EPISODE 568

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Danny Randazzo. Thanks for being on the show again Danny.

[0:00:33.8] DR: Hey Whitney, great to be here as always talking real estate, thank you so much for having me on.

[0:00:39.3] WS: Yeah, my pleasure Dan. It's been great to get to know you and to see your success over the last couple of years, you know, as we've known each other and in the business together and thank the world of you and your all's team at passiveinvesting.com. Looking forward to this show and just catching up a little bit. I know some big things have been happening for you all in the business but then externally as well.

Just in the market and just going to learn how that's affected you all and what you all have done and how you've overcome it. A little about Danny, you should go back and listen to a few shows we've done together about different topics. Show 180 and 469 but also, he's a real estate investor, author, entrepreneur, mastermind host, national speaker, podcast host, volunteer with the [inaudible 0:01:23] and world traveler. Retired from corporate America at age 30 after working as a financial consultant.

Today, his company controls over 220 million dollars in real estate assets. Danny, thank you again for your time. Why don't' you give us just a quick update of what's happening in passiveinvesting.com and let's jump in to the current market and how that's affected what you all have going on.

[0:01:44.5] DR: Yeah, I think from a high level, you know, we're all in this together. It's been a crazy couple of months here in March and April of 2020. Just so this is an evergreen show, I'll earmark that so we have the there but COVID-19 is going on right now and we are finding new challenges that no one has really had to face before and figuring out ways to adapt and thrive.

I wouldn't say survive but certainly staying safe, being healthy, following guidelines and just trying to navigate these unchartered territories and hopefully looking forward to the months ahead of kind of getting back to normal or as close to normal as we were beforehand with people being able to travel freely and going to work and going to the grocery store and not having to line up outside.

That's kind of what we've been dealing with at a high level, really kind of focused on two major aspects right now. Number one, we've got our current portfolio just like you and your business partner, we have assets to manage and oversee and make sure that residents are taken care of. It's a very hectic time. I think people have become a little bit more normalized to the current economic environment and just daily living environment.

There have certainly been fun challenges in that kind of realm of current operations and management and then we have been actively pursuing a new opportunity and just trying to navigate those waters as far as due diligence, making sure your inspections get done overcoming any sort of shelter in place challenges. Lender challenges, I'll just say, the debt market environment as well in regards to real estate.

Kind of two things that we've been juggling and just trying to keep our heads moving forward and getting things completed and getting everything done.

[0:03:48.1] WS: Awesome. Why don't we dive in there a little bit to just – to the challenges you all have faced during – I mean, while trying to close a deal and something like this happened.

You all are an amazing team and it's been incredible to watch you all just rise to the top at any occasion like this or anything that's thrown at you. You had a contract and then this whole thing happened. I'd love to dive in a little bit and even help the listeners just things that you all did, maybe things you didn't expect but how you overcame them, you know, what changed, maybe you weren't expecting ahead beforehand and some of those things?

[0:04:21.9] DR: Yeah, from an operations perspective, the first major aspect when closing a deal is your onsite due diligence so I'm assuming everyone, all the listeners have vetted the numbers, the financials, they toured it, they have the deal under contract. Now it's time to physically go to the property and do your unit walks, some of your lease audits, and inventory of the office assets, computers, equipment, things like that and then also your third party inspections from the lender.

The major lesson learned there is to always be prepared to do those quickly. We got the deal under contract I think on a Monday and we had our management team out there on Thursday, walking units, sometime in the middle of march 2020, when the news was breaking of the world or global epidemic at the time, it was the federal shelter in place or the 14 days to stop the spread. It was just breaking but luckily, we were organized, we were ready for the acquisition and we had our team out there very quickly to get that done.

That was a very good thing to be organized, be ready to go because the following week, the governors started announcing those shelter in places which could have severely limited our ability to complete that due diligence. That was a challenge that we had to face and then you know, making sure our third parties could get out there from a lender perspective to do the property inspection report or the property conditional assessment where they check the roofs, they check the parking lots, they check the striping on the parking lots, they check sidewalks, the pool deck.

