

EPISODE 855

[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]

[0:00:24.2] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Donato Settanni. Thanks for being on the show Donato.

[0:00:32.9] DS: Thanks for having me today.

[0:00:34.4] WS: Yeah, honored to have you on the show. Just reading your bio, just impressive, looking forward to this conversation. Donato's past experience includes being the Senior Project Manager for Oxford Properties, a flagship development project at St. John's terminal, a \$2 billion redevelopment project in Manhattan's West Village neighborhood. Prior to joining Oxford Properties, he spent over three years with Macklowe Properties as a project manager on 432 Park Avenue, where he was responsible for residential unit and amenity turnover, and successfully managed the closings on over \$1.5 billion in real estate. Other projects on his resume includes the New Yankee Stadium and Madison Square Garden renovation.

He has completed his own development projects through Settanni Development, LLC, where he self-managed the acquisition, entitlement financing construction and disposition of assets, and recently successfully completed and sold a development of townhouse condo units in Winchester, New York.

Thank you very much for your time today and grateful just for you being willing to share your expertise. Give us a little more about what your focus is right now. And then let's jump into your unique ability, your superpower, that's going to help us to learn more about syndication business.

[0:01:52.7] DS: Yeah, sure. Great. Thanks, Whitney. Thanks for having me. Excited to be here. Yeah, a little bit more about my background. I really started in New York City in institutional real estate, kind of got my feet wet there and worked with some really big players and some really smart, creative people that forced me to think outside the box. A couple years ago, I partnered up with my partner now, Josh Eitingon and we run DXE Properties. And our focus is, couldn't be further from New York City, we're really focused on acquiring value-add properties in the southeast, as well as opportunistic type developments, which would be around the tri state New York area.

[0:02:36.5] WS: Okay, now, I'm glad you put that out there. So, you all are focused on value-add in the southeast. And it's interesting, just everything happening right now, obviously, in the New York area, too. So, value-add, I know you've done a lot of development as well, value-add projects versus your old passion for development. Tell me a little bit about maybe that shift and moving from development or was it? Or have you been doing some of both at the same time? Or why from development to a value-add now or how is that timeline?

[0:03:06.5] DS: Yeah, so I think it's pretty simple for us. We do want to develop, we just haven't found land at a basis that we're comfortable with, and especially pre COVID, in the run up in the New York area market, land prices were just so high, where we were finding a lot of traction with value-add projects in the southeast. And we kind of take that development mentality to our value-add projects in the southeast to try and reimagine a project and recreate it from the ground up to create a new product for the people in that area.

[0:03:46.7] WS: Yeah, that's awesome. Just before the show, too, we're talking about just you being able to look at something today, but have a vision for it tomorrow. And obviously doing development, you have to, you have to be able to do that. In value-add, same way and I think it's not thought about as much when people say they're "doing value-add projects" as much as a

development, or it's not assumed as much. Could you just elaborate on that? Maybe we can talk about that a little bit. How did you develop that vision and how do you go about that?

[0:04:15.8] DS: Yes, I think what we're looking for when we're going to purchase a value-add project, we're looking for areas that are ripe, and really want this value-add project to happen and we're looking for the asset that it hasn't come to yet. So, we're not very good at purchasing a property where half the units have been renovated, or the entire exterior has been renovated, and now you just have to do the interior to complete someone else's plan. We're just not very good at that because we like to come up with our own plan. And I really do think there's a lot of similarities with development because what you're looking at today, you're usually looking at a building that's half falling apart where the tenant base isn't so great. But you gotta have the vision to understand that people do want to live in this area, people do want to live in this neighborhood. And if you do invest the money into it, in the right way, people will come, and they will pay a premium for that product.

[0:05:15.1] WS: Do you have a way of, I'm sure you do, but maybe some ways you can share with us to help us to find that area, you know, like you're looking for? I mean, it makes so much sense, right? I mean, obviously, an area that's ripe for growth, but that asset or that property hasn't experienced that yet. How do you go about finding that?

