EPISODE 1593

[INTRODUCTION]

Charles Carillo (CC): But in most markets, this is who you're really competing against. It may not be the apartment owner across the street that has another pool or something like that; you're really competing with them buying a house. So I like to see exactly how asking prices are going, where the realization is. I like seeing when the realization in times like this of sellers is coming in, and they're finding out that they can't sell it for what they were going to sell it for eight months ago, or whatever it might be. And that's something that kind of trickles down into multifamily. Because you'll have brokers that get this high price usually not all, you know, not all.

[INTERVIEW]

Sam Rust (SR): So Charles, we're living in interesting times, the economy has changed pretty dramatically over the last 24 months, there's the sugar high of COVID. And, and all the money that was parachuting in from every corner of the globe. And now the Fed is kind of dealing with the ramifications of that. As I've been browsing through your LinkedIn profile, I've noticed that you've been posting a ton of stuff on the single-family market, which is interesting. I find that I kind of geek out over some of those same statistics. I'm curious, when you're looking at where things are headed. What are the tea leaves that you're paying attention to? What are the leading indicators that really catch your fancy?

CC: I want to see how easy it is for people to buy houses. Because Sam, I believe you guys are more B class investors as well. And all types of B class I believe. So if you're in B or definitely an A, you're dealing with people that can buy houses in most markets, right, maybe now with interest rates, it's a little different. But in most markets, this is who you're really competing against, it may not be the apartment owner across the street that has another pool or something like that you're really competing with them buying a house. So I like to see exactly how asking prices are going. I like seeing when the realization in times like this of sellers coming in, and they're finding out that they can't sell it for what they were going to sell it for eight months ago, or whatever it might be. And that's something that kind of trickles down into multifamily, because you'll have brokers that give this high price usually not all, not all. But you'll have brokers or agents given them a high you know, price and their BPO. And then when they actually dig into it, they find out that a few months later, hey, we really have to discount this and all this kind of stuff to sell it. And I think when that starts happening, it trickles through from residential into multifamily. But it also shows that now, when you're doing rent increases, when you have it, this might be an area where you're going to have maybe increased vacancy, if it's easier in your market of where this property

is where your property's located for people to buy, they might buy instead of rehab, you know, renewing for another year with you.

SR: Yeah. One of the statistics that you posted recently that I found very interesting was the median asking price. If you'd asked me to bet, I would have said that that would be down just because of interest rates and everything. But it was actually up almost 3% year over year for January of 2023. But simultaneously, I think part of that is because we're seeing listing numbers go down as well. I was looking at some other statistics on my own that were showing that inventory is down year over year in some places by 20%. I just think that's a very interesting factor. I attribute that to people not moving as much here that the great resignation is kind of past. People are a little bit more worried about their employment future. They're not as willing to pull up stakes, in large part because of interest rates and just general doom and gloom ism from MSNBC or some of these other channels. But I'm curious, what are your thoughts when you see some of those statistics?

CC: You're right on Sam. But I also think one thing to add to that is the interest rates, if someone I have a family member that locked in something like two years ago, for like, 2.75%; they're not moving, you know what I mean? So because the price that they paid for the property, you know, their payment was done and how it was kind of subsidized the pricing of what they overpaid for it by that cheap debt. So the thing is that they can't get something that's not suitable, so they can't sell that debt. Yeah, you can do all this stuff, too. But most people aren't gonna do any of that stuff. So it's like, that can't be transferred to the new property, right? It's not like us where we can have something, it's a symbol, and now you can sell it and still get a little bit of a better price. If you have a low interest rate on your mortgage. You don't mean, with certain things like agency lenders and stuff. But that's not something you do with residential. So I feel a lot of people are sitting, you know what I mean, where they are now, staying where they are, until they might see that prices come down a little bit more where they can move kind of more lateral into another property that's maybe bigger, where they're getting a discount on the price that's going to match the discount that they got on the debt. So that's one reason I believe.

SR: It's been interesting in some of the markets that have the highest listing drops, they're also areas that have some higher short-term rentals. And that market has been really the "IT thing" back a year ago, six months ago even, and then that story seems to have turned although Airbnb earnings came out really strong today. I'm curious how that will impact the single family market because so much of that short term rental was based on a good regulatory environment, travel continuing, and then generally rents and occupancy being high. If that were to change in a down economy. I'm curious how that sector will survive. And if that will have a meaningful trickle over into single-family and multifamily patterns.

