

EPISODE 877**[INTRODUCTION]**

[0:00:00.0] 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]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Jeff Rosenfeld. Thanks for being on the show Jeff.

[0:00:32.3] JR: Hey Whitney, a pleasure, thank you for your time today and interested in sharing my thoughts with you today.

[0:00:39.1] WS: I'm interested to having you on the show, Jeff. You have a unique business that I think can help so many people in this industry that most of us probably don't even know about or know exist that could really streamline some of the headaches that we have in our typical value-add business model. A little about Jeff, he's been working in the construction industry for over 10 years and is a contributing writer for the Forbes Real Estate Council.

He is also a licensed general contractor and a city council member of the city of Boca Raton. He has been a speaker at many panels during the Marcus & Millichap events also. Jeff, welcome to the show and just appreciate you and your line of work obviously and us doing lots of value add multi-family deals, you know, large projects of renovation and you know, whether it's a hundred, 250-units at a time. It's a big project to manage, right?

Ensure that you have the right people there, all these things, it's a lot to ensure. It's so important, it's such a big part of the business, right? That we're getting that value-add completed

properly and even have the proper projections and those things but tell us a little about yourself and about your business and let's jump in to some specific things that you're very skilled with that can help our listeners.

[0:01:49.8] JR: Yeah, absolutely. I've been in addition to an investor, I've been a licensed real estate broker. Prior to working for Adivo Construction, I had a similar position with the property preservation company if you recall back in 2006 where there was the big downturn and all the foreclosures, companies like Invitation Homes or American home for rent were aggregating single-family homes and I had the responsibility for overseeing all those assets until either the bank took them back and/or they were sold to an end investor. Relative to what we're doing now, EVP with a company called Adivo Construction as you indicated, we're a national, self-performing provider of construction services to the multi-family industry.

Not only does our company self-perform but we self-manage. The benefit of that is it allows the asset owner to procure our assets in perhaps markets that are not a customarily accustomed to. The reason I say there is a slight inventory constraint right now due to a number of factors.

COVID has slowed transactions down and the number of viable evaluated properties are still out there and they're still plentiful but you have to be a lot more selective in which market you select to make sure that it has good economic drivers, good growth from a population standpoint and good growth on the perspective of companies moving in the area to support occupancy.

What we do is because it's such a complicated process for portfolio holder and asset owner, not only to take down an asset but to negotiate the terms of the money with banks. We want to alleviate the asset owner of the construction headaches.

And there's a differentiation between us and what's called the construction management company. A construction management company will come in and take the contract or the scope of work that the asset owner has and try to identify qualified subcontractors that can fulfill that. The problem with that is that you're dealing with a multitude of companies, all of which have their own overhead that detracts from that pool of money that your company has aggregated to improve the property.

We took on the posturing a number of years ago that we were going to be a self-performing company. What do I mean by that? Now we do our crews take occupancy at the job site until the project is completed but they've come to the job site under complete supervision.

The benefits to the asset owner are probably three-fold, it mitigates the need for their onsite property management company, be it their own property management company or a third-party management company from getting above in the construction process. We deal directly with the asset owner so it eliminates any additional fees that the property management company may charge. And by us being on property, we're much more effective in moving along according to the expectations and cadence that the asset owner has.

[0:05:05.3] WS: I'm glad that you clarified that because I was wondering, one of the questions I wanted to ask you, just you know, are you going in and then managing local specialists or local workers and finding those people but you're actually bringing in your own crew, your own people that are specialists in the remodel and just the entire process of the value-add?

[0:05:24.5] JR: That's correct, yes. We don't cross-discipline so for argument's sake, the gentleman that's been working us for the last 10 years that does interior paint units, that's all he does. We're a comprehensive shop so we can do anything from interior unit turns to common area improvements, to rebranding, to roof replacements, windows, any kind of outdoor amenities but each one of our workers, all whom of which are W-2 to our company, have a particular skillset in that area.

