

**EPISODE 816**

[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]

**[0:00:24.3] WS:** This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Brian Kochendorfer. Thanks for being on the show this morning, Brian.

**[0:00:32.5] BK:** Thanks, Whitney. Really excited to be here.

**[0:00:34.3] WS:** Yeah, I'm excited to hear your story. But a little about Brian. He's a managing member of Arc Equity Group, a Chicago based real estate investment firm specializing in acquiring and operating apartment properties in the Midwest. Brian is a general and limited partner in over 800 apartment units with a total value of approximately \$60 million dollars. He has 14 years of experience as a commercial real estate broker and has been involved in over \$700 million in real estate transactions throughout his career primarily in multifamily.

At Arc, Brian leverages his investment and brokerage experience to oversee the firm's acquisition and operational strategy. Brian, thank you again for your time. Welcome to the show. I'm looking forward to just getting in a little bit to just the brokerage background and moving into an active and even passive investor as well and how that's helped, and different things you can help us to better understand about that process as well. Give us a little more about what your focus is right now and let's jump in.

**[0:01:33.6] BK:** Yeah, so right now I'm primarily focused on the multifamily space in the Indiana market. As you mentioned, I've been a broker for the last 14 years. I started in the middle of 2007, right before the crash. So, the first few years were pretty rough for me. And in about 2010, I switched focus from retail and office leasing to straight multifamily sales. So, I've been in the multifamily space for the last 10 years or so. As I built my career in multifamily, I started passively investing in a couple of deals, maybe four years ago, and then about a year and a half ago, I started really focusing on actively acquiring properties for myself — and with a couple partners, and picked up about 320 units in that time.

**[0:02:12.9] WS:** Nice. Well, would you just elaborate a little bit on that switch from retail, retail and office to multifamily. And maybe just help the listener that maybe even new to this space, why, why did you switch? I know retail has changed a lot now versus even then probably, but why the switch at that point?

**[0:02:30.6] BK:** Yes, I was working at a suburban company in suburbs of Chicago, that focus primarily on retail and office. So, I was doing a lot of leasing, but during the downturn, no tenants were signing long term leases. All the leases were 6, 12, maybe 18 months if you were lucky. I think the big thing for me was, I was working really hard, I think one year I did 35 transactions and made \$40,000 because there were no long-term leases, you couldn't make any real money. Then I just happened to have one of my clients who owned a retail center also have a multifamily property that he needed to sell, so I sold it for him. And I got paid half of what I made on all the other 30 transactions in one transaction. And I got paid at closing and didn't have to wait for my fee, because sometimes with leasing, you get paid half up front and half after six months.

So, I just liked that a lot more and then I saw that multifamily was much more resilient during that time. Deals were still trading, landlords were still making money, so, I just really switched my focus there and I knew I ultimately wanted to get into investing. After seeing that first multifamily deal go through, it just really piqued my interest on wanting to focus in that space.

**[0:03:35.6] WS:** Nice. So, I want you to help us, just help us to better understand that relationship with our broker that you know firsthand and how that's helped you as far as now that you're in the other side of the business, right? Most of us have never been a broker, never

been on that side of the business. However, those relationships are so crucial. I mean, that's such an important relationship in our personal business as our broker relations. Why don't you just help us a little bit with some of the key things about there that you know, from being a broker that have helped you now to build a successful real estate business so we can do the same?

**[0:04:12.2] BK:** Yeah, so real estate, in general, is a relationship business, no matter what side of it you're on. And when it comes to brokers specifically, you want to have the trust and respect of your broker. You don't have to pursue every property they send you. You don't have to always increase your offer when it comes to best and final. But it's important to be consistent in your follow up with them. Always explain what your thinking is regarding any offers that you make, like, "Hey, I like the property at this number. Here's why." And just be consistent and honest. And that's all that brokers can ask.

