EPISODE 751

[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]

[00:00:24] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Ari Sznajder. Thanks for being on the show, Ari.

[00:00:32] AS: Thanks for having me, Whitney. Excited to be on the show.

[00:00:35] WS: It's a pleasure to have you on the show. You and I met at a conference, what, a year and a half, two years ago. I knew then you'd be a great guest, and so I'm glad we are making this happen. I know you are doing a lot in the multifamily space and out there working every day to grow your business and brand, and so looking forward to this conversation.

But a little about Ari, in case the listener hasn't heard of him before, but he worked 12+ years as a marketing executive across blue-chip companies like Hershey and Kraft. He achieved financial independence after doubling the value of an apartment complex in one and a half years. Ari led the acquisition, capital raising, and asset management for that deal. He is focused on finding deals and partnering with local government and like-minded investors to help revitalize communities in order to hear more about that.

Hopefully, Ari's going to just open your mind a little bit to just some other options or other ways that you could be finding deals and working in this space that maybe you haven't thought of before. Ari, thank you so much for being on the show. Give us a little more about that transition, getting into this business, and then let's talk about your superpower.

[00:01:39] AS: Absolutely. So thanks a lot, Whitney. I would say I work for corporate America for 12 plus years. As everyone knows, everyone's got an expiration date at some point and another with corporate America, so we decided to take more control of our financial destiny. One of the ways that we did that is through real estate investing, and particularly we really focused on a white space area of deals. Not necessarily deals that were – deals are kind of in the middle. You got your deals that are really big. You have your 100+ apartment complex that you have a lot of institutional money going after large syndicators and things like that, and you have smaller deals like the four units and things like that with local contractors. And we really decided to go in the middle because we saw a lot less competition, and that's kind of where we focused and where we got started.

And we actually feel now more than ever multifamily operators, we really need to partner with local government and communities we serve to help revitalize communities, right? We actually partner with local government on a project that we had really close to an apartment building that we bought. We really like to take folks through the case study and the story of it.

[00:02:49] WS: That would be great. I think it's an interesting topic when we think about partnering with local governments or communities. It's a way that there's potential deals sitting there, and a lot of us don't even know to look there or who to communicate with. So, yeah, get us started. Let's hear about – Why don't we back up just a little bit though? I like how you said everyone has an expiration date in the corporate world. I thought that's an interesting quote. It's so true.

Just quickly though, what pushed you into real estate? You had this corporate job that most people probably would've said, "Ari, it's a great job. Why are you giving that up, right?" What pushed you into real estate?

[00:03:25] AS: What pushed me into real estate is really I always had kind of an entrepreneur vibe about me and things that I wanted to do. And after 12 years in corporate America, you kind of – it took me a while to understand that it was good. I did fine. But it really wasn't the thing that was for me, right? It wasn’t my calling. The things that my superpower, what I was good at, was learning new things, flexing, making connections with other people like relating to – you look at real estate investors that are typically that they're good with their hands, they are very DIY and things like that. I was good at relating to banks, selling the vision after having worked in marketing innovation for many years.

And because I'm in Central Pennsylvania, really a logical place was real estate investing because we have such undervalued real estate here. Yet we have population growth, economic growth, so that was really a no-brainer. Had I lived in New York City or maybe San Francisco, maybe I wouldn't have gone into real estate. But really it was a condition of my situation and where I became an accidental landlord after trying to sell our house, but we didn't. We just placed a tenant and we had a good experience.

[00:04:33] WS: Nice, okay. I hear that often where somebody became an accidental landlord. Then it’s like their eyes were opened to the possibility here. Let’s jump into this case study that you have for us because I want the listener to be able to understand more about this because there may be an opportunity like this in their backyard as well.

[00:04:50] AS: Absolutely. So basically, what we did, we found out about this apartment complex deal, and many investors didn't want to touch it because it was kind of in a rough area. The tenants were urinating in basement, smoking marijuana in the basement. It wasn't a very nice building. We went ahead it and we closed on it. We cleaned it up. We put in security cameras and kind of transitioned the building a little bit.

