EPISODE 698

[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]

[00:00:23] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Tony Castronovo. Thanks for being on the show, Tony.

[00:00:31] TC: Thank you, Whitney. Glad to be here.

[00:00:34] WS: Tony is a founder and managing partner of Novo Multifamily Group and Novo Investments. Tony is focused on buying hold investing, initially in the single-family space and now exclusively in multifamily apartments. He's the owner and operator and asset manager for 80 units in Bryan, College Station Texas, a home of Texas A&M University. He's also a committed veteran of the Houston Marathon.

Tony, thank you again for your time. I appreciate you being on the show today and being willing to share your story and helping the listeners and myself. Give us a little more about your background in real estate and let's talk a little about the single-family and moving in to exclusively in the multifamily, like your bio mentioned and let's jump into your superpower.

[00:01:20] TC: Absolutely. Yeah. I think, there's probably quite a few real estate investors out there that start in the single-family space. I was one of those. I think it probably took me about four months to find my first single-family rental home. It was one of those things. You watch all the shows on HDTV and you get all excited. I purchased this house and took the whole family

out there. It was demo day and everybody was excited with their sledgehammers. That lasted probably about three hits with the sledgehammer before everybody was caput.
We were pretty hands-on. That's a theme for me, but we did that full renovation as a family and a lot of my weekends and nights, but the interesting thing about doing it that way was I really got to learn what it was all involved, regarding the contracting and the renovations. Then as I just took that and kept it going and had to fill that unit with a tenant and then had to be a landlord and what does that mean, and just being a management and IT guy for many years, I knew I had to develop processes and systems.

The turning moment for me was when I had a tenant who wanted to make sure that her payment was on time and she showed up at 11:59 at my house and stuck a check under my doormat. I said, “That's it. We have to go online. We have to have systems.” It snowballed from there. One led to two, two led to eight and eventually, I moved into multifamily.

[00:03:06] WS: Wow. Yeah, you had a tenant show up at midnight at your house. You probably thought they didn't know where you lived.

[00:03:06] TC: Well, unfortunately, there is that a little clause about where to drop off your rent check and the lease. Unfortunately, that was my home address. I’ve learned since then.

[00:03:27] WS: I think most of us have some story like that that caused us to learn some better processes, right? Why multifamily as opposed to single-family?

[00:03:38] TC: We had a great business in single-family. If you're familiar with BiggerPockets and the term BRRR. We're doing a lot of the BRRR strategy, where we’d basically buy a distressed home, we'd renovate it, we'd get it listed for rent, refinance it within 90 days and pull out equity and move on and do the next one. That was great. It was just another log on the fire every time. We were building a good equity base, building good cash flow.

For me, I was looking to make a big step change. I just couldn't see going one property, even if it was every three or four months. It just wasn't fast enough for me. The amount of effort that you have to go through just to turn one property and then start over, I just didn't want to do that again.

I was expecting the inflection point when I got to 10, because of the financing and having to maybe move that into a portfolio loan. I just accelerated the whole thing and said, "You know what? I'm going to sell this as a package, so that I can take advantage of a 1031 exchange and one transaction and then roll that all into my first multifamily." I was out there looking for a multifamily that I could get into by myself, because I didn't know anything about syndication at the time. I was just looking to stretch as far as I could go.

At that point, a 20-unit multifamily was about as far as I could stretch. We did just that. We 1031 into that. I guess, about two years ago we got into the first multifamily that was in Bryan, Texas, very close to College Station, Texas A&M. We basically did like I said, a hands-on approach. I didn't do all the renovations myself. I mean, what I realized by taking on that property was being from the Houston area, it's a little too far for me to physically be there all the time. I needed a team. I needed to have third-party property management. Even though I was doing it, I couldn't scale that way. It was a rip the band-aid off and hire a third-party property management.

I had a rolodex of contractors here in the Houston area from the single-family days, but I had to re-establish that and really get into finding people I trusted out in this new sub-market. We got started and just that property was a very clean property in the way that it was structured, because every tenant was on a month-to-month lease. I had an opportunity to just control the rehab and it was this methodical plan of every couple of months – well, every month we were going to do two units and we were going to move the tenants out, rehab it, bring new tenants in, rinse and repeat, until we get all the way through.

It started to be okay, but we realized pretty quickly that critical mass is important. Nobody wants to move in and be that first one or two tenants into a great unit, but it's a dud of a property. We had to accelerate the whole thing. I'll fast forward here to the story, but we basically got through renovations in about seven months.

[00:07:00] WS: 20 units in seven months?

[00:07:02] TC: Yeah, we actually did 19. We had one tenant that simply just didn't want to go and we couldn't necessarily get him out. He was a great tenant and he wanted to pay more. I mean, he didn't want to pay more, but he was willing to pay more and we didn't have to renovate it. We just kept him in there and he's been there now for several years. We got one more looming.

