EPISODE 1570

Joel Friedland (JF): I set a boundary. My boundary was to stay mentally healthy. Don't get elevated. Don't be a deal junkie. Be super careful. And that's what I've been doing. And my line in the sand is different than anyone I've ever heard of. And it's okay with me, even though people think that I might be an idiot, which is I do deals now with zero debt. They're all 100% equity, which means I have to work a lot harder to raise more money. But it resonates with very wealthy people, because they're in it to not lose, they're not in it to get rich. That's really important.

Whitney Sewell (WS): This is your daily real estate syndication show. I'm your host, Whitney Sewell. Our guest today has been in industrial real estate for 42 years, he came in an unexpected way, which he's going to elaborate on, but a very interesting path to real estate success, and a very different model than you have ever heard on our show. Yeah, I'm trying to think back. Does anyone have a model like he does? And, I don't know that we've talked to anybody that buys deals as he does. And it's probably one of the least risky ways that I've heard of, and it's a way that we all know could potentially be possible. But then many times will say, "No, that's not possible," or we'll get a bigger return. If we do it the way we've always done it.

And so, his name is Joel Friedland, 40 years in industrial real estate, as an industrial estate broker-owner. He's secured over 2,000 Industrial Property leases, and sales. And you're gonna hear a lot about that today. I mean, he was crushed in 2008. And you're gonna hear some details around that, that I think is healthy for all of us to hear, and to be thinking through. So, it's going to help you to think through the types of deals you're doing, especially in the economic cycle market that we are in right now. I think this is a timely episode for everyone – whether you are an active investor or passive investor, you're gonna learn a lot from Joel today.

[INTERVIEW]

WS: Joel, welcome to the show. Honored to have you.

JF: Thanks, Whitney. Great to be with you.

WS: You know, Joel is an expert in industrial real estate. He's coaching many people in this asset class and just in real estate, I'm looking forward to diving into some details. I know our investors are going to learn a lot today.

Joel, give us a little more about who you are and maybe what you're doing exactly in real estate, and let's dive in.

JF: Sure. Well, I've been in industrial real estate, which is a very specialized area for 42 years. I started out as an industrial real estate broker. I was hired by a family, not my family, but a family. There was a father and two sons and a daughter. Their last name was Podolski. And, I met them through a friend of mine who was a childhood friend. I said, “I want to go into real estate,” and he said, “I know this guy who's in industrial real estate and you've got to have a meet-up.”

So, I'm a good cold caller. So I got the guy's number. His name was Milt Podolski. And I called him. And I said, “I just graduated from the University of Michigan, and I'm looking to be in real estate.” He says, “Do you know anything about industrial?” And I said, “No.” Industrial, I didn't even know what it was. And he said, “Well, why don't you come in, I need a property manager. And I'm trying to hire somebody.” I went in that afternoon. I remember sitting with him and his son walked in. And his son said, “Dad, I need a property manager right away.” And his father said, “I've been talking to this kid for about 15 minutes, and he's going into brokerage. He's not going into management.” And the son said, “Dammit, Dad, you can't do that.” His father said, “I'm doing it. This guy belongs in sales. He had a landscaping business. And he went door to door and he got 70 people to hire him by cold calling.” This was in 1981. We were in a deep, deep recession, interest rates were 17%. This family owned 84 industrial buildings, and 10 of them were vacant, and they couldn't fill them. Because tenants were just, they just weren't moving. They were afraid, they had this fear that if they move, they go out of business with interest rates like that and a recession.

And the father said in front of the son, “Watch this, Randy.” And he said, “So Joel, how are you going to fill up our empty buildings?” And I said, “Well, I think I would go door to door in the industrial park and call on companies and ask them if they want to move down the street.” And he said, “Start today.” That was it.

So I'm a leasing agent for this family. And they gave me 10 vacant buildings to go fill up. And in my first year, I actually as a broker made 37 deals. I was a cold-calling machine. And I loved it. I was on a natural high. I just couldn't – I struggled through school because I didn't really like being in class. I was bored. But this first year learning the real estate business with these guys as mentors was unbelievable.

WS: Cold calling machine. It's interesting how things work out like that. You didn't imagine that probably before that meeting, right?

