

EPISODE 991

[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]

00:00:24.000

Whitney Sewell: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today our guest is Abraham Nghwani. Thanks for being on the show, Abraham.

00:00:32.000

Abraham Nghwani: Thank you. Nice to meet you again, Whitney.

00:00:34.000

WS: Yeah, honored to have you back. Abraham was a guest on show number WS 270. It's hard to believe that's been almost exactly two years ago, and so welcome to have you back. Looking forward to hearing about your business during that time. I know there's probably been some big changes like most of us. But Abraham is the CEO and founder of Abranova Real Estate, am I saying that right, Abraham?

00:00:55.000

AN: Correct, yes.

00:00:56.000

WS: Abranova Real Estate, a full stack real estate investment and construction development company. And we probably talked about that a little bit on the last show but I think we're going to talk about it again today and how it's benefited him in a big way, just been vertically

integrated. Looking forward to that, but he previously worked for Gilbane Building Company - one of the largest contractors in the US, and the idea of a vertically integrated construction development firm involved during this tenure as a pre-construction engineer. He believes lifelong learning - graduated mechanical engineering degree from Duke University.

Abraham, welcome again to the show. Why don't you just give us a couple quick updates just over the last couple years, but I wanted us to dive into just this vertical integration, how that's been so beneficial for you all? I know there's numerous real estate investment firms who have, attempted or they bought other construction companies, right? Or things like that so they can be vertically integrated. I think there's obviously some benefit there, and so looking forward to hearing more about that. But what's happened over the last couple years? A couple of highlights and let's jump into it.

00:01:55.000

AN: Awesome. So, since we last had a conversation about, you know, a vertical...a vertically integrated model, I think at the time we were conceiving the Nova RTP project, which is a mixed use of town homes and apartments and, you know, co-working space community near the Research Triangle Park where Apple has recently announced a \$1 billion compass. Google recently also announced what they call an engineering hub. They're planning to create, you know, a 1000 jobs. Apple is, you know, it's come with 3000 jobs. It's a great market. It's a very strong market. A lot of the large tech companies are recognizing this market for that, for that for the talent. The quick nugget, there's a book by a UCLA economist, it's called The New Geography of Jobs, those in the Research Triangle Park in general, which is a combination of Durham, Raleigh, Apex, Cary - it's a number of cities and towns put together. He says that it has one of the highest concentration of basically educated professionals in the country, so 50% or more of the workforce in the Research Triangle Park have a master's degree or higher. That's a pretty high standard.

00:3:17.000

WS: It is a high standard. How can people get access to information like that?

00:03:21.000

AN: Reading the news, reading books. There's no replacement to just consuming as much information as possible...

00:03:28.000

WS: Sure.

00:03:28.000

AN: And processing it. I haven't found an easy way of doing it. Yeah, but just, you know, nibbling and listening to people who do that, you know, listening to professors...

00:03:39.000

WS: Sure.

00:03:39.000

AN: Or real estate conferences, right? So taking advantage of concentrations of knowledge at one place. That would be an easier replacement of just reading books and reading the news every day.

00:03:48.000

WS: Yeah. Definitely as entrepreneurs you need to be in taking information and educating yourself every day, right? I mean I've just...I've seen big improvements in our own business just as my business partner and I strive to do that. Right but you know, let's jump right in and talk about just how you're vertically integrated. And I was talking about, you know, developing, you know, being a developer or having a construction company, some of the differences there, how that's benefited you, and you know, is this something you encourage, you know, other operators to do?

00:04:15.000

AN: Yeah. So the more I travel the path of operating as a vertically integrated developer, I realize I take it for granted that as a developer, vertical integration is kind of a natural extension of what should be our ability to develop on projects, understand construction, execute, have the capacity to operate as construction company. Truth be told - it's not for everybody. You know, you have to be comfortable with construction as a field. You have to be comfortable with the construction trades. You have to love construction, as a career, and you know, it's not for everybody. We find a lot of efficiencies, at the same time we're not doing it out of convenience. It's a strategic decision, you know, it's built within the expertise of our team like we're both

construction people, is something that we love doing. And, you know, if you don't love doing, it's not going to be convenient at all.

So for us, The benefits have been many. We've seen deals that have come to us in a way that they otherwise wouldn't because partners...so potential partners come to us with projects that they want us to partner with them on a construction capacity. And then, you know, over the month of conversation, that conversation change from "Hey, you know, can you do construction for us?" to maybe we offered to bring equity in the deals. Right, and so those conversations sometimes they end up in a partnership, sometimes they end up in the partners deciding to sell because as you know, real estate is very, very dynamic field. Within three months a lot can change and, you know, what started as a partnership conversation can end up in, you know, "Can we sell this to you?" Right? And so we end up getting projects and deals off market like that because initially people come to us, you know, seeing that as a vertically integrated partner, we have a lot to bring to the table than just, you know, caught capital partnerships.