It's never a situation where we're across pollenating trades. Another effect to the asset owner is they get condo quality renovation work, not only on the interiors but also on any type of rebranding.

Why is it important to rebrand the outside? I could do a phenomenal job and renovating your unit, if you don't make that known to the local demographics and local population by either rebranding exterior you're building or repainting it, you're not going to get the necessary traffic to get the absorption.

It's a process, you have to renovate the units, you have to get the excitement out there about the units being renovated so you can get the necessary ramp up you're looking for, which will give you the overall return on investment that everybody invested in the asset for on the onset.

[0:06:43.1] WS: Nice, I appreciate you elaborating on part of that a little bit as far as some of the benefits really of having, hiring someone like yourself to handle just that delicate process. I thought we'd back up just a little bit. I know you could speak well to just the different types of value-add improvements and I'm over here from – light value-adds and there's a whole assortment of opinions about what a value-add is or whether it's light or heavy.

Just you are so involved in this and as an expert, I love to hear your thoughts on that. Whether it's a property that we have to go that we just turn over and say, as units come available, we're remodeling those units versus a property where we have to vacate 50 to 100% of the tenants to get that property stabilized. What are your thoughts about just different types of value-adds and your all's take in and stabilizing properties like that?

[0:07:33.1] JR: Sure, excellent question. Of course, there's a light value-add and you know, I don't want to bore your audience. I'm sure they're very sophisticated that's listening to the podcast but multifamily assets are categorized by A, B, C and D. A being right out of the ground. C and D properties are more distressed and F asset is an actual down asset that is nonoperational, it has no certificate of occupancy.

When you talk about doing remodeling on unit turns, that's most likely a smaller sized project where they would do it on lease term back, maybe it's three or four units a month. I would consider that more like a hard turn. You're not really doing a renovation, what you really do in prepping the apartment for new tenant to move in.

Candidly, it really depends on the expectation of the asset owner. If they're looking to get more rent at that unit, they're really going to have to invest money to improve the finishes in order to bump the rent up. If they're going to do what's a quick paint job and put a tenant back in, they'll get a little bit a natural appreciation but they're not going to get that real rent bum associated with a true renovation.

Now, on more distressed assets like you discuss, which we customarily work on, we'll go in and either work on a whole floor or a whole building at a time and the rationale behind the asset owner is you know, not to use an expression but they want to rip the Band-Aid off. They recognize that the velocity by which we move to the asset allows them to recognize the bump up in bases and the NOI a lot quicker, which contributes to the overall return on the asset.

If they have the ability to either change the tenant population or reposition those tenants outside of a lease renewal, we have the ability to go in and quickly renovate those units within one rent cycle. The reason I say one rent cycle, a lot of companies, they would come in and take 20 units offline and then forget to come back to and complete those units. What's the problem for the asset owner?

Every month, that assets sits unleased or unoccupied is lost to lease. Anything we take offline, be it 15 units or 50 units, occupied or unoccupied are renovated, construction clean, final clean and put back into that asset owner's inventory for immediate absorption and that mitigates the loss, the leads that allows us to move to the asset more quickly.

[0:10:00.2] WS: What is that timeline typically for units like that if someone has a 200-unit property that they're completing this value-add project, maybe you can highlight just how some of that scheduled and maybe just how long it takes to turn over a unit or how many units you're doing at one time.

[0:10:15.3] JR: Sure, great question. It all depends on the nature of the scope of work if it involves a comprehensive renovation, which includes flooring, new appliances, new countertops, new interior pocket doors. Obviously, there would be a little bit more time involved with that but oftentimes, we also do in-place renovations where we'll do a quick counter top, resurface the cabinet fronts, maybe do a new vanity in the bathroom, often times, that could be accomplished within a couple of days but that question is based on the heaviness of the scope but –

[0:10:48.7] WS: Of course.