JF: Yeah.

WS: That's so cool. Well, how did your path move forward as far as you're going into industrial yourself and I know you had a brokerage, and then what were some of the next steps that you took?

JF: So I learned a lot about people and making deals. And for 10 years, I worked for the Podolski family, and mentorship is everything. And these people were brilliant. And they were experienced. And they had connections. And they introduced me to their people. And I introduced them to the people that I met through my cold calling. And I made hundreds and hundreds of leases and sales as an industrial real estate broker.

There's a group called the Society of industrial and office realtors. It's an international group. I'm a member of that. Industrial is a closed community, pretty much. It's people who get in and get trained by people already in the business, which is what happened with me. And there's a local organization called AIRE – the Association of Industrial Real Estate Brokers. And so, I'm a member of both of those, and I have relationships with brokers.

And through all these years of working, I have relationships with investors and tenants. I was not an investor until my 10th year. And I went to Milt Podolski. And I said, "I have a feeling that you're as wealthy as you are because you own 84 buildings, not because you're a leasing agent." And, he started laughing. And he said, "I pay no taxes because of the way the tax laws work, but I make millions." And I said, "I want to be you." He said, "I'll be happy to show you how I do it." So he said, "Just go find a building to buy. And I'll show you how to syndicate."

So I went out and I found a piece of property. It was a $550,000 deal. And, I brought it to Milt. And I said, "What do you want to do?" He says, "Well, I'll put in the first chunk of money and I'll introduce you to my investors. You go cold, call them and tell them I sent you. But you have to bring in the majority of the investors yourself through people you know." And I did, and we leased the building. And we went and we did another one. This was in 1989 and we did another one.

And then, I realized that the Podolski family was not going to bring me in as an adopted son at age 30. I said Milt, and to his sons, Steven, Randy, and son Steve, is this brilliant guy who knows all the details of every lease and all about the market. And Steve, to this day is a friend of mine and an investor of mine. But I left the firm to go start my own business.

I had three partners. Have you ever watched the TV show The Wonder Years?

WS: Yes.

JF: That's Boy Meets World. The savages. My partner was Lou Savage, who was the father of the stars of those shows. He was from Chicago, and he was an industrial real estate broker. And he also wanted to get into owning. So, he and I and two other guys started business, friendly terms with my leaving of the Podolskis.

And we went out and started buying buildings and syndicating them. And, over a period of, about 16 years, we bought 70, 80 properties, and I brought in 300 investors and I raised hundreds of millions of dollars. And it was all through getting to know people really well. They had to trust me. And they had to trust what I was doing. And I knew the industrial market was cold. Because I cold-called almost every industrial building in Chicago, there are 8,000 buildings, I think I've cold-called 7,000 of them.

WS: That’s awesome. Speak to, and we won't hang out here very long, but I wanted to, you know, since you just mentioned that raising hundreds of millions and early in your career like that, and these people I didn't know you, of course, give a couple of tips about how you did that, and how you raise that kind of money.

JF: It wasn't easy in the beginning because I had no track record. So, I had to put together a pro forma. And we did an all-cash deal, we did no mortgage. So the pro forma was one piece of paper. And it was so simple, it was the property's worth $540,000, and we want to get a 10% return, which means we need a net operating income of $54,000, which means we need to lease it on a net basis, industrials all leased on a net basis, we'd have to get in about $65,000 a year in order to get the 10% return. And I went to these people that were family, friends or business associates, business friends, and everybody put in $20,000. So I had a whole big group. And I had to put in $20,000, because they said, if you're not putting your money in, we're not putting our money in. It was successful.

But I have to tell you what happened. Things were great. There was very little, we had a little recession during the Gulf War in the early 90s. But for the most part, 2001 was tough. So I've been through some cycles. But things were on sort of the upward trend in industrial for all that time. In 2008. I got crushed, I got cocky. I started believing that what I was doing was my fault. And that wasn't luck. And what I realized was I was in real trouble. I thought I had lost everybody's money. I had 50 properties, and I had loans on all of them in seven banks. And 62 people had loaned me money with individual promissory notes.