But right next door was a pawnshop that we inherited, a pawnshop tenant. We were not initially planning to change that tenant but we saw that they were kind of attracting crime. I had met with the mayor and the Chamber of Commerce to see how we can make an impact in the community. One of things they didn't like is that particular store because it was attracting crime. People would sell stolen items there and things like that. So we decided, “What kind of partner would a city like? What sort of business would be good there because it was in the downtown of the city in a very prominent location?”

And really — and of course, this is kind of pre-COVID, but they were really looking for the experiential sort of business, right? The sort of business that people come and eat and interact and things like that. So really we found and operate — so before that, the pawnshop tenant not only was attracting crime but also was not performing very well as a tenant. He went through bankruptcy. We went through a very long eviction process with bankruptcy and lawyers and everything like that, a very costly process. But we turned it over, we spent a lot of time searching for sort of the right tenant, and then we identified a operator, experiential — it's kind of a rolled ice cream shop that we were able to place there. We did a big ribbon-cutting ceremony. And the city and everyone was really excited to have that sort of business in the downtown in the city.

[00:06:36] WS: Nice. Tell me about your relationship with the local government, say, before you found this deal. How did you already have that relationship? How were you communicating with them through this process to even know? I mean, to really get them on board. Otherwise, they could've saw you as this landlord that's allowing these people here, but it sounds like you already had a relationship and you were working with him to say, "Okay, I realize this is maybe a tenant that no one wants here," and it's neat that you recognized that that tenant was attracting other tenants that you didn't want. But what was your relationship with the government, say, before you purchased this deal and what does that look like to nurture that relationship?

[00:07:13] AS: In this part of Central Pennsylvania, these are towns that have been established in 1730. They've got a lot of history. A lot of them kind of in the '80s and '90s had an economic downturn, would steal, leaving town, and things like that. But now, this region is kind of emerging as a Northeast transport corridor, so a lot of these mayors and Chamber of Commerce folks do a lot of outreach. So actually, the mayor came to a local real estate meet up and so did the Chamber of Commerce executive. So I met with them, talked with them, form a relationship because if I'm ever making a big investment in a community, I like to understand who the main players are in that community from a local government perspective, what are the big employers.

Then I just nurtured it in that relationships, set up meetings like, "How can I help you guys out? What are you guys trying to achieve with the city?" They're really trying to help revitalize the downtown that have gone down for a while. Now, it's kind of coming back with new businesses and more investment. It's really we want to partner together because I think as multifamily operators especially, like you're seeing a lot of times in the news and the way how real estate investors are perceived or landlords are perceived. A lot of us want to really improve the communities because it's good for the community. It's good for investment too. So we really felt to nurture those. But I had no pre-existing in terms of like personal. It was just that they went to a real estate meet up, the mayor and stuff, and they had a lot of outreach. I think they did a good job of bridging the gap with real estate investors.

[00:08:42] WS: So the people in the community were reaching out and connecting with you all. That's great, I mean, if they're proactive in that way. I don't feel like that's always the case. But too, depending on the size of the town, that may be difficult too, depending on what they're capable of or just the time available that they have. But tell me a little more about this property a little bit. How many units? It sounds like there were residential units, but maybe there's a commercial unit as well? Or was it just a larger tract that had different buildings?

[00:09:10] AS: This is a 20-unit apartment building. We bought also the building next door and the building next door eventually after that because one of the things that we're looking to do is buy abandoned buildings, redevelop them, put units in commercial spaces. So when we bought it, it was about 20 units. When we're done, it's going to be 30 units, right? So we're going to be putting in totally new apartments and placing commercial tenants and really focusing — we've got like this block right here, so that's kind of the size of it.

It's interesting because obviously if I was in a place like Dallas or a larger market, like the mayor wouldn't talk you, wouldn't care, and harder to have an impact. But a lot of times, these smaller communities, you can have a larger impact and make a bigger change. That's one of the things that really attracted me to this area that I'm investing. But these are places that are growing too from an economic perspective, from a population perspective because, like I said, there's a highway outside of this town, and 10% of the entire US GDP passes through these highway. The 81 Corridor, it's about two and a half hours from New York City, an hour and a half from Philadelphia. You can get to Baltimore in about an hour and a half, two. So this is a big area in terms of job growth. And a lot of the e-commerce providers, they want next day delivery in these big markets. This area is emerging, so it's really emerging as a good place to invest.