So, there's a lot of people that will make an offer and then they just disappear. Or they'll say they'll pay a certain price and they won't put into writing or they'll tie up a property at a higher price, then come back and just renegotiate during the contract phase. So, there's nothing that gives brokers a bad name more than clients like that. So, I would say just be honest, be upfront, be consistent, and you will be at the top of the list for broker calls, especially with off market opportunities.

**[0:05:06.2] WS:** Honest, upfront, consistent — Yeah, all these things just lead to great broker relationship and almost a relationship with anyone. I mean, it's not all rocket science here. But what about anything specifically that you learned from — I mean, when you were just focused on the brokerage side, that maybe how you saw certain operators stand out to you? Why was it that — I mean, you just really loved working with this operator versus the next guy?

**[0:05:32.7] BK:** Yeah, I think the people that I've seen over the years have the most success go in with a clear plan for the property, they execute the plan, and then they can reposition the property at the right time. So, we've sold multiple properties, two, sometimes even three times over the course of 10 years, where you see one property go from 2 million to 4 million to 6 million. And each time the operator came in, they executed the plan. The people that I feel like don't have as much success, don't have the right people around them. So, you really got to

have your right team, have your insurance contact, have your attorney, have your contractors — just have your team lined up before you close. That way, when you do close, you're not wasting any time, you can get right in there and start executing the business plan.

**[0:06:16.0] WS:** Nice. So, what do you think as far as the the length of time it takes to build that relationship where you're going to start seeing some better opportunities from a broker?

**[0:06:24.9] BK:** I don't think it takes that long. I think within a few months, you can at least build a good rapport with a broker start looking at some properties that they have. Brokers like tours. Don't ever be afraid to go tour a property, it helps the broker to go back to the owner and said, "Look, we've had nine tours, here's the feedback." So, even if you don't have interest in that particular property, use it as an opportunity to go tour a property, get some face time with a broker, then you can see what the feedback is from other buyers and where that property ultimately trades. It does help a broker when they can go back to the owner and talk about the tours and the feedback.

So, brokers will always be happy to tour properties. Take advantage of that, even if you're not particularly interested in that property. You can explain to him why, him or her why, and then what to look for in the next one.

**[0:07:09.5] WS:** Nice. Communication, right? Being very upfront, like you mentioned. Anything that you can just help — let's say the listener right now, who has barely had the first conversation with the broker, obviously, you're kind of nervous at first, I remember trying to have this first few conversations and obviously, the brokers trying to feel you out a little bit, what's your experience level? Are you able to close? All those things. But we all have to get started somewhere and we all have to start. What advice could you provide to that listener that's like, "Oh, I'm going to try to call my first broker today, or maybe I've made a few calls. But it's rough."

**[0:07:41.3] BK:** Yeah, I would say a lot of the brokerage firms, especially the ones that are very active in all the markets, they're on teams. There's not just one broker. They have a team of two to five people. Find one of the younger brokers or newer brokers on that team. Don't necessarily call the senior person, because they're like, "We're already working with all their top clients who they've worked with for years." But a lot of the junior brokers, they're looking to build up their

client base and they will give you a lot more time and information than some of the senior brokers might.

So, don't be shy about looking at somebody's offering, seeing three or four brokers on there, trying to figure out who the more junior broker is, and call and build a relationship with that person. That person is, like I said, can be much more likely to give you the time and information that you need. And you can really start developing the relationship there.

**[0:08:26.6] WS:** Great advice. Don't try to call the senior broker first. I've heard numerous people talk about this, but you can get on different websites, Loop Net, whatever and find brokers and even practiced that conversation a little bit and develop a little confidence. Is there any way that you can help us to be prepared for that call? Prepared for just things they might ask us, so we just show that we're prepared and ready to speak to them?

**[0:08:51.2] BK:** Yeah, have your criteria ready, what you're looking for, even if your criteria changes down the line, just to be able to give some kind of criteria. I'm looking for 20 to 60 units in these couple counties of this market, value add or stabilized, whatever your criteria is, try to have some clear criteria to be able to identify, and that'll at least make you sound even if you haven't actually closed on a property, that will make you sound like you've done your homework, you're ready to go, you know what you're doing.

