I think a lot of our audience is familiar with multifamily. One part of industrial, there's several parts that are appealing if you're investing in multifamily, but one of them is your tenant relationships are a lot different, there's a lot fewer of them.

And there's a lot more certainty baked in, and you can move the needle quickly if you pick up a project that is near the end of its lease term. And you can find either a better tenant or get that tenant to re-up at a higher rate that makes the math equation very simple. And you can move the needle very, very quickly.

DC: Multifamily -- it doesn't scare me, it makes sense to me the same probably the same way as it does to a lot of other people, right, like we've all paid rent or mortgage rate. But for industrial or for any commercial, there are leases and they're years long, and the credit of the tenant has a big impact on this the quality of the deal so they could sign a 5- or 10- or a 15-year lease.

And then you know that you have this income and if your tenant is a publicly traded company or a Fortune 500 company, there's a very small chance that they go and they don't pay rent, but if you have a mom-and-pop, then there's a high chance that they that they do stop paying rent so you can evaluate the deal based on the credit of the tenant, you can get a really long term lease and you can you can really protect yourself from some downside or from the fact that they might have hold up shop in the middle of the night.

SR: That makes sense. As you're in the mid-Atlantic area, you started Corridor Capital, striking out on your own buying industrial assets. Why that area? I guess what's the thesis behind that? And how are you using creative financing structures to help you achieve your acquisition goals?

DC: I like doing things that I can see more readily. I'm also looking in Florida, I think there are markets that make a lot of sense. But starting close to home where I can, you know, initially, I started close to home because it was easier to see most of my properties or within a couple of drop Howard drives, but I'm looking at Florida and about to go and contract in a couple of buildings down there, which to close Q1 or Q2, and those are supply constrained markets, right, Florida for this, and people are moving there. And there's also a lot of growth in Virginia to Richmond, Virginia, the highest rent growth of any city in the country.

SR: Really?

DC: Yeah, it's just this really strange outlier for industrial specifically. And there was a building that I had an offer in on, there was a guy who owned it for a while. They said he was interested in selling, so just make me an offer. So I put like a real offer, it wasn't a total lowball. And he kind of like laughed me out of the room. And his rants he had in place for something like $4.50, a square foot triple net.

And so I put in an offer at seven cap and to your question of creative financing, I asked for 20% seller carry and he's like, "No way I had offers for like $5 million, and no seller carry whatsoever." And, you know, we would maybe consider selling for six. And I wish he had just told me that at the beginning because that would have been something like a forecast for industrial, which is maybe normal, or maybe was normal for multifamily. But for industrial, it's just he doesn't have Amazon as a tenant, let's put it like that. If he had Amazon, then I'd be like, Okay, maybe that makes sense.

Even today, that doesn't necessarily make sense, having Amazon as your tenant at a forecast because interest rates are what they are. So I say all this but at the same time, in the back of my mind, I think maybe there's more upside because he thinks rents are gonna get closer to $6 per square foot when this lease expires in two and a half years for one of the tenants that's in half the building. But I actually think there's even more room for rent growth. That is $6.

I don't think I'm going to take the risk unless he's willing to do some amount of seller carry but it's Richmond, Virginia is a market that I'm really hot on just because there have been so many people moving from, say, Washington, DC, who can work from home, it's a really cool city, everything's undervalue there, in my opinion, it's going up quickly, like everywhere has. But from an industrial perspective, it's also the largest major city concentration of a city that's close to the port, which is in like Norfolk, Virginia Beach area.

SR: That's interesting. We deal with owners pretty often in an off market capacity. And I always appreciate when they're pretty straight with you on what they're looking to get out of the deal, or what their recent offers have looked like. Because I've had that same situation where I've put what I felt like was a fair offer on the table, and then you come to find out oh, well, you're 30% off. It's like, well, yeah, gee, like a slight indication couldn't hurt you.

DC: Hard to overcome that right? I'm always open with whether you want to what would you let it go for. Right? Or what do you think just so I know, if we're, if we're, it's worth spending the time, and he's sitting down there just put an offer. I knew he was sophisticated, but I didn't think he was that sophisticated. So like to investigate it.

SR: Very Educated on the value of his asset,

DC: I think everyone is and deserves to be, that's where we have to get creative, right? So like finding ways to get around these interest rates. I mean, if you can get 10 or 20%, seller care and only put 10 or 15% down, then that does a lot for your equity multiple, whether you have low rates, or seven, six and a half percent rates, which is what I'm seeing today.

SR: As we get ready to wrap up here. I noticed in one of your bios that you're active and giving back to the community through the Exploratorium Lab, could you just share a little bit about what you did there, what that organization does and how you give back?

DC: Yeah, sure. I mean, that's the one that I that was near and dear to my heart still give to them there in San Francisco. But I was on board there as the foundational member. They created a board for people who were basically young working people, young working professionals say anywhere from 25 to 35 years old. He's there trying to look for ways to cultivate a new donor base who would engage with the Exploratorium in a different way. That place is amazing.

The story of the Exploratorium is one of my favorite stories for any museum that exists not enough time to get into it now. But I recommend anyone doing research or if you visit San Francisco there, if you have kids, or if you don't, it's just a magical place with an amazing foundational story. In short, there was a guy who started it and he rented a warehouse for like a dollar. And one display that people could come and play with and then they come in and like throw frisbees in this open warehouse and play with the display. And then he built another exhibit.

And these are all just science and art topics, exhibits that you could come in and explore and it wasn't built for children, but it makes sense that it eventually became a museum that's focused on children. Beyond that, I am also a part of a board here in Charlottesville that helps. This one's emotionally more difficult that they're children who have really difficult procedures at UVA Medical Center.

And they're from families that don't have places to stay. So I'm on a board that builds houses to house these families. So we find money and we find the houses and fix them up and have a place where their children are undergoing really complicated procedures. And so that's a couple blocks away from the hospital, and it's really helpful for these families.

SR: I really appreciate you sharing about that David, really need opportunities to be giving back. That's something that's really important to us that Life Bridge Capital think it's part of what makes us human ultimately, and recognizing the needs around us and doing our part to help fill in those gaps.

So that sounds like a really neat opportunity to be part of a foundation that's providing housing and support for families that are going through really difficult situations for folks who want to learn more about what you're doing at Corridor Capital. How can they get in touch with you?

DC: Yeah, I'm active on LinkedIn, David Cruz-Palmer, you can email me happy to take emails, answer questions. I'm kind of an open book. So david@corridorcapitalpartners.com.

SR: Fantastic. Well, thank you, David, for joining us today. Thank you to our listeners for listening to another episode of The Real Estate Syndication Show. I'm your host Sam Rust signing off.

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 LifeBridgeCapital.com where you can sign up and start investing in real estate today. Have a blessed day.