EPISODE 268

[INTRODUCTION]

Eric Silverman (ES): We're all very lucky to be in the multifamily business. You know, it's a business that has long timelines. It's a business that if you kind of hone your craft, it's one where you can mitigate, really minimize your risks. But also, you know, open yourself up to some really great potential returns over time, and you gotta be nimble, you got to stay smart, you got to stay in it. It's not a business that tomorrow the technology is going to change and we're not going to need apartments. We're going to need apartments, we're going to need places for people to live as difficult as it was before to replace, you know, kind of affordable housing, it's now even more difficult. And so we have a huge opportunity, a continued opportunity to take advantage of.

Announcer: Welcome to Elevate, the masterclass where we dissect the elements of exceptional achievement and lifestyle design with a focus on personal growth and real estate investing. Now, here's your host Tyler Chesser

Tyler Chesser (TC): Elevate nation, welcome back! This is Tyler Chesser. I'm so thankful to have you here and I'm blessed and grateful to be sitting with Eric Silverman today. Today you're going to learn about the complex situation that we're dealing with in the multifamily real estate market across the United States. We're going to be diving into the complexities of the capital markets, inflation, CPI sort of things to anticipate on the horizon there from a headwinds perspective.

TC: We're also going to be talking about a lot of the tailwinds, the things that are supporting continued growth and expansion as investors in this space. But this conversation is so relevant, it's so applicable to obviously folks who are investing as passive investors or sponsors as active investors in the multifamily space. But it's also applicable across the board to investors in all asset classes, because guess what, all of this stuff is interrelated. Wow. Let me just tell you today's episode is phenomenal.

TC: We also talked about strategic partnerships, and some advice that Eric Silverman would provide to you or his younger self because he's been striking, very valuable, and very action-packed oriented strategic partnerships over the past 20-plus years in this space and beyond. And so there's just so much value in that.

TC: And you're also going to hear a little bit about the evolution of his funds from day one to now and what that all looks like. You're also going to hear about the commitment to remaining strategically strong in your approach in terms of the strategy, the acquisition criteria, and so on, and so forth. How that may differ from other groups.

TC: Elevate podcast is all about mindset, mind expansion and personal development for high-performing real estate investors. I'm your host, Tyler Chesser, and I'm a professional real estate investor and entrepreneur. It is my job to decode the stories, habits and multifaceted expertise of world-class investors and other experts to help you elevate your performance and lifestyle. Are you ready to take it to another level? It is time, let's raise the bar today.

TC: And if it is your first time listening to Elevate, thank you so much for joining us. Thank you so much for tuning in. You're important to us, you're part of the family, we are welcoming you in with open arms. If you've listened 270 plus times, welcome back! It is our job to provide value to you. And so I just want to thank you so much for coming back. We want to thank you so much for joining us for the first time, second time, 270th time, you again are important to us.

TC: I want to invite you to pay the fee. The fee is just to pay it forward and share this episode with a friend. All you have to do is grab the link, send in a text message and email, social media, whatever you need to do to just pay it forward. You can also just mention it in conversation. If you've done that before. Thank you so much. We just ask that you do that one more time for today's episode. This episode, by the way, it's 100% free, the only thing we ask is that you continue to help us spread the word. The only way that we can continue to do this is if we continue to grow our community and the way that we grow the community is through you.

And referrals are so important and powerful for any business. But of course for this podcast as well. So I just want to thank you in advance for doing that. And let's dive in.

TC: I want to introduce you again to the man, the myth, the legend, Eric Silverman, and by the way, Eric joined us in January 2021 on Episode 122, "The Relentless Pursuit of Real Estate Excellence Through Networking with Eric Silverman". So, you definitely want to go check that episode out, you know, learn more about his origin story and the relentless pursuit of literally that he's taken in building a tremendous business. So, I definitely want to invite you to check that episode out.

TC: And without further ado, let me remind you that Eric Silverman, he's a founder and managing partner of Eastham Capital private real estate investment business based in Boca Raton, Florida. Eastham Capital launched its first fund in 2007, and now is investing its sixth fund in 2022. Eastham Capital invests in multifamily properties sourced and managed by a diverse network of local and regional real estate owners and operators who have established a successful track record of acquisition, renovation, management and disposition of distressed real estate assets. They currently own 13,000 units and 54 properties in 14 states and over the past 15 years, they have purchased and renovated or sold over 20,000 units in 92 properties they strive to achieve a superior risk-adjusted return for their investors through the revitalization of distressed residential real estate. I love their tagline, "We fix properties, not neighborhoods." So without further ado, please enjoy this insightful, timeless conversation with Eric Silverman.

[INTERVIEW]

TC: Eric Silverman, welcome back to Elevate! How are you?

ES: I'm doing well, Tyler. Great to see you.

TC: Thank you so much for being here, man. I really enjoyed our conversation, which has now been about 18 months ago. We were talking about essentially the relentless pursuit that you've been on for a few decades in the real estate business. So really excited about continuing that conversation with you. Obviously an industry veteran, someone who I admire and appreciate who's brought obviously a ton of value not only to your partners from a strategic standpoint but your investors and other people that you've worked with over the years. So excited to dive into this conversation, man, you know, we have a lot going on in the market. You and I were just both catching up on obviously a lot of the stuff. Last year was a big year for many private equity real estate investment firms such as yourselves and 2022 has been different. Obviously, there's been a lot of shake-up. So, talk to me a little bit about your read of the market currently, and give us a sense of your vantage point.

