Hampshire Capital CEO Shane Carter on Real Estate Development

Shane Carter: Mr. Shane Carter. Welcome to the Rei Diamond! Show. How are you today?

Shane Carter: I'm doing great Dan, thanks so much for having me. It's an honor to be here.

Dan Breslin: So I'm sure people who will have read the description, and the bullet points from our conversation are looking forward to hearing about all of the large scale. Single family development deals and the multifamily assets. But before we dive into that, you have recently, just in 2024, I believe September it may have been released. The book you wrote optimize your life, and I know that a lot of our audience is

Dan Breslin: about family and about freedom and living life to the fullest. So would you mind kind of taking us through a little bit of the journey of putting that book together, and maybe what the top line message is.

Shane Carter: Yeah, yeah, thanks, Dan, I appreciate that. So

Shane Carter: this is a book that just just so we're clear about it upfront. I didn't write to be a lead magnet, or to be a funnel into a course, or to be anything other than

Shane Carter: frankly, a cathartic process of getting my thoughts out and and wanting to share with others all that I've learned in the, you know, 27 years of my professional career and my personal growth

Shane Carter: journey. And so I've been a preferred, you know, a personal growth junkie from the very beginning, and and I've I've read and absorbed just about every book you can. And so this is sort of my recounting of

Shane Carter: the main lessons that I've learned on that journey. And so, you know, it's obviously starts with mindset.

Shane Carter: and how we

Shane Carter: quite literally create the world around us via our mindset on a daily basis. And if you do that consistently and long enough, you. You craft your own life in a very meaningful way, and then the rest of the book also goes into what I believe to be a critical balance between mind, body, and spirit, and I think that's a piece that a lot of entrepreneurs, miss. There's a lot of

Shane Carter: influencers out there right now. I'm not going to name names, but you know their sole focus is business growth. Grow your business, eat, sleep, live, and die, and breathe it, and you know, just grow for the sake of growth, and I offer many counterpoints to that that I don't think are very healthy for most of us to try to engage in. And the the main one is

Shane Carter: relationships. It doesn't. Doesn't matter

Shane Carter: how much money you have. If you don't have good relationships with your significant, other with your friends and family, with your children, etc. And I personally know several people who are extremely wealthy and have massive regrets because they don't have the relationship with their children that they wanted, that they wish that they had had, because they were so focused on growing their company. And so that's something to

Shane Carter: for everyone to hear before it's too late, before they go too deep down that road. And then, also, you know, physical health and wellness. I'm a big health and wellness, Guy, and I don't think that anyone performs to their highest and best self without a real

Shane Carter: clean machine and a and a highly functioning physical body and then the spirit part is really

Shane Carter: again, something that people don't talk a lot about. But I believe that a connection to a higher spirit and really understanding. Yourself through that lens as a conduit to the beauty of a higher power.

Shane Carter: is very releasing and freeing so that we're we can let go of the rope a bit and enjoy the journey more.

Dan Breslin: I love it. So I imagine you must have a couple of kids. Then I have 3. Yes.

Dan Breslin: okay, about how old. Now.

Shane Carter: So I've got my oldest boy is 15 he'll be 16 next month then I've got a 6 year old and a 4 year old.

Dan Breslin: Alright. You're in the you're in the thick of it. Then right there. Huh!

Shane Carter: Yes, yes, I'm loving it. I'm loving it.

Dan Breslin: So I'm going to take the opposite side.

Dan Breslin: and I think there's probably a time. Maybe we go back right you 27 year career.

Dan Breslin: and your boy's about to be 16. Now.

Dan Breslin: what about the 1st 10 years? Shane was there a little bit of an obsessive drive that probably is helpful to get the momentum going. If someone's listening now.

Dan Breslin: And they haven't quite gotten the momentum going in their career yet, I would pro I would posit it could be potentially a little bit detrimental. And you may not get to where you want without

Dan Breslin: some period of time. Is it 3 years, 2 years, 5 years, 7, maybe it's different for a lot of different people. But for me, I know I had to push really hard for 5, 6, 7, 8, 9 years before the momentum really started to show. And now, not that I neglected my physical or my spiritual or my relationships completely, but there is some place for kind of getting the the cart moving right.

Shane Carter: Yeah, you know, Dan, I can't disagree with you. I think you're right. If I reflect back on my journey. There was absolutely that time period, and for me it was kind of similar to yours. Probably it was in that sort of 5 5 to 7 year time period. Where? Yeah, it takes a lot of

Shane Carter: a lot of energy to get that flywheel to spin so that it starts to spin on its own. And

Shane Carter: and you're right. It does take a a drive and a passion. And, as a you know, as a younger man, you know in my thirties, let's say that was absolutely critical. I think to my ultimate success. I I think you're absolutely right on that. I'm not gonna not gonna not gonna discount that at all

Shane Carter: And and I'm fortunate that I had kids a little bit later, so that I was able to establish my flywheel and not and and have the the grace to be able to step back and and sort of get a little more balanced about it.

Shane Carter: but but look, you're right. It does take that that hyper focus upfront to get something up and running and going.

