PAYCHEX THRIVE
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Ryan Serhant Gets Real About Real Estate

Gene Marks

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Real Estate Broker, CEO and Founder of SERHANT. Producer and Star of Bravo's *Million Dollar Listing New York*

Speaker 1:
Welcome to Paychex THRIVE, a business podcast where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

Gene Marks:
Hey, everybody, it's Gene Marks, and welcome back to another episode of the Paychex THRIVE podcast. Thanks so much for joining me. I am here today with Ryan Serhant. Ryan is known to many of you guys for his appearances on some very popular reality TV shows, Million Dollar Listing, New York, is one of them, and there's a spinoff now, Sell It Like Serhant. You also run, Ryan, your own real estate firm in New York City as well. So, first of all, thanks so much for joining me. I'm glad you're taking a few minutes.

Ryan Serhant:
Of course. Thank you for having me. Excited to be here with a great CPA no less.

Gene Marks:
Well, I'm happy to have you on and I wanted to make sure that people know that much about your background. So, first of all, what is the name of your firm in New York City and how long have you been running it?

Ryan Serhant:
So, I got into the real estate business in 2008 in New York City when I was 24, and I've been doing it ever since. My first day was the day Lehman Brothers filed for bankruptcy. So, I've been through all the ups and downs of the markets. My firm, so I left the firm I was at and I started my own firm in 2020, middle of COVID, no vaccine, New York City shutdown. Launched it in September of 2020, took a long time to figure out the name. My last name is Serhant, so I called it Serhant, but I put a period at the end of it. So, the name is technically Serhant with a period. And we have a lot of divisions. I would say the legal entity is Serhant Technologies, but under that are Serhant Real Estate. We have education, we have media, we have production, we have technology, so on and so forth.

Gene Marks:
So, first of all, I was pronouncing your name Serhant, so I do apologize for that. It is Serhant. So, that's first. But secondly, so it is a real estate firm that serves as a brokerage but also from a content and educational perspective as well for potential buyers. Does that make sense?

Ryan Serhant:
Yeah. Our flywheel is content to training to commerce. So, we have an in-house production company that produces real estate content all day, every day. That's personality driven, agent driven, developer driven, but it's engaging. We're the most followed real estate brokerage brand on the planet. So, from there we generate organic lead flow of salespeople and people who need salespeople. Those salespeople go either into our brokerage in the markets we're licensed or we funnel them into our educational products, which teach them how to sell more. The people who need salespeople are then connected to the salespeople that we work with or into our referral pipeline. Part of our business is called Connect and that handles all the referrals around the world and we do deals that way. And they do deals, they create new content, and round, and round, and round we go.

Gene Marks:
This is the ultimate connector business. That is a really, really cool concept. You mentioned all around the world, so I'm assuming this is not just a New York thing.

Ryan Serhant:
Listen, I'm based in New York City, our headquarters is in New York. We're licensed in New York, but we're licensed in multiple states now. We're opening right now in South Florida, so we're getting aggressive there. But we do business everywhere, California, Texas, we just sold something in Portugal. We do deals in London, Paris, we do rural deals. So, wherever people want to work with our salespeople, we have 15,000 salespeople around the world and we do those deals.

Gene Marks:
Great. So, Ryan, let's talk about real estate right now. The tech industry is going through lots of challenges.

Ryan Serhant:
Every industry is going through some challenges right now.

Gene Marks:
Actually not necessarily, not every industry, some more so than others, let's just say. But let's just say it is a challenging economy overall. And real estate itself, it's a challenging industry to be in. And because we live in such a big country, it kind of depends on where you are and obviously what you're selling. Give me your thoughts on the real estate market now. And again, I'm hoping you're comfortable, seems like you are talking about overall around the U.S., not just in New York, but good, bad, strong and where?