ES: Yeah, well, just going backwards since we got together in January of 2021. At that point, we had probably raised… we had probably had commitments of close to $200 million on our sixth fund. By the end of the year, we got that number up to $400 million. So at the end of the year, we closed our sixth fund with $400 million in commitments. We actually started investing the fund about mid-year and looking across funds five and six. We made, I think, 12 or 13 investments in 2021. We made about 12 or 13 sales in 2021. And it was a very lucrative year and a busy year on many, many fronts. A lot of tailwinds, not too many headwinds. And 2022 started off with some real, you know, beginnings of some real headwinds, specifically inflation and rising interest rates. And while we have purchased 17 properties in fund six in 2022, two in two large portfolios, one was in Dallas Fort Worth primarily there, I think, one Austin deal that was in February or January, February, and then in March, we closed on the sixth property portfolio in Columbia, South Carolina, as well as two deals in Memphis, Tennessee. That's the bulk of our buying. Since then, in the second and third quarter, we only bought three properties. So we've sold three, we've got another three up for sale. So, we're going to do some selling this year, but nothing like last year.

ES: And frankly, when I look at kind of what's gone on in the last couple months with interest rates rising, that kind of has a couple of double effects in terms of headwinds, not only are rates higher, and therefore mortgage costs and debt costs are higher, but proceeds are lower. We're not getting because you need the debt service coverage, you're not getting the proceeds we'd like that means we got to put up more equity and that brings our projected equity yields down. So you know, we're definitely facing those headwinds. You know, I heard a report this morning where Jamie Diamond was talking about the economy. It's a tale of two cities. And I feel similarly in multifamily. The Tale of Two Cities in multifamily are operationally these are some of the last since we met in 2021.

ES: I mean, you know, I think annual rental rates were up 13 and a half percent. That's an average number across the United States, which is mind-boggling because the previous highest kind of average US increase in rentals was like five and a half percent. So for the average to go up 13 and a half percent. And as you know, there are some markets that are up 20 and 25, and 30%. We're based in South Florida, we actually go to our bed and don't own anything in South Florida. We own in North Florida, places like Tallahassee, Gainesville panhandle, etc. But in South Florida and Miami and West Palm, and you know, even Orlando, you're looking at 25 and 30% increases in rents.

ES: So, tremendous increase in rents, which is really pretty much basic economics of supply and demand, there is a limited supply, I would say, especially of affordable or more affordable market rate housing and some affordable housing. But, let's focus on market rate housing. There's definitely a lack of supply, we aren't creating any new supply in that space with very little, we're certainly building Class A that's where the new construction is, and certainly construction, you know, has gone up significantly. They are getting leased up those units. But that's not our business, our business is more kind of the low to moderate end. And you know, what I'm seeing operationally on the ground, kind of the tailwind side is tremendously strong rent growth, continued strong occupancy growth, I don't really see that backing off that, you know, very little if it's backing off.

ES: On the expense side, certainly places like Florida, we have higher insurance costs, those have been pretty material. And you know, even things like employees, wages are up just like everybody else. So there's a material impact there. But still, rents are definitely still outpacing and creating more net operating income, which you know, in the long run is how we make our money by taking a property that has x net operating income and increasing that and if we can grow net income, not just 10 or 20%, but if we can have 50 or 100% over time, which is an easy work, takes time but it's something that you know, we endeavored to do.

ES: You know, the headwinds are just, it costs a lot more to borrow money today, you know, I will tell you that we have in the properties we own, we own 55 properties, and I think 14 states or something like that right now about 13,000 units, and I have a mix of variable and fixed rate debt, I'm super happy with fixed rate debt that I have, don't get me wrong, and I wish everything was on fixed rate debt. And I know there are some guys out there that are smart enough to have everything on fixed-rate debt, so congratulations to them.

ES: On my variable rate debt. You know, and we haven't seen this in a couple of decades, we're hitting our caps, we're hitting our interest rate caps. And so that's kind of the good news, bad news. I mean, the good news is that we have caps, there's a maximum, you know, debt service coverage, but those only go out to two to three or two to four years, depending on the deal. You know, as I project out, we're going to have to figure out what's going on on those properties, we're gonna have higher revenue and higher NOI on those properties by the time they need to either be refinanced or sold, but we will be facing higher interest rates, either for ourselves to refinance or for others, if they want to buy our properties. That's a lot. I don't know. I mean, I kind of gave you everything from last year up to this year up to the kind of future where I'm thinking, but that's my first go at that.