Dan Breslin: Yeah, maybe it's like, you know, you and I are probably at that place where balance is important. I guess I'm like 44 now, my daughter just graduated college here. So she's 23.

Dan Breslin: just got married may have another round of young kids running around here. So this is like a topic that's sort of hot on my mind. It's like, Well, what's that gonna look like in the next 5 to 10 years? And you know, if I fast forward and and blessed enough to have a 4 and a 6 year old, there, will you know what will I construct life from there? Right falls back to the mindset piece. Shane of your mindset creates the world around you, and it's like woof

Dan Breslin: I realized that. And now the options are somewhat

Dan Breslin: endless. How do I want to create sort of the next steps of my life? Yeah.

Dan Breslin: Good position to be in. So let's let's shift gears here if we could. Real estate development background. When I saw the booking agents connect us. God, it must have been 5, 6 months ago at least, I was looking forward to this one on the calendars that wow! This guy has this real estate development background. Would you mind kind of starting there in your career, and and establishing that may have been some foundation for what you put together. Since then.

Shane Carter: Sure. Yeah. So my my background, Dan is is what what I like to call the kind of classic self made man story. I I started, you know, bought a bought a I'm I'm I'm a bit older than you. So I bought this this late night. Infomercial

Shane Carter: carlton sheets no money down book way back in the day in the late nineties, and and that was sort of my my kickoff to understanding real estate and investing and creative

Shane Carter: thought processes around real estate. And so I started, you know, wholesaling contracts and flipping houses.

Shane Carter: And then through that process developed

Shane Carter: a passion for for construction and development, and that the process of transmuting old horrible properties into beautiful homes for for families and folks to live in, and it was a extremely rewarding work, and I loved it, and I loved the whole knowledge base of really understanding how a building works. And how do you build something from the ground up? So I started to get into new construction as well, and started a general contracting firm. Did tons of renovations.

Shane Carter: tore a bunch of homes down and built beautiful homes in their place, and and sort of just grew myself in that capacity over the years went from building starter homes to Middle market homes to multimillion dollar luxury homes and then got into community development where we're getting, you know, land entitled. And then putting in the roads and then building the homes and building entire communities

Shane Carter: also got into.

Shane Carter: you know, building townhomes and mixed use projects, etc. And so that's sort of how I grew as a developer over the years. But that's all transactional income. So I always took the transactional income that I made in those businesses and invested in income, producing assets predominantly, multifamily.

Shane Carter: and predominantly value, add multifamily because I was a construction guy. So I didn't know how to use other people's money until I think, 2014, or 15. I think I took in my 1st investment. And so the beginning part of my career was, hey? I've got an extra, you know, 10 grand or 20 grand, and I would use it as a down payment. Go buy a little fixer up, or 3 unit or 4 unit building, you know, have my construction company fix it up. We'd rent it out. We'd refinance it. I'd get my money back.

Shane Carter: and then I'd buy an 8 unit, and then a 20 unit, and then a 60 unit, and so on, and so forth. And I just kind of let my equity and transactional money

Shane Carter: fuel my income income producing asset acquisitions.

Shane Carter: Then I learned how to partner with people and bring in partners to to leverage their money. And my, you know, expertise in construction and development. And and we started to do bigger projects which got us into, you know, investing in the South. And, you know, starting to really look hard at that in 2018 and 19 and so we've you know, we've we've acquired a little over 2,000 units, and you know 320 million or so in assets there. Just in the last 5 years.

Dan Breslin: And you guys are, what's the plan? Are you holding those? Or is it like the buy? Add the value and sell strategy to cash everybody back out.

Shane Carter: Yeah, we're we are. Those are still mostly value, add projects and properties. Now, the value adds, been completed on all of them. And so we're we're kind of in the buy and hold stage because of the market shift. We're fortunate that we are in fixed rate debt, and you know good leverage positions on all of them.

Shane Carter: So we're looking to exit assets 26, 7, and 8. And obviously we're always looking to buy more. It's just been very difficult, with the lack of liquidity and the lack of deals, trading, to find opportunities that make sense for us right now.

Dan Breslin: Yeah, it's just hard to make them pencil out. I mean, what's did that right now? I haven't checked, but I imagine you could probably get like some Fanny products like 6, 6 and a quarter, maybe 6 and a half something like that. That's like 30 year. You're stuck in the thing, and.

Shane Carter: Yeah.

Dan Breslin: Yield maintenance and the whole deal.

Dan Breslin: That's right. Yeah.

Dan Breslin: yeah. So what? What in the last, let's say, 12 to 18 months are the deals that are exciting to you, and that you are participating in and getting up off the bench, for, you know, 2324, and now we're in 25.

Shane Carter: Yeah. So we

Shane Carter: we saw the writing on the wall there, you know, late 22, beginning of 23 in terms of you know, the rising interest, rate environment and what that was going to do to to the industry? And so we're we were fortunate to pivot back into you know, sort of, you know, my background and skill set and and and network and experience, and got back into land development and got back into that side of the business and

Shane Carter: are doing it in the growth markets that we already know and understand. And we have, you know, folks in Dallas and folks in Tampa, and where, you know, we have, you know, staff and employees in those areas. And so we're hyper focused now in doing what's called horizontal land development, where we take land. We do entitlement work. Yes, but we also take land that's already been entitled and approved.