Ryan Serhant:
The market is uncertain. I don't think I'm unique in saying that. Think about it this way. You have a retail store, and so you have a Black Friday sale, because you really want to get as many things sold as possible on Black Friday and Thanksgiving. You ramp up sales and it's crazy, you sell so much. But then, a month later at the end of the December you're like, we had a tough month. December's tough, man, we should really look. Everything's bad. It's not that December was tough, it's that you gave an incentive to your buyers through one weekend to all come buy then. So, your December traffic and probably some of your January traffic too was all absorbed by you in November. So, if you amortize that out over the next couple months, everything's basically the same except you chose to want to do everything at the same time.

Ryan Serhant:
So, our Black Friday sale was a $5 trillion stimulus package that went out. People either put it in the bank or they felt good enough to go and buy real estate, and they did it all at the same exact time. That was pent-up demand literally since Lehman, because investing in real estate for the regular investor, the regular purchaser was a scary thing from Lehman until COVID. And all of the future demand was then soaked up. A lot of people just, they bought the houses, they all moved. And so, what we're experiencing right now is a consumer confidence contagion, layered in with much higher interest rates. So, affordability has been halved. Layered in with historical low inventory, because sellers don't want to sell. Buyers are nervous to buy. So, what do you do? You kind of have this stagnation.

Ryan Serhant:
Layered in with regional bank failures, which are kind of like the second domino after crypto for example. First, you had the NFTs, the cryptos, the FTX crumbles. So, boom, those go quick, that's an easy domino to knock over because it was so speculative and it was so new. Next, what's underneath that? Who's a custodian for those dollars? A lot of regional banks. So, now the regional banks are next to go. Now, what's next? What's next to go is commercial real estate. And then what's next after that is probably residential real estate. And then what's next after that is the general macro markets. That's typically the trend that we follow.

Ryan Serhant:
I don't think it's going to be any different. I think we're in for a pretty tough, very bloody '23 and potentially '24. I think this is all going to be the leading campaign dialogue for the presidential election in the U.S. next year. And I think how we come out of this remains to be seen. But, this too shall pass. Good times come to an end, bad times come to an end.

Gene Marks:
Everything is in cycles. It's funny that you say that because the industries that have been hit the hardest, I mean crypto is sort of something out there on its own, but it's the interest rate sensitive industries that are really the ones that get hit. And technology we're seeing it right now. I mean I'm sure you saw it over a year ago. I mean capital is drying up for a lot of those companies because the cost of capital is going up so much. So, that's why you were seeing tens of thousands of layoffs in that industry. And just like you said, what's next when it comes to interest rate, people that are exposed to that real estate, construction, residential and commercial as well. So, it almost seems inevitable that the real estate industry is going to have its challenges and particularly when we're looking at interest rates as high as they are.

Gene Marks:
And Ryan, I got to tell you, I mean I have clients all across the Mid-Atlantic right now, business clients that are paying significantly more in interest just for their working capital loans and their equipment loans, than they were a year ago. All that is going to have an impact on the economy. So, let me talk a little bit about interest rates in general. Mortgage rates right now are close to 7%, six and a half, 7% on average around the country. You've obviously seen that impact your business. Do you expect that they have a continuing impact? You mentioned all the way through 2024. Does that mean that you're looking at prices falling for both commercial and residential real estate, less demand for those properties?

Ryan Serhant:
So, we haven't seen less demand yet, because there's just not that much inventory. So, the demand for the product that's there, that's well-priced is still selling. Listen, pre-COVID deposits, so American savings was plus minus $13 trillion. Post-COVID-

Gene Marks:
Household wealth.

Ryan Serhant:
… it was 18 trillion. So, the difference was a $5 trillion stimulus package. And so, when the government just prints money ad hoc for whatever the policy might be or for the good or for the bad, it drives inflation and we can't have a market that has high inflation. We will become Venezuela. And so, that would be way worse than anything. And so, I think rates, just like you're seeing with the regional banks, nothing ever happens overnight. So, last year was fine. We had the strongest fourth quarter of my entire career last year, even as rates had already doubled. This year, you're starting to slowly feel the pain as people determine what to do. I think you're going to have commercial real estate owners whose loans are going to be coming up on a reset and they're not going to know what to do. And so, you got to sell into a higher interest rate environment.

