

EPISODE 748

[INTRODUCTION]

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FT: Is flipping real estate still a thing? Welcome to So Money, everyone. I'm your host, Farnoosh Torabi. Our guest today is Sydney Torres and you may know him as the star of CNBC's hot show The Deed. Sidney is a self-described serial entrepreneur, a real estate expert, house flipper and investor, and over the last 15 years he's developed over \$250 million in commercial and residential real estate. He is in his early 40s, people, getting a head start on his empire.

He got his start in his home city of New Orleans where he made his first investment with just a \$40,000 loan from his grandmother on the hit TV show The Deed, now in season two. Sidney helps rescue other house flippers from financial ruin, and he continues to improve the beautiful city of New Orleans. We talk about that time he asked his grandma for that \$40,000 loan. What did she say? Advice for first-time homebuyers. The keys to flipping a home successfully. Now, I have to admit I'm not a huge fan of this, but if Sydney is on the call, you're going to ask him about house flipping. Finally, a new app that Sidney's created to help reduce crime in Louisiana.

Here we go. Here is Sidney Torres.

[INTERVIEW]

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FT: Sydney Torres, welcome to So Money. It's great to finally connect with you. I've been watching your show on CNBC and really excited that you guys are now doing season two. Tell me all about the new season.

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ST: Thank you for having me.

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FT: Of course.

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ST: Thank you for having me on and I appreciate that. Yes, I'm really excited about it. Season two is everything we learned on season one. What to do? What not to do. I think that people who didn't see season one, season two is more inspirational. We talk about design, financial literacy. We talk about value engineering, there's design elements, but the human element is so much better this season than last because we really are changing people's lives by helping them financially and teaching them financial literacy and we use that houses as the tool to basically bridge from where they are to what their life can look like if they do it right.

So it's a cool thing to be able to demonstrate on TV for people to watch and they say, "Wow! If that person can do it, I have hope of possibly doing it if I find a mentor or a hard money lender in my neighborhood or in my community."

So I think people can relate, and it's not just about house flipping. It's also about your first time home buy. What are the things you do? What are the first six steps that you do? Again, there's a lot more takeaways and I'm really excited about it. I put my heart and soul into this season.

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FT: I know you have. Now, the climate out there in the world when it comes to real estate has really changed over the last 10 years. I think about during the recession everybody was losing their homes, and the aftermath of that, there was this real bitterness and almost like skepticism around really being able to create wealth through real estate. I don't know if a show like The Deed would have been received well in 2009 or 2010.

In some ways do you feel like we're now more ready for sort of like learning this again and diving in? In some ways I feel like the skepticism is still there. So how do you address that in the show?

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ST: Well, I mean you're talking to someone who went through that. I mean, at the time when that happened, I started my career back in 1998 and I remember being in debt leverages most real estate developers are and buying property and not watching when September 11th happened and people stopped flying. They were scared to do anything, then 2008, 9 and 10 hit. Again, I've been through some tough times when Hurricane Katrina hit.

So I know what it's like to be in that market when everybody dries up and the banks are reappraising your properties and they're asking for you to pay down the debt when you don't have the cash to do it. So at those times, I don't think it would have been received as well and I think people at the time were just trying to survive.

I think now with the market the way it is and where we are as far as interest rates and looking to see all these opportunity out there, it's gotten a lot harder to find good deals, to put on to contract and develop. But there's still opportunity out there. You just got to do more homework and you've got to have good mentors around you to help you and guide you through that process.

But I think in today's world, in today's market, I think the real estate market is hot. I think it's a great opportunity to create wealth even if it's your first time home purchase. It's not just about flipping. That's what's cool about season two of The Deed on CNBC. It teaches you for your first time home purchase. How do you get in? Make a purchase and build your equity into your purchase on how you negotiate your first time home buy?

So it's not just about house flipping. What we do in our show, we also teach for first time home buyers. So that's why I think it's really good to tune in and you can learn a lot by my experience of the years and the flippers who are coming to me on the mistakes that they've made and to see what not to do, and that's what I think is really good about this season.

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FT: What are the most common mistakes? You talk about the importance of having a mentor and I'm sure you have come across some repeat mistakes. So what's the most popular?

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ST: Well, I mean, people get overly excited when they're looking at real estate. I mean, if you're looking for your first home, you get overly excited because maybe you've been living in an apartment and you can't wait to have a new space that's yours and you can create your own kind of look and feel. So if you look at it from that standpoint or even a flipping standpoint when you're looking to kind of buy something because you feel that it's the right decision and you're getting a good feel on it, but you're getting emotional about it on what color you're going to paint it or what kind of marble you're going to put in the bathroom or granite countertops.