Shane Carter: and we buy it. And we put in the roads and infrastructure.

Shane Carter: We get construction loans, put in the roads and infrastructure and then sell finished pad sites or finished lots to the National home builders. So you know, some of our clients are, you know, Dr. Horton Pulte Meritage. You know those types of firms, you know, top 50, you know, national Traded home builders.

Shane Carter: And and we're really excited about that side of the business and really growing that side of our business because there's a dearth of developers that know how to do that and have the capacity. And we're fortunate. We have a 50 million dollars investment fund that we started last year that we raised capital for, and that fund allows us to invest in land development.

Shane Carter: And so when to a builder, we're an interesting group because we have. We have capital, we have the the resources, we have, the skill set. We're vertically integrated.

Shane Carter: We do the construction management, and we're able to come in and fill a void and a niche in the ecosystem where there's not enough guys developing lots for the home builders. And so we're we're really capitalizing on that opportunity right now.

Dan Breslin: It's interesting. And I'm in a partnership where we're doing quite a bit of this.

Dan Breslin: I think our our fund has like 14 or 18 projects something like that, and each one's probably re between around maybe 80 lots on the low end

Dan Breslin: and 2 50 to 300 on the high end, except.

Shane Carter: Excuse me.

Dan Breslin: Ours is all paperwork, so it's sold to the builder, as you know. As soon as the construction drawings are approved they're going to settlement, so not a tree has been moved and not a curb or a water line has been installed on the property.

Dan Breslin: And now you're stepping in, and maybe you're an interim type of person who's taking that dirt and putting the road work in there. And it's it's it can be a risky scenario. At least, that's kind of the way our investment philosophy has worked. Which is why we're exiting on the front end.

Dan Breslin: But there are, to my knowledge, I think it was like Dr. And Pulte, and the rest of them have, like another 3rd party developer who comes in, does all the roads and kind of does it almost like work for a fee? Is that you guys, or are you like buying? Okay, okay.

Shane Carter: That's us. So Dan, look after this podcast. Over, we gotta talk. Cause I'm your boss.

Dan Breslin: Bye.

Shane Carter: For all those deals, because that's exactly what we do. Because, Dr. Horton, a lot of these, a lot of these companies, these nationally traded companies publicly traded companies. I should say they have what's called a land light strategy. What that means is they keep it off their books, and they keep it off of their

Shane Carter: balance sheet by leveraging 3rd party developers.

Shane Carter: And so for Dr. Horton, you know, they've got an interest in a group called 4 Star Group, another, you know, publicly Traded company, and all they do is put in roads and infrastructure and sell the finished lots to Dr. But there's a whole entire network of other builders. And frankly, 4 Star Group doesn't serve all of Dr's needs. So there's still a tremendous amount of opportunity and need for 3rd party guys like us

Shane Carter: to come in, put it on our balance sheet. We take the construction loan. We take the risk we put in the roads and infrastructure.

Shane Carter: and then we deliver them the lot

Shane Carter: on a, you know, 2 to 3 year timeline. So they they get to buy the dirt with finished lots in tranches.

Shane Carter: Take them down, build houses, sell them, and they don't even have to buy the next tranche until they've sold through most of those 1st ones. So they it hits their balance sheet, and then it turns into revenue quickly. And that's their strategy. So we're an important part of that ecosystem.

Shane Carter: because we hold it on our balance sheet, and we take that risk, and we take that interest carry, and we hold it on our side. But of course, we make the numbers work real well. So you brought up something really important, though, Dan, which is risk. And so the risk in our side of the business is usually well, who's going to buy this?

Shane Carter: And so we mitigate that risk by

Shane Carter: having the contract with the builder upfront before we close on the construction loan. So let's take one of your examples. You've got 120 lots. You just got it entitled and approved. You got construction drawings done, and you're saying I'm selling it to the builder.

Shane Carter: But the builders not buying it. The builder is taking that, and they're assigning it to someone like me

Shane Carter: for us to actually close on and put in the rows and infrastructure. And then what they're doing is they're giving us a forward contract

Shane Carter: to buy the finished lots at a certain price. There's even an annual escalator involved in it, etc, etc. So they're locking in their position in their land pipeline and controlling it without having it on their balance sheet.

Shane Carter: And that's our role.

Dan Breslin: So if if a builder is paying, call it $100,000 for a finished lot with all the infrastructure in there, I mean, what can your all in cost basis be with the interest to carry the whole thing? I mean, are you able to pack a 30% profit margin in there, or is it a little thinner than that.

Shane Carter: Yeah, it really depends on the deal. That's a great question. It's usually it's usually in that 20 to 30% range and so what we look at and and frankly, our buy box is pretty similar to yours. We're kind of in that 100 to 400 lot. Community size is is really where we focus

Shane Carter: And you know, in general, we want to be in that sort of 15 to 20 grand a lot profit range. And that's what we target and focus from a risk reward profile. Because again, these construction loans, you know, I'm personally guaranteeing them right? So we go out. We get a 20 million dollars construction loan to go build all the roads and infrastructure.