Also, if you're working with a team, maybe you personally haven't closed on a property, but a potential partner of yours has, use that. You can just the broker doesn't need to know your exact team structure right now. So, if you might be partnering with somebody who already owns 50 or 60 units or more, use that and say we own 60 units in this particular area, and we're looking to acquire more. The broker doesn't need to know — they're not going to call back or do any kind of background checks to see exactly what you own.

As you get deeper into an offering process with property, then you'll have to show on paper some of your holdings. But for the first couple of calls, just have clear criteria, a clear plan, ask some pointed questions about markets and areas and what they're seeing in the market and again, just be consistent with it. And the more consistent you are, the more you will get opportunities, because brokers always think of who's on the top of their mind. And a lot of times

brokers are making phone calls, and they come across a seller who would sell, but they don't want to go to market. At that moment, the broker is going to think, "Alright, who are my top three or four people I can call here?" Well, if Whitney has been calling me for the last three months bugging me for deals, he's going to be in that — top of mind.

**[0:10:25.7] WS:** Nice. Any other thoughts on being top of mind to that broker that you could help us with?

**[0:10:30.8] BK:** Yeah, consistency is the most important part. I would say property tours, get out and tour their properties, just brokers typically have a fairly steady deal flow. So, go out tour the properties, meet them face to face, get to know them a little bit. As you get to know them, you can start making offers on some properties. But consistency is really the number one thing.

**[0:10:51.8] WS:** Consistency is the number one thing. What about, is it important to say, our market is not in our backyard that we're actually investing in? What about visiting that market? Should we be setting up a time to meet for coffee? Should we just try to set up a time to meet at a property? What's your take on the first say, in person meeting?

**[0:11:08.7] BK:** Probably a property tour, I think you know, especially if you're coming out of state is probably less likely that a broker will say, "Okay, let's meet for coffee or lunch, come to the property to work, because you're going to spend depending on how big the property is 20 to 45 minutes with that broker at that time, walking around talking about the property and then get there early and try to stay a few minutes late and do some personal chitchat." So, if you are investing out of state, assuming that you're traveling to the state, you're looking to invest in on a somewhat regular basis, once a month, or whatever the case is, definitely try to meet up with them at a property that they have listed. And then once you've toured a couple properties, next time you ring, say, "Hey, let's grab coffee, or let's grab lunch", but trying to build that relationship and do it in person as much as possible.

**[0:11:50.2] WS:** Has having the brokerage or experience is that helped you with even working with investors?

**[0:11:55.6] BK:** It has. A lot of my partners are clients of mine through my brokerage career, who became friends who then became business partners. So, I have a handful of people that I partnered with on various deals, and all of them started out as clients. I met them through my brokerage career and I was able to leverage those relationships. And you know, we genuinely became friends. They weren't just third-party clients. We became friends over the years. And then as I was looking to transition into the investing side, I started telling everybody what I was looking to do, and then partnerships arose from those conversations.

And that's another important thing, no matter what part of this you're in, just tell everybody what you're looking to do. And if you have a particular skill set, like acquisitions is something that I feel I'm pretty good at. So, if you have a particular skill set, leverage that skill set and tell everybody what it is you're looking to do. And then you will just find people who you might not know, who are like, "Well, hey, I have a couple investors, I'm looking to place their money somewhere, so you guys can team up and do something together." So, just telling everybody what you're looking to do is critically important.

**[0:12:59.8] WS:** As an operator, should we consider approaching a broker or our broker that we're working with to even partner with us on an opportunity?