Ryan Serhant:
And so, that puts downward pressure on pricing. You're going to have the same thing for residential owners who have 90, 80, 70% LTVs who are saying, "Oh, shoot, what do I do?" Now, if they locked in low rate 30-year fixed like most Americans, and they're fine. But, in the more urban markets, the New Yorks, the Miamis, the LAs, et cetera, you have a lot of people who still do arms. So, they have low interest only payments. When they start to come due, what happens? You're going to see that a lot in Canada. You're going to see that a lot in London, the UK. A lot of foreign markets, you're not getting 10-, 15-, or 30-year loans. It's great. I think in the UK, you're getting a five-year loan and that's it.

Gene Marks:
Right. So, what are you doing about this? I mean, you've got your ideas to where you think the economy is going. You've got some pretty reasonable thoughts as to where the real estate market is going to be heading. It ain't great over the next couple years. And by the way, like you said earlier, not that anybody's panicking, because things will eventually turn around. So, what are you doing and what do you recommend other people that are in the industry to do right now? Are they hunkering down and sitting on cash or looking for deals?

Ryan Serhant:
I've always been one to zig when everyone zags. And listen, my business is such that we're small, we're new and nimble enough that we can take advantage of down markets, which is what I'm planning on doing. Everyone always asks for a correction and then when it's here they ask for it to go away. People want great deals, but they don't want the baggage that comes with a great deal. And a down market is never identical, otherwise it wouldn't be a down market. If this was 2008 all over again, we wouldn't be feeling nearly as much pain, because we're like, yep, it happened again. All right, we're going to fix it. Which is what the Fed and the government are trying to do with these regional banks, which is why if you've noticed they've been shoring up these banks over the weekends.

Ryan Serhant:
Over the weekends, the news comes out on Sundays, they're not doing it during the week. Sundays, everything's fine. We're on top of it. We're even working through the weekends, it's all going to be okay. I think it's a delicate balance of the two. You want to cut unnecessary spending, unnecessary costs that aren't directly revenue generating. So, you want to be prepared for the future, because at the end of the day, it's not the investments being good or bad that are going to hurt you, it's the cash flow. But you want to be prepared for amazing opportunity.

Ryan Serhant:
In my business that comes down to amazing deals, helping, getting buyers great, great deals, helping sellers get out of tough situations. And then also, our ability to expand. Real estate agents are really the main business that I'm in. I'm in the agent business, I'm in the salesperson business. They don't make moves or do a lot when the market is really hot. They're just too busy. When the market starts to correct and things get scary, and they turn on the news in the morning and, oh, Credit Suisse is gone? Then they start to think about their future. They get nervous and they start to look for other opportunities.

Gene Marks:
Other lines of work.

Ryan Serhant:
And that's great for us.

Gene Marks:
There is a lot of turnover in the real estate industry because it's that tough. Do you think that's going to continue in 2023? I mean it seems like a lot of people that don't want to take any kind of disruption aren't going to be in it for the longer term and will likely find work elsewhere. Do you agree with that?

Ryan Serhant:
Yeah, absolutely. I'm incredibly excited for January 2025. I think we got to get through the pain of this year and then we have to get through the next presidential election, which really freezes out a lot of markets, especially the high dollar markets because people are waiting. It could affect your taxes, it could affect your property. Who knows what's going to happen. No one spends money when they're uncertain about the future. And so, that's the interest rate, the issue that we're dealing with right now and the regional bank failures, if people don't know what's going to happen in a month from now, are other banks going down, bigger bank? Are rates going up? Are they stall? What are we doing? I can't spend a million dollars right now. I can't spend 3 mill, 5 mill, unless it's an amazing deal and you know that you're getting kind of like a market agnostic deal.