Shane Carter: And it's not on the builders books. It's on my, it's on our books, and somebody's got a, you know, even even if it's a non recourse to the entity. There's these things called completion guarantees. Right? So anyone who's done development knows the completion guarantee for a development project is in place the entire time until it's completed and you are on the hook. Then, therefore, personally the entire time due to that completion. Guarantee clause.

Dan Breslin: When you guys build them out. I mean, if you have, let's say a 300 lot subdivision.

Dan Breslin: I guess somebody got that entitlement done? Are are you doing the construction drawings and the approvals? Or is that done also, and kind of handed to you when you step in.

Shane Carter: Yeah, we do it both ways. We we work with all kinds of different folks. Some folks just get the land use zoning approvals completed, and the sort of entitlements. And then we step in and do the engineering drawings and the Cds and and get everything laid out, and then we close on it. But look, we love working with folks who have all the Cds done. The engineering's done, you know. They've already got indications of interest from the builder groups. And and we just step in

Shane Carter: and we close on it. And and we go to town and and get those contracts with the builders set up. And so everybody, you know, everybody kind of wins there. We're not taking away from anyone.

Shane Carter: We're still giving someone like yourself or somebody who's doing the entitlement work all the money that they want. We're still selling the lots to the builders at a price that makes sense for them, for them to build their product, and we're just sandwiching ourselves in the middle and making a nice profit for taking on the risk we're taking on.

Dan Breslin: Do you guys build that out in one tranche? Or would you build out like 80 lots in 4 separate tranches as they complete and perhaps not have to pay interest on the other unfinished sections until it's time. Right.

Shane Carter: Yeah, that's a really really good question, Dan. So we really, this gets into, you know, our, our, my business partner, and the the sort of highly detailed financial models that we have relative to this. But we try to have our expense build

Shane Carter: be in concert with our revenue chunks that come in on in in the lots. So

Shane Carter: there's there is a there is an efficiency, though, however, from a site work. So I own site work equipment. I've been doing site work development for a long, long time, and there is an efficiency of mobilization and getting there and doing the work that starts to become cost prohibitive. If you're asking guys to stop and wait and then remobilize. So there's this fine line of allowing the project to proceed, and the expense to build

Shane Carter: and and then staggering the lot. Takedown schedule and the revenue build, so that your Max exposure and your Max interest carry is usually never more than about 40 to 50% of the total cost of the project.

Dan Breslin: It sounds complicated, complex, and scary. Can you take me back to the 1st subdivision that you approved? Maybe it was like you turned one lot into 2 or something like that. But what was the 1st time you went and did a subdivision where you put in infrastructure on the land.

Shane Carter: Okay. So so that one the the 1st time I did that that was

Shane Carter: that was a that was a small 4 lot subdivision

Dan Breslin: Okay.

Shane Carter: Here locally when I was still just an active home builder, and, you know, bought again. Someone else had done all the work to get it entitled and approved. It was shovel ready drawings were done for the roads, the lots were laid out. It was kind of a plug and play go so bought it, put in the roads and infrastructure.

Shane Carter: you know, built the homes and sold them. So I make it sound easy. But you know, that took us, you know the the better part the better part of a year to do that, because it was our 1st one, and we didn't really know exactly what we were doing. And so

Shane Carter: you know, we screwed up the water lines at first, st and we had to work with the city to get that corrected. So we had to dig up some water lines and put in some curb stops in the right locations instead of the wrong locations we did get, because that was a bit nebulous on the plan. So that's why we made that mistake. The water management was fine. The sewer was fine, the grades. You know. We had to play with some of the grades a little bit right. The engineers had laid out grading

Shane Carter: for the individual lots in a way that wasn't as ideal. When we got there physically on site and started building and developing these homes and having to deal with all the additional fill that they didn't calculate for. So we raised some elevations on some of the homes to account for some of that additional fill. And did some tweaks like that. But it was a. It was a great learning experience on only 4 lots, right? And this is going back probably 15 years ago now. But but a great great learning, experience.

Dan Breslin: Gotcha. So you were. You were in the business

Dan Breslin: through the last downturn, I mean. I guess it's the second downturn if we're counting the Covid downturn. It's been a while now, but like oh, 7, 0, 8, 9 like around that time. What were you up to then? Shane.

Shane Carter: Yeah, I was in the thick of it. I was buying assets. I had, I think, not. Not a ton under my belt at that point. But I want to say I probably had 40 or 50 rentals under my belt at that moment in time, and you know I was doing construction and development work. I was flipping houses. I was renovating homes, and I was doing new construction builds for others as a fee build for clients and building custom homes.

Shane Carter: And I hadn't quite gotten to, you know, being a being an entitlement developer yet. And so I was really in the thick of it. And so, being a custom home builder through that time is what allowed me to thrive and and and and exist through it without really getting through completely unscathed. So a couple of things, 1st of all, everything that I owned I didn't over leverage because I bought it cheap. It was. It was all, you know.