**[0:13:08.5] BK:** Yeah, that happens quite a bit. One thing that is a little bit challenging for a broker is generally, I don't like to acquire properties where I'm selling properties as a broker. I don't want to be in competition with my clients. So, got to walk that line a little bit as a broker. But for the most part, everybody who's out there working as a broker, their goal is to ultimately invest. So, if you can offer a broker an opportunity to invest with you, that will only further that relationship and that trust and get you more opportunities, because there might be something that is truly off market, the seller does not want to go to market at all, they might be able to call you, get you in on that opportunity first, and they know they might get a piece of it on the back end as well.

**[0:13:50.0] WS:** Nice. So, that is interesting, just be open minded to find out that broker can benefit from your transaction as well outside of just the normal fees or whatnot, and encourage that relationship. What about even after, let's say we close on a deal, how do you like to see an

operator say, "Follow up with a broker" or just that broker relationship continue even after you've done a few deals?

**[0:14:11.6] BK:** Yeah, I think even as a broker when I sell a property, especially if somebody's looking to do some kind of rehab plan, I like to just check in after a couple months just to see how it's going. How's the first phase of the rehab going? Did you get those units turned over? What kind of rents are you getting? Are you hitting your projections? I'm curious myself, just as a broker, not even a potential investor, in how my clients are doing once they close on a property. So, feel free to call them and just tell them it's also market information for them. If you close on a property with a broker, and you're implementing the rehab plan, once you start renovating units and getting new rents, call that broker and tell them what you're getting. That's marketing for inflation for them as well. That's a rent comp. So, that information is valuable to them. It's valuable to you to keep in touch with them in that way. So, that's just one example of how you can do that.

**[0:14:57.8] WS:** Brian, being in the business as long as you have and starting when you did, working with as many operators, and now being on the active side yourself, how do you prepare for a potential downturn?

**[0:15:07.7] BK:** Well, a couple things. Our underwriting has changed. We're stressed at the vacancy, quite a bit. And one of the last properties that just acquired was a 53-unit property in Indianapolis, and it was fully occupied at closing, the collections stayed pretty healthy during the COVID, stay-at-home order. Indiana had a short stay-at-home order as well, not as long as Illinois, but they were affected as well. And we stressed that vacancy, it can go down to I believe, 40% vacancy, and we would still break even and pay the mortgage. That's one thing. I'm also much more conservative on rent increases, I know a lot of people just go in there and start plugging in three to 5%, year one. I'm assuming 0% rent increases for year one, one and a half for year two, and then maybe two and a half to 3%. year three going forward, depending on the market and the history. But for the first 24 months, I'm assuming between zero and one and a half percent rent increases, also making sure that you have reserves upfront at closing, in case something happens.



**[0:16:03.9] WS:** I appreciate you mentioning that. It's so important to us to just having ample reserves at closing. I mean, just from day one, is there a way that you calculate that or a way that you know how much reserves should we have or do you like to have?

**[0:16:18.3] BK:** Yeah, so it depends on the property. And obviously the project, if you are doing some kind of renovation program, then I would say try to have an extra 15% to 20% upfront just contingency in reserves. If you are just buying the stabilized property, which the last one that we did was stabilized, we wanted to have six months of payments in the bank account of reserves at closing. And also, with any kind of agencies right now, if you're doing a Fannie or Freddie loan, you typically have to put up 12 months of principal and interest, upfront. And you can get that back within a year if you're hitting your numbers. So, I'm not underwriting that as a return of capital in year two, I'm underwriting that as that's just additional upfront capital. Once we get it back in 12 months, hopefully, that's going to go right into the reserve account. And that'll pay for any CapEx in years two and three.

So, I think there's a couple different ways that you can be conservative, protect yourself from potential downfall or downturn. And if you're already giving Fannie and Freddie the money up front as it is, don't count on getting it back year two, just count on putting it towards the property, and then the potential downturn or a CapEx events.