Ryan Serhant:
I think this year is going to be tough. I think next year is going to be tough as well. I think they're going to be rough and brutal, and we all have to buckle down and just bear our way through it, take advantage of great opportunity if we can find it. Be super opportunistic, because it always gets better. Great times, I've never been this great. And bad times, oh, my gosh, they've never been this bad. And so, we carry that in the future. Once the presidential election is over in November, January 2025, people are going to say, okay, well, I have no more excuses. There's no more excuses, no more waiting, I got to move, I've got to figure things out and then people are going to be right back to it. And I think we'll have five years of just a solid marketplace.

Gene Marks:
That's great. So, I've got some questions that specifically geared towards commercial buyers. Before I get there, I can't leave this go. You've clearly got some thoughts on the whole Silicon Valley Bank thing and what's going on in the banking industry. The common narrative of Silicon Valley Bank, and this impacts obviously real estate and construction, is that it was more or less an isolated thing. It was bad decision making by people running the bank that put their money into e-liquid treasuries. They, for some reason, didn't go to Economics 101 and know that when interest rates go up, the value of treasuries come down. Somebody let loose into the public that they had a bit of a liquidity issue because they had so much of their money tied up in longer term illiquid assets, and that caused a classic bank run. So, it was poor management, poor decisions, and that's what led to it.

Gene Marks:
There have been a couple other banks, you mentioned Credit Suisse, which also has a history of poor management and regulatory issues and things that they've had to deal with. And there are some smaller regional banks that are going through some challenge. But I mean, Ryan, there are 4,200 banks in the country. These are a couple that have been getting the news. I mean do you not think that this was an isolated thing? Do you think that this is going to be something that we're going to be seeing more of throughout 2023, to the extent that it really will have an impact on the financial services industry and therefore people looking to buy real estate or sell it?

Ryan Serhant:
Well, you said it earlier, you said that not every industry is having a hard time right now, only those that are directly impacted by interest rates. So, banks, especially regional banks are directly impacted by real estate. If you had 100 billion of new deposits and you put it in 2% treasuries that are now at 5% and you want it back before the period is up, you get the principle less the difference in the rate. I don't think that these banks didn't know what was happening. I think that they didn't have options. You lock up the money and you're waiting to see if it gets better. Like anything, you're waiting to see, okay, well, it might not rain all night, let's just see what happens. Because the pain is going to suck and everyone just stalled and delayed.

Gene Marks:
See, and I have to interrupt you though, only because I mean you're smart and you know the markets. And if you and I were having this conversation 15 months ago in the height of inflation and before the Fed started aggressively increasing interest rates. I mean, come on, Ryan, you would've been saying, yeah, I mean you can expect interest rates to be going up. I mean it seems like that's going to absolutely happen. And you'd hear there were the guys who were running this bank that didn't seem to think the same way. Doesn't that surprise you? I mean, these are supposed to be really smart people.

Ryan Serhant:
I think none of us were in the room. We can speculate as much as we want. As ridiculous as it all sounds, these aren't stupid people. I think they also just assume they'd be able to raise money and figure it out like you always do. Well, listen, I told you a lot of tech founders who were down to their last dollars last year and were like, oh, shoot, I didn't realize I have to go raise more money.

Gene Marks:
I just got to go and raise more money.

Ryan Serhant:
The environment's not the same. I can't raise more money that easily. What do I do? Because you're just busy. I also think that a lot of the work from home culture and everyone just not being in it together every day did also play a big part in that. I think it's important to really be in it with your people, if they're at home and lacksadaisical and that's when mistakes start to happen. I also read that the CFO was from Lehman, that's probably not that great.

Gene Marks:
That's not a great thing to have on your resume, right?