TC: It's great stuff. First of all, I mean, I think, obviously, it's very comprehensive. It's not, you know, one issue that's impacting everything, we've got many different issues that are all interrelated. So give me a sense of your level of thinking for leading up to the set of circumstances. I'm just curious, at what level do you anticipate what's happening now? I mean, in some senses, obviously, we're always anticipating various scenarios playing out. But I'm just curious that from the level of inflation that we're seeing, in some sense, it's like, okay, yeah, many people could have anticipated a high level of inflation with regards to the level of liquidity that was injected into the economy, especially in 2020. And then, of course, we had quantitative easing, for what, eight years leading up to that. So, give me a sense of the level of anticipation that you had leading up to this, the set of circumstances,

ES: I saw this rise in inflation, and didn't believe in the transitory nature of it as we were moving towards the end of last year. And the only thing that I'm a little disappointed by is that I really didn't have the flexibility to get fixed rate debt on the properties we were buying in the first quarter. And the biggest reason for that was that we bought deals like we normally do that need significant renovation work, and getting those deals through Fannie or Freddie, even HUD is tough. So the course to go was to borrow bridge debt, and we got attractive, you know, spreads and good caps, and all those sorts of things.

TC: And it's, it was very challenging to compete at that level with fixed debt, you know, what was happening in 2021. I mean, deals were getting many, many, many offers to be competitive, you had to be very competitive on the financing side as well.

ES: Yeah. And I would say that if you're actually going to pick a top market, in terms of pricing, it was probably into the first quarter of 2022. There was still a tremendous bid on properties. I would say that probably the stuff that we bought that we negotiated towards the end of 2021 was still a discount to where the prices got to. Since then, I do feel like they've come back a little bit. I saw something interesting. I saw a broker I wouldn't normally see in a blast email. But I saw a broker who liked to put it right out there and said, look, this is a deal that we were putting in the market six months ago, the whisper was high $50 million, you know, high 50s. Now that you know we're pulled it off the market, we're putting it back on now the whispers low 50s. So that's, you know, 10 plus percent discount, and you've got a broker in Nebraska emailed thousands of people and putting that out there. So I think it's real that prices are coming down a little bit. I just feel like we need them to come down a little bit more in order to offer to get our financing straight.

TC: Well, one thing though on the price corrections, that is an interesting note to just kind of dive into just briefly. I mean, in our markets in general, sort of midwest, southeast, what we're seeing on our side of the fence is in general, about a 5% to 10% correction. I don't know if you're seeing anything differently, because obviously, you're in Texas and North Florida and some of these other markets. What are you seeing sort of in the different regions that you're involved in? In terms of price corrections, we're talking about large multifamily.

ES: Yeah, I'm seeing similar corrections. I mean, we have a deal that we're selling in Texas that we had expected to sell for probably $25-$26 million, it's going to go for $23.5 (million), that's a solid 10% discount, although it's still a great deal for us and you know, it's time to sell the property and that's why we didn't hold on to it and we have a couple of other deals that you know the POVs, broker opinion of values came back lighter than we had anticipated, and we're holding them off to see kind of where things settle out, they're cash flowing. So we don't have the pressure to sell them. But I would say that the price reductions aren't just a midwest, southeast situation, I think that’s across the board.

ES: I just feel like I mean, maybe I'm kind of biased because I want to be a buyer that I'd love to see them come down another 5% or 10%. And we'll see, we might get that if Powell keeps you know, putting tremendous pressure and keeps raising interest rates. This podcast will probably come out in a few days or weeks, or whatever it is. But today is September 21st. And later today, the Fed will announce what they're going to do, probably 75 basis point increase. But also, as you mentioned, you know, we're now quantitative tightening not quantitative easing, and the language from the Fed is going to kind of direct the markets in terms of where things go. So, I think rates will remain high. And I don't mean just short rates, I mean, long rates. I know people are kind of projecting that 10 years went up to the highest point five, three point five eight or something yesterday, will start coming back down. I'm optimistic that it will. But I think there's more room for it to run up.

TC: Well, to your point, I mean, debt costs are continuing to run and then proceeds are, you know, much, much less significant than where they've been for the past few years. And so those two significant capital markets headwinds are really sort of the downward pressure on prices that we've been alluding to. And so the question is, okay, well, you know, thinking from an equity psychology perspective, or just kind of the equity markets, in general, the thought process behind lower or compressed yield is generally well, it's lower risk. And so let's just think about it that way. Let's say, Well, if we've got a lower loan to value, and we're placing more equity in these deals, now the debt obviously costs more, but generally, we're going to be in a lower risk position. I mean, is that something that you think about? Or how else do you look at this set of circumstances? And how are you making sense of deals, it sounds like maybe you're not making sense of many, it's been very challenging for you to pencil deals recently.

ES: Well, I do think that we need to be creative. I mean, we want to be in the market, we want to buy deals, but we don't want to overpay for deals, and we're very, very sensitive to cash flow, we don't need it day one, especially on properties that we think are going to have a one, two-year renovation period. We understand the time it takes to get the property to where we want to get it to in terms of fixing deferred maintenance, as well as improving capital and getting better rents. But you know, when we project out, we want to have a really juicy, year three, year four, year five cash flow, and four or 5%, to me is not really juicy. I don't know if we have the strategy yet. But we're working on ways to try and be creative to make those kinds of numbers work.

ES: I'll tell you the things we aren't doing. I know others do this, we don't. We're really not looking at adding mezzanine debt. I mean, that would be a simple-ish way to reduce equity. And, you know, by putting more debt between us and the first mortgage, but to your point, maybe that adds a little extra risk on the deal. And if prices don't do well, or we don't perform well, partners don't perform well on the deal, you know, now we really risk our equity. So I would say that we're sliding down the scale of risk reward. And probably we like risk, we like taking the risk, the risks that we like to take are the ones that are perceived the kind of the perceived risks of buying properties that are not performing and say specifically worked done on the property. Those are the ones where we were at that perceived risk, usually we feel comfortable with because we've done, you know, hundreds of these, and we're just not getting paid for it. So we'll see what happens.