**[0:17:21.4] WS:** What do you predict to happen in the next 6 to 12 months in the real estate industry?

**[0:17:26.1] BK:** I think it's going to vary market to market. I think it's going to be rough three to four months right now. And I think a lot of landlords were pleasantly surprised when they got through March, April and May at pretty strong collection rates. What started to happen once the extra unemployment wore off, and the stimulus wore off is the month since then, June, July, August through November now, collection started dropping a little bit. And there are tenants who have not been able to find new jobs, but the extra unemployment wore off. So, now they're starting to not pay rent again. In a lot of the cities in Chicago, we haven't been able to evict anybody since March, it's going to be at least next March since we are able to.

So, there's some landlords that are hurting. If somebody has a 6, 8, 10-unit property, and they have two or three tenants not paying, that's a massive amount of their income, they might be barely able to break even. If it's a larger property 50, 60 units, they have a couple tenants not paying, they can sustain it more. But I think what you might see is that a lot of longtime owners, especially the one-off mom and pop owners who have had properties, 20, 25 - 30 years, they might just get tired over the next six months and say, "Okay, I've made enough. I've done really well these last couple years, it's time to sell, I don't want to deal with the headaches of trying to evict tenants and reposition the property." Rent growth is down in a lot of markets, occupancy is down and a lot of markets. So, I think it's going to get very challenging the next three to six months. And I think by the spring of 2021, there could be some opportunities coming up.

**[0:18:51.4] WS:** Do you have a daily habit or two that you're very disciplined about that's helped you achieve success?

**[0:18:57.0] BK:** Yeah, every morning, I wake up, I usually get up at 5:30 in the morning. And the first thing I do is I read for about 30 minutes. I have my coffee while I read some kind of book. And then I work out. So, every morning, the first two things I do are I read and I work out. Usually by 6:30 or 7:00 a.m., I have both of those things done. I have a lot of energy, and I'm ready to start my day.

**[0:19:15.4] WS:** Nice. So, what's your best source for meeting new investors right now?

**[0:19:18.6] BK:** Right now, any kind of online meetup is critical. I run a meetup with a couple people here in Chicago. And it's turned virtual, of course. But we've been able to leverage that virtual meetup to meet people that we wouldn't otherwise meet. Because when we were doing it in person, it was only local Chicago people. Now we have people from all over the country coming down to our meetups. So, jump on any kind of meetup. There are meetups all over the place and if you can leverage the virtual world right now, do it.

**[0:19:45.9] WS:** What's the number one thing that's contributed to your success?

**[0:19:48.6] BK:** Probably the ability to leverage relationships in the business and do it in a genuine way where like I said, clients have become friends who then became partners. So, just

being able to leverage relationships and just always tell people what you're doing. If somebody's standing still long enough, they should know what you do. Even if you're not trying to sell them anything, you just want people to know what you're doing, because they might say, "Oh, hey, you know what, I know somebody's doing the same thing, you guys should connect." So, just staying top of mind with people is probably key.

**[0:20:17.6] WS:** Love that. If someone is standing still long enough, they should know what you do. That's incredible. Brian, how do you like to give back?

**[0:20:24.2] BK:** So, for the last few years, being in brokerage a long time, you don't get a salary, you get paid as you close deals. Each time that I've closed a deal over the last few years or gotten any kind of paycheck, I donate some amount of that paycheck to various charities that I like to donate to. So, for the last three years or so, anytime I've gotten any kind of income or any kind of paycheck, I give something back and some kind of donation to a charity.

**[0:20:47.7] WS:** Nice. Well Brian, I'm grateful for your time today and how you have given back to us especially those that are trying to create that relationship with a broker. I think you have some amazing insight obviously from your experience and then just how it's worked for you and now becoming an active and passive investor on the other side. So, thank you again, Brian for your time. Tell the listeners how they can get in touch with you and learn more about you.

**[0:21:09.8] BK:** Yes, you can reach me at Brian at [arcequitygroup.com](http://arcequitygroup.com). My website is [arcequitygroup.com](http://arcequitygroup.com) or you can go to our meetup page. It is the [multifamilymasters.com/meetup](http://multifamilymasters.com/meetup) and I run the Chicago chapter.

[END OF INTERVIEW]

**[0:21:24.0] 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]

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