You name it, they check it and getting that report done is a huge piece of information so the lender feels comfortable and understanding that the asset is as it's been presented or it's in really good condition or maybe there's some deferred maintenance and the lender needs to hold back a large chunk of reserves to repair those necessary items after closing.

The other important inspection report is your environmental inspection report to check if there's any environmental contaminations or higher soil levels than typically normal. I smile there because they're very detailed reports, it's great to get that level of information and you hope as an operator that those reports come back clean because there's a lot of verbiage in there that you won't know until you Google it. Getting those done, very important, happy when they come back clean and it allows you to progress and I would say, the other biggest challenges as we were getting started here on the show Whitney.

We were talking about the debt market and how a lot of lenders have kind of paused in their business until things get back to normal. From what we've seen in the large kind of 150 unit plus multi-family space, we've seen a lot of private lenders who have just completely stepped away and said, "I'm not doing business." I've heard of deals that have been a couple of days away from closing, even in march and April of 2020 and a couple of days before closing the lender pulled out and said no, we can't fund this deal, we're not doing it. For various reasons, I don't know the details of those deals and it's just kind of shocking when you go through that, no one really expected it so the debt piece is a major component in any deal that you do but specifically now and I think even going into the future.

Until business picks back up to normal, some of these lenders like the bridge lenders, the private lenders, the life insurance companies and any sort of CMBS or commercial mortgage backed securities lender may have difficulty or hesitancy or added scrutiny to reserves in order to close the deal. Luckily, that's a portion of the lending business, there's another portion of the lending business that is your traditional agency lenders, Freddie Mac or Fannie Mae and luckily, the way we had evaluated this deal, it worked out to be an agency type loan that was going to be the best form of debt for this acquisition.

We had been pursuing an agency loan from day one with this asset and it was great to hear the confirmation. You know, in March, the federal government had announced the 750 billion dollar backing to the agencies and then later, the Whitehouse came out and said that the agencies have an unlimited budget to fund these loans.

What that did for us as the operator and investors out there, it had caused a spike in the supply or the volume of loans being requested or refi-ed or new acquisitions. The volume went up and the supply of lenders went down.

There was this significant demand and not enough dollars at the time and so, we saw a couple of interesting things happen in I would say, middle of march through the end of March 2020 with interest rates kind of going up and down. It has seen that some of the leading metrics have somewhat stabilized over the last 21 days in April. The 10 year US treasury rate has been fairly stable over the month of April which is a good indicator for agency loans and agency interest rates.

The bond market has also stabilized a little bit so these are some really good metrics and indicators to kind of lead us into what's to come ahead as operators, as investors, as people either closing and buying deals or people passively investing in deals, these are good indicators of more stability, more normalized times to come that we're used to seeing before the COVID-19 virus and global pandemic outbreak that came.

[0:11:01.2] WS: Yeah, I'm thankful that you all are able to get the debt that you have and able to keep it and expect it to still happen. We closed a deal like, it seemed like the week all this happened. That night, after we closed, the lender texted us and said, "Just so you know, you all are the last loan that's going through at least for 30 days."

It was bridged. Yeah. You know, obviously we're so grateful that we had to have the property under contract and just like use that and all that stuff done and we're ahead of the game or otherwise, we might still be waiting now if we could have even closed. Very interesting.

Was there a time when – when all that happened, you know, I'd love to just get your all's mindset a little bit and what you all were thinking about. You know, obviously you know, you didn't expect the COVID stuff to come in here like this when you first put this deal under contract and then all of a sudden, this happens. Is it a time where we come around the table and we're all thinking okay, should we keep this deal or should we back out? What were some of the conversations like around that?

[0:12:01.3] DR: They were interesting conversations because we really didn't know what to expect from COVID, we kind of made some educated assessments or educated decisions, assumptions around thinking that hopefully by kind of May, we could get back to reopening, we really took things day by day at that time to evaluate new information.

I felt like in March of 2020, we would turn on and hear the news, hear our governor, hear the president speak or physician from White House and then an hour later, there would be new information and so, you couldn't even keep up or it was just changing so quickly and so you know, what we were able to do is kind of from a number one business investment criteria, number one. Is it a safe place to put your money?