TC: It's not easy. It sounds like this is still being worked out. And you're still thinking through this, still brainstorming but where are these creative strategies and solutions leading you to other than you obviously mentioned, mezzanine debt is not an approach you're looking at taking as a result, but what are you what are you toying around with at this point?

ES: We're toying around with ways to use the capital in our fund, we'll see if we do this, but possibly to borrow money from the fund that then gets repaid after a year or two and recycled. We haven't done that historically. But we're looking at something like that in order to keep our yields up. And then I would say that we continue to look for deals with hair on them that have, you know, perceived risks others perceive as too high to surmount where we feel like we can take advantage of those.

TC: That's good stuff. And I think the perceived part of that is such a keyword perceived risk, because you can mitigate that risk from your expertise and your experience, obviously, from the perception of your firm versus others. I mean, that's where you create that value. So thank you for continuing to emphasize that word perceived risk, and it is interesting. I mean, you look at what Jerome Powell is doing. It's like Is he true? Trying to be the new Paul Volcker and many regards perhaps Yes, at least so far and 2022, we'll see how it continues to play out. But you know, there's a lot of thought that they will have no choice but to go back the other direction. But again, we'll see. I mean, we don't, you know, we don't make predictions here. But we just evaluate and try to read the tea leaves and make decisions appropriate for our own perception of that risk. But talk to me a little bit about sort of raising capital previous to the set of circumstances today that you saw in 2021. The difference in the equity market, then versus now. I mean, obviously, you've mentioned to me, it's like, look, raising capital is a much different game right now than it was.

ES: Yeah. I mean, we lucked out. We had, you know, we launched our fundraising during COVID, probably August, September of 2020. The markets had kind of stabilized and come back. And it was time for us regardless, you know, we were running out of money in our current fund, we needed money in the new fund. And we had a good fundraising run, and especially kind of the dynamics in the fourth quarter of last year with lots of properties selling and interest rates still low. And a variety of, you know, kind of, like I said many more tailwinds and headwinds, we're able to raise a significant amount of capital.

ES: If we were in the market today, which we're not. But we do always talk to our existing investors and potential investors, there's definitely still interest and demand, the desire for people to diversify out of the stock and bond market has only increased this year because of the downdrafts in those markets, and the volatility in those markets specifically. And so I think it bodes well for fundraising as we go forward. But the impediment to fundraising at the moment is uncertainty, it's uncertainty about where inflation is going to land, they will cure it to some degree, but I don't know if they're going to cure it back to 2%. I think we may cure it back to 4% or 5%. And that may be acceptable for a while, that's my opinion.

ES: So, maybe Powell has less work to do, if he doesn't try and put the genie back in the 2% place and get it to four or five. On the other hand, you know, I'm looking out and thinking that it'll be a better market to raise equity capital, you know, kind of a year out which kind of targets where we need to be. So maybe I'm biased. But I'm frankly glad we're not in the market today with all this uncertainty.

TC: I've been a believer that the past few years have been a pretty challenging time to just put capital to work. Because you know, to be successful in 2021 and 2020, you had to really bet on tremendous rent growth. And obviously, looking back, it's clear that that happened. And that has been that continues to happen, you know, because you've been just competing with a tremendous amount of, you know, just dry powder that's been on the sidelines, you're looking for a home. And now obviously, the set of circumstances, you've laid it out very well, here today is vastly different. And the challenges are different sort of on a different side of things. But then if you look at it, it's like, well, if you have dry powder, you know, inflation is tremendous. I mean, obviously, CPI is one thing, but there's another set of what I would deem to be the real inflation metrics, and those are, I believe, much more significant than 8%, which has been what's been reported. So obviously, you've got to put money to work. But the yield expectations are really what you're seeing in the marketplace are so much more compressed than what we believe should be compensated for that perceived risk or for that actual risk. So, man, it's not easy. I guess that's why they pay you the big bucks, right?

ES: Hey, yeah, no doubt. And really, you know, for many years, we had a really great model where we could drive what's called a high single-digit cash flow relatively, I wouldn't say easily, but you know, we could drive that kind of 678 percent cash flow, which was crashing, whatever else you could put your money to work in. Now, yes, people have dry powder, but they're starting to go back and look at municipal bonds, or even corporate bonds, because, you know, instead of yielding one or 2%, things are yielding four or 5%.

ES: So you know, they're kind of getting the back end and with our pricing in the market, that's kind of what we can expect. If we get into a deal, at least in the short run five or 6%. It's not as juicy a story, I think that we will continue to tell the story about taxes and how we can, you know, mitigate push-off taxes on those returns, which are important to people. And I also think that there's still like we said, a drive to diversify. But you know, the last thing I'll say on this is if I turn the clock back 10 years ago, which is a long time, but if I turn the clock back 10 years ago, there were probably half a dozen funds like our fund, maybe today there are an end and a handful of one deal-by-deal guys, you know, so maybe half a dozen funds like ours, and maybe a few dozen deal-by-deal guys. Today, you can almost 10x that number. There are just so many funds out there, like you said dry powder. And there's so many, you know, people who have entered this market, you know, that probably is going to keep prices high longer than we'd like.

