

# CRE investment quarterly

## *In This Issue*

**Year in review at Solaris Capital Management - Wins and losses**

**The Pandemic and Its Impact on Commercial Real Estate**

**Looking forward to 2021 - Goals and Dreams**

### **Solaris Capital Management**

Rodney Thompson - Editor

f. 507-458-7959

e. [rodney@solariscm.com](mailto:rodney@solariscm.com)

a. PO Box 121, Rushford, MN 55971

w. [solariscm.com](http://solariscm.com)



## **2020 - Year in Review**

To tie together the start of 2020, we have to look at the end of 2019. We had just closed on our deal in Montgomery, Alabama. Magnolia Terrace is a 176-unit garden-style class-c+ apartment complex that was an REO property. The current management had done a nice job keeping the property in shape, but there was still a lot of work to be done. Our team rolled up our sleeves and got to work, transforming this asset into a quality asset for our investors. By the end of the first quarter, we had run into a few road bumps, made corrections, and continued to work our business plan.

By the time we began the second quarter, COVID-19 was beginning to cause issues with everything.

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# The Pandemic and Its Impact on Commercial Real Estate

The sector of commercial real estate that I would like to address here is multifamily. Each of the asset classes that make up CRE has been impacted in different ways, all resulting from executive orders of governors, customer demand, and lending directives due to uncertainty of the market's future.

When the virus began impacting the United States, many syndicators, operators, passive investors, and lenders thought that the correction everyone has been speaking about was upon us. Most people in CRE didn't think the fallout would be as bad as 2008,

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## Looking forward to 2021 - Goals and Dreams

I recently posted on LinkedIn about how many people I've heard wishing away 2020. That they have never experienced a year as bad as 2020, and they were ready to be done with it.

The post goes on to talk about how time is a precious commodity that should never be

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# 2020 - Page 2

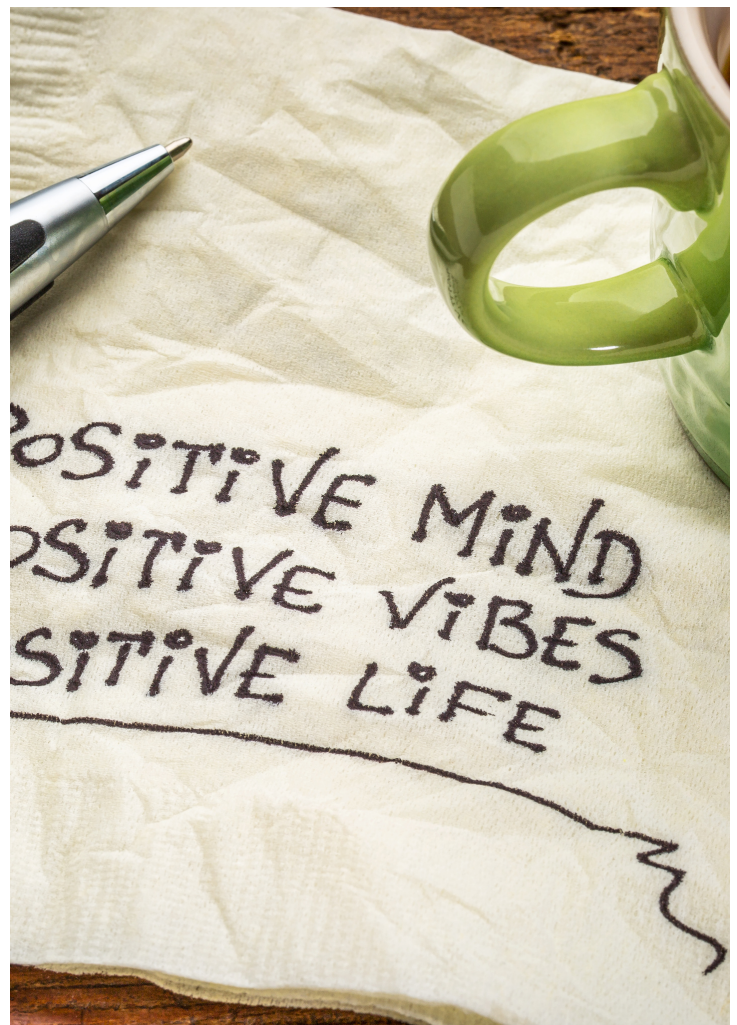
I don't want to hash back through everything that happened as a result of the coronavirus because we all know that things were far from normal.

On the homefront, we began working from home, and we were all forced to conduct business using alternate means. Even though this was initially seen as inconvenient, at best, I believe that it caused many of us to grow in ways we didn't recognize. Without the ability to meet face-to-face any longer, Zoom became the main means of communication for business meetings and social gatherings.

Our primary means of acquiring property is to go to the property for a tour to allow us to assess the condition and surrounding area to allow us to verify that the asset will be able to perform for our investors. Due to COVID-19, we were not able to perform on-site visits. The brokers began using virtual tours to show the property. This was not ideal, but it still allowed us to inspect the property, albeit not on our terms.