CC: Yeah, that's interesting. That's a very interesting fact. Because it might be where if you have Airbnbs that are houses, they might be, you might consider them starter homes, someone moving from your B class apartment may into that. So if those are not Airbnb

anymore, those are now probably being put on the market, because maybe someone purchased them years back. And the only way that they could cover the mortgage wasn't by 12-month lease, but was by a short-term rental model. So they still made money out, probably keeping it for so many years. And now they're just selling it to a homeowner. So there's a number of different ways you can go. But I just really feel that we're, you know, I think you have the prices haven't come down enough to make up for where the interest rates were years back.

SR: Yeah, purchasing power has still been negatively impacted for sure. The bearish case for commercial real estate or multifamily real estate in 2023 is?

CC: You tell me, Sam, I guess. I mean, I was reading some stats this morning saying that, you know, we're talking about residential. I know, you just asked me about multifamily. And, you know, there was one that was saying that Q1 2024 is supposed to be the low point for this pullback, what they say, I don't know how true that is. But I think that you're gonna have more and more sellers. And like we were talking beforehand, you know, we haven't been game that many deals under contract under LOI, even getting the best and final, like you were saying, and it's something that, you know, we're still waiting for a lot of sellers to come to terms with interest rates, when interest rates aren't going to be going back down to what they were, maybe they'll go up another half percent, or percent and then come down another percent. But it's something that they kind of have to come to that realization, and that's going to make more of these properties move. And I think if someone bought in the last three or four years, they've already made money. So I think that's easier, I think it's gonna be a little harder for people that are coming off, like you were talking about earlier, the bridge debt, and they didn't maybe have interest rate caps, and they're kind of struggling for that refinance, that really isn't happening, that stuff, I think is going to be coming on the market too, in one way or another because I think banks are going to tighten up and I've already seen it with local banks on even smaller levels with some investors I talked to here in Florida.

SR: Yeah. Conversely, in a more positive direction, the bullish case would be?

CC: Soft landing, or we're doing there and saying, you know, maybe we have maybe interest rates go up like another quarter percent and come down another point and a half over the next year or something. I don't know. I mean, and we settle somewhere and, you know, 10 years settle somewhere on like, the mid-threes, you know what I mean? 3%? I don't know, something like that. But I don't think they're gonna go that much higher depending on how inflation goes and everything like that, and to see if they keep on putting on the brakes. But I mean, once it really slows down, you can't just turn it back on. We learned about everything with the economy going through COVID. And we thought, Oh, we can just turn back on all these things. Well, that's not really a thing.

SR: Yeah, even inflation, as much as we've talked about it, and it's been studied, it's very poorly understood. And there's a lot of the toothpaste is out of the tube, not sure we can get it back in, we certainly aren't going to do it by scooping it up and pushing it with our finger. So it's interesting that you had mentioned soft landing. I can't decide, in my own mind, what would be more helpful for multifamily real estate if we had a soft landing, because that probably means higher rates for longer, versus maybe a little bit of a sharper burst of pain. But that results in interest rates coming back down. It's kind of an interesting thought experiment. Pain is never a fun thing to wish on society as a whole. So I probably root for a soft landing. But there possibly is a case to be made that that might actually be a little bit more challenging for those of us, especially folks that bought with bridge debt that are trying to refi in the next 18 months.

CC: Yeah, that's a great point. One thing you said about the CPI just before that is it's not understood, but it's also highly manipulated. So I think that's something too, especially around housing. So it's something that but I'll tell you one thing, I bought a small multi, had three units in the end of '06, 6.5% interest rate., I bought one at the end of oh eight, 5.5% interest rate. I refinanced both of them mid-2010, for 4.25%. So interest rates come down pretty fast. And that's one thing that the government has; they can spend, and they can change the interest rates. And I think it's something that if they put on the brakes too much and raise them up, I mean, it's just going to come down faster. We're completely wrong on that, but it's just something that I feel that we saw before. And that's, you know, coming down 1% a year over those times a half percent a year. And I mean that it was their way of getting the economy going again.

SR: It is interesting, just how much power is in the government's hands when it comes to the economy. I mean, the interest rates really move things significantly. We can argue all day, whether that's a good or a bad thing, but the reality is, that's where we live at this moment in time, and so we need to make sure that we're adjusting our tactics accordingly. You've hinted at your tactics a little bit along the way, always swinging on the acquisition front maintaining consistent underwriting standards. What are some important factors when you're underwriting deals today that are kind of non-negotiable? Are you really locked in on fixed rate debt? Are you willing to consider floaters now that we think we're on the higher end? Walk me through some of those things that would make a good business plan come together for you and your group coming into '23?