TC: Yeah, no doubt, man, it is very interesting to see this all play out. And I do want to get your take on really the next maybe three to five years. But before we get there, let's talk about it because we're on the topic of inflation and CPI. And obviously one of those factors is rent. You and I were talking about this before we started recording this episode, and most investors look at real estate investments as an inflation hedge because of the fact that you have rent growth and that is a factor of inflation overall. So talk to me about what you believe about that correlation. And how that could be a challenge for us to anticipate?

ES: Well, I think that the importance of rent and CPI makes up or let's call it housing costs are about 40% of CPI. And it really hasn't been a topic. It's been true, but not a big topic. And I think that as we kind of now everybody's more and more focused on CPI, they're understanding that and they're also understanding kind of the headwinds and tailwinds. So the tailwind is yeah, we're getting bigger rents, no doubt, and there's continues to be room to grow rents. And I would say, especially at the low to moderate end, because you know, the dollars are relatively smaller, and people may not like being able to pay higher rent, but they kind of you know, that's kind of the choice they have, it's probably less expensive for them to stay in their apartment than to move because the trade out rents are even higher, because of occupancy.

Sure, you know, because of you know, very tight occupancy, high occupancy, you know, your question is, What do I see kind of going forward? We could see something more like this last CPI report where the real big driver of inflation was housing costs, and you know, less so energy and less so you know, some of these other components, and that makes us not look great from the standpoint of consumers and regulators, and you know, all sorts of people looking at these numbers, and they're saying, Oh, now the landlords, you know, are taking too much. And this is kind of driving and we see this, it's driving more rent control legislation in different places, and which is a short-term solution, short term probably.

TC: Obviously does not work. I mean, you talked about, you know, salary increases. You talked about labor costs, material costs supply chain, and I mean, utilities, insurance to your point, I mean, it's just unbelievable, the new rates that we're starting to see in some of these markets, especially you mentioned, Texas, and Florida, North Carolina, a lot of the coastal markets. It's just, it's unbelievable. And when you think about rent control on top of that, I mean, that's a recipe for disaster. I mean, you've seen it in New York, you've seen it in California and some of these other places, and you've seen sort of the negative cascading effects. But to your point, it is something to anticipate becoming more widespread, whether we like it or not, it's something that we're gonna have to figure out. I mean, I don't know the solution. But it is a good point that I don't feel like many people are talking about.

ES: Well, they're talking about it in Minnesota, because St. Paul, Minnesota, put it into effect, and it really has slowed down the market there, to be honest with you. There are examples out there, I guess, what is there to do about it, I think we have to project that we're going to have continued rising rents, but I think we're going to kind of settle back down not to 13 or 15, or 18%, kind of rent, you know, average rent increases, but more maybe five to 7%, which by the way, would be historically very, very good. And certainly, we're going to need it to keep up with the expense growth at the property level. I guess my feelings on all this. And this is kind of a bigger macro view is that this eight 9% Kind of, you know, top-line inflation number is going to come down components are going to kind of bring it down, but I don't think they can get the genie back in the box to 2% inflation rate, and I think it'll be more like in the four or 5% range. And that probably argues for the interest rate to remain higher, certainly on the short end.

TC: Hey guys, just a quick word from our sponsor, then we'll be right back to the show. This episode of Elevate is brought to you by CF Capital, a national real estate investment firm founded by myself and my business partner Brian Flaherty. CF Capital's mission is to provide property investment and asset management solutions to help investors like you maximize their returns by investing in high-value multifamily communities. If you are looking for risk-adjusted alternative investments and quality apartment communities, and are seeking tax-optimized cash flow with appreciation upside without all the hassles of management, you might benefit from learning more about investing alongside our team. You're invited to reach out and learn more about how you can invest with us by visiting CFcapLLC.com. We're also currently offering a free ebook called “The Bottom Line - 10 Ways to Increase Cash Flow in an Apartment Complex”. Whether you're a new or experienced investor, we're confident you'll find massive value in this resource. So go get your free copy today at CFcapLLC.com. And now please enjoy the rest of the show.

TC: So, let's expand that thought process. And let's get your crystal ball out. How do you see things playing out beyond just interest rates and so forth? I mean, thinking about yields, thinking about opportunities across the landscape? I mean, how do you see this playing out over the next three to five years?

ES: Yeah, I think that there will be better buys next year, I think that that pricing will actually continue to come down a little bit, even though I know there's lots of dry powder and lots of people chasing things. But I just think the debt service coverage and the metrics don't work, especially if I believe that interest rates are going to rise. So I think that there will be better pricing, better buys next year than there were this year. And when I project out a little bit further, I think that the tailwind of demand for rentals is super strong in the United States in pretty much every market. And you know, the component of the single-family home market that's most relevant to the rental market is kind of that entry-level or moderate level home, maybe these days, you know, $250,000 to $500,000 home, and those buyers are facing this mortgage problem. And mortgage rates are, you know, a 6% mortgage rate is a lot different than the 3% mortgage rate for the consumer.