[0:05:35.6] DS: Sure, I can give a couple of insights into how we're looking for deals. And when we come across a deal, what we're, the first things we're doing. So, the first thing I like to do when a deal comes across our desk is, I just dive right into readily available demographic data for the neighborhood. So, I want to see what the employment faces are, how much money the average person in that zip code is making. What's the average age of those people in that zip code? And that kind of gives us an understanding for, "Okay, where do we think we could push the market?" So, we do simple calculations based on, "Hey, what's the average income in the area?" And then we do a three times rent multiple. So, what rent could people pay in that area without stressing them too much? And then we look at that compared to in-place rents for product in that area or this product and we say, "Hey, is there a gap there? Is there an arbitrage there or not?" So, that's really one of the first things that we're looking for.

I think the other thing that we're looking for, sometimes there's an area of growth, and you see new development around it, or you see better product around it, and you see this product, which is just the eyesore in the neighborhood, and local people in the market kind of just look at it as the eyesore in the neighborhood. And it takes someone from the outside looking in to say, "Hey, why is that still there? Why doesn't someone just redevelop that or renovate that, to bring that up to the market that is growing around it?"

So, those are really the two things that we're looking at as we're going into a project to try and understand. And I do really think that it helps being an outsider for that number two, because if you drive by something every day, and it's just not nice, it does psychologically get into your mind that, "Hey, this is not a nice area of town." Whereas if you're an outsider, and you could look at what's going on all around something, and then there's a hole in that doughnut, you feel, you don't have that stigma attached to it, and you're a lot more willing to take the risk.

[0:07:55.1] WS: Are these properties coming from brokers or from another avenue?

[0:08:01.7] DS: So, we work with brokers and property managers. I would say, our projects come from all walks of life. The one thing that is certain on the projects that we do, we're not very good at winning marketed deals. We bid on marketed deals just to keep our name in front of brokers, but we're just never competitive for one reason or the other on the marketed deals. We do try and preempt marketed deals, we've been successful doing that. And then obviously, off market deals, we get very aggressive, and we'll move quickly, just to make sure that we're not in competition with everyone else.

[0:08:45.0] WS: How do you find the off-market deals?

[0:08:47.9] DS: So, my partner Josh is actually really good at what I call "annoying the brokers to death." So, when we're out in the market looking for a deal, and honestly, it's just we're on the phone all the time, and we're writing emails all the time, but I really do think it's, it's phone calls and being in the market at that point. So, we're not afraid to travel. We're down in our markets all the time. We're always asking brokers to get a coffee with us, get a beer, just to keep that relationship up. A lot of a lot of times what we find is you need to be in the right place at the right time, because brokers have a whole list of qualified buyers, right? And it just so happens if you

call the broker on the right day, he's like, "Oh, yeah. You know what, I do have something coming up. Why don't you take a look at this? I'll let you see it before other people." And if we didn't call him that day and a different group did, he'd do the same thing for the other group because his job is to sell. So, we need to be in front of them, because now they're going to get more phone calls.

[0:09:53.8] WS: Probably so. Part of the business though, right? Is there a sequence or frequency to how often you are calling brokers and how often you're traveling to those markets?

[0:10:07.4] DS: Yeah, I think we're trying to do two or three deals a year. We're not a group that's doing 10 deals a year. So, we really, we call it ramping up our pipeline. Once we feel that we've got an acquisition closed, and we have our plan in place, and we've started executing on that plan, then we'll start building the pipeline. So, at that point, we are calling our list of brokers every day. And we're also taking trips down to the markets, but we own in those markets. So, those trips are twofold. We're checking on our existing assets, we're making sure construction is going well on those and then we're fitting in meetings. When we're down in the southeast, we like to cram a lot into a two or three-day trip, and see as many people as possible, including our property managers, our leasing agents, and then brokers. Helps us better understand the market, helps us see our deals, and then helps us get new deals.

[0:11:10.6] WS: For sure. Well, you and I also talked about just, maybe you can give us an example of a property or how you're structuring these deals a little bit when some people say it's crazy, what you're buying? Maybe, but you have that vision for later down the road. Let's dive in there.