The answer to that question, you just need to think about the real estate market, most people rent versus buy. Again, everything is market specific. I'll say kind of regional job growth population growth, there's a lot that goes into it but from a very high level, multi-family real estate is a safe place to put your capital. That's why we personally invest in all of these deals.

That is a comforting position to be in when you can place your capital and you know that tomorrow it's not going to tank 20% or 10%. I feel like the folks in the stock market may have lost some serious life expectancy because of the ups and downs that occured in March and even into April of 2020. It was insane to see like a 30% reduction in value just overnight because all of a sudden, there is a sickness out there but some of these companies, you know, they're inventory didn't really change and this was early March.

Granted, a lot has happened with them, those companies over 30 days but one night, you're not going to wake up and have your real estate down 30%. Now, the other important factor is, multi-family real estate as why we invest in it, it produces cash flow and income. That is the huge benefit. Number one you can put your money in and number two, a majority of the time, right? Even through this COVID, we've learned that residents still prioritize paying rent and when rent is paid, that is a cash flow that is in return to investors.

It's number one, a great place to safely put your money, number two, it has a high probability of earning a return and it also has great tax advantages. When you compare it to the alternative of let's put it in the stock market, that's why I don't' have any money in the stock market.

[0:15:10.9] WS: Right, I like to say, we didn't see numerous buildings just disappear overnight.

[0:15:15.6] DR: Right. Those were the kind of fundamentals at the highest level of is this investment sound? Yes. Are we putting our money in a secure place that has the opportunity to earn more? Yes. That's the beauty of being able to invest in real estate and I always think back to the basic kind of Benjamin Graham, Warren Buffett golden rule of the time value of money and compound interest.

If someone – I don't know what the exact timeframe is but let's say, two years ago, you put your money in the stock market, well, today, maybe its value is at the same position you bought two years ago and you've made nothing. You've made no return, you have made no cash flow, that has actually cost you money.

Because, every year that you don't make that interest and compound it the next year, its' a significant loss on that portfolio. You know, all of these models and what the fiduciaries on TV show you in these models is, the compound effect of your money. So you start with $10,000 or your start with $100,000 and each year, you make a 5% compound return and in 30 years, you're going to have a million bucks or 750,000 doing nothing.

Having your money earn a return is extremely important and so that's again, another sound kind of investment thing for people to think about. That's how we were evaluating the deal. At the end of the day, it is very important to do your due diligence and so one thing that we have also done with all of our assets is we know the resident employer demographics. So having that information gives you a way to analyze and create a probability statistic of people being affected by the virus.

[0:17:24.6] WS: Were you all doing that before any of this stuff happened?

[0:17:27.0] DR: We had all of the information, we were not utilizing the information for any particular reason before this happened because again, we rely on our management teams on sight to vet the residents, to make sure they have a job and they made enough money and they have the rental history and all of that to qualify to live at these assets but having that information was really important as we were gearing up.

You know as soon as the COVID stuff was breaking, my first priority along with our directors of asset management on our team, we were focused on the existing portfolio and evaluating how many residents do we think could be affected by this. Do we have a huge portion or do we have a very small portion that we need to be worried about or helping or checking in with more frequently? Getting that information allowed us to predict what we expected our April collections to be.

And so I would say that is a huge tip for any operator any passive investor out there. If you don't know where you're at with April collections I would be asking those questions of your management team. If you are the operator, if you're a passive investor and you have not been informed about what is going on with your property I would definitely be reaching out now to get that information but.

[0:18:53.6] WS: How did you all collect that information?

[0:18:55.3] DR: So we collect that information from the leases. So when they sign a lease they give their employer a job description and stuff and so it is a basic literal view of who is their employer but also what is their job title and you can also cross check that by how much income they make. So if I work at, I'm going to use, if I work at the court house and I am a clerk but I make $80,000 and I have worked there for 10 years that is a pretty solid job they'll probably be okay.