ES: So**,** I think that people will continue to delay buying houses, I don't see those home prices, they may come down as well, but I don't see them crashing. But I also again see mortgage rates staying high. And I think that'll continue to fuel strong, you know, aggregate demand for rentals. So I think we're still in the right place. I think being in the rental market is the right place. I just think we've got to kind of work through a few years where the yields are just not going to be as significant as we'd like. But the demand is there. And I think pricing, you know, will recover when I think of not a year or two out, but three to five years out.

TC: Yeah, it's interesting. I mean, I think about, you know, the inherent value of these assets. I mean, when you think about new construction, I mean, generally I mean, in some cases, you're looking at $200,000 plus per unit. And if you look at it from an inherent value perspective, if you're thinking about it from a basis perspective, you're talking about right now, we've seen a correction this year, perhaps we may see a continued correction of those prices across multifamily assets across the country. You know, if you look at it from that perspective, and you think about currency volatility, and all the other things that you've already talked about, it is interesting to have that sort of viewpoint, but to your point as well, if you can make sense of compressed yields, lower yields, you know, maybe even sort of bringing in some creative solutions from the capital stack perspective of how can we use these returns in whatever way? I mean, you brought up some examples, I think, perhaps that opens up all of our minds of what other solutions are we bringing to the table? I think from that perspective, it's okay, well, yes, we can make sense of it. And the other thing too, that I think about from a multifamily perspective is it's not recession-proof, but it can be recession-resilient, in some regards, because everybody needs a place to live.

ES: Everybody needs a place to live. And we resent rents all the time. And so we don't have these long-term sticky rents like in the office market or industrial market. We also aren't as you know, service driven, if you will, as king of the hotel world, so multifamily still really is a sweet spot. It always has been, people just are recognizing it more these days, which is good and bad. You know, it's brought a lot of capital to the market. And I think that'll persist but I'm still very bullish on the multifamily market and multifamily, you know, performance in terms of net operating income. And I still think there's room to grow net operating income, but patient and picky wins the race.

TC: So where are you seeing the most compelling opportunities and the biggest risks across that landscape? I mean, obviously, we don't know necessarily how the next three to five years are going to play out. But from your perspective, what would you say to that?

ES: 34:09
Yeah, look, you know, Tyler, I love low dollar price purchases in order to play in the Texas market, especially in the Dallas market these days, even for you know, forget about new construction product, you use the kind of the $200,000 dollar price point, that's the kind of price point that you got to pay for, you know, 1980s product in Dallas these days. And so I love the fact that we're in Dallas, but it's really nosebleed level to get into those markets. You know, that's also true in places like Phoenix, some of the other western states, Denver, Denver, suburbs and Salt Lake and all these places as you go further west where a $200,000 price point is kind of where you need to be in order to win a deal and these are $200,000 price point per unit deals With $1,000 rents, and I do that math, and I get really sick to my stomach. So I mean, you know, we're always looking for secondary, maybe more tertiary markets where we can still buy properties that if possible under 100,000, or if not under 100,000. And the 110 $120,000 range, you know, and I get it, that we're buying into maybe less sexy places, I get it, that we're buying into properties that maybe need more deferred maintenance, fixes. But I still

think there's upside, we still see properties where the owners haven't really pushed the rents. And yeah, they're full, but they're full and add pricing that can be better.

TC: No doubt about it. And it is, it's interesting, when you say that, I mean, I just think about two properties that our company, CF Capital just purchased in southern Indiana that you are a part of prior to the sellers who sold it to us. And you know, it's not in a sexy market, these are not sexy assets. These are 1970s, you know, vintage, and you know, they've got a very attractive basis. And it makes a lot of sense from an inherent value perspective, but it's not front page news, you know, Phoenix 37%, rent growth or whatever, but it's strong, it's slow and steady. And again, people need a place to live, a quality place to live in a quality safe submarket. So to that perspective, and when I think about it, I almost think about as we navigate the next three to five years, it's about surrounding ourselves with the appropriate partnerships. And one of the things that I think you've done such a great job of so many years, and this is just for my own limited perspective of what you've been able to do is you've been able to strike very valuable strategic partnerships. So I'd love to just kind of migrate the conversation to that for the thought process. Is there any advice you might give your younger self about forming valuable and lasting strategic partnerships? Is there anything you would speak to on that?

ES: Well, our business model for the viewers is to find great operators, and then to back them on their deals. That's in a nutshell. So Eastham Capital does not manage properties, we're looking for great operators to joint venture properties with we always need to be a majority owner, that's one of the conditions of our equity or the way we're structured, I would say that we are constantly looking for new potential joint venture partners, they're hard to find, we added one in 2021, we did not add any in 2022. And I don't think we will, I don't know we could sneak a deal in at the end of the year. But you know, finding and maintaining those relationships has really been what has made our business. I guess what my older self would tell my younger self was "Every effort that we can put into talking to up-and-coming and potential partners and trying to find ways to work with people to get those relationships going, that has really what's generated our best values over time."

TC: Talk to me about any pitfalls that you would suggest to your younger self to avoid. If you were to say, ``Hey, here's my sage wise advice, you know, younger self, I've been there, I've done that I've seen the good, I've seen the bad, what pitfalls would you suggest your younger self avoid with regard to strategic partnership? Or is there anything that you might say, Hey, this is how you can get ahead or around sort of those downfalls,

ES: By the way, just so people know this guy, Ben is one of our analysts. He's not really here. This is a picture of Ben from a couple of years ago before COVID. He looks awesome. Yeah, he's thumbs up all the time.