With these restrictions in place, I decided to take a different route. This is where I feel I wouldn't have ventured unless I was forced to but definitely needed to go.

Since deal flow was slowing, I'll go more into this in the article, "The Pandemic and Commercial Real Estate," I was forced to look at what else needs attention that I haven't been giving the attention it was properly due. I found that the most work needed to be done on me. That's right! After doing some self-reflection, I determined that I needed to do some maintenance on my branding



(whom people see me as), and my mental attitude (how I approach goals, tasks, and mindfulness, or mindset).

I found that I knew the business to the level I was operating. But, I fully understood how my mental health and mindset impacted how successful my business would be until I started listening to podcasts on the subject, reading posts, and talking with people in my circle. The saying you may hear, "mindset is everything," is so true! One can know the ins and outs of a subject and be able to operate all the mechanics of a particular task, but if the mindset is wrong, success is not going to be within their grasp.

Before the pandemic forced us to work from home, which I love doing, by the way, I had been getting up at 4 AM to work on my

# 2020 - Page 3

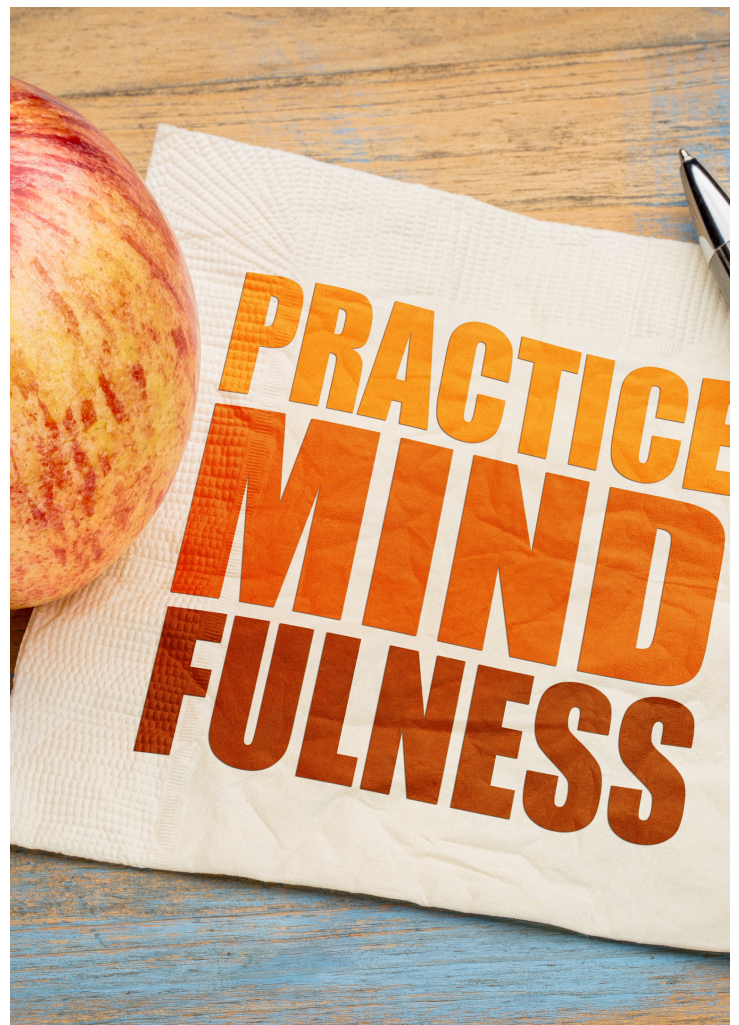
business before heading off to my W-2 job in Winona, about a 30 drive north of where I live. But I got lazy. I started getting up at 7 o'clock instead of 4 o'clock. This practice didn't allow much time to work on my business, and ultimately on my goals. I started transitioning my time working on my business to the evenings. This transition wasn't all bad. I attended several classes and workshops on how to promote your brand on LinkedIn. That knowledge turns out to be very valuable! I went from having a so-so looking profile page to maxing out my wow factor. I also increased my contacts on LinkedIn from 239 people to over 4800 contacts or followers.

During this time, I put the brakes on seeking new properties and focused on building my brand, educating myself in areas that I was unfamiliar with, and improving my mindset.

It was time well spent!

I started looking at properties again. The lenders were beginning to relax their requirements a bit once they understood that this situation wouldn't turn into another 2008. Deals were flowing nearly as good as they were prior to the pandemic, and we were able to get out to the properties and tour.

In January of 2020, I went to a real estate conference in Minneapolis. The crowd there was mostly single-family operators and few small multifamily people. While there, I was fortunate to meet the two guys that would start a podcast with me. Dan Krueger and Anthony Vicino were partners in a real estate investment firm that acquired and operated medium-size multifamily commercial assets.



We originally started meeting weekly over Zoom and quickly decided that our discussions were worthy of podcast material. You can find The Weekly Multifamily Roundtable on Apple iTunes, Google Podcasts, or one of your favorite podcast platforms. The discussions are centered around real estate, but we don't stick to a particular format.