00:06:18.000

WS: So the construction company, you all will do outside work? Or I mean work for other companies or you're hiring? They're being hired out, you know, working, doing lots of construction I guess, but that may be how you find another deal sometimes, is that right? Or you're working with another owner, and they have a project that "You know what? It's may be the best time to sell" and you happen to be there when they're in that mood is that accurate?

00:06:38.000

AN: Yeah, yeah. So far we haven't really been working for other owners. A lot of those partnerships are basically just starting to form. As we build a track record, as we execute on our projects people come to us with, you know, asking us to do construction for them because they, they understand that we're looking at the project not just as a typical construction deal that you beat on and, you know, you get a fee for the construction service. They understand that we look at a project from an honor perspective, because we honors ourselves and we have project ourselves, so we're looking at the economics, we're looking at market studies, the product type. All the choices that we make have to complement, you know, their business model, right. So they like that. And so, those conversations start from that perspective and then their economics change or their plans change, partnership structures change, and we end up getting leads to those off market deals in a way that we otherwise wouldn't be able to.

00:07:41.000

WS: Yeah, for sure. Tell me, you know, the listener right now is thinking, "Well, you know, maybe that's a great avenue, maybe I have some construction skills or background, maybe I should start a construction business, you know, in addition to our multifamily business?" But I mean you mentioned it's not for everyone. You have to be comfortable with the construction as a trade I think you mentioned. And could you just elaborate on that a little bit for the listener who's thinking about maybe this is a good option for them, you know, to add to their multifamily business or just real estate business.

00:08:09.000

AN: Yeah. So construction as a career path...I have an engineering background. I happen to think that it's pretty difficult to be proficient in construction if you're...if you don't have an understanding of engineering as a field. However, there are many people that own construction companies that, you know, have construction...successful construction careers without having been engineers. There's, you know, courses and some universities that are construction management majors, you basically learn, you know, about all the different trades. You know there are people have absolutely no training in, you know, either construction management or engineering and they end up finding a path and constructions of career. However you end up in construction industry, there's no replacement for, you know, years of learning and, and experience and learning how to, you know, read construction blueprints and you know, working with some contractors or solving problem is. You know, there's no replacement to that.

Starting a construction company, you know, you're going to start with licensure. You need to be able to pass the licensure exams, understand the laws and regulations and then the states that you operate in. So in a sense you need to be savvy. The licensure exams, you know, can be difficult, they're not easy to pass. And so, to really be efficient and have the kind of added value that as a vertically integrated developer would work the effort, you really need to love it. You can't just do it, you know, as a backup plan or as a way as a convenient path, you know.

00:09:54.000

WS: Sure.

00:09:54.000

AN: It's an entire field of its own that you just need to love what you're doing.

00:09:58.000

WS: Do you have an example where, you know, that integration though has helped you to get a deal? I mean specifically or maybe you can, you know, how that played out a little bit?

00:10:07.000

AN: Yeah, I mean we recently acquired a site for 83 garden style apartments. The conversation ensued for eight to 10 months and they started as a partnership. But initially the partners came to us because they wanted to partner and, you know, leverage our construction expertise, and over that period of time they decided to sell, and we were the first one to have that conversation. So we got an off market deal at a what we consider to be a good price. If it was on the market it certainly would have been overpriced especially in this market right now. That's a direct example, There are many other indirect examples. We have the Nova RTP project which is 83 unit development, 46 townhomes, 37 apartments with, you know, 5,000, square feet of co-working space and a lot of other amenities. That project has been really interesting. We started as a for sale and then we got, you know, institutional buyers that you know offered to buy the whole project.

And that conversation, the experience, opened our eyes to a lot of other institutional needs. Billions of dollars are being raised in that space to acquire community, to create portfolio, built around communities. But you know, none of those billion dollar funds are investing in construction, right? They're not construction companies. I mean you have the exception of companies like Lennar that recently set out four and a half billion dollars to pursue built around community, so instead of building communities to sell, that building communities survive, and they're holding up in their portfolio. But most of those Wall Street funds that are being raised, they don't really have that capacity that Lennar has. So they have to rely on...you know, initially they were relying on national builders like Lennar, now they want to play in that space themselves so that pipeline of Lennar communities that you can go and buy is probably not there anymore because they have capacity in house to build those communities and write them out themselves. And so we're seeing a lot more needs from those institutional funds to acquire communities that they're looking for local partnerships.

00:12:22.000

WS: I've heard of that a few different times recently where people are developing communities,

they single family communities that are just trying to sell them but they're building them, you know their whole goal is to rent them out. Rentable communities as interesting, you know, change of thought I guess on that design or that type of development. What are your, you know, just being in the development space as well are having that ability, you know, what do you see in this, you know, those single family developments like that, you know, affecting say multifamily or just commercial development, what do you see happening there?