Shane Carter: you know, challenged properties that needed to have a ton of work done. I did the construction work ourselves at cost, refinance them, you know, at at a low enough level, so that they would produce great cash flow for me. So, in other words, I didn't pull out too too much equity. I didn't over leverage those. That was a great lesson to learn through the crash was that, you know. 5 0, 5, 6, 7,

Shane Carter: you know I was still buying properties and doing this Burr method of of owning assets.

Shane Carter: But I never over leveraged, and that that was something I didn't frankly think about other than I wanted to make sure that the rents that were coming in

Shane Carter: gave me a great margin, and and that's all I thought about when I was doing it, but I didn't think about hey? Something bad might happen, and you might wish that you had, you know, lower leverage. I wanted the cash flow. I liked the whole concept of passive cash flow, and I already had a transactional cash flow business that was giving me more cash, so I didn't necessarily need to have access to more cash right? And so I just wanted to set up a passive machine and so that really served me through that. But that's what I was doing.

Dan Breslin: What market was that in.

Shane Carter: All here in New England. It was Northern Massachusetts, all of New Hampshire and Southern Maine.

Dan Breslin: Very constrained real estate markets with not a lot. I'm guessing. You probably have

Dan Breslin: 0 subdivisions going or done under your belt that are 120 lots or more anywhere in New New England. Am I right?

Shane Carter: Correct. You are 100% right? Yep.

Dan Breslin: Yeah. So you get into a market like that, and that weathers a storm

Dan Breslin: like the oh, 8, 9, 10 type of era, a lot better than like in Atlanta, Georgia area, where the you know the construction was was insane in that. Go around Texas, you know. Same kind of a deal. You got

Dan Breslin: very easy zoning and approvals in Texas compared to Georgia, and definitely compared to the northeast, we have a few storage projects up in like New Hampshire area, all purpose storage. You probably have driven by them. And it just takes taking forever to get approvals. And the you know, the permits and everything. Luckily, I guess it did, because maybe we would have overbuilt a bit. Who knows?

Shane Carter: Yeah.

Dan Breslin: But but yeah, I mean, there's a pro and con for market downturns, which

Dan Breslin: I guess, in my opinion, the market downturn.

Dan Breslin: I think we're in a flat era. I don't think we're going to see 10% increases in value again for a few years, pretty much anywhere in the country. I don't think we have the conditions for a blowout quite yet. If you look at the demographics and the the large peaks of people that exist in the home buying year. Compared to the valleys in the home buyers, demographic in 2,008, 9 and 10,

Dan Breslin: you know. Some of that was the underwriting was faulty, and some of it, maybe more, was

Dan Breslin: the window of home buyers. It was like the lowest population in basically, all of recent history was at that age. So I think the next time we may see some like trouble on the horizon might be like 15 years from now. When you start to see, maybe some of these demographic shifts continue. You know the the birth rate is low, and there'll be these like lower valleys where we had peaks in millennials, and and you know Gen. Y. And and the rest of it.

Shane Carter: Yeah, I would agree with that, Dan. I'd say at least 10 years. I know that you know, due to the chronic under building that we've done since the crash and the Gfc. It's going to take us 10 years from today. From from the beginning of 25. It'll take all of 10 years to get back to a homeostasis or a balance in the construction and home building marketplace. And that includes multi and single family.

Shane Carter: And so that's we're just we're. That's where we are. And we can't build more because we're zoning and entitlement constrained.

Dan Breslin: And it's been that way for, like what? 10 years already.

Shane Carter: It already has. Yeah, just about, yeah.

Dan Breslin: Yeah, buy. And hold, I guess right?

Shane Carter: That's right.

Dan Breslin: Buy and hold so while we're on the topic of the predictions, we're in January, everybody's forecasting the future other than what we talked about. Maybe we could switch gears and touch a little bit on the development cycle around multifamily residential. So you have 300 million plus 2,000, some odd units.

Dan Breslin: I'm guessing. These are Sun Belt assets, Florida, Texas, you know, Georgia, that kind of thing. But where are we at? So we we had a lot of multifamily new construction in the last 5 years. But I think a lot of that's maybe winding down. So do you have any predictions on the development cycle and the larger multifamily assets, and maybe your appetite to jump into that.

Shane Carter: Yeah, absolutely, Dan, we. It's something we we live and breathe every day. You know our asset managers each sleep and breathe this, and they are extremely in touch with the market at a granular level in the markets that we're in in the Carolinas, Texas, you know. Florida in the in the southeast. So

Shane Carter: you're right. We overbuilt, and we have the the highest surge of multifamily deliveries that we've ever had, or that we've had in 30 years, I believe. Since the since the seventies.

Shane Carter: the interesting thing is that it's being absorbed, though, and it didn't. And so we did see some negative rent growth. We have some B assets, some C assets. We did see some negative rents occur due to the shifting that happens when you have that supply hit the market, and folks moving up like, if you're in C, you move to B or B, you move to A, and so we did see that, and feel that over the last 24 months.