[0:10:49.0] JR: With that being said, you know, we staff up according to the project complexity. If it's a more complex project, we have the flexibility to move more workers on the project to accomplish the goals of the asset owner. Customarily, everything happens within a 30-day period.

[0:11:09.3] WS: Why don't you speak to a little bit about – because I know a lot of people listening are, they're either passive investors who are investing in deals, potentially with operators are doing this value add plan or their operators that are attempting to do this as well or have been doing it for a long time. Maintaining that occupancy and while doing renovations and just obviously to accelerate that rent growth is difficult, right?

It's a difficult process, can you just speak to where you see people making mistakes when trying to do that well?

[0:11:40.7] JR: Yeah, it's a balancing act and you got to really – I always say this to any asset owner, you got to think before you buy an asset, before you do your due diligence, before you walk the asset, before you put your best and final in, understand what your objectives with the asset. What's your exit plans, what's your expectations with your renovation, who is your strategic partner that's going to help you maximize the value of the asset?

Because it's nice to pick up an asset at a negative discount to curve market but if you don't have a good strategic partner that has the same objectives as you have, relative to the final finishes on the product and what your expectations are for rent growth and overall returns, you're going to put yourself in a compromised position.

I always say, make sure you have all of the people that you want to work through the project lined up and make sure you understand not only your strategy to buy the asset, finance it, capitalize it and stabilize it but what's your exit strategy?

Are you going to hold the asset for three to five years to 50% of the units get proof of concept and re-traded for appreciation? Or is your goal more so to renovate all the units, cash flow it, capture the bump up in bases and also the natural appreciation over time?

Some of our asset owners renovate the entire property in its entirety including interiors and exteriors because they hold the asset in perpetuity. A lot of the questions you ask me are all contingent upon what's the strategy of the portfolio holder or the asset owner is.

[0:13:14.4] WS: No, it makes complete sense, a lot of things there, I'm glad you just kind of went through that list because it's things you better be thinking about, right? Before you close on a property, no doubt about it. What about just the level of communication say between your team and the property management team versus the owner, obviously, the property management's going to be firsthand and what units are available and when they're coming available and things like that. How does that communication work?

[0:13:41.0] JR: Yeah, we're extremely client centric. We don't take an equity position in any asset. It's particularly important to us that we help the asset in order to achieve not only their financial goals but their fit and finish goals. You know, we like to communicate as much as the client want. Often times, we over-communicate. We send weekly updates of progress photos. We're in constant communication with on-site management be it their own asset on this management or what third party.

Whatever information and in whatever format they need we provide them at any level of reporting necessary. You know the stories I –

[0:14:17.4] WS: Well, one thing I –

[0:14:18.1] JR: We're a relationship-based company. If I don't do a good job for you as an asset owner on the first job, they would be hard pressed to call me back and it will be hard for me to pick up the phone. We act as if the assets are our own when we take it on. We ourselves built multifamily assets down here in Florida a number of years ago. We understand the other side of the table, we put ourselves in the asset owner's foot relative to what they want to see as the final outcome for the project.

[0:14:46.3] WS: One thing I wanted to highlight that you mentioned too was even renovating units while tenants are still in them, right? Could you speak to that process a little bit? I think that is something that a lot of people don't think of is that there's sometimes upgrades you can get

done even while people are living in the unit. How do you organize something like that and obviously, with the tenant that's living there to make something like that happen?

[0:15:07.8] JR: Sure. I mean there is a limited amount of what you can do in an occupied unit. Oftentimes, there's chemicals that are involved that you can't utilize. When we're doing an in-unit renovation, often times the asset owner will move that tenant for a day or two into another unit that maybe a model unit and then we complete the renovation. They move back in.

Or if it's a scenario where they leave at 7:00 in the morning to go back to go to work and return to 5:00, we'll collect all of the furniture in the centralized room, cover it up, do whatever work we need and then put it back in the situation where all the toilets are operational, the kitchen is operational and so on and so forth, so the resident can live in the unit during the renovation process. Customary renovations of those type are a little bit lighter in nature so we can get them completely within a two-to-three-day period.