[00:10:29] WS: So you found this property, you connected with the local authority or local government leaders at REI club or meet up, real estate meet up, and then you purchase this property. There's issues. Give us some more of just the details you ran into and just maybe your business plan and how – Anything that you ran into along the way.

[00:10:49] AS: Yeah, absolutely. So when we first took over the building, we had two bedrooms they were probably renting at about 550. We went in there and we probably turned about 85, 90% of the units new paint and flooring. Now, a two-bedroom is renting at $850 a month, so we significantly increased rents. We put storage in the basement. We improved the common areas. We put in security cameras. We really want to make the residents feel safe and secure in this building, and we had a tenant appreciation party to really say what's going to happen in the building. So it was really like a building turnaround. We really felt that we had an impact in the community and these people's lives. But, yeah, we also improved the value of the building significantly by doing so.

[00:11:37] WS: A tenant appreciation party, that's so interesting. Just to really show them that they're like new mayors in town or new sheriff — that that you appreciate them too. But tell me a little about how some of that was perceived by them. Were you able to keep any of the old tenants or did you completely have to almost do a complete turnover?

[00:11:56] AS: When we took over the building, there wasn't a lot of what we feel tenant community cohesiveness, right? So not a lot of the tenants got along because there were some folks in the building that were using drugs, and you had some people that were families and stuff like that, and they tried to keep a little bit separated. I got some feedback that some people didn't feel very safe in the building, so we put in the security cameras. And it was pretty much a large turnover of most of the people we had to turnover.

In terms of how we were proceed, the building had been known for a long time by kind of an absentee landlord that didn't really do much and kind of let the building go. First thing we did is — when we had the tenant appreciation party, we said, "Hey, what is the feedback? What do you like about the building and what would you like to change?" After we had that tenant appreciation party, we said, "You wanted to change this, boom, we changed it." We made that improvement. Part of it was the parking lot and lines in the parking lot — there was chaos in the parking lot, so that's one of the things that we changed. Now, we can charge rent for the parking spaces, for example. We really showed that this what you asked for. This is what we delivered. You didn't feel safe. Hey, we're going to make some turnovers on some of the folks that are living there.

[00:13:09] WS: Nice. What was the total timeframe of just kind of getting the bad actors out?

[00:13:13] AS: We kind of moved fast because actually a lot of the people were on month-to-month, so it was between six months to a year that we had most of the people out. We didn't want to move too, too fast, because it could really disrupt the building, so we had pretty consistent cash flow through it. And I would say that we didn't have to invest a lot more capital. A lot of what we did was through the cash flow. We reinvested everything into the building. We didn't harvest any of it, especially the first two years of ownership. We put everything back into the building.

[00:13:43] WS: So interesting. We've had properties where when we added cameras, it's like so many bad actors were ready to leave. That helped us a lot at different places. Are there one or two takeaways that you learned from that purchase just that you could share with the listeners that maybe you learned going through that process wherever through the process that maybe it was like an aha moment to you?

[00:14:05] AS: Well, a big "Ah-ha" moment that I had was a lot of these things are not as scary as they seem. Taking a building that has some of these perceptions is just kind of like a formula. Listen to the folks, find out who your good tenants are, support them, get the local community involved, put in the security cameras. It's a lot. It's not as hard as you may think. You follow the script. You execute — sort of the turnaround business plan. When I first got in all this stuff for a minute there, I was like, "What did I do? I've got this cushy corporate job. I don't have time for all this stuff."

[00:14:39] WS: It is scary, especially if you're newer to this space, right? I mean, jumping into something like that. When you see tenants that are probably doing things they shouldn't be doing, and it's hard to jump in there and confront people like that and make things happen. So congratulations to you to just committing and taking action. No doubt about it. Was there one thing that just gave you the confidence to do that or one or two things you could bring out that helped you feel confident and just performing through that business plan through a tough property like that?