[00:07:25] WS: Nice. I know just from previous conversation, you'd like to have a hands-on approach. I'd like for you to elaborate on that a little bit. You had mentioned earlier too, just how people say working on your business versus working in your business. I love to know how that applies to your thought process of this hands-on approach.

[00:07:44] TC: Yeah. You hinted on the saying there. A lot of people will say, you have to work on your business, not in your business. For me, it's always worked that if I'm in my business, it's like working under the hood of your car. You get to know everything about it. You know how to optimize it, what makes it tick. To me, it's like if you've ever seen the show Undercover Boss. If you're sitting in the ivory tower, you may not really understand what's going on on the ground in your business.

I don't necessarily mean to be an undercover boss, although I think a lot of my tenants think I'm the maintenance guy. Beyond that, I mean, I love being there in it, seeing what's going on, seeing the difficulties that our contractors are having, let's say, with the renovations, or maybe with our property management and what they're dealing with on the ground, because these are things that I'm a process guy. I can fix things if I know what the problems are. I can't really know what the problems are, unless I see them firsthand.

[00:08:52] WS: How does that work, say with employees, or do you have employees that are helping you, working for you? How do you see that scaling?

[00:09:00] TC: We're not at a point where we have employees at this point. Everything that I've done, I'll say our partners, not even vendors, because I do treat everybody that way. We're all in this together. I think that's one of the nice things about multifamily is, I know I've heard this a million times, it's a team sport.

I try to be transparent with everybody. Even the general contractor that I work with, he actually wanted to be one of my investors. My attorney encouraged me not to do that through just conflict of interest. The reason why I’m bringing that up is that there was this mutual trust there that he understood my business model and what I was after. I understood what he needs to be successful as well.

We've all been there, where we're trying to nickel and dime a contractor and trying to squeeze out every last dollar. I’m guilty of it just like anybody else. For me, it's making sure he understands why I’m pushing in certain places to make the business successful, because at the end of the day, if it's not, then he doesn't have a job either. He's now been with us on a couple different properties. It's been more of a long haul. That's just one example. A property management team is the same way.

[00:10:22] WS: The hands-on approach, how do you see that scaling? You buy another larger multifamily property, things like that. It's going to be hard for Tony to be that maintenance man, right? How do you see that working long-term?

[00:10:35] TC: It's that stabilization factor. My other property, the 20-unit that I mentioned, and the one actually that I’m referring to now is I have a 60-unit as well. That one, we picked up at the end of last year. That one is still going through a stabilization, so we're heavy into the renovations and really trying to improve the tenant base and so forth. I’m very hands-on.

The funny thing is I sometimes feel a little guilty, because I’m 2 miles away from my 20-unit property. Many times when I’m in town, I don't even go there. It feels like I’m deserting a child, but it doesn't require my attention. It's stable now. It's running. It's optimized. I mean, there's always something I can do to make it better, but I have a team in place and I really don't need to worry about it very much.

[00:11:32] WS: Let's talk about that 20-unit again and some of the difficulties. It sounded like your business plan changed a little bit as you got going. You experienced some challenges and you overcame them, it seems like. Maybe you could talk through that a little bit, some things that you learned, taking over that property and your plan of exiting those tenants, you say two a month, something like that. You ended up doing it faster than that. Tell us a few more details about that.

[00:11:59] TC: We all get the analysis-paralysis with the spreadsheets. Every time you're looking at a deal, you're underwriting a deal, everything looks good in Excel. Then when you get boots on the ground, things change. For us, we had this methodical plan laid out. The bank loved it, because we were going to maintain a 90% occupancy throughout the renovations. It was a nice methodical, let's move out two tenants, one month per phase for the renovation, two units and we can keep our cash flow going and so forth and get through this thing.

Then what we realized is well, even if people are month-to-month, some of them are just going to leave and they're not all going to stay through your renovations, especially if it looks like a construction zone. We got a little surprised by that, and so we had some vacancies pop up. Then when we finally got through some renovations and we're trying to move in tenants, we still didn't have a great community. It's more than just creating a nice interior renovation. You've got to work on the overall community, the rules of your community, the overall property management, making sure that work orders are being addressed in a timely manner, all the operational stuff. We really had to get our act together on that.

Once we did, I mean, phase two was five units. By the end of phase two, we had seven units done, which was almost halfway through. I mean, we had some critical mass at that point and we put a number of rules in place to really just start to create some order, because the previous owner – I mean, bless his heart. He was 82-years-old and he just let it all go. That's why everything was month-to-month, because he never renewed anybody's lease. He just hoped they kept paying.

[00:13:57] WS: What was the bank's response when you started having more vacancy, that you said they loved that you were going to maintain 90% occupancy, but that that didn't happen? What happened with them?