But optimally and what's in the best interest of the asset owner, if it is not a restrictive coming in on the part of the bank or it doesn't destabilize their asset is for us to work in an unoccupied units because our velocity is much better and they can have more renovated units, which allows them to recognize their rent bump.

[0:16:19.4] WS: What about with you being connected to so many operators all over the country, seeing the inside of so many deals, what's your thoughts on the current inventory for value-add just across the nation you speak to different markets that you're familiar with?

[0:16:34.0] JR: Yeah, well there is certain markets right now and I am sure everybody is worried. You know, there has been a demographic shift where people are moving away from highly populated urban areas into more sprawling areas. Everybody sees the demographic shift out of the Tristate areas. The beneficiary of that has been Florida, Texas, Phoenix, the Carolinas. These are the markets where asset owners are seeing the greatest opportunity and the greatest in-flow of potential renters.

If you look at some of the dynamics that are happening in California, some of the largest companies including Tesla and larger companies, Taiwan Semiconductor are building billion-

dollar plants in Austin, Texas and hedge fund managers are moving from California and New York down to Florida because of the more favorable tax environment. With that being said, those are the areas where the astute asset owners are really concentrating where they want to pick-up assets.

Now, to more directly answer your question, there's always inventory available. There is always somebody that has generational assets that they want to get rid of. It may not be on market; it may require more research. It may be an off-market opportunity. But there are thousands and thousands and thousands of apartments throughout the United States. Thousands and thousands and thousands of hotels that can be converted.

There is never a dearth, it just requires a more astute operator and better research relative to you making an offer on a particular property.

[0:18:03.4] WS: Of course, you mentioned just the hotel industry there. Obviously, there is so many projects there. What's the likelihood of an operator being able to turn a hotel into a multifamily and is that something you all have been involved with already?

[0:18:17.3] JR: I know of a one-time contact I have that has done three of them in Minnesota. It requires a little bit more permitting and a little bit more time horizon because you have to get a change of use certification but because of the way suite hotels in particularly now, they're very conducive to convert over to multifamily without having to do any structural changes inside. The phenomena is happening, the incubation period for that is long than just taking down a multifamily asset and renovating it but I believe that will be a trend not only this year but going into come to year 2022.

[0:18:57.8] WS: No, that's interesting. I like raising awareness to the listeners of opportunities like that that potentially they may not have thought of. I know it's not something we've considered much but there could be some big potential there over the next few months and year even.

Jeff, what do you expect say over the next six to 12 months just in the real estate market to happen as far as a potential downturn or not?

[0:19:22.6] JR: No, I don't see it all. Interest rates are pegged low and if you listen to our new chair, Fed Chair Yellen, she's kind of following into them. It's going to have interest rates pegged for a very long time. They even said they would allow the economy to overheat somewhat before they raise interest rates, so what does that allow? That allows you to acquire contingency money at a lower price point with the availability of liquidity and capital in the market.

I don't see any type of downturn at all and the only areas of the real estate market I think that are going to be significantly adversely effective are commercial real estate in downtown Manhattan and in industrial areas. We have 80-storey towers that are now 20% occupied and of course retail as everybody knows, as everybody shifts to a more online environment, the necessity for retail space is becoming somewhat mitigated.

But multifamily is tremendously strong now. Single-family homes down here in Florida, I don't know how it is in other part of the markets but you got to get your offer in within an hour or the property is taken off market right now. For the areas where people are interested in moving, the markets are white hot right now. That may not hold true in the Connecticut's of the world or in New York, where they are seeing a slight compression in an apartment rents and in single-family houses but if you look outside of Manhattan and look into the Boroughs, you can see expansive growth of single-family purchases in the Boroughs as well.