[00:15:09] AS: I knew that I had a really good partnership in a property management company, right? Before that, I had pretty much a single-family home rental that I self-managed but I knew I needed help to manage this. So I had a good partnership with a local property management company in the area that has thousands of units under management, and they have a really good team and process. That really gave me the confidence that I knew, and also the cost basis wasn't so high. We got this at a really good value. I knew that I had – From a capital perspective, we could make it happen and we had a good team. I definitely couldn't have done it by myself.

[00:15:43] WS: What's been the hardest part just about the multifamily business for you?

[00:15:47] AS: For me, right now, obviously, is finding deals and making the right relationships with the right brokers and like the right combination of market because I do some marketing to seller too. But if you're looking at kind of this midrange multifamily 20, 30, 40, 50 units and things like that, it's kind of a weird squishy middle space that it's not all 100% dominated by brokers. But if you do too much seller marketing, you may find out that that seller's going to list it anyway with somebody. So it's kind of an interesting dance.

[00:16:17] WS: No doubt, an interesting dance. So how do you prepare for a potential downturn?

[00:16:23] AS: Remain well-capitalized. Make sure that your rents are in a reasonable place. I would say that I see the folks in certain markets that have big hospitality tourism exposure a little bit in distress I would say. If there's anything you can do, like, I'm going to keep my rents where I am. I'm still going to make the improvements that we need to stay well-capitalized to make sure we can ride it out. I'm not going to do too many fancy finishes or upgrades or things like that. We're just going to keep operating and keep stay capitalized and conservative.

[00:17:01] WS: Do you have a measure or a way that you know that you have enough capital? When you say well-capitalized, do you have some way of saying this much per door or this much – I've heard lots of different ways that people think about that. What about yourself?

[00:17:15] AS: I look at my breakeven occupancy, which is basically even if I only have 60% of the building pool, I think we'll be okay, and that's really because we're fortunate to have gotten it at a very low cost basis. I think people that are having really tight deals and are in a tougher place or maybe in markets they have more hospitality and tourism exposure. I've heard people say something like 500 to 1,000 dollars a door of maintenance per year or something like that. That's what the brokers say when they're selling new deals that are kind of tight. But, yeah, that's a rule of thumb that's used a lot.

[00:17:50] WS: What do you predict over the next, say, six months to a year to happen in the real estate market?

[00:17:56] AS: Well, I would say in multifamily specifically, I think you're not going to see blood in the street. I think it's going to continue to be pretty strong for a few key reasons. Number one is with the government printing more money in the last six months than they have in the last 10 years, debt is going to become very favorable to have because low interest rates, that is going to be at a fixed rate where your rents and other expenses are going to go up. You're probably going to end up in a good position. People are spending more time at home. It's more important. They're willing to spend more money at home because they're there longer.

I still think multifamily is going to be strong. I think there's going to be more distress in other sorts of asset classes; office, hotel, things of that nature. But I still see the multifamily asset type is pretty resilient during what's happening right now.

[00:18:46] WS: When entrepreneurs are successful in business, I feel they have a high level or they almost have to have a high level of self-discipline. So for yourself, how did you gain such a high level of self-discipline?

[00:18:58] AS: I'm kind of an insomniac, unfortunately. But instead of – Between the hours of 10:00 PM to 1:00 AM, instead of watching Netflix, YouTube, things like that, I was like, "Let me go look for deals. Let me –" Like every night, "Let me go analyze deals. Let me go advance my real estate education. Let me –" I listen to your podcast a lot, Whitney. A blessing in disguise is my kids' Netflix. My kids were using my Netflix, so it took me about 30 minutes to find anything good that I wanted to watch that wasn't Disney or something like that. So I said, "Forget Netflix. I'm not watching this anymore." I'm using that time to focus on self-improvement, self-development, and learning about real estate.

[00:19:39] WS: Are there couple daily habits that you have that you're disciplined about that have helped you achieve success?