Shane Carter: But I believe that is stabilizing now, and that that new a class has been is absorbing. Well, which I think that's the best story. Coming out of 24 was the absorption of the high deliveries. It could have gone the other way, and we could be dealing with a much bigger

Shane Carter: problem on our hands right now. But thankfully that didn't occur. And so that tells you that we are a renter nation, and we're going to stay a renter nation. The affordability gaps never been bigger. And frankly, I don't see it coming down in the next 3 years. So I think we're going to have an interesting time period where 25, there's still a bunch of deliveries in 25. By the way, it's just coming off the peak.

Shane Carter: but I think when we hit 26 and 27, we basically see a cratering of deliveries and multifamily. And that's going to allow.

Shane Carter: you know, rent growth to occur, I think rent growth starts to occur at the end of this year and into q, 1 of 26. And I think you're going to see great rent growth through 26 and 27. When I say great, I mean back to 2, 3, 4% rent growth. Right? And to me, that that's that's

Shane Carter: great in terms of stability. When you, when we were seeing 5, 7, 10% rent growth annually. That's unsustainable. And anybody who's been in the business long enough should know that's not good. It's not okay. You can ride the wave while it's there. But just know that from a from a macro perspective. That's just not healthy, right? And so, you know, for us, we're thinking about, you know, jumping into

Shane Carter: using our skill set and capacity for multifamily development to be delivering product and coming out of the ground in 2627, 28, because that's when it's going to feel great to have new product hit the market again. We're going to be in a rent growth environment. You're going to see stability of pricing. And I think you're going to see a lot of liquidity flow back in

Shane Carter: later this year and into 26 and 27. And liquidity is actually the primer to cap rate compression. It's not interest rates, it's liquidity. So that's where I see cap, rate compression happening, and where I see liquidity happening so that properties can exchange again. And we get back into a trading environment.

Dan Breslin: Is liquidity still a function of the interest rates, though, because it's like I'm not willing to transact and buy, and I can't pencil a deal out at.

Dan Breslin: you know, a 7 cap. If I've got to pay 6 and a half interest, I'm kind of like. I'm going to sit the market out

Dan Breslin: and if I'm a seller, I'm like, Oh, I'm not selling at a 7 cap. So I'm gonna have to wait until they get down to a 6 and a half.

Dan Breslin: so the liquidity still is tied to the interest rates at some level right? Or am I missing.

Shane Carter: Yeah, no, you're right, Dan. It absolutely is tied to it. But I think it's not a direct correlation. I think a lot of people think about interest rates and cap rates as being intimately tied. And there's this intermediary thing called liquidity that actually ties them both together. So yes, I think liquidity is linked to the cap rate and linked to the interest rate. And I guess you know.

Shane Carter: through that process interest rates are kind of linked to cap rates, but it's it's only through liquidity that it actually happens.

Dan Breslin: And it's funny, like, you know, the interest rates

Dan Breslin: shot up in a 6 month period in 2022,

Dan Breslin: unlike anything I've experienced in history.

Dan Breslin: But the cap rates certainly did not follow anything near in lockstep, and I think the latest report. I looked at a week or so back.

Dan Breslin: And you know they're still inching up. You know, it's by like 0 point 2 5.1 8 right? But it's been doing that all the way through. So the cap rates are like ever so slowly following that curve as time goes on. What what would you expect?

Dan Breslin: I looked at a multifamily development deal recently within the last 3 months, and the exit was pro forma at a 5, a 5, and a half.

Dan Breslin: I don't know if it was a 6, or if they did it at a 4 and a half as a cap rate to sell. So they're gonna like merchant build, stabilize it and sell it, and the whole project will be done in 3 to 5 years, because it'll be like a year year and a half, 2 years to get it built, and all the entitlements finished out, and then they thought

Dan Breslin: a year to a year and a half to stabilize it, and then a year and a half to kind of buy and let the buy and hold, and those 2 and a half percent rent increases, kind of burn off a little bit, so they had good financials to sell it. I felt like, Wow, a 5 and a half cap to me feels really low, but I'm more of like the old product dealer. Kind of guy. So most of my industrials, like

Dan Breslin: 30 year old storage facilities, 25 year old shopping center 100 year old warehouse, so, like all our cap rates are 7 and a half, 8 and a half, you know.

Dan Breslin: 9 ish right. They're high. So to me, that was like one of my 1st instances where I was a little bit shocked. I'm curious, because you're in the business. And looking at these new builds potentially for 27,

Dan Breslin: I mean for you. Is it more of a yield on cost as you enter that deal? Do you pay attention? And you're like sort of mentally thinking, hey, I hope this is a 5 and a half cap product, because when I when I sell it in year 4, it will be a 4 year old vintage product, and it should probably go for this cap rate.

Shane Carter: Yeah. So great great question, what? We 1st of all, it's hyper market dependent, right? And and even hyper location dependent within the market. And what we do to sort of bake in conservatism to our underwriting is if we were looking at a development deal for multifamily today, let's say, you know in Atlanta just to pick a market

Shane Carter: that you're familiar with, you know we would 1st of all take take a close look at where exactly in Atlanta, is it? Is it in the, you know? Is it in the northern section of Atlanta? Is it in the southeast, is it? You know where? Because, as you know, there's a big difference between those 2.

Dan Breslin: That's right.