And I went into a depression. Do you see that couch behind me? I had that couch then and I was on it. And I couldn't get off. My wife and my parents were watching me because they thought that literally, I was so depressed that I could go take pills in the bathroom and end it all. That was really, really frightening. I was terrified because I thought I had brought all these people in and I was a big shot. And now it was going to just fall apart.

So I got some professional help. I saw a therapist and I got some medication to help me out of it. And I came out of it. And I worked really hard and we didn't lose all of our money. But it took a long time to climb back up.

WS: Wow.

JF: I was a different man.

WS: That was the 2008 time period?

JF: Yeah, yeah.

WS: Yeah. Well, what changed? You know, how did that change how you look at deals, how you moved forward, how did that affect you moving forward? You know, low debt is something you're big on. I want to hear about some of that. And maybe that came from that experience. You know, speak to some of that.

JF: If you ever heard of the concept that it's possible that some real estate buyers and developers are actually compulsive gamblers, like did you ever hear someone say “I'm a deal junkie.” You don't want to be in anything junkie. That's not good. So if someone's a deal junkie, what they're saying is that I do deals and I'm not necessarily making good decisions. And I believe that mental health, what I learned from being in that depression is mental health really affects how people make decisions. If you're mentally healthy. I think you’d think through what the consequences are going to be of your decisions. But if you're not mentally healthy and you're elevated, and you think you're really hot, you might go make some decisions that have very dire consequences, because you're not thinking clearly.

And I figured out that during that period of many years with multiple partners, I was doing a good job. I was doing the best I could. But what's changed is, I realized that I was gambling. Because I was borrowing like everybody else. And I'm not saying that everybody in real estate is a gambler. But many people are. There's this guy, Kirk Kerkorian, who was one of the big billionaires, he owned hotels and casinos, there's a book about him, it's called The Gambler. No accident. And I decided that I could never gamble again. I love casinos at the time, I used to go all the time. I'd bet on sports, I decided I can't gamble anymore. And especially in real estate.

So, I set a boundary. My boundary was to stay mentally healthy. Don't get elevated. Don't be a deal junkie. Be super careful. And that's what I've been doing. And my line in the sand is different than anyone I've ever heard of. And it's okay with me, even though people think that I might be an idiot, which is I do deals now with zero debt. They're all 100% equity, which means I have to work a lot harder to raise more money. But it resonates with very wealthy people, because they're in it to not lose, they're not in it to get rich. That's really important.

So the most recent deal that I did, we bought a building, and we're into it for $2.7 million, it's $2.7 million of equity, no debt. We have a tenant that's got a very high credit rating, they're owned by a company on the London Stock Exchange, and it's an 8% return cash on cash. And I don't need to impress anyone with, “Hey, I'm gonna get you 20% IRR.” That’s bull, that only works when the market is going up, and rates are low. And right now with rates being high, interest rates are really affecting people, they don't affect our deals, because we don't have any. And, I've slept better at night, and my investors sleep better at night. But, I've got a huge dose of humility from having been through that really bad experience in 2008.

WS: Yeah, that's so interesting. I love just you bringing that out like that, and even thinking through how this can be done with no debt. But you know, I feel like most people feel like it can't be done that way. And you're a great example of it can be done with no debt.

You know you mentioned this resonates with the very wealthy – they're in it, obviously, not to lose. And obviously, that eliminates a ton of risk, right? I mean, it eliminates so much risk right there. And I can completely understand why they and you would sleep so much better. And, yeah, who cares if rates are going up? Right? When you have no debt. And so, speak to maybe even a couple of aspects here maybe we can dive into a little bit, but that type of investor that is looking for this kind of deal versus the kind that says, oh, no, it's gotta be the 20% IRR like you were talking about, referencing a minute ago.

JF: So many of my investors are people who ran a business, owned a business, and sold a business for many, many millions of dollars. My investors are like a who's who of who's rich, and they are the greatest people. I get to know my investors personally. I won't let someone in unless I have at least a half-hour conversation with them on the phone or meet in person. Because what matters most to me are the relationships. The money is really important, but I love it when I can pick up the phone and call someone who's got a connection or is in a business and I can help somebody by knowing somebody.