So, I feel very confident about the multifamily industry not only this year but in addition moving forward and if you look at general demographics, people are more disposed to being renters than being homeowners. This holds true for baby boomers and for new home buyers as well. It's just a change of mindset where people don't want to be caretakers for their property or they rather pay for property that's maintained by somebody else.

[0:21:21.7] WS: I would say after COVID too, there's so many more people are open to renting than probably every before because they're moving to new areas and so many are anyway. Jeff, yes such great content there. We can talk about so many of those things for hours. I want to ask a few more questions just about your personal success though, any daily habits that you have that have helped you achieve success?

[0:21:44.5] JR: Sure, I mean it's not – there is no magic bullet there. You know, everybody said, "I wish I had better luck." You make your luck. Luck is a function of you working hard, getting up in the morning, making sure you're prepared, doing necessary research, having good relationship with your client, and being a company that's forthright and producing the product that you represent your client on the phone.

You know we're telling our self anytime we go out into the market and do a job that's sub-quality. That's never happened. Our clients come back to us time and time again because they know when they pick up the phone, they have somebody that they could turn their head away. They don't have to visit the asset every week and they are going to get the outcome they are looking for. It's all about preparation, doing the appropriate research and making the necessary effort to making sure that your clients get the product they're looking for.

[0:22:35.4] WS: I don't think I've had that answer before and that is one of my favorites for sure is that pretty much there is no such thing as luck. You make your luck when you get up in the morning so I love that answer. I hope the listener really thinks about that because I couldn't agree more and maybe you just highlighted on some of these but I want to ask anyway, the number one thing that's contributed to your success?

[0:22:52.9] JR: I just think it's, you know, I think it comes back to just hard work. Hard work and understanding your industry. I'm a student on my own industry. I've been doing this for real estate and investment for more years than I like to say probably an excess of 20 but every day I learn something. I continue to read books about real estate. I continue to listen to people that have better insights that I do. I attend conferences, I listen to industry leaders.

I look at new trends in the marketplace and that's the way you can best help your clients is to be well-informed about what's happening now so you could better project what the future is going to look like for them.

[0:23:31.2] WS: Jeff, how do you like to give back.

[0:23:34.3] JR: We give back in a lot of ways. We deal our company as we – we're fortunate we're very busy right now and we like to give back in a number of fashions. I give back

personally by being on a number of boards, homeowner boards as well as being on the city council. The company participates every year in Habitat for Humanity, where we go out and remodel a home for so many that's less fortunate and we feel that's a good way not only to show our expertise in construction but to give back to the community as well.

[0:24:05.5] WS: Nice, so Jeff it's been great to meet you and I just think you've helped to open our eyes to a lot of our listeners to the option of having someone like yourself really come in and manage the entire renovation process with just a very professional team that's very experienced, who can get that done very quickly just to accelerate that rent growth faster, right? More professionally, all those things that is such a big part of our business.

In the syndication business, especially that value-add component and just many things that I mean even opening our mind to hotel conversions and another operator that they know that is doing that. But just the pros and cons of that potential relationship with someone like yourself or just general contractors in general.

Unfortunately, we're out of time today. Maybe we'll have you back and there is so many other things that we can discuss. Tell the listeners though how they can get in touch with you and learn more about you?

[0:24:51.9] JR: Sure, the name of the company is Adivo Construction. There is a multitude of ways you can get a hold of us. Our website address is www.adivoconstruction.com. Our toll-free number is 833-825-2425 or you can contact me directly at the office and just ring us up and we'll be happy to talk through the process.

A lot of times asset owners and I want to make this the final comment, asset owners come and say, "Hey, this is our budget. Help us select the upgrades and finishes that are going to yield the greatest return, the quickest absorption and greatest contribution to the value of the asset." Those are the clients we love because we feel like not only are we helping them with the construction but we're being consultative in helping them not only maximize the value of their investment but also help in their investor population as well that has participated in the asset with them.

[END OF INTERVIEW]

[0:25:51.9] 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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