If they work at a restaurant and they're a manager and they make 30,000 and it is lower in property, thankfully our portfolio is a nicer kind of B-plus higher quality asset. So we don't have a huge effect. We didn't expect to have a major impact but we were ready and we certainly are working with those people who needed to have payment plans or things like that set up. So it should be in the leases. If you are the operator go get that information because again you want to cross check.

And just make sure that what your property management company is telling you is valid based on your own due diligence and research.

[0:20:12.5] WS: What do you all expect for say the next month or so or as opposed to this month as far as rent collections and what are you all expecting?

[0:20:22.1] DR: In terms of April, we saw really strong collections as of the middle end of April 2020, we were 90 kind of two, three, 93% plus collected for April, which is fairly normal. We are certainly a little bit behind compared to April of the previous year in terms of percentages for March and February but we felt very good where we're at. A lot of people are still catching up on their second payment plan. So looking at May, you know the question is if some of these businesses are going to be able to open early.

And continue to do their social distancing, I think that would be a good thing for people to get back to work again, not a huge percentage of our residents were affected by layoffs or furloughs. So that is another really good sign for those properties and I think for those who were affected, I feel like May has the potential to be very similar to April. A lot of things have occurred in April as far as unemployment getting rolled out. I feel like it took a long time for a lot of these people to get through to their jurisdiction

The one positive when I think about our asset location specifically, I feel like our states where were invested did not have maybe the same wait times as let's say New York. So that will be a benefit, people have been out there. They have been able to apply and get that. The stimulus checks have gone out, people should have received them I think last week Wednesday so those are there and then hopefully, some of these jobs can get back to work.

And I think May has the opportunity to be very similar to April but again, it is just about monitoring it very closely. We look at our collections on a daily basis to make sure that everyone is kind of accounted for, followed up with and it is a two way street. They need to be proactively working, any resident needs to be proactively working with the management company to kind of get their situation out there and then it is the other side of the street.

With the management company working with all the residents to make sure that people are comfortable. Their needs are taken care off and they can love where they live.

[0:22:46.8] WS: Are there some key KPI's that you are discussing with the management company on that daily call or however often you all are speaking?

[0:22:55.0] DR: It is very simple, the KPI itself is really where we're at with collections and we look at it on a percentage basis but also we look at it on every single unit. We need to know what is going on with every single resident. So for example, if you have a 100 unit property and 75 people have paid or 75% collected for April, let's talk about exactly the 25 other people and we provided this update in the first week to our existing investors and they love getting this information.

It was where we're at with collections. So in my example, 75% paid, there is 10 people on a payment plan who have been proactive with us. There is five people that we need to follow up with and 10 people who are paying late but they are going to pay by the 10th of the month. So having account of where you're at across every single unit, very important and that's where we looked at for April and that is what we are going to do for May as well.

[0:24:08.2] WS: Nice, Danny unfortunately we're almost out of time but why don't we just talk about a few things that maybe passive investors need to know, things they could be discussing with operators right now, as they are vetting deals, vetting opportunities and should they even think about investing right now? I know many are waiting on the sidelines, many are ready to jump in right now and I just wondered your opinion and how they should be looking at opportunities right now?

[0:24:33.7] DR: Yeah, I would say number one, be comfortable and know where you're at with your current investment. So if you are actively invested in a deal you should be getting updates about where you are collections are at, how the property is performing, any critical updates you should do that first. Then number two, if you are currently a passive investor looking and thinking about investing, I would be asking some of these same types of questions.

So how did April collections look on the property? What type of employer demographic information do you have on the residents? Can we make an educated decision on how many people may or may not be affected by the virus? You know historical property collections, what is the actual occupancy at the property, maybe there is an opportunity to invest in a student housing deal. We don't do any of those but I am just using that example and if the college close, maybe 50% of the students left.

And now there is a huge vacancy issue and people aren't going to pay their bills because they are not going to school and so you know you run into a whole slew of issues there, which is why we don't really focus on that student housing aspect of things but the employer demographics, collections, I would say would be a big thing and then what is the stability and soundness of the investment itself, is it in a great market, is it a quality asset, is the deal going to close, is the right debt in place for it?