So, my group of investors, they're really amazing people. I've got doctors, and lawyers, and people who run businesses, and own businesses, and executives at companies, and they are really smart and they asked me really tough questions before they go into a deal. That's very, very critical. I say to them, “Throw me your hardest question. Just try to trip me.” And they know what the number one trip is, “What's your succession plan? Joel, we heard you, we like you. Okay, you get hit by the Mack Truck. What happens next?” And I actually have a really good answer for that because I have a young partner who I trust completely. And I have a wealthy family, that's my second biggest investor. And if I get hit by the truck, the young guy Eric, and the Wagner family, make the decisions together in place of me. And my family has a seat at the table but they're not in the decision-making capacity.

So I really believe that it's about the details. I know the details of my offering books. I could write it instead of the lawyer writing it. And I know the details of the leasing. So what happened is I became incredibly detail oriented after that mess because back then, I was making deals and not really knowing enough. I didn't have all the knowledge. And that's the difference.

And so I believe, with solid mental health, not being high on life, not making decisions impulsively, I have a thing that I call wait, W-A-I-T. Before I make a decision, I asked myself, wait a minute, what am I thinking? W-A-I-T. What am I thinking? And then when I'm talking to people, I also use the word W-A-I-T which is, why am I talking when I should be listening? It's really good stuff.

WS: I am writing that down. I like that a lot like that acronym. Because we shouldn't be listening more than we're talking. That's awesome. I liked that. Speak for a moment about maybe gauging when you're able to make the best decisions. Yeah, that's something you're passionate about.

JF: I'm really passionate about it. My mother's a therapist, my daughter's a therapist, my dad was a psychologist, and the family business is keeping people mentally healthy. And, I chose real estate but I'm leaning toward the mental health element of how to make decisions when I'm teaching people to business as a mentor, or when I'm talking to my investors. And they share things with me and they asked for my opinion, and I give my opinion, and I'm very much gauging where they are on what I call my mental health scale.

I have a mental health scale. Whitney, you probably haven't heard of this until I mentioned it today, but I think that people are driven by their moods, rather than by math. Or rather than by great due diligence. They make decisions based on how they feel a lot of the time. And I have a scale of one to 10. One is that depression that I told you about where you're so low, you're in the basement, it feels so bad, you feel hopeless, you can be literally suicidal. That's one and on the other side of the scale is 10. And that's where you're so elevated, or manic, or whatever you want to call it, that you're also suicidal and don't know it because you think you can fly, literally like “Hey, I'm on top of a building, I can fly.”

Those are sick. It's sick to be a one and it's sick to be a 10. But I also believe that it's not great to be anywhere out of the range of four and a half to five and a half. That's good mental health. And I feel like when I'm at four and a half to five and a half, that's when I can make a decision. But I also have a group of eight advisors. And before I buy a property, I have to talk to all eight. Sometimes I get seven on one column, then I have another call.

But by doing that over a period of time, I can sort of measure where my mood is and where their moods are. Because one of my investors might say, “Hey, I just sold my business for $20 million. Yeah, let's go do a deal.” And that person's at an eight. I don't want to listen to their advice. You know, they're not thinking about the consequences. I've got a really great investor.

When I was in Florida last month. I was there for a few weeks. And I got together with one of my really wealthy investors. And he's making an investment in some restaurants in a marina, in a place in Wisconsin. I love this guy. He's the greatest guy. I love his family. I had dinner with him and his wife. In Florida, his son's a close friend of mine, and he's gonna buy this marina. He doesn't know anything about the Marina business and he's opening two restaurants that have been shut for years. And I said, “Don't do it.” He says “I'm going to do it.” And this is a guy who has gone out and he bought a McLaren and he bought a Bentley and he bought a yacht and he's been very successful. So he thinks he can do anything. That's bad.

So I tried really hard to stop him. This is where people talk to me about stuff. That's not just real estate. And I don't know if I got through to him or not. But I said, “I think you're elevated and you're thinking, and I think you're making an impulsive decision.” He says, “I've been working on this for nine months.” I said, “Well, then I think you're just making a decision you shouldn't make.”

So that mental health skills really important to me, and I feel like I should never ever do a deal ever again if I don't feel comfortable, that I really understand the consequences. And the due diligence answers.

[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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