TC: Very happy, just constantly stays happy.

ES: Exactly. I think that the reality is that firms evolve, partners evolve. And some of them evolve into I mean, the more typical path that we've seen, and this is over a lot of time. So I'm not saying this is specifically today, but over time groups start by buying existing properties, renovating, fixing them up, and then look at moving up to higher end newer, nicer properties, and then potentially move towards new development. And our choice has been to stick with typically older suburban garden-style properties that get renovated. So I'd say we've lost some potentially great partners by not migrating to their new strategies of not necessarily buying newer, nicer properties. But by getting into the development game. I wouldn't change it because the development game is a much different game than buying older suburban garden-style properties. It's a different risk profile.

And I think that it makes a lot of sense for some groups to move that direction, especially if they have partners in the partnership or add a partner that has, you know, really good experience, you know, in construction and new development, but it's a much different risk profile. And so I think as an investor, we need to pick our spots in terms of what kind of product we want to invest in, and we don't necessarily want to be the capital for all multifamily everywhere. We want to be the capital for certain strategies. Other people, you know, other funds take things differently. Maybe they're more opportunistic. And hey, if it works, it's great.

But I like sticking with our model. And then, you know, like, we talked about trying to come up with some creative ideas to kind of stay in the market and make good buys.

TC: Yeah, and what you're talking about is really one sense of evolution, right? You mentioned firms and partners, and individuals and professionals evolve over time. And what you've mentioned is that Eastham Capital, your strategy, your acquisition criteria, has remained the same. But you guys have evolved in other ways. And obviously, each and every fund is a little bit different. So talk a little bit about the funds and the opportunities that you have now and how this has evolved since fund one. I mean, how many funds are you into now? How many have you guys done at this point,

ES: We're now investing from our sixth fund. Okay, funds, one, two, and three are all wrapped up, bought fixed cash flow and sold everything. Fund 4 has one more property to sell, we're working on I think there were maybe 32 properties or something like that in that fund. So just one deal left, probably won't sell till next year. Then fund five, we're an active seller, we bought 42 properties, we own 29. So we're actively selling from that group, and then funds six, we own 25 properties in the new fund. And we'll probably end up owning close to 60, six-zero properties, maybe more in fund six.

ES: How I think we've evolved, we've especially in fund six, we've done more deals where we bought a portfolio, I mean, just the two big recent portfolios and a property portfolio and a six property portfolio. And so having much more capital allows us to do transactions like that, that's kind of you know, we had done maybe three and four property portfolios, when we go back to funds four and five and one, two, and three, we maybe did a two-property portfolio or something like that.

ES: So one, one way is to be in the business of being able to do portfolio purchases, I don't feel like in a way, it's an evolution. But it's not something that I think we can do just fine buying one-off deals, and just a lot of them, but having the capital to be able to buy portfolios is definitely changed. And then I would say that in our space, we buy a mix of properties. I mean, the last property that we bought just recently in the last few weeks is a conversion of a student housing deal that we're going to convert back to market-rate multifamily. So you've got groups that go one way with the deal, you get groups that go the other way with the deal, I think, you know, that one is going to be a great deal. It was a newer, nicer property as of 2007. I think, build a property that's kind of new, newer and nicer for us, but at a very good cost basis and over 100, but not a lot over 100,000 a door, but you know, where I think we've evolved is just our access to the market and being, seeing so much of the market and so many different potential investments that that has really grown with the growth of the business.

TC: And from what I understand now on the current fund, fund six, you're 40% called of a $400 million fund, is that correct?

ES: Correct. That's on the nose.

TC: Big numbers there, man. And I mean, that scale just continues, obviously that's an evolution, I mean, your price per unit from fund one, I'm sure to fund six is obviously an evolution and how you're interacting with the market. But it is cool to see that you've really stuck with your philosophies and your approach for so long. And obviously, you know, just continuing to work through that on a daily day-to-day basis.

ES: And we, you know, we've seen periods of time where business where we've been slow, I mean, we were slow. The second half of 2013, kind of through that taper tantrum was, you know, an interest rate blip that kind of slowed down our buying for a bit, we were slow during the last interest rate rise between 2018, we were slow. So I think we get slow during interest rate rises. I, you know, just kind of look backward. But I believe you know, we'll ebb and flow. Maybe some people think rates will be back down quite a bit next year. I think it might take another year to get there. But we do like sticking with what we know,

TC: There are so many different factors. And by the way, I've put you through the wringer today. So thank you for playing with me here and talking through a lot of these complexities, because I think it's super valuable. So I just really appreciate you. But before I let you go, I mean, I just want to touch on one final topic here. Because with so many different complexities in this business, whether it's things that are in your control, things that are out of your control, things that your investors are thinking about, or things that the broader market are thinking about, which impacts behavior in the market, and so on and so forth. One of the things that we find to be very valuable with regard to Elevate is mindset, and how we interact with all of these different forces at play. So I'd be curious, Eric, what role does mindset play for you as you navigate very complex environments such as what we've been discussing today.