Ryan Serhant:
I think that's tough. So, it's clearly not a one-off. Are 4,500 banks going to fail? No. But could 200? Could 400 regional banks fail or be consolidated or merge? Yeah, I mean possibly. I think that there's a real likelihood there, but I also don't think it's a terrible thing. I think Credit Suisse has been a tough bank for a

long time. I think a lot of these other banks have made bad investment decisions for a while. And so, it's a clearing of the board. It's a clearing, just like anything, like you were saying about salespeople, do we think salespeople are going to get out of the market now that the market's tough? Yeah, obviously. And it's going to be a clearing of the board.

Gene Marks:
I call it the nail salon index. In my neighborhood there's 10 nail salons within 100 yards of my house, and then a bad economy happens and all of a sudden you're down to two or three, which happened to be the two or three better run nail salons in the area.

Ryan Serhant:
So, my goal is always, how do I stay above water? Obviously, I want to be much, much higher than that. But no matter what, you aren't judged by your success when everyone's having success, you're judged by your success when everyone can't find success. My best year as a salesperson was 2017. In New York, specifically 2017, Trump had just been elected. There was the Trump bump in the stock market. No one wanted to spend money. No one was looking to spend money on real estate. All the taxes were in limbo. No one had any idea what was going to happen. Are my taxes coming down? Is he removing deduction? What is going on? What is going on? What is going on? We sold more than anything, because when the market came to a standstill, people still need to buy, people still need to sell, but they look for non-traditional means. And so, it's always important to make sure that you have a differentiated value proposition to your customer base that puts you in a good position when markets are great or puts you in a great position when markets are bad.

Gene Marks:
All right. Ryan, we have just a few minutes left, but I can't let you get away without just getting some advice from you. So, again, you're speaking to business owners. This is not a real estate industry question. It is a question that a lot of business owners have. They're looking to purchase. I mean, let's say they're in the market to purchase a commercial property this year, and let's assume that they've got the capital to do it or willing to absorb the higher interest rates to do that because it makes business sense for them to do. Give me some advice. I'm looking to buy a piece of commercial property in 2023, what thoughts do you have?

Ryan Serhant:
Rents are still very high. Depending on your market, the ROIs on a commercial piece of property are still very, very strong, depending on your personal cost of capital, because buying a building for $10 million at two and a half percent versus 5% is a different story. But depending on your cost of capital, I think it's still an amazing time to buy commercial property because you can get great deals. We're selling buildings in the middle of Midtown now for 20, 30% off what the same deal that we were doing two years ago. Does that go to 50% off? I don't think so. Could it continue to be reduced this year? Possibly. But you're still buying the asset, you're still buying the rock, you're still buying the dirt.

Ryan Serhant:
And I think it's an exciting time to be in the place of also strategic repositioning. So, there's been a lot of conversation about positioning commercial into residential. And listen, certain areas where you can do that, certain areas where you can't due to zoning, but how can you strategically reposition older office or even older retail? For example, I'm in SoHo talking to you right now. I'm sitting in my office, which not too long ago people were trying on Tommy Hilfiger jeans in, as my entire office building was the Tommy Hilfiger flagship store in lower-Manhattan. But big box retail for that just no longer made any sense.

Gene Marks:
For what it's worth, I buy Hilfiger jeans right off of Amazon.

Ryan Serhant:
No, I mean listen, the world changes and you have to adapt. So, you have to move, you have to adapt, you have to be willing to pivot and not be caught behind. You don't want to be Sears. You want to always... and be respectful of the changes, be respectful of the changes. So, I think commercial real estate isn't going away. It's not going to vanish. It's not a widget. It's a real thing. And I think it's a great time to be a commercial real estate investor, owner and long-term holder.

Gene Marks:
So, let me turn the tables a little bit. You've given some advice on buying commercial real estate, which my takeaway is there are plenty of deals that are out there and if you're smart about it, you can really make money. And if you're in a position to rent or lease out the property as well, rents are still strong and that's a good ROI. So, that's great advice. Let's turn it around and talk about selling property as well. There is more than half of the business owners in this country are over the age of 50. I have a lot of clients that are already talking about succession planning. I see a lot of clients now. I'm getting a lot of questions, Ryan, about sale leaseback deals. It's the biggest asset in your business, always is your property. So, people are like, why don't I just cash out on this property, lease it back for 10 years if I can, and then still operate the business. Give me some of your thoughts on selling a commercial property in 2023.