I think the biggest mistake I see people make is they get emotionally involved in the process of looking to purchase, whether it's a flip, whether it's a first home buy and you always need to keep at the forefront, the comps at. You always need to look to see what are the comps showing. What are other houses, condos selling for in the area in which I want to purchase to live in or to flip and always make sure that you do a lot of house tours on your competition. You want to make sure that you understand what finishes they're doing and what's selling fast.

It's very easy to do. Take some time, but you need to make sure you do that because at the end of the day I always tell people, whether it's a flip or a first time home purchase, you make your money on the buy. When you buy, when you negotiate, when you do your homework, you get all the proper bids and you follow the directions of checking the comps and talking to all the experts. You make your money on the buy. You collect your money when you sell, and that is something that I tell my first time flippers or even friends who are buying their first home.

You want to negotiate a deal where you build equity in on the purchase and not trying to think, "Oh, well. I have a brother who's a contractor, and you know what? He can renovate it for less than the other guy that can renovate it, and I have another friend who's an electrician and I –"

That is the wrong way to approach it. I've seen that happen. Those are big mistakes made when people do that. They get emotionally invested. They think they can pay a little bit more for the property and they think that they can renovate it for less because they have friends or family that are in the business, and it's absolutely the wrong way to look at it. That's why it's so important to surround yourself with people that have been through it. Make sure you get a good mom and pop architect with a fixed fee that can hold your hand through the process, because that's a lot of times that's another mistake people make.

They hire a friend who's a contractor and that contractor is not going to be watching up for every little thing to protect to make sure that you don't have any change orders or any extra costs. You want to architect who can detail up your specs, to make sure that you have every pipe of fixture, finishes, colors, receptacles, what kind of thing you're going to use, landscaping. You need to make sure you detail all that stuff out on the frontend before you actually buy the house. So it's all about doing your homework. It's all about surrounding yourself with the right people and constantly [inaudible 0:09:34.8] the market. That's how you can be successful in this business.

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FT: And being obsessive about it, it sounds like. Just hearing you talk. Really paying attention to the details and doing the research. This is not a get rich quick scheme. It never really was, although I think it's been marketed as that. I think people think especially in the 2006, 2007 era. There definitely were a lot of like "steals", but then we saw how that worked out.

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ST: Yes. I was very involved in that time, very involved. I remember people getting financing that couldn't even afford to get financing for a nice suit and money was being lent to them at a high interest rate and people were just giving out money to people that knew they would never be able to pay it back. I remember that, and that's why we got into the situation we got into in those years.

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FT: Did you ever screw up when it came to flipping or made miscalculations and you paid for it?

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ST: Absolutely. I mean, I think falling down is what you have to do in order to succeed in this business. The thing is and the key to it is, is that making sure that when you fall, you're falling on the ground and not off of a cliff. That is the difference between having good people around you that can mentor you. Again, like I said, not just for a flip, but also for a first time home purchase or a first time condo purchase. You want to make sure you have the right people around you. You want to ask a thousand opinions. You always want to take that in and then make sure that you rely on the information that you've gathered and key people who have been successful in this business.

It doesn't have to be me on a TV show. I mean, I've seen so many people go and they pay for these seminars. I have one episode at The Deed that's actually going to be the last episode that airs in a month and a half from now where they went to a seminar and they paid, and it's one of the seminars on a TV show and they paid \$32,000 for the two of them to go to Vegas on this seminar and take these classes, and everything they learned in those classes and those seminars, I had to basically brainwash them because it was everything that you don't do when you're getting into this business.

To me, I don't believe in those seminars. I think that you really can get the information without paying for it within your town that you live in, where you grew up or where your family lives. There's always someone that if you buy them a cup of coffee or even if you buy and let them know that you might buy real estate from them, that will spend the time with you to get you the information you need.

Especially today, when I started in 1998, they didn't have all these online, Zillow and realtor.com and all these different websites where you can actually pull information and kind of study some of the stuff yourself to get an idea of what's going on in the area that you want to build or buy in or live in. I think it's important to make sure that you understand that those seminars are not always the right thing to do.

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FT: You got your start in the late 90s in real estate, a really touching story of rebuilding New Orleans, which is near and dear to you. That must have been super emotional. Can you take us to that time and place and what were the pulls that were bringing you in, that were drawing you in?