ES: The mindset that we need to keep is that we are open to do business. If we can find the right deal with the right partner, strategy that makes sense. We're all in. We're not putting our pencils down. I hope I didn't come off as too pessimistic in terms of what's happening right at this moment. I'm not pessimistic. I'm just patient. And so I think that investors need to be patient and find their spots. But stay in the business, keep working deals, keep looking for opportunities. I don't know if that differentiates us. But I do know, I hear through the grapevine that certain funds are saying, we're not doing any deals, we're shut down on deals. I don't think that makes sense. I think the mindset of saying we're shut down and not doing deals is not the kind of mindset that you want to take to work every day, the mindset of, hey, if we can find a deal that pencils, we're all in, let's make, let's ask a lot of questions. Let's go through it and make it work. But keeping a positive mindset is really critical.

TC: I totally agree. It puts you in the world of possibilities, rather than, you know, the world of nothing is possible. So thank you for that. But Eric, is there any parting thoughts or words of wisdom that you'd like to share with Elevate nation today?

ES: Well, I think that, you know, we're all very lucky to be in the multifamily business. You know, it's a business that has long timelines, it's a business that if you kind of hone your craft, it's one where you can mitigate, really minimize your risks, but also, you know, open yourself up to some really great potential returns over time, and you gotta be nimble, you got to stay smart, you got to stay in it. It's not a business that tomorrow the technology is going to change and we're not going to need apartments. We're going to need apartments, we're going to need places for people to live as difficult as it was before to replace, you know, kind of affordable housing, it's now even more difficult. And so we have a huge opportunity, continued opportunity to take advantage of, you know, finding properties, and they might be five years old, or 50 years old, and coming in and bringing some new life into that property for whatever sets of reasons, I just think there's a very long runway for a very long time to continue to do that.

TC: I agree. Complex problems require creative solutions which create opportunities at the end of the day. That's what it's all about.

ES: I'll let you keep that quote. That's your quote,

TC: It just came to me. I mean, like what we've talked about today is very complex. There's a lot of moving parts, it's not easy, but that's where the opportunity lies. So man, thank you for setting the example. Thanks for continuing to have this conversation with me, I look forward to part three at some point in time. But Eric, tell the listeners about how they can learn more about you and Eastham Capital.

ES: Well, it's www.EasthamCapital.com. And you can check out our website at this very moment. We don't have fund seven ready to launch and go. But we do expect next year to be in the market for fund seven. Happy to talk to you if you're an investor about, you know, investing with us going forward. And if you're an operator that's maybe even more relevant to this group, please contact us, and show us your deals. If you're looking for equity, we try to be on top of that process. We don't take two weeks to get back to you. We get right back. I've got four guys, my analyst team has now four people, four analysts lead analyst sec. Gov. And then he's got three guys that work for him. And all we do all day is review deals and try to get back to people quickly with feedback. And whether it's positive or negative, at least we're back with feedback and keep the conversation going.

TC: And you speak to how many people per day, Eric? I mean, you're on the phone constantly.

ES: Yeah, I mean, between me and the analysts, we're on the phone all day with potential investments and potential partners and existing partners. So that's our business.

TC: Well, it's always a pleasure to speak with you, Eric, we'll put links in the show notes as to where the listeners can find you so that they can reach out so that they can explore those opportunities that you just shared with us. But man, until next time, thanks again for being on the show.

ES: Awesome. Thank you for inviting me again.

[END OF INTERVIEW]

TC: Absolutely. Elevate nation, Eric Silverman, bringing tremendous wisdom. You know, obviously, he's thinking very deeply about the set of circumstances that we're dealing with right now. And it's not easy. This stuff is not easy. But again, I think complex problems require creative solutions, which then lead to tremendous opportunities. So we've got to have the mindset that problems, challenges, and complexity are gifts. So how are those gifts giving you and delivering you a new opportunity today?

TC: So let's look at it from that perspective. When I think about the mindset that is the key ultimately, yes, we've got to understand the strategy. We've got to understand execution, we've got to be plugged into economics. But at the end of the day, it's about how are we interacting with that from an inner dialogue perspective, which leads to our actions which leads to our results, which leads to the way that we course correct and which leads the way to we creating and capturing those opportunities, just so much good stuff from this conversation.

TC: I want to encourage you to really listen to this show because repetition is the mother of all skills. I want you to identify what are your thoughts, top three takeaways. Your top three key distinctions from this episode whether it relates to the current economy, the market moving forward projections moving forward, maybe there's something that you thought of, maybe there was an anticipation that you had come to your mind as a result of listening to this conversation. Maybe it's something that wasn't said, but it's still a distinction, jot that down and make a commitment to taking massive action on that distinction by putting something in the calendar that says, Hey, by this date, I will do x, I will set up a meeting and talk to someone else about this conversation, I will implement this new strategy into my business. I will read this report, I will research X, Y and Z. What was it that you were curious about today? So make a commitment to take massive action, of course, share this episode with a friend and have a discussion around this episode. Because that's really where we learn. That's really where we expand is thinking through these complexities with others, asking questions, what was it that did not make sense to you? Ask a question, go research it. Go find that out and surround yourself with great people, other great people who have the propensity to dig through this and to learn and to grow and to think about what are those creative solutions to these complex problems. And what are those opportunities that we're going to capture today? Until next time, Elevate nation. I'm so thankful that you tuned in and we will see you next time.

[OUTRO]

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