CC: I mean, I'm more open to floating debt with I think where we are, obviously, with recaps, I mean, and I would say, two years, three years, recaps are very expensive. But you know, you want to go and make sure it can pencil last year we did was fixed, you know what I mean? So it's something that, you know, we're still doing that, as I tell you one thing, I'm doing something else, but I would look at it coming in. But the other thing is that not looking for heavy value ads, I'm looking for light. And that's been kind of and that's been something that we've been working on over the last year or two. And then also, not buying any C Class stuff will be disposed of everything except for one property and C class. And I think going forward, it's really just going to be focusing on B, A, B minus and above, let's just say, and,

you know, that's much better when you're getting into these types of times, because the C Class renter, I was reading an article, you know, how we love articles and data, it was like average C Class tenant has like less than $400 in savings. So just think of that, if you're renting even $1,000 a month apartment, I mean, one week of them not having a job, or having their hours cut will dramatically delay when you're getting paid, because you know, what's your gonna rent, it's gonna get paid late, nothing else, right? Netflix is still getting paid on time. So it's just something that you have to take into consideration. And it's really important to know that when you're renting it, and that just goes hand-in-hand with buying in better areas, which I think most people listening to this podcast, understand that. But if anybody's new out there, that's like the big thing, because you go through these times like this. And these classes that aren't B- or above, I mean, they really don't have the savings. And it's terrible. It's terrible to hear. But we read all this stuff, about 60% of people can't cover an expense and all stuff, you know, you don't want someone paying rent that has to do it by going to the payday loan. And so it's very important that, you know, buying better areas, and I would avoid major renovations.

SR: It's uncanny, we have much the same strategy. We've done a lot of C Class over the years, and it's been very good. We've bought in Colorado, especially, which has been a fantastic place to own. But moving forward, we're stepping into some more Midwestern markets. And stepping up into like, the deal we're under, we're getting ready to do right now is relatively new industry from a developer so that, you know, there's things like that, that you can really lower the risk, the top line return might not be quite as sexy. But man, the floor is a lot higher. And anymore, I think educating investors on the importance of that high floor and just thinking in terms of not overall return, but what's your risk-adjusted return? And do you have your eyes open to all the risks going into, let's call it a "heavy value add"? I think that people are going to learn a lot of valuable lessons over the next 24 months, as we see some of these business plans not really coming together in a way that's going to salvage the deal. And then you're gonna see a lot of what you're talking about, I think that's going to be a way even if the downside is like 10% IRR over a five-year hold, that's still relatively decent, and chances are, it'll be in the low teens.

CC: Yeah, I totally agree with that. I was just about to say, I mean, it's like it's still even if you're getting that 10-12% IRR, whatever it is, I mean, what's even a great savings account was paying you three something. So it's easy this way, you're really getting up there with inflation and making a little bit above inflation. And I think that's the only way of doing it. And I personally rather make 10% or 12% on keeping it invested, and you keep all your tax benefits as well going. That's another big thing people have to know about, compared to just leaving it in the bank account.

SR: So well, as we wrap up here, Charles, what's a habit that you do on a daily, weekly, monthly basis that's contributed to your success?

CC: I have a number of different websites that I review on a normal basis. And it's also for our newsletter at Harborside Partners, but I love sharing different things and facts as you know,

Sam and so that's one thing is just keeping up and reading all different types of news sources, from ones that leaned both ways, and then dissecting when you read article headlines, you're not you know, I'm getting caught in that clickbait but you're reading it and you realize that this has nothing to do with what this article really says it is. And I you know, I hear something I was reading something I was like, oh, rents have decreased. And it was like talking about like New York City where rents had gone from like $4,500 to like $4,200 or $4,400. And you're like, Oh, really interesting. That has nothing to do with my business. And I mean, it's just like clickbait stuff. So you have to really read into stuff and that's kind of what I like to do and kind of really realize what's happening.

SR: Fantastic. Well, if folks want to learn more about what you're doing, maybe they want to subscribe to your newsletter and get on the tips and tricks bandwagon. Where can they reach out to Charles?

CC: Thanks, Sam. So it's HarborsidePartners.com. So you can go there and sign up for our newsletter. We have a passive investing guide and feel free to sign up for our investor club if you're interested and get on a call with myself or one of my partners.

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]

WS: 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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