[00:14:07] TC: I think it comes back to being transparent, that hey, we had a business plan and that was our best understanding, given the facts that we had. Once we were into it, things started to change and we had to be flexible and adapt. I invited my lender to come out to the property with me. I gave him a tour. We showed him what we were doing. We sat down and had a cup of coffee afterwards and we just talked through the revised business plan and how we're going about it.

I guess, there's an element of trust there that we were still getting to know each other. He had to take a leap of faith on that. I'll tell you, we dipped down on our occupancy quite a bit in the winter months as we were working through the meat of the renovations and had to start making that turn. That required some trust. We never looked back once we got it filled and it's been a great property for us. We're typically a 100% percent full. Tenants love it. We get great feedback all the time.

[00:15:12] WS: Nice. Now, I love how you mentioned just communication there with that lender and transparency and even inviting them out and how you all revised that business plan and talked through just what was happening. I mean, it is what it is at that point, right? They just have to see you're doing the best that you can. I liked also how you focus on the community and not just making it a pretty building, or in our units, but there's a community feel there that has to happen. Could you elaborate on any other things that you did there to just make it that community where tenants wanted to live and stay?

[00:15:42] TC: Yeah. Obviously, when you take on something like that, you're focused on a lot of the capital improvements, interior, as well as anything that needs to be addressed on the outside. Even amenities, I mean, we didn't have an option for laundry. Amazing that the previous owner just ran that property for years and years and there was no in-unit laundry, there was no laundromat on site. I think the best option for people was they could walk across the street and there was a laundromat over there. Even that, I mean, could you imagine having to haul your clothes across the street back and forth. It just wasn't a good solution.

For us, we had to get creative, because there really wasn't enough, I don't want to say the word 'real estate', but there wasn't really a place to put laundry. It was a small 20-unit building. We got creative. We had a carport that had a maintenance shed in between 10 units on one side, 10 units on the other side of parking. We split that and we turned half of it into a laundromat and the other half, we kept as our maintenance shed. That laundry facility, I mean, it looks immaculate, it's well done, all new equipment, that tenants were so excited. I mean, there was literally, a virtual ribbon cutting. They were very excited that they could literally just walk across the parking lot and have this brand-new laundry facility.

We don't make a ton of money on it, but it's not about the money in that case, it's about keeping tenants happy and having one more reason for them to say yes, when we're trying to attract new tenants.

[00:17:28] WS: How did you maintain cash flow, or did you have reserves, or what carried you through that time of a higher vacancy? Even having the expense to have more renovations at that time, what carried you through that?

[00:17:41] TC: Yeah. You mentioned reserves. That's a part of any deal, is to make sure that you're well-capitalized. We had the budget set aside for the renovations and understanding that our occupancy was going to dip during that timeframe. The other thing too was with our loan, we had interest-only for I think in that case, it was it was 12 months, smaller property. That bought us some time to get through and start to bring in tenants and get those rent bumps that we were looking for.

This was a big value add. This was taking units that were renting for $500 a month and bringing them up to $750 a month. A significant add. We had a lot of work on our hands, but good thing to have good partners.

[00:18:29] WS: What's been the hardest part of this multifamily journey, or process for you?

[00:18:33] TC: Part of it is mindset. Even going from the single-family space to the multifamily space. That was a big jump, because it was this unknown pool of maybe operations. What's different about multifamily? It's larger, or more issues, more things on the operations, maybe harder to control. Fear of the unknown, I guess. When I moved into the next property, the 60-unit, that was an inflection point for me. Because at the time, I was refinancing my 20-unit and I wanted to be able to use this BRRR strategy again in a multifamily space and be able to take the forced appreciation that we put into it and be able to leverage that and move into the next one.

I was looking at my options. The first option that came to my mind was the most obvious. I'm going to buy another 20-unit apartment complex, like I was going to buy another single-family home every time. Something triggered. I think I was out there searching for networking groups and everything I get my hands on. I stumbled across a group that turned out to be a syndication group. They were just having a local meet-up and trying to educate people on a different way. Different I say, because it was different to me.

That's when I first learned about syndication. For me, that was a mindset change, because I realized that now I'm not limited by what I have in the bank. I'm limited by my ability to raise capital. The syndication became very attractive to me. I think it's just thinking bigger. Even 60. Today, I look at 60 and even though it's got its challenges from a magnitude standpoint, I'm like, "What's the big deal? It's 60." I went from 20 to 60, but the operations are similar. The approach that you take is similar. Going to 260, maybe that feels a little uncomfortable, but it's just scale. It's thinking bigger.

[00:20:44] WS: Outside of the mindset and thinking bigger, what was the challenge that you had syndicating that first deal? The first syndication.

