EPISODE WS1592

[INTRODUCTION]

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[INTERVIEW]

Sam Rust (SR): This is your Daily Real Estate Syndication Show. I'm your host Sam Rust. Joining us today is Charles Carillo. Charles is the founder and managing partner of Harborside Partners, has been actively involved in over $200 million real estate transactions since 2006. So as we're discussing, he's an OG. Charles has extensive knowledge in renovating and repositioning, multifamily and commercial real estate. In addition to being an active investor, Charles passively invests in many different assets, including commercial real estate, ATMs, early stage technology and ag-tech startups. That's an interesting one. Charles, welcome to the show. Thanks for joining us.

CC: Thanks for having me on, Sam. So great to be here.

SR: Yeah. Okay. Before we dive into real estate, I got to ask ag-tech, what's the connection, that's not something that just everybody has in their bio. Rip on that for 45 seconds.

CC: So ag-tech is a very unique, obviously, as you just said, very unique asset class. But it's within tech, where you're putting it's mainly what we've been investing in is companies, you're taking fertilizer, and you're using technology to make fertilizer work better, I guess you would say, You know what I mean, and when we're having limited farming land throughout the world, and we're doing a lot of this in South America, the companies that we invested into are, and it's really where you're reviewing soil, you're seeing what's wrong with it, you're seeing where it can be optimized and using technology for it.

And obviously, with everything that's going on, especially with the war, but we've been doing this for, I don't know, I've been investing for an ag-tech probably for 18 months. So I feel it's something that's coming along, where you're having a lot of countries, there's, you hear it all the time of farmland going away, and all this kind of happening.

And so it's really pushing that any type of soil, that you're using technology to really find how you can optimize it, and how you can really know what needs to be done to kind of maximize the output. It's interesting. It's a very interesting thing that we invest into, and very passively, let's just say.

SR: You're not in the laboratory compound, that's what we're saying.

CC: That's correct. Right.

SR: Awesome. Well, appreciate you shed some light on that. So Charles, you've been in commercial real estate for a long while, 16-17 years, you've seen a couple of cycles, and maybe sketch a little bit of your background for our listeners.

CC: Yeah, so really quickly. So I grew up in multifamily real estate. My dad bought his first multifamily property in 1984. It was a six family, and not so great of a neighborhood. So when I grew up, going in the, you know, I guess you'd say '90s, late '90s, early 2000s. Going to as I was younger, going to my dad's properties, and here with a partner, I guess, up to almost 100 units, and he self-managed them all in a small team.

But the properties were D, C-; let's just say to be nice to my father, not great properties, he knew that. And when I got out of college, a few years later, I was ready to buy property, and my dad just kind of instilled in me in buying in better areas. And I took that, you know, half heartedly I wish I had bought better than the areas I was in. But it definitely goes to show you that that's definitely a rookie mistake.

So it's like the first thing I ever tell new investors to buy in better areas whenever you think it and don't be swayed by these nice cash flow statistics as being put up there. All these rents that are coming in when they put them into the listing, that's you have to take that with a grain.

SR: Now, you mentioned as we were chit chatting beforehand that you had a portfolio of smaller multifamily that you had built personally and self-managed. There's got to be some stories there. Broadly sketch for us. What got you into that why you decided to self-manage and why you ultimately decided to exit 18 months ago?

CC: Yeah, so I started buying then '06, and I was buying, '06, '08, '09. And so I went from the best all the way to the worst times of buying, which is just kind of one of those things where people are always like, Oh, I'm gonna wait for a better time or wait for prices to come down. Everybody hears this, right. And it's really one of those things where, yeah, the one in '06 was probably like a single or maybe a double I guess if you really push it, but the one you bought in you know, I bought in the '09 would definitely be like a home run.

So it's one of those things that you consistently have to look at properties like we were talking about, Sam, beforehand for the call. And it's just something that when you're looking at properties, you have to kind of know that not every deal is going to be a homerun and you just know that you consistently buying you're consistently underwriting properties and when something pencils, I mean you're taking it down, and I think that's kind of my mentality because even if you're taking down a double and something like this, I mean, the return is still going to be much better than you're gonna get in other asset classes.