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ST: Well, I struggled in school coming up. I graduated high school, I was dyslectic. Back in the days when I was going to school, they looked at it as he wasn't smart, or he was stupid, or he was in the smaller class. I remember going to school and being in that smaller class, being around other people going to the bigger class and going through school, and then I went to a week to college. I went to school with college for a week and I decided that wasn't for me.

I realized I was going to have to do some kind of physical labor or something that was whether working in the garbage business or in the construction business or street work or figuring out what I was going to do. But at the time I had this passion for music and wanted to be in the music business. So I got a job working for a radio station, doing graveyard shifts, working at the radio station and probably two listeners at that time when I would be on listening.

Within like a month or two I got a job working for Lenny Kravitz. I went on the road for a year and a half touring with him as an assistant and I got really mixed up in the rock and roll world, starting doing drugs, got involved with heroine and at a very young age my life just – Not only was I struggling trying to figure out what I was going to do, but I had issues with my personal life and I got fired and I think that was the best thing that ever happened.

I mean, Lenny and I are still great friends today. I'll tell you, if I wouldn't have went through that and he wouldn't have fired me, I don't think I'd be where I am today, because that pushed me to come home, sober up and get a job working at a construction company sweeping the floor. I used to clean up every job site when they were finished to get them ready to turn over to the owner, and I realized that when I got into that business I was like, "Man! I love taking these old 200-year-old buildings and houses and turning them around and bringing them back to the

original look,” and it was just so rewarding for me, and I found my passion and I was like, “This is something that I really love.”

I ended up working harder and harder and I got a job. I’ve moved up as a foreman, then I got my general contractor’s license and then I got my grandmother to cosign a \$40,000 line of credit in 1998 and I bought my first fixer-upper and I flipped that and that was the end of the story, because from there, from 1998 to 2005, I developed over 100 million in real estate and then got involved in after Katrina. Other businesses, I got in the garbage business, which I built the largest waste tolling business in the State of Louisiana after Katrina in seven years and I sold that to a public company. But all of that happened because I got into real estate. Real estate gave me the cash and the asses to be able to leverage to do other businesses to not just benefit me, but also to help my city, because by doing what I did after Katrina, I was the first one to get the streets back up and was cleaning up and helping get that organized. I didn’t think I was even going to start a garbage business and it ended up being all these trucks and then 500 employees, 150 trucks and I’ve built this company up and I sold it to a larger publicly traded company. But I wouldn’t have been able to do that if it wasn’t for real estate. So that’s why I say that real estate is the quickest way to build wealth if you do it right. That’s what I say all the time.

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FT: You borrowed \$40,000 from grandma?

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ST: Grandma, 90-years-old. She was at the premier last Wednesday. Such a great feeling to have her sitting there watching season two of The Deed.

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FT: So what was that conversation like? Was it an immediate yes or did it require some convincing?

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ST: Are you kidding me? Immediate yes. She's a little Italian, 90-year-old woman who's back in the day when I went to her, she's the type of person. She's a hard worker. She worked all the way up until she was 90 and she told me, she said, "I'm not doing this." She said, "I want 90 days, you're going to go out there and if you're still passionate like you are right now, in 90 days I will consider it." She goes, "I want you to present something to me once a week. I want you to go look at 5 to 6 houses once a week."

What she was doing was she was trying me to make sure that I was really passionate about it, that I really wanted to be in this type of business. I'm glad she did, because that's what I do now for people who come to me. I tell them, "Yes, you like the things that I have. You like where I am financially and you see all these things, but you don't realize how hard it is to get to where I am today." I think that I'm going to do the same thing my grandmother did to me. Go out there and continue to present, but I'm not ready to fund a deal with you right now until I know that you're going to be passionate about this in 90 to 120 days.

So in one of our episodes, we have a 21-year-old kid who is in law school. He got his real estate license and he came to me to do a flip and it was very similar. We got into the first deal and he's already trying to buy more deals. I told him, I said, "Slow your roll. You're going to wait. We're going to finish this one project and then we'll decide if we do more." Just so you know, we're on our second deal going into our third deal next week outside of the show because he took my advice, he learned the ropes and now he's overseeing the jobs himself and I'm helping him finance the deal. I'm partners with him on the deal, and it's very rewarding for me. I mean, I can go build a hotel in the Bahamas like I did with The Cove, turnaround, flip it, sell it, make a bunch of money.