Shane Carter: We take a close look at the location, and then we pull the brokers and we say, Hey, you know where? Where are a class assets trading right now, because there are, there are assets moving. And yeah, they might be, you know, from Reit A to reit B, or from Blackstone to, you know, reit B, or what have you? But there are assets still exchanging hands in that. A class and a class is where all the big money wants

Shane Carter: to be in a class is where most astute, you know, smart money quote unquote wants to be.

Shane Carter: and so that will give a good indication of what they're valuing, what they're seeing in the market and what they're valuing a class at today. So we would base our pro forma on what things are trading for today in this environment.

Shane Carter: knowing and expecting that, as we've discussed looking at macro trends, looking at supply drop offs and liquidity increases that that cap rate could compress. So if let's pick a number, let's say things are trading at 5.7 5 cap today for a class in Atlanta. I think it's probably less than that. But let's say it's 575. We would underwrite that today for for a future development project that we're going to deliver in 3 years from now.

Shane Carter: and we would do a sensitivity analysis on, on. What does that look like? If it's a 6 or a 6 and a quarter or 6 and a half.

Shane Carter: and then we'd also offer some potential upside options of what it was to look like at a 5 and a half or 5 and a quarter, but we wouldn't underwrite at a 5 or a 5 and a quarter, saying, Hey, it's 5, 7, 5. Today we expect a 50 basis point compression due to XYZ. And therefore we're going to underwrite that we're not going to do that. But I do believe that's going to happen. But that's not how we underwrite.

Dan Breslin: Yeah, that's what I call delusional optimism. I wrote a blog post on that recently, and when I invest my money in lps

Dan Breslin: I have to have some delusional optimism for me, I need to say, Hey, if things go tremendously well in the other direction, what is that going to look like. And if there's like nothing there that I can be delusionally optimistic about, I probably don't want to invest most of the time. If they're, you know, higher yield development projects, and, like longer term things where I don't get cash flow for 2 or 3 years, while the thing stabilizes, there has to be

Dan Breslin: some delusional upside, in a sense, and that doesn't mean like.

Dan Breslin: in some instances it could be a hundred percent return in month. 13. If things go our way is it going to happen? 90% chance? Probably not. And I'm prepared to sit here and wait my 3, 4, 5 years until we'll till we're stable, and we exit, and it turns out to be more of like a 24% Ir, I hope.

Dan Breslin: Still good. But the 24 is not delusional optimism. That's like more of a realistic pro forma projection based on like you said, 5.7 5% cap rate, whereas underwriting it at the 5 cap or 5 and a quarter cap would probably be what I call delusional

Dan Breslin: optimism. Do you pay any attention to any other metrics? Is there price per unit or rent growth. What are some other things on a development project that would have to check the box before you're gonna go ahead and entitle a site.

Shane Carter: Yeah, we absolutely. You know, we do feasibility studies on anything that we do like that. And so we get, you know, John Burns study, and that they're the industry standard for that type of feasibility study. So there, there's just a wealth of insight, knowledge and data that come from those. And so that's absolutely key. I think our main metric really is untrended. Yield on cost.

Shane Carter: right? Because that shows are we fundamentally creating value? And what is that value. And so if we say, and going again, going back to that example.

Shane Carter: that we have a conservative forward projection, that the asset is going to trade at a 5, 7, 5 cap in, you know, 3 or 4 years in Atlanta. Well, our untrending yield on cost for us. We want to see that, you know, at a 7 or or higher to know, you know, maybe even a 7 and a quarter, to know that we are, you know, 100 2,550 bip

Shane Carter: delta. Between what we're what we're an untrended yield on cost is versus what our exit would be. That's how we know we're actually creating value.

Dan Breslin: Hey? That's smart.

Dan Breslin: That makes sense.

Dan Breslin: Does that yield on cost that doesn't really apply? Or does that apply? If you were doing the subdivisions that we were mentioning earlier.

Shane Carter: No, that what we're doing on the subdivision side is really just. It's more transactional income, right where we're we're buying it for X. We have construction costs, and we're selling it at Y, and so it's a it's a pretty straight line metric, and then we have interest, carry, and then we have

Shane Carter: overhead and profit. It's more of a more of a transactional income business model. There. We can apply that same metric, however, to the Btr space, which is something that we're excited about. Given that we're uniquely qualified to

Shane Carter: have a vertical integration to deliver Btr communities to the market, where, again, we are focused on that. You know, 150 basis point delta in yield on cost versus, you know.

Shane Carter: stabilize value.

Dan Breslin: So any of these assets that we mentioned today we lightly touched on bill to rent. We touched on single family

Dan Breslin: community development, and we touched on potentially, maybe buying value, add multifamily properties or building from the ground up multifamily, would any of those have potential to show up in the 50 million dollars fund that you had mentioned.

Shane Carter: Yes, yeah, we we have. We have the ability to do any of those 4

Shane Carter: items. And you know, and for us, too, when we, when we think about developing multifamily into 2728, etc, like we discussed Dan for us, it's not to be merchant builders for us. It's we're going to pick the right locations, and we're going to build that. And we're going to keep that untrented yield on cost Delta. And we are going to keep those assets for a long time. We are in the process of

Shane Carter: really understanding how we want our portfolio to be structured over the next 10 years. And so, as we exit some of the B and C class assets, we're going to be continuing to high grade into the A minus and a class assets. So if we're going to be developing something, we're likely going to be developing it with a programmatic lp that will want to stay in and just keep the deal with us long. Term.