[00:20:53] TC: I think it was mindset, because I switched my thinking of I'm asking people for money, versus I'm creating opportunity. I rehearsed that a little bit. I followed some of the advice that I had gotten of, before you go out there trying to bring a deal and get people interested in your deal, start priming the pump a little bit. Take a deal you're underwriting, one that you're not going to do and start socializing it. Build a business case around it. Talk to people about the process that you're going through and the opportunities there. This is a deal that looks like one that they might be interested in.

Work out the kinks of your presentation and the mechanics. Even the way you talk to people and try to create that elevator pitch. That was a bit of a change for me. It was fun, because I love that one-on-one relationship building with people and I'm totally – I'm not the broadcast out to a 100 people and try to do the whole 506(c) thing and just advertise it to the world. To me, it's about the one-on-one relationships, build them one at a time. If you do write by people, then you're going to have repeat customers, if you will.

[00:22:17] WS: What's a way you've recently improved your business that we could apply to ours?

[00:22:21] TC: I think, it's to continue to look around you, at your network, or networks I should say. Another saying, I guess everybody's heard is your net worth is your network. I mean, we all have a network. We have many networks. It takes you to stop for a minute and just think about who are your spheres of influence. For me, it's like, I have a W-2 job. I have a number of colleagues that I've worked with for years. I have a running club. You mentioned early on about my marathoning. I'm in a running club with 400 people.

There's just a variety of circles that I'm in, that when you really stop and think about it, if you start really nurturing some of those relationships, tell everybody. Tell everybody what you're doing and the excitement, the passion is going to come out. People want to naturally be a part of that. It starts by identifying who's in your network? Who do you want to talk to about this?

[00:23:21] WS: What's your best source for meeting new investors?

[00:23:24] TN: I think there's investors all around us. Some people just don't know that there's this opportunity. I think the average person thinks that they should invest in their 401k and have some stock options at their company. That's pretty much it. Again, I think if you just look around you, I mean, I can't help talking about real estate.

Anytime I'm meeting somebody new, somehow the conversation just comes up. I think it's fun. If you just prime the pump a little bit. It may not happen in that first conversation, but over time people get to know you and success attracts.

[00:24:06] WS: What's the number one thing that's contributed to your success?

[00:24:10] TC: I think it goes back to that topic we talked earlier about being transparent. I'm not going to conceal anything. I'm very much a open communicator. As an example with our investor base, we produce monthly reports. We have quarterly phone calls. I'm always available for one-on-one conversations. I've had individual investors just reach out and say, "Tony, listen. Can we come out to the property and walk around? I want to bring my family, show them what we're doing." Absolutely. I mean, I encourage all that.

[00:24:45] WS: Tony, how do you like to give back?

[00:24:47] TC: I'm a coach. I'm a mentor. Back in the single-family days, what I used to do is I would invite new investors to join me and we would go on what I call maintenance runs, where basically, meet up with them. My wife loved this, because I was meeting strangers in the Ace Hardware parking lot. I would meet up with them and take them for a half a day or a day and we would go visit my properties.

A lot of times, I would just use the excuse of, "Hey, it's quarterly maintenance time with my tenants," just to get in there and check it out. We weren't really doing a whole lot. Maybe we'd touch up some paint, or turn a wrench, but not too much. During the drive between each property, they got to ask me any real estate question that was on their mind. Not only did they learn something, but I had somebody to talk to about real estate other than my wife, who's worn out from it at this point. I learned some things from them too. I started asking myself some of these questions, just to reinforce things for me.

[00:25:53] WS: Tony, appreciate you giving back in that way. I don't think I've heard anybody mention something like that before, inviting somebody to come along. I think it's a great idea. It's a great way to get to know some people too and give back and help them to better understand this industry. Just grateful for you explaining how you got that 20-units, then also just the mindset shift to syndicating that first deal and the 60-unit deal. Congratulations on that, by the way, and just making that happen. Just through your hands-on approach as well and then how you built even a community. You weren't just focused on prettying it up, but how the business plan changed and how you had to overcome that and just the transparency, importance of transparency, how you highlighted that and just getting through the mindset. You've brought out so many different things that we need to do better at and that you've done. Grateful for that. Tell the listeners how they can get in touch with you and learn more about you.

[00:26:42] TC: Yeah, absolutely. Thank you. Simply reach out to me at tony@novomultifamilygroup.com. Or you can reach me through our website, novomultifamilygroup.com. I'm also on LinkedIn as well.

[00:26:58] WS: Awesome. That's a wrap, Tony. Thank you so much.

[00:27:01] TC: All right. You bet.

[00:27:03] WS: Yeah. I appreciate your time. Have a blessed day.

[00:27:06] TC: Thanks, Whitney.

[END OF INTERVIEW]

[00:27:07] 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. Subscribe too, so you can get the latest episodes.

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[OUTRO]

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