[0:11:26.9] DS: Sure. So, we bought a project in Augusta, Georgia, earlier this year. We actually closed on it and the height of first wave of COVID in April. That's a story in and of itself, because it was a huge challenge. And we saw buyers just like us dropping out, left and right, and at the end of the day, we just decided we were going to push forward. We were going to remain standing and we were going to get this project closed because we believed in it. But this project in Augusta, we've relabeled it, renamed it as The Downtowner. It was typically – I'm going to call it an eyesore on the city, we talked to local government about the project, they wanted to see something change there. It had a history of crime and other things at the project but what we

saw around it was there's a renaissance and the Main Street, Broad Street of Augusta, where new restaurants were coming in, new businesses were coming in. And then around it in the medical area, which is adjacent to our property, there was new construction and that new construction was getting really good rates and really good tenants.

So, we saw a gap in the market. We bought the property, what people would think we were crazy at the time in Augusta. I think we paid maybe a five cap or a five and a half cap, and maybe the market for that property, seed property that's going to run with high delinquency is six and a half in that market.

So, just on the face of it, people think we're crazy. But we weren't looking to run the property that way. So, we came into the property, and we're currently underway with a \$2 million renovation and we've already leased like 20 units, 15, 20 units at our price, even during COVID. So, we're just really bullish on it. We're confident on it and we're seeing the plan through.

[0:13:25.0] WS: Nice. So, it's interesting, because I mean, I hear people talk about things like this often, "Well, you can't buy it at this cap", or, "You can't do that", and I think sometimes maybe they don't see the same vision, like you're talking about, you know, that you may have or another operator. So, tell me a little about it, did you get any pushback from investors, buying at a five cap when it should have been a six and a half? Or when the market says it's six and a half, how did you express your vision so they're on board?

[0:13:53.2] DS: Yeah, I think we are lucky to have an investor group that's very tight knit and believes in what we're doing. So, that helps a lot. We do sometimes get the question of what cap rate are you buying it at? And we kind of, we kind of just smile. Because we know at that point that we could get into our business plan and why the cap rate, in-place cap rate really, it couldn't matter less to us on the in-place cap rate, what really matters to us is where we can operate it 18, 24, 36 months later.

So, we do get that question, but it's really, we've come to understand that when we get that question, someone's looking at our pitch book and they're turning to that page, and they're not reading through the plan. And that gives us an opportunity to then be on the phone, be on Zoom or pre COVID, meet with them and go through the plan and get them excited about the project.

[0:14:54.4] WS: So, how's that project operating now, now that you're closer to 20 months or so in?

[0:15:00.4] DS: We bought it in April. So, we're eight months in.

[0:15:03.7] WS: Yeah, eight months. My bad.

[0:15:07.0] DS: A lot of groups have hit pause on their renovation plans and we decided not to. We decided we wanted to be ready for when the market turns around. So, we've been pushing forward with our renovations, it's been very well received in the community. And we've gotten some of the not so great tenants out. Things are obviously more difficult right now, because of COVID and eviction restrictions. There's this human side of everyone too. We're not just kicking people out right now, because we know that they have nowhere to live. So, we are moving slower on that sense. But at the end of the day, we're seeing the rent premiums that we need to stay, to keep pushing forward. And we're very confident that as we come out of this situation, we're going to have a very good product, and it's going to continue to lease and we'll be able to continue to execute on our plan.

[0:16:09.5] WS: What were a couple steps you all took to minimize the crime?

[0:16:13.7] DS: We've done a lot of things. All new site lighting, was the first thing we did. We lit up the place like a Christmas tree. People don't like committing crimes when there's light on them, I'd say. Number two, we've hired off duty police officers, and they patrol, I won't say what nights, but there are select nights of the week where we have off duty police officers walking the property and patrolling. Number three, people that aren't great people also do things like don't keep a tidy apartment, they throw their trash right out the door into the main yard. So, when you see things like that, we try and stop it right there. And we just show tenants that we're not going to deal with that. And you know what, most people in communities are really good people and maybe they're just not living in such a great community. So, those people then speak up and tell you, "Thank you and it's such a better or safer place to live. And I'll keep an eye out."

So, you start building momentum that way, because in no property, no 100-unit property, do you have 100 bad people. You probably have five or six or eight bad people, and the rest are just really good people that happen to be living there. But a couple bad apples make a property look really bad.

[0:17:43.4] WS: What's been the hardest part of just the syndication business for you?