Dan Breslin: And what does that mean? Programmatic? Lp, that's not the fund. Is that maybe like a family office who's taking a single check kind of investment.

Shane Carter: Yes, correct, or you know, a group that understands who we are, what we do and and is willing to, you know, invest in a 90 10, you know, equity construct with us on a go forward basis for that type of product.

Shane Carter: That would be that. That's something that we're always have our eyes to the horizon for.

Dan Breslin: Makes sense, and I guess that's the smart money and the big money. And and we're going after the A class assets at that point.

Shane Carter: That's right. Exactly. Yes.

Dan Breslin: Very cool. Can you run me through an example of the fund? If I am an investor and I bring $250,000. How long is it locked up? What are my expected returns? How soon is capital due? Any other details that might be pertinent in that example.

Shane Carter: Sure. Yeah, our fund is structured on a 5 year, timeline and horizon. And so it's a 10 pref, and for that level of investment. It would have an expected 5 year irr of 21%.

Shane Carter: Sorry, 22%. My mistake. And so you know, that's a little over a 2 x equity multiple in that 5 years with a 10 pref, and so, you know, as the dollar amounts, go up, we have 4 different class sizes, you know, a 1 through 4 higher dollar amounts. Just have a higher split. So they start at a 70 30, and then go up to a 90, 10 for a waterfall based on the check size.

Dan Breslin: So

Dan Breslin: I mean, have you pulled the entire 50 million in? And now you're forced to deploy it, or is it like you get commitments on certain amount and then doing a capital call like, what's the

Dan Breslin: right? That's a tough. Put 50 million to work tomorrow is a really tough task for anyone.

Shane Carter: For sure. Yeah, yeah, no, and no. 1st of all, no, we have not raised all 50 million and we do only call capital on an as needed basis. So we take the commitments. We we we have opportunities that you know. Here we are beginning of January. We have opportunities that are closing next month. And so we would call that capital in usually 30 days prior to closing. So it is a commit and call system that we have.

Dan Breslin: Okay? And what is the usual

Dan Breslin: time distance? If somebody committed today?

Dan Breslin: Are you usually calling them 30, 60 days, or is it sometimes 6, 7, 8 months before the capital is called, or or there's really no control of something like that.

Shane Carter: Yeah, I would say, it's it's probably going to be in the as certainly no sooner than 30 days, and would likely be within a 90 day to 120 day time period we have a pipeline of deals, and so we have all sorts of additional methodologies for solving equity. But our fund is our primary source, and then, if there isn't available capital there, you know, we have

Shane Carter: second and 3rd fund options available fund to fund options for us, as well.

Dan Breslin: Interesting.

Dan Breslin: cool. I have. One question I'm going to ask is my wrap up before we get to that wrap up question today? Shane. Is there somewhere? If somebody was maybe interested in getting on an email list for the fund, or perhaps there's another better way that you would have listeners kind of stay in touch.

Shane Carter: Sure. Yeah, just check out our website. It's hampshirecap.com Hampshirecap, dot com. There's a lot of good resources there. There's tons of buttons. You can click to get on our contact list and have one of our team members reach out and have a conversation with you about what your goals are, and whether or not we might be a good fit for your portfolio.

Dan Breslin: Alright! My final question, Shane. What is the kindest thing anyone has ever done for you?

Shane Carter: Wow, Dan, I wasn't prepared for this. That is awesome. You know what this just just shot it to my head, because this is how powerful it is. So when I was a teenager, I switched high schools midway through my freshman year. Okay, 9th grader, right halfway through the year round about, you know. This time, maybe February or so I switched from one high school to the other

Shane Carter: new kid. You know, all these other kids had matriculated together. I didn't know anybody, and I remember sitting in this class, and there were these 2 girls that sat in front of me.

Shane Carter: and they turned around, and they were so kind to me, and they asked me who I was and where was I from, and what you know what what my deal was basically, and they introduced me to people, and they

Shane Carter: completely made something that was as stressful as any teenager could ever think it could ever be. It was, and they completely made it effortless and graceful and beautiful and easy for me to integrate into that school. I am forever grateful to them, and that's how I love this. I tell it because

Shane Carter: that's how impactful small acts can be.

Shane Carter: I'll never forget that.

Shane Carter: And to them they've long forgotten about that, because they.

Dan Breslin: Oh, yeah.

Shane Carter: And just being, you know, you know, fun, you know, outgoing kind people, and that's just who they are. But for me that was forever impactful.

Dan Breslin: Nice nice. I guess we got to pass it along from there, Shane. I got pages and notes here a ton of great detail. I really appreciate you opening the books and and being like totally transparent with all the questions, and I appreciate your time coming on the show.

Shane Carter: Yeah, no, my pleasure, Dan, it's been an it's been great.

Shane Carter: Thank you.