So I think that's very important for investors to take into consideration and then without knowing it, who knows, maybe you're buying in 2018 or 2019, and you've got COVID around the corner, and you're selling it for a fortune two years later.

So you just don't know what's going to happen. And I think it's just important that when stuff pencils, you know, buy for cash flow, don't buy for appreciation, all these things that you hear from everybody else. And I think that that's kind of like the safest way of doing it.

When I was doing it, I self-managed it from '06 to 2012, I moved down to Florida in 2012, I didn't really have a choice I was selling, or I was having third-party management, which was kind of a blessing. And I wish I'd done it a little earlier. Six years gives you a lot of experience in dealing with C Class tenants, which is great, something you can pull over into any other part of real estate investing. But it's also great to do the self-managing, but also great to focus on your acquisitions and bringing that third-party banter.

SR: Yeah. And then ultimately, you've disposed of those here recently?

CC: Yeah, I sold it to another investor, those are all based where I was originally from in Connecticut. And I sold those to an investor that had other units in the area. So for him, it was great because he was getting more scale with his property manager. And for us, it was perfect, because now we could put into other markets that we were really focusing on Connecticut, just not really a landlord friendly state at all. And we learned that for the most truth, right through COVID, when we had tenants that paid for like a year, so got those tenants out, seasoned them, sold them. And that was kind of what our plan was. And it's great. It's all a learning experience.

When you're doing it. You know what I mean, but it's something that we really focus on more landlord friendly states, we're focusing on states and areas where there's actual growth, you know, it's not just a straight line. And that's really what our focus is on now. The cash flow is really important, but getting the mix of cash flow and appreciation, which is something you can't really get appreciation in markets that aren't growing.

So it's really important for investors to when they're investing, especially in the multifamily, you're investing in the areas where there's growth, not just population, but also job growth, and where there's also a common regular decrease that you're seeing over, let's say, a decade or two in crime, and that way, you can see that there's money being reinvested into the community, there's people moving in with jobs, and that's where you're gonna have minimal issues trying to rent your apartments.

SR: Now, it's a fairly simple recipe on why it's hard to get the cake to come out, right. I mean, there's a ton of work that goes into it. But the recipe itself is just not that challenging. I have so much respect for people, though, who cut their teeth, or even still invest in areas like Connecticut. Talking to a guy the other day who invested in Baltimore, some of those areas in the northeast, or in some of the rust belt cities, you know, like Dayton, or some of those areas where there's just not a lot of growth. Man, that is the heart of the heart right there.

CC: You have to buy extremely right in those markets, not saying that you can, you're going to be overpaying when you're getting into areas that are really growing. And I hate using that word, and I hate saying that, but it's kind of true, but you're paying for where the growth is coming.

And you're gonna pay over compared to another university. Yeah, you're gonna have an area. But the thing is that if I'm off my rents $100 in an area that's not growing per month, that's a huge difference compared to if I'm off that mound, in an area that's really growing, you know what I mean? Because it's going to make up with the growth, maybe not in the first year, but maybe in the second or third. So it's very important to buy in areas that are growing nowhere, no matter where you are.

SR: You talked a little bit about the concept of just staying consistent your acquisition efforts, underwriting deals and not trying to time the cycle that that makes me think a lot of some of the big stock pickers, like Warren Buffett, or Charlie Munger, some of those guys at the time in market is really important. Yes, every investor thinks that they can time cycles, but generally, it's the folks who have a process and stick to it that are successful in stocks. That's something that's more commonly accepted. And I think that same thing is true in commercial real estate.

CC: Yeah, I totally agree. I mean, you're consistently buying. But then there's also the time when you're when the time to sell, you know what I mean? Or one of the time to pull out some equity, you know, how much equity do you pull out, but I think timing to sell, especially when you have investors, it's very important, because I spoken to a number investors that when we were selling properties at the beginning of 2022, and we're like, oh, that's going to close and they want to hold it.

Well, they're, they're happy they sold it. Now, you know what I mean? Because it would have been, I don't know, two, three years to get something close to that price, or maybe that price again, or over that price, whatever it might be. But it's something that you kind of have to not get greedy.