[0:17:46.7] DS: The hardest part about the syndication business is just not knowing ever where the money is coming from. My partner and I always joke that, you know, how many rabbits do we think we have in our hat still, for the next deal, and then the next deal and the next deal? I'd say though, we're always surprised at the support that we get from our community and when we put together a successful deal, then other people are interested. Now, we've been building a track record, so it is getting much, much easier to raise the money. But there's always that moment when you're signing a contract and you know you have 60 days to create legal documents, pitch this to a whole bunch of investors and get the money in the door so that you could close. There's always that moment of, "Hey, we're going to do this right?" And, you know, there's no getting away from that.

[0:18:44.4] WS: Is there anything, anything you've recently put in place or any way you've improved that so you're more confident that the capital is going to come?

[0:18:53.4] DS: We try to do deals that we feel confident our investor base wants. We're not always right. Sometimes we think that a certain high net worth individual would really like a deal, and they don't and they pass on it. But then we usually, or so far, we've always found someone else to fill those shoes. I think what it is, is as we're coming to contract on a deal, where we're talking to our closest group of investors about it. And if they like it, then we have a very good feeling that our larger investor group is going to like it. And I think it all starts with, "Do you believe in it? Can you sell it?" I can't sell anything I don't believe in. So, I know from the get go, I'd be failing if I was trying to buy something that I really didn't believe in.

[0:19:47.4] WS: How do you prepare for a downturn?

[0:19:50.0] DS: So, that question has come up a lot lately, and especially buying something in April during the height of COVID and we just closed on something last month in December, again, during the height of COVID, which seems to be our trademark here. We believe you need to go into – you need to, number one, adjust your underwriting. But more importantly, than adjusting your underwriting, you need to go into these projects with money. Excess capital or excess reserves. And that's what we've done with these last two projects. We have huge reserves on the first project, the April project we closed. We have a full year of debt service payments set aside. So, that's literally saying no one's paying rent, and we'll be able to float the property.

So, that made us really confident and made our investors really confident going into the deal. Does that lower return expectations? Yeah, of course it does, because we're bringing more money to the deal. But then that's the same thing that we've just done with this acquisition in December. We're projecting no rental growth. We're actually projecting a worse year, this upcoming year, than the last year, which we hope we're wrong on, right? We plan to be wrong on it, but we wanted to make sure the numbers work that way. And then just have huge capital reserves and should that come through, we can make it through the tough times. But all indicators right now on our projects show that things are leveling off, the new stimulus checks are getting out there and we're seeing people that were behind, starting to pay back some of their debts.

[0:21:34.8] WS: I appreciate you elaborating on that. One of the better answers that's for sure, that I've had on the show. I ask that question to most every operator now. And I love hearing, you know, like the full year of debt service payments aside, I'm personally really big on having a large reserve budget. There's nothing like just having that capital there, like you said, just for the unexpected. We're not ignorant enough, honestly, to think that we know everything that could happen like a pandemic. And so, you have to plan for those things and it's great to hear that you all are and you have that money aside. And I just think your investors sleep better at night as well, especially when something happens.

So, what are your expectations Oh, you mentioned that, you know, as far as your expectations over this next year, I love how you brought that up, you said, you think it's probably going to be worse, you're going to plan for worse. Hopefully, you're wrong, and we all hope you're wrong.

But we all want to be planning for the worst. So, tell me though, any daily habits that you are disciplined about that have helped you achieve success.

[0:22:34.6] DS: I'd say we're not that great or I'm not that great on a daily ritual. I'd say the things that we do weekly, we start off every Monday going through every deal we have. First, all the existing deals, what problems do we see? What problems have we not solved? And we just go one by one and create a to-do list for those to really start to plan our week. The week always gets blown up by like Wednesday, but at least you have that there and you could keep going back to it. It's actually on my screen all day, every day. It helps me keep focused.

[0:23:11.0] WS: How long does that take you? Is that like five minutes per property? Thirty minutes per property? I was just trying to think, so the listener, if you're planning this with your team.

[0:23:19.3] DS: It depends. Sometimes the whole session takes an hour Monday morning. And sometimes it takes all Monday morning, just depending on what we have on our plates, what we have on our docket.