To me, I get so much more joy out of paying it forward and helping other people get to the potential, where maybe one day they'll be where I am financially and be able to help other people finance their dreams and their goals. That's the idea, is trying to help improve communities by paying it forward and not relying on city bonds and government loans and all these other stuff to do it. Really using people within the community to help each other out to get them on a platform that they can do the same for other people.

[0:19:35.2]

FT: Sydney, what is your greatest money memory as a kid growing up? We ask this of a lot our guests and it's interesting. 50% of families according to a new survey, by ChaseSlate, our sponsor, found that 50% of families talk to their kids about money. I'm just curious to know a little bit about your financial upbringing as a kid, because you're savvy. You're a hustler, for sure. But part of what makes you success is that you can also do the math well, because that's a huge part of being a success in real estate. So what was it about your childhood maybe that created that planted the seeds?

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ST: Yeah, the foundation. I tell you, it's really interesting, and I don't want to basically say, but I had a family member that was very – Would always borrow money, was always in debt and would make money but then would go right back in debt, and growing up I watched that. I remember at times I would get – One of my parents would tell me, "We might have to move. We might have to move in an apartment." I remember being very stressed about the fact that one of my parents was always in a position of taking risk, but in a way that would jeopardize certain things with family.

So I remember that very well and I remember growing up thinking to myself, "I never want to be in that position." I want to make sure that whatever I do I always make sure that I have a certain amount of cash to debt. Remember, just like I was dyslectic, I struggled in school even with math. So you can imagine with financing, it was just kind of like a memory of like, "I don't want to be in debt. I don't want to be overleveraged. I want to be stressed out to have nice things, a nice car, any vacation place or anything like that where I have a lot of debt. I'm not buying a fancy car unless I have the cash to pay for it and not borrow the money to do it. I'm not doing a vacation home or a second home unless I can pay cash to do it."

I've established those guidelines and rules in my life and I think that's what's really helped me when I say about teaching financial literacy, it's because I went through it firsthand and I remember the things that I didn't want to do and didn't want to be like, and I think that's what put me in the position where I am today where, I guess, if I see a certain amount of debt to cash

ratio and it's off, I get very nervous and I make sure that I don't have to go out and do that, and I'm very fortunate because a lot of people, especially developers, they're always property rich and cash poor. Because I developed other businesses in my career through real estate, like the garbage company and developing a crime map to help the City of New Orleans, similar to Uber police. It was featured in New York Times.

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FT: Yeah, tell me about that. I want – Yeah. No. Sorry to interrupt you, but that's so fascinating. I want to know about this really quick. Tell me about this app.

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ST: I will. I just want to finish the last point. The point is, is that I wouldn't have been able to do the garbage company that put me in a position to be able to pay off all my debt and have the cash if I wouldn't have been able to do have real estate as the primary way of using those assets to sell it off. The same thing with New Orleans when the crime was at an all-time high a few years ago, the mayor at the time was telling everybody, "Oh, well. He's not the mayor anymore," but he was telling everybody, "Oh, we don't have enough money to have and pay police officers. So we just kind of have to deal with the crime and what's going on in the City of New Orleans." I said, "That's unacceptable." I said, "We need to deal with it." He said, "Tell Sydney to put his money where his mouth is," and he got on TV and said that.

At the time I was building The Cove Resort in the Bahamas and so I wasn't really here, but my mother was telling me about all the issues they were having and then my house got broken in two. I said, "Okay. If you let me, I will come up with something to help police the area."

What I did was I designed this app similar to Uber but for police officers and for citizens. So every citizen in New Orleans have the app on their phones whereas if they see suspicious activity or they get into an accident or their house gets broken or any kind of emergency, they can hit this button on their phone and it's similar to Uber, it goes to the closest police officer. They can send a picture and they don't have to wait around for the police officer to come. They

have all the contact information when it sends out and it allows for the police to get there within minutes, and it's a great tool.

So we dropped crime about 45% in the City of New Orleans, and what happened from that creation, now I'm using it in other areas throughout the State of Louisiana and we're talking with big companies right now that want to integrate it into their other police radios and different things like that. It's really taken off and it's a really cool app and we were featured in the New York Times and we were also on Lester Holt on NBC Nightly News. So we had a lot of coverage on it and it's really doing well. So I'm excited about the crime app. It's called The Taskforce App.

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FT: Wow! What about 911 though? Is that just a waste of time in New Orleans?