You know just again, some of those basic things and I think there is good opportunity for people to look at deals and pursue opportunities and of course you know, use their judgment and educational background to make sound investment decisions with the opportunities that are available.

[0:26:32.2] WS: Yeah, I think it is a great time to be vetting operators if they are looking to invest. I would imagine there is numerous investors that are trying to move money, capital out of the stock market like you and I discussed. You can go back and listen to the beginning of the show right?

[0:26:45.2] DR: Very closed over there at the stock market.

[0:26:47.6] WS: So yeah, I meant to ask you too, what were couple of things or main things that your team did that helped you be prepared for something like this that helped you all survive this before you knew it was coming, maybe a couple of things that you all were already doing that like okay, we're glad we did that?

[0:27:03.6] DR: Number one, investing in good markets with diverse employment opportunities, I would just say by kind of luck, we fell into and really love the markets that were actively looking for deals in and Raleigh, North Carolina, Charlotte, North Carolina and Greenville, South Carolina, those are great places. The big benefit that I look back now and say I am so grateful for this but those three cities are not built on tourism. They are not built on entertainment. They are not built on hospitality. They are not built on sporting events or other cruise ship destination type of places.

So some of those things we have done just because we believe in the basic fundamentals of investing in great neighborhoods where people love to live, where they have the opportunity to work at many different employers and if one large employer shut down it is not going to decimate the economy. So I would always encourage new investors or new people looking to invest in deals to invest in some of these larger metro areas.

Certainly while you could go and make a higher percentage return maybe in a I'll use Biloxi, Mississippi, just a random place on the map or a rural town, one hiccup like this could cause the manufacturing plant or the food processing plant to shut down and now all of a sudden 80% of your residents are out of work and you're what appear to be a great return is now going to be not so great because of one tiny hiccup.

Versus if you are in a larger cities with more diversification you are not going to be as impacted by it and so that is something that we have always believed in and grateful that we have continued to stick by those core values and the second piece to it is investing in great assets where people want to live and we're not doing luxury. We are doing very affordable, great apartments that people want to be in and so I think that is another thing I look back today and I say well I am grateful that we are investing in your average normal typical person's apartment that they want to live in.

You know I think the hotel industry, you could have made a killing over the last several years and now all of a sudden one tiny hiccup and there is a ton of scare of are people going to travel again after this is over? And so I think that is another thing again. We're just so grateful that we are in that necessity piece. People are going to get their food and water first.

And then they are going to get their shelter next and so I think being in that basic necessity of a human need is great and again, we are in these great locations where people live, work and play. So it is a win-win-win.

[0:30:33.2] WS: Danny, how do you like to give back?

[0:30:34.7] DR: I like to give back through the First Tee. It is a golf program where you can go and volunteer and you teach young people lessons and fundamentals about life through the game of golf. So it is a great opportunity to get out there, have fun on the golf course but also teach core values of honesty and respect, trustworthiness, how to be a good steward, sportsmanship, things like that. So I love working with the kids, teaching them golf and then just teaching them how to be good people.

[0:31:05.2] WS: Wow, Danny thank you for sharing that and giving back in that way and giving back to the listeners and myself today on the show. I'm grateful for just your knowledge and experience and your willingness to share and help us all. Tell the listeners how they can get in touch with you and learn more about you and your team.

[0:31:20.4] DR: Yeah, thank you so much for having me on Whitney. Always a pleasure to be here and try to add some value to the listeners but if you want to learn about what we do for our multi-family investing, go to passiveinvesting.com and you can get everything you need to know there. If you are interested in having a call with us so we can learn more about you and your goals, just join our club and we will get in touch with you from there.

And then the other place, if you are interested in learning more about me personally just go to dannyrandazzo.com. I've got all of my kind of blogs and articles and previous podcast interviews there. So you can learn a little bit more about my story and if you want to get in touch with me personally, just each out through the website.

[0:32:04.6] WS: Awesome that is a wrap Danny, thank you very much.

[0:32:07.2] DR: Thank you Whitney.

[END OF INTERVIEW]

[0:32:08.2] WS: Don’t go yet, thank you for listening to today’s episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

[0:32:49.3] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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