I think the other thing is, we're trying to get better at it. We're always running around, everyone is, and even now during this time of COVID we're still running around in our seats, though, right? Our brains are running around as we sit down. We don't think we're doing anything but we are all the time, we're addicted to the internet. We're addicted to information. So, we've been trying to just like take some time and sit back and reflect and reset your brain, reset your mind, and it helps you think. That's when you come up with ideas when you're not being pounded by new information.

[0:24:09.1] WS: That's awesome. Yeah, I woke up this morning at like 2:45, my mind is just like – I mean, it's wide open, hard to get back to sleep. [Crosstalk 0:24:16.9].

So, what's your best source for meeting new investors right now?

[0:24:24.4] DS: That's a tricky one. We used to love doing, like investor appreciation type events and dinners. We'd encourage people to bring someone new and we're happy to pay for

dinner and get them to understand investing whether they invest with us or not, just understand a new asset class. Obviously, we haven't been able to do that lately. So, we've just tried to do as much keeping in front of people with our newsletters as possible, keeping in front of people with social media and then just calling people, keeping in touch with our existing contacts, which leads to new investors because people that like us and believe in us, surprises me every day. But it happens every day. "Oh, my friend John has been talking about real estate investing for a long time. He'd love to talk to you." And it's just because I called a friend or an investor that day that I got that. And that's what we see works for us, at least.

[0:25:30.2] WS: What's the number one thing that's contributed to your success?

[0:25:33.4] DS: I think, I like to say that fear and courage. So, it's like a Yin and Yang. I think anyone that wants to play outside the lines of, call it, normal society where you just follow the news and do what everyone else tells you to do. Number one, you need to have fear because I think if you don't have fear, you're being stupid about something. You're overconfident on something. But then you need to have the courage to plow through that fear and go with your convictions. And I really do think that my partner, Josh, Josh and I help each other do exactly that. We're always pushing on each other. When one person has too much fear, the other one takes it up with a little bit more courage and pushes us both through to that next, whatever it might be, that next project, or that making a decision now and not leaving it for later. And that's another thing that we're big believers in. Make decisions all the time and then pivot when you need to, rather than not make a decision and be left with no decision to make.

[0:26:44.7] WS: I love that. Yeah, not making a decision is making a decision.

[0:26:49.4] DS: Exactly. That's the worst decision.

[0:26:50.7] WS: That's right. Yeah, for sure. Donato, how do you like to give back?

[0:26:55.9] WS: So, fortunate enough, my family is very big into charity. My parents actually started a charity called Special Kids of New York about 25 years ago. Unfortunately, we were not able to have our gala this year. We usually have it in December, due to COVID, but we've

reached out to all of our contributors, and it actually will turn out to be a record money raising year for that charity. It's Special Kids of New York, I'll plug it a little bit, specialkidsofnewyork.org.

But really what that charity does, and what we've tried to do, it's helping kids under the age of 18 in New York, regardless of what the need is. So, we do things like we buy clothes for kids that can't afford it, we go around and buy Christmas presents and Hanukkah presents for kids. But then we also do things like pay for medical equipment, where insurance doesn't cover it, or someone has inadequate insurance. We've also done things many times where a child is going through something really horrible and terrible and the parents don't have the money to stay in a hotel in Manhattan, just to be near their child as they are about to come up on their fifth surgery or something. So, we'll go and pay for that hotel room, which insurance isn't going to pay for, just to try and make people's lives a little bit better.

[0:28:24.4] WS: Thank you for sharing that. Donato. Thanks for just giving back in that way, that's incredible, that your family have been able to contribute in that way and help all those families. Thank you for your time today and just going through value-add projects and I love just thinking about the project in Georgia that you elaborated on and your reserve budgets and those things that we just love talking about on the show and learning from great operators like yourself. And even with just having the courage to plow through fear, and how you need some fear, but making that decision is so important. So, thank you again. Tell the listeners how they can get in touch with you and learn more about you.

[0:28:58.8] DS: Well, thanks Whitney, so much for having me, number one. If you'd like to get in touch with us. Pretty simple at www.dxeproperties.com. DXE Properties is our company name. There you'll be able to find information that will directly contact either Josh or I. We often take unsolicited emails and phone calls, and are always wanting to talk to people whether you want to invest or you just want investing advice.

[0:29:27.3] WS: Awesome. That's a wrap. Thank you very much.

[END OF INTERVIEW]

[0:29:31.2] 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]

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