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ST: Well, 911 in general is very difficult when you call 911. I mean, everywhere is different. But a lot of times you'll get operators who aren't even from the area and they're trying to explain to them what street you're on or what's your situation and it's so frustrating. A lot of people don't even really use it. When they see suspicious activity, sometimes – Unless it's an emergency, they'll pick it up, 911 and call. But like suspicious activity or being proactive, sending photographs of something that they see that could be a potential crime, it's like the old broken window theory. They don't really do that, because it's difficult with 911 to explain all the stuff. What's cool about the app, and because everybody uses mobile phones now, you take a picture, you hit submit and they have your information and you'd go on. It's just an easier way to report things.

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FT: Before we let you go, I read an article recently on cnbc.com where you're just talking about how location is and always will be the most important aspect of picking a house, and a lot of our listeners are first time home buyers, perspective first time buyers. So I have to ask you, can you give us some specific great locations that are right for purchasing?

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ST: There's an article right now on CNBC that just went out today, it's a video actually that where I'm talking about how to pick a location. What I always say is that when you're looking to buy your first home or your first condo or your first flip, what you want to do is spend a lot of time – What you want to do is spend a lot of time in that location that you think you want to live in. You want to check out the streets making sure to see if there's a lot of potholes, or is the neutral ground, are they trimming the trees? How is the drainage when it rains? Looking to see are there any schools, grocery stores.

These are the things that you want to look for, because what happens when you see this and you start to see like the streets are great, the trees are trimmed, the grass is cut, the city is really paying attention to these areas because they see that the per square foot prices are going up and they see the values in this area from tax dollars are going up. That is a sign and those are signs that you need to look for when picking your area to decide where you want to live, because what happens when you're in those areas, sometimes you might be priced out of your budget because it is so high-end wherever everything – The city is paying a lot of attention to these areas, the streets are perfect, the drainage is great. You got stores. Everything is great in the neighborhood. Sometimes if you want to get a better deal, you want to go a little bit further away from that and it's very easy to check out.

When you're checking out and you're spending time in those areas, you want to be in between that really nice area where everything's perfect and in between where the really bad areas, and what I call that is you've got the – It's called the sweet spot. You've got the hot spot and the fringe and you always want to be like right in the middle in the sweet spot. The reason I say that is because you have so much more opportunity for your equity to grow within your asset, within your real estate, within your first home purchase if you buy in an area that's in between that really hot spot and not too close to the fringe, because you got to be careful for crime and the city is not paying a lot of attention to it.

You want to be right in the middle. It's very easy to do, to look at these different things, like the streets, the neutral ground to see if there are street lights burnt out or are they being replaced.

That's kind of how I use and I tell my investees, "When you're looking for your first purchase or your first flip, you want to make sure that you're in between the hot spot and the fringe and that's the sweet spot," and that's one of the things that I talk about on the show all the time.

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FT: Can you name certain towns or cities that you feel like there's a lot of opportunities still?

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ST: I say all the time, because I developed in the Bahamas, I developed in New Orleans, I developed in Florida. There's always areas within every town where there's a sweet spot. The key is that you really got to look for that. I mean, it really depends on what your budget is. At the end of the day, if you're going to try to live in Manhattan or SoHo or you're in LA and you want to be in Malibu or you want to – You've got to understand what is your budget and then you basically take the all in budget that you have.

Meaning that the purchase price, if you're going to redo your kitchen, your bathroom, whatever you're going to do, you want to make sure that you're all in budget, you need to make sure that you can go online with all these different real estate sites, like Zillow, realtor.com. You can plug in that number or that you can have that number in your mind and you'd go online and you look to see what fits that area, whether you're in New York, whether you're in Chicago, whether you're in LA. From that point, you need to go and look. You need to physically go and look in those neighborhoods.

To answer your question, I believe in every state there's sweet spots and sometimes you might be the – I don't want to say pioneer, but you might in some areas be a pioneer. But if you do it right, you have the right mentors around you, you can build instant equity into your first home purchase and that's where you want to be to make sure that at the end of the day you're not upside down on your first home.

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FT: Of course, watch The Deed to learn more about how to do this successfully. Sydney Torres, thank you so much for joining us. Congrats on the new season and all of your latest ventures, The Cove. What is the app called again?

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ST: It's called Taskforce App. It's the Taskforce App, it's the FQ Taskforce App.

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FT: All right, awesome. Congrats again and thanks for coming on.

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ST: Thank you for having me, I really appreciate it.

[END]