And there's a great quote my one of my mentors told me that only sucker sellers are at the top of the market, and that's something I really think it was JFK, Sr. originally told it or something, but it's something that is so important, and it's so true. You know what I mean, you're thinking you're selling at the top or you're gonna wait for the top, you're never gonna hit it. Who knew they were selling, I never knew I was selling myself at the top and like 2022.

He just thought like, Oh, I'm selling it on the way up and to way of getting money back to investors getting money out for us, and now they can take their profits and now they can reinvest it into not just one deal, they can now reinvest into two deals, you know what I mean?

So it's safer for them and I think that It's really important, but it's difficult, you know, it's difficult to make the decision there. So if you have a business plan, you stick to the business plan when you're putting money in and when you're taking money out. Yeah.

SR: Same thing for us. We sold a couple of deals in 2021, right at the very end of the year. And there were definitely some investors that were questioning the decision. And now in hindsight, it looks fantastic. But I think that goes to a point that so many of the investors, you syndicate, we're syndicating as well, you know, there's a lot of investors who've only been investing for the last five years, maybe even 18-24 months.

They're used to everything being smooth and pushing forward. And now we're seeing rubber meeting the road right? There in really matters. What was your business plan? Was it based primarily around floating rate debt and constant growth like that can work in the right cycle, but the cycle is over now.

And things have changed? How did you message those principles, those truths? And are you finding people more receptive to those kinds of messages now that the cycle has changed?

CC: When I'm speaking to investors now. And it's really just reinforcing what the business plan is, and reinforcing how we work. And there's another as you brought up, Warren Buffett. Warren Buffett has another famous quote, where it's like, "We'd rather take a bumpy 15% than a smooth 12%."

And I think that's a very interesting and very important quote that investors - passive investors specifically - should take into consideration, because that is exactly how it works. I mean, we're buying businesses, like you said, someone that came in, in the last four years has seen rent increases, without doing anything, they didn't have to do anything with the properties and they could have sold it higher, one day later, three years later.

And it's not how it works normally, so it's something that you just have to reinforce it with investors that there's gonna be ups, there's gonna be downs, you know, what I mean? In the process, we're gonna have times when our occupancy and everybody's paying is 97%.

And we're gonna have times when we're doing all this renovation stuff like this, that drops into the high 80s, or whatever it might be. And you just have to let people know that that's how it's going and what you're doing to get it to, you know, the final what I call, like, the equity multiple, and that's the whole goal, the whole project is getting there, and, you know, get distributions during the way, but the main thing is really building the wealth and how you build the wealth through the equity multiple.

SR: The target at the end. And not necessarily, it's interesting how many investors will evaluate deals based on that equity multiple, which I think is, you know, what's the total upside potential here? But then, during the deal, it's like hyper-focused on the cash flow, which, like, I don't fault people for that, like, I also am managing my personal cash flow, and you want to meet your expenses.

But it's just funny to me how often it works, where people take the long view when they're getting into an investment, and then the moment they're in, they switch to a very short-term window.

CC: That's very interesting. I never thought about that. But that's 100% True, I think, I have been a passive investor in many different real estate syndications, I think you see it, where you want to start getting money, you want to, you want to start getting your money back out, you know what I mean?

And you're seeing, you know, you see the equity multiple, but that's one thing that's different with angel investing, cuz you put your money in, and it's many years in, you're not getting any distribution. So I'm more on that side now, with commercial real estate, where you're like, you know, whatever has to take to finalize and finish the business plan. And then just kind of communicating that to investors of what the whole plan is, what the whole goal is, right? You know, preserve capital.

And then like equity multiple, you know, what I mean. And then distribution is like behind that. So if like, you're getting your distributions, that's fantastic. That's like the main goal. But you know, if we're going to putting in like water metering for all the units because we had a higher water bill than before.

And we're going to, you know, have distributions for the next two quarters, or whatever it might be, you don't I mean, you have to communicate that and be like, listen to that now. It's not as what you thought right now, but next year, that's going to be something that's when we're taking this off our expenses, you know, what I mean, this water, that's gonna be huge thing that's gonna be huge upside for you and for the property and for when we sell it.

SR: And I mean, I've been telling investors this since my very first project, but the only thing I can guarantee you when I'm showing you a proforma on an investment summary is that what I'm saying here is not going to come to pass. And we hope that we've controlled for the conservative or, you know, through conservative nature and underwriting that, that we're going to have more surprises to the upside than downside.