Ryan Serhant:
You're a seller in this market if the sale improves your life. So, you're selling because you get a good enough price that enables you to meet whatever end game it is that you're looking to meet. You're not selling in this market because there's market broth or you can get a price that doesn't make any sense. You're selling to this market to move on to whatever that next step might be. So, you're going to [inaudible 00:26:01] on the money, you're going to move it around, you're going to do different things. You're going to set up that succession plan. You want to finally take the cash off the table, whatever you are looking to do. And what's great about commercial real estate, like I just said, is that there are still very active buyers out there that are looking for deals. So, as long as you can position it as a good deal and a great sale leaseback makes a lot of sense because people love buying property that have tenants already in place, especially that know the property.

Ryan Serhant:
So, there's no delay, there's no kind of vacancy carry, I think really, really works. I think it's the selling of residential property that starts to get tricky. If you're going to sell a residential property that you have a loan on, where are you going to go? If you're going to downgrade, that's one thing. But we talked to a lot of clients that are looking to downgrade, they still need loans and their monthly payment wouldn't change because of what rates are today. So, you spend the same amount of money that you're spending right now every month to have a smaller home. Maybe I wait to downgrade. What would be the point? And I think you just have to look at all options, just be smart. And if you need to hold, hold.

Gene Marks:
Okay, fair enough. So, in closing, tell me a little bit about yourself and your future. What are you going to be working on this year? Still working on TV and selling and building the business?

Ryan Serhant:
Oh, yeah. I mean I try to do all the things at all times. Listen, we started our business in 2020 in the middle of COVID, like total lunatics. And everyone told me not to do it. And in hindsight, thank goodness I did not listen to them. It might have been easier if I waited a year, but if I waited a year, I would've made a far less impact. So, 2021, we learned to crawl and it was a great year. 2022, we learned to walk and it was a strong year. But obviously, when you start to learn to walk, you fall over a lot. You get hurt a little bit more. So, interest rates started going up. This year though, we're going to learn, we're running. So, it's a big expansion growth year for us. And it excites me because I get to do that while everyone else was hitting the break and stopping and going on hiring freezes.

Ryan Serhant:
And I like markets like this because you don't get flack for being cheap. You actually get kudos for being smart on expenses. And it's a public thing now. So, I can move into different markets, we can handle different expenses in different ways because I can say, listen, I'm not being cheap. You saw all the banks are failing, right? You noticed that? Did you watch the TV? Did you read the news? It's tough out there, tough out there. So, we're going to do this, but we're going to do it now a different way. So, you can now find efficiencies and you can find better ways to do things than we did over the last couple years where it's like, what's it cost? Yeah, I don't know. I'm too busy, just figure it out.

Gene Marks:
Ryan Serhant is the president, CEO. What is the name of the company and if you can give me your website?

Ryan Serhant:
Yes, I am the CEO and Founder of Serhant. You can go to serhant.com or ryanserhant.com if you're interested in everything about me personally. And we sell real estate, we sell sales training, and we do a significant amount of media, books, TV shows, all that fun stuff.

Gene Marks:
Ryan, thanks a lot for joining. It was a great conversation. I appreciate it.

Ryan Serhant:
Of course.

Gene Marks:
Do you have a topic or a guest that you would like to hear on THRIVE? Please let us know. Visit payx.me/thrivetopics and send us your ideas or matters of interest. Also, if your business is looking to simplify your HR, payroll, benefits, or insurance services, see how Paychex can help. Visit the resource hub at paychex.com/workx. That's W-O-R-X. Paychex can help manage those complexities while you focus on all the ways you want your business to thrive. I'm your host, Gene Marks, and thanks for joining us. Till next time, take care.

Speaker 1:
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