[00:19:45] AS: I would say dedicate a little bit of time to thinking every day, like an hour or two. I want to get further into – I've heard a lot about the miracle morning and things like that. I know a lot of people do that. I'm not quite as structured as in the morning, but I always set time and I also set time — I'm creating more content on my channel, YouTube and some of my things, and it takes some time to really think of good content and answer good questions that you're having from your community. So I like to set aside time for that.

[00:20:14] WS: Knowing what you know now, what would you have done different on your, say, first multifamily deal?

[00:20:20] AS: I would've probably had the financing match a little bit more the business plan in terms of I got a little bit more conservative fixed debt, whereas probably if I would've done it again, I wouldn't fixed it for quite so long because obviously we didn't know what interest rates were going to do. But when you really have a growth business plan, you want to have growth financing to match. I had a growth business plan. It was sort of conservative financing, so I'm learning that one a little bit the hard way.

[00:20:47] WS: That's some good advice right there. I appreciate you sharing that. What's a way you've recently improved your business that we can apply our business?

[00:20:54] AS: Well, what I did is I started to outsource a lot of stuff that I felt wasn't as high value-add like bookkeeping. That was a thing that I spent a lot of time. I would always scramble that at the end of the year, and then I would give my CPA like a data dump and, "I'll see what I can do to save you some money on taxes, but it's going to take more time and money because with this data dump, I need some more time on it." So bookkeeping.

[00:21:21] WS: Nice. Yeah, and outsourcing. That's awesome. What's your best source for meeting new investors right now?

[00:21:26] AS: Right now, a lot of – I'm going to virtual meet ups. I've spoken at a virtual conference or so. There are some Facebook groups that I interact a lot with investors. Those are kind of the best. We've had a socially distanced investor meeting outside barbecue not too long ago, but those are kind of few and far between.

[00:21:44] WS: What's the number one thing that's contributed to your success?

[00:21:48] AS: I would say white space, focusing on the whitespace. Like my classical marketing CPG training at companies like Hershey and Kraft has been identifying whitespace, snacks at certain times a day or certain types of things. So for me, it's the whitespace of kind of that middle-of-the-road multifamily in terms of like the 20-unit to the 60-unit that not that many people are necessary looking at. Everyone's looking at the one to four-unit and things of that nature because it's – and then you got the institutional and the larger syndicators that are looking at the 100-plus pristine B-class communities in Orlando that I'm not necessarily going to compete at. I'm going to be kind of the master and the focus of my market, partnering with the local government.

I'm now on the economic vitality committee for that city, so I find out about new opportunities — I'm the first one to know. So it's really the one really focusing on that market.

[00:22:39] WS: I'm glad you brought that up. That's a smart move, right? I mean, be on a committee and to sit local government or – You're going to hear things, you're going to meet people, and you're going to also just provide value to the city as well. How do you like to give back?

[00:22:52] AS: We like to give back by investing in local community, making improvements, taking blighted buildings and redeveloping them into multifamily, commercial. We like to plant trees in our local community. A lot of what we do is tied to our business and tied to the areas that we invest.

[00:23:10 WS: Nice. Well, Ari, I'm grateful for your time. You've provided a ton of value to the listeners and myself today and just sharing about this one project alone and how you worked with the local government and how you made that connection and then how you've even became or got on a committee and what's that's done as well. But just your self-discipline and all those things, I'm grateful for your time. Share with the listeners how they can get in touch with you and learn more about you.

[00:23:33] AS: I want everyone to go to kapelrealestate.com/socialimpact, so you can kind of see. We did a video about the case study that we talk about on this podcast. So you go to kapelrealestate.com/socialimpact, and we're going to have the thing there. You can reach out to me at info@kapelrealestate.com, and I really love to hear from folks that are interested in social impact investors, people that care about this type of investing and improving communities. I would love to hear from you.

[00:24:01] WS: Awesome. That's a wrap. All right, thank you so much.

[00:24:04] AS: All right.

[END OF INTERVIEW]

[00:24:05] 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. Lastly, I want to keep you updated. So head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page, so you can talk to me directly. Have a blessed day, and I will talk to you tomorrow.

[OUTRO]

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