But the reality is, not every deal is going to be a homerun. I love that quote from earlier. And there's going to be hiccups along the way, and we have to be able to deal with those. But that's where communication really comes in. And so I'm curious, how are you communicating with your current investors, and nurturing them, educating them and helping them to come alongside the process, instead of leaving them out in the cold and they're watching their bank account and seeing their distributions go down?

CC: I think if we have any deals where distributions have changed, it's really, you know, keeping them informed, keeping as much information in is sending it out. And really how I've done it is, if we're going to send out an update of what's happened, we're gonna tell him what our decisions are, what we've done, I'm gonna wait for my phone to ring.

And I'm gonna pick that up and explain exactly what's happening in more detail than the email. And then whatever they want, I will shower them with as many financials as comes in from our you know, if they want. I tell them all the time, do you want weekly updates of what's happening with every unit and leases? I will send that to you, you know what I mean? I will forward you the email, it's whatever you want - full transparency.

Because you know, we're investors in this, I have really good friends that are investors in this. So it's not just third party investors where your only relationship is your investors together, right. But so I think just communicating it, and then just it's really one by one, because you have some investors that I mean, a lot of investors don't really care, they see that it's going the right way.

And they know about the hiccup and you probably have this and there's other ones that might be this might be the first time it might be their second time, it might be their first time going through and all in a real estate investing going through some type of pullback, right? Where COVID doesn't really count. I mean, COVID was like people stopped buying property for like 40 days or something.

And then they started buying property again, or whatever it was, it was like nothing. And so you didn't really see it there. It was just like the first time that they might be going through something. So in that scenario, it's something that I think it's just walking them through and educating them.

SR: It's interesting how the 80/20 Principle plays out in so many areas. But 80% of the questions come from 20%, or maybe even 2% of your investors.

CC: Yep, it's true. And that's what I mean it is I'm here, you know, and when I started doing this or you know, in syndications, it was new to me. And I kind of watch more what happens but other people want to get more involved in kind of seek, they want answers faster. And they want to get their questions front and center and make sure that you can answer it. So they're comfortable.

SR: My philosophy when investing in other opportunities has always been, I want to know that people really well. And then I'm going to trust them to go and do the right thing. And I think that's the perfect investor avatar for folks in our line of work, as well as we love those investors that get to know us do a lot of homework on the front side.

And then they just watch those monthly updates. And there's a few questions along the way. You have a lot of experience, though, and investing in other people's deals, what are some of the things that you look for?

CC: I want to see what kind of base that they have in that area. So I want to see what I love when I'm looking at deals and they have multiple properties in that area. Or if they are partnering, the boots on the ground, let's just say whoever that might be, because you're usually getting these deals, there's one or two general partners in there, maybe you're working through one of them.

But the actual boots on the ground, I want to see if they have a number of units and a number of projects in the area. And it's their management company, which is fine, or I mean, that's great, or it's third-party that they've used and all these units or all these properties so that they have a proven system on the ground, a proven team on the ground that they're using.

And then when they plug in this, you know fourth, fifth, seventh property, whatever it is into that that market, they know it's going to run like clockwork, there's not going to be a marketing email nine months down the road saying that the property managers switched out and you know, everything's a mess. They've had success with boots on the ground. That's number one.

And then you're looking at everything else. You're looking at what's really important about the debt, but at this point, depending on where interest rates go, maybe that's not as pointed as it was a few months ago. I mean, you're looking at all parts of it.

But I really want to see when I'm looking at the team and when I'm looking on boots on the ground, it's really looking into their management and seeing exactly who's the ones talking to the to the clients and making sure they have a team of contractors, they have a management team, everything is all they've used before they're currently using it and I know that it works it's like a banker told me years back it's like printing money and that's when I think when you're like that sixth, seventh asset in the sub market with they're using their system, they're just printing money and you're just kind of like riding right in which is what you want to do. You want to reinvent the wheel with your GP.

SR: Fantastic. Charles, thanks for joining us today. Thank you to our listeners for joining us on another episode of The Real Estate syndication Show. I'm your host Sam Rust signing off.

[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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