Having gotten my LinkedIn mojo on, I am very active on LinkedIn. If you would like to connect with me there, search for my name.

I am back to getting up at 4 o'clock, and I have incorporated reading and meditation into my morning routine. I feel like it is helping me stay on task and better serve my clients and family because I'm present in the moment, and my thoughts are not randomly zooming around. ✓





## The Pandemic - Page 2

but they thought it would have a lasting impact on the market, including present and future values.

Many investors began to express that they would not be taking any new deals because they felt a correction could put their whole business plan in jeopardy of failure. And rightly so! There was also the sentiment that soon prices would plummet, and there was going to be blood in the streets. Smart operators that were not over-leveraged would be poised to swoop in and scoop up deals for a great price, weather the downturn, and come out the other side with newly recovered value in the assets they were able to acquire when other operators were forced to sell.

The only issue with that whole scenario, it didn't happen. At least not that way. There was some fallout from the initial perception of what might happen, but it was not wide-sweeping. One example is that my partner and I had missed purchasing an asset in Little Rock by a few hundred thousand dollars. The group that won the deal was relatively new and didn't

have a large enough investor network to fund the deal. The group couldn't close, and the deal came back to us. We put a new offer in on the property, but because of the uncertainty of the market, our offer was quite a bit lower than our original offer. The seller didn't take our offer and put the property back on the market.

We would see deal flow slow down as a result of the uncertainty of the market. Investors were not ready to commit funds, and many operators and syndicators adopted a "wait and see" posture. When deal flow began to trickle back to life, we would see the market adapt. One of the great qualities of humans is the ability to adapt and overcome! Zoom became a mainstay in place of in-person meetings, and brokers began offering virtual tours instead of onsite tours.

Fast-forward to the end of the year, and we are back to near pre-COVID deal flow, onsite tours have resumed (with limitations), and through this whole ordeal, property values didn't change.

The moral of the story? It shows how resilient and resistant multifamily commercial real estate can be. Why stocks dipped severely early in the year, multifamily stayed rock steady! ✓



## 2021 and Beyond - Page 2

I think a lot of people got to the end of 2020 and began to coast. They had given up on the year. Sick of lockdowns, travel restrictions, and sick of being stuck at home. Many people found alternative means of escape through camping, hiking, power sports, and other outdoor activities. With the new year now in full swing, I am looking forward to pushing full steam ahead!

This year also brings new horizons for me. Last year, before there was a pandemic, I decided to take an early retirement option that my employer offered. My wife and I discussed the options and decided that having 14 months to transition my income from my W-2 job as a Data Security Officer to a full-time real estate investor would be a doable transition. Then the pandemic hit and changed the trajectory of everything.

Looking back, I can't say that it has been bad. Sure, I didn't get the five deals under contract that I had planned at the beginning of the transition, but I grew in other ways that will have an immeasurable impact on my future!

This year is even going to be better!

We are in negotiations for a great portfolio in Des Moines, Iowa. My concentration has always been in the southeastern United States. Several reasons make the southeast a favorable area to invest in. The southeast tends to be more favorable than other parts of the country for a variety of reasons. We take great pride in making our properties a place that people are happy to come home to at the end of the day. With travel restrictions in place, I began looking for favorable areas closer to home that would provide returns for my investors that would be equal to or better than the southeastern U.S.; Iowa is one of those places.

In the coming months, you will see more offerings to invest in the Midwest. My goal is to have at least ten investment opportunities for my investors this year. Our criteria are to provide at least greater than 10% cash on cash, greater than 15% internal rate of return, and double an investor's money in 5-6 years.

If you are interested in learning more about investing passively in real estate, beating what the stock market has to offer without the volatility, I would be happy to schedule a call with you. [Here's my calendar link.](#)





## 2021 and Beyond - Page 3

New things for 2021 are new guests on a collaborative podcast that I do with two fellow real estate investors in Minneapolis. The Weekly Multifamily Roundtable talks to industry experts that killing it in their field. We talk about all aspects of investing in multifamily real estate.



I will also be starting a new podcast this year called The Mindful Capitalist. In this podcast, we will focus on real estate and the mindset it takes to be successful. It's not just tools that you need to be successful; you have to have the mental fortitude to navigate the waters of doubt and uncertainty, mental tools to defeat the herd mentality that pulls at your feet to keep you from rising to new heights, and the commanding, confident presence to stay on top of your game and be an expert in your industry.



You can subscribe or listen to both podcasts on Apple iTunes and Google Podcasts. I would love to hear from you about what you think, or topics that you would like to hear covered.

As 2020 marched on many people were feeling defeated. I chose to embrace the attitude of Dwight D Eisenhower when he said during World War II after setbacks by the German army, "The present situation is to be regarded as opportunity for us, not disaster!"

I look forward to bringing new opportunities to you in 2021!

Rodney Thompson