00:12:54.000

AN: This trend is there to stay. It's going to be as normalized as apartment communities are today. It was not a thing, you know, once upon a time to just build a bunch of apartments where people can come and rent them out, right? I mean, you know, home ownership was almost, you know, kind of a self...self-identity, like you own a home, you build your own home, you know, your family builds your home, you know. And so that transition from what people have normalized as, you know, apartments offer and in homes offer ownership is going to happen pretty quickly, especially in the middle of the pandemic where people have more need for space than then they initially thought they did. Home ownership has been declining in the United States since you know, 1950s. People my generation of graduating from school and they have a lot of student debt, they can't afford to buy a starter home the same way their parents were able to.

So, a combination of those factors and just the appetite of institutional capital to buy this communities and turn them into rentals. The stigma that people used to have of renting it's kind of, you know, dying down those that flexibility and in some sense, it's a lifestyle change, right? Like in larger cities instead of owning a car you can just lease a car. It's kind of going into more of a subscription model like kind of lifestyle, and so owning versus renting used to be that if you own then maybe you like...it's kind of a demonstration of, you know, achieving the American dream. But right now with working remotely and the flexibility that you have to live in different cities, renting is actually more fashionable. If you make a lot of money and, you know, you live in California, your six figure salaries probably not as effective as, you know, if you make the same money and you live in Austin, Texas, or Raleigh, Durham, and North Carolina, right? And so if you're able to make a California salary and live in in Raleigh, Durham I mean just imagine the amount of options that has created for you, right?

And so it's a number of different factors put together that's going to normalize the bill to rent

asset class and turn, you know, single family in town communities into rentals, and people are going to think of that as an arm and it's great because you have the feel of a home without the burden of a 30 year mortgage.

00:15:40.000

WS: I think it's great having the insight that you do on the construction side to thinking about what's being developed, what people are desiring right now, and even just wanting to ramp versus willing to own. It's definitely a massive shift in mindset versus what 30, 40, or 50 years ago, you know, and just the American Dream, what that really is anymore. You know, it's just thinking through as a developer what you need to be developing, right? You know, at a mass scale, what are people wanting and what are they going to want for the next many years. And so it's just some great examples that you shared there as well of what's happening, right? And what these people are wanting even if you're a higher income earner you may not want to own as much as you, you know, may have thought you did one time and just having that flexibility is valuable, right? An interesting thing about what everyone.

Abraham, what about, you know, just preparing for a downturn, when you're looking at these deals, you know, the construction background as well, how do you prepare for a downturn?

00:16:31.000

AN: That's a good question, Whitney especially as a vertically integrated company. We certainly have to make sure that our construction pipeline is sufficient to sustain our company. We have a larger overhead than a typical developer would because we have construction team, you know, we have superintendents, project engineers, equipment operators, you know, you name it. We think by being vertically integrated we're actually better prepared for a downturn than a typical developer because construction never stops even in the worst of times. A certain construction field may kind of slow down like home building, apartment development that kind of asset class, but you know, city projects still have to go on. Municipals and cities still have to build schools, build, you know...

00:17:25.000

WS: Right.

00:17:26.000

AN: Infrastructure and whatnot. And so we think that as a vertically integrated developer, you know, construction and development for us, they're inseparable. And as much as we continue to create a pipeline of deals for investors and, and our shareholders, we also invest time and effort in building our construction capabilities to be able to execute any construction project that, you know, fields our...fits our warehouse so that in a downturn when, you know, home building and developing apartments doesn't make a whole lot of sense anymore, we're still able to do those projects for other people at a fee, was still able to do projects from, you know, institutions and cities and municipals for a fee. And so having that capacity to be nimble and kind of create different revenue streams for our company is how we prepare for a downturn.

00:18:26.000

WS: I think that makes a lot of sense having other streams of income, and also if there's a downturn you have issues, you can fix that probably cheaper yourself as opposed to having to hire all these things out, you know. So if you get you get hit with one issue, maybe there's another one that you all can fix internally, where a lot of other operators would have to hire that out, you know.

Do you have any predictions say over the next six to 12 months or things you expect in the real estate market that we haven't talked about?

00:18:50.000

AN: Each market is different, right? But we're talking about the build to rent and the single family for rent, asset class that's going to grow. Every firm that I've been talking to, some of which are publicly traded, it seems like everybody's raising a billion dollar fund to go out there and buy communities, and you look at the pipeline of homes on the market, you know, America already has a two and a half million dollar shortage. I mean two and a half million dollar shortage of homes across the country. Partly why the lumber prices are rising so drastically is because it's just really high demand and there's a huge shortage of homes across the country. And so when you combine the already shortage of homes with the appetite of institutional capital that's been raised on a press that has to buy projects within a period of time, then you have, you know, this really, really, really high demand that, you know, somehow needs to be to be fulfilled. And so, as far as we're concerned in our market we don't see any scroll down, especially with the apple announcement that just, kind of, you know, through BOL on what was already have a blazing fire.

Now, nobody knows what's going to happen in the future but I can tell you from a demand supply perspective, you know, the supply is very low and the demand is very high and I don't see that changing next five years.

00:20:21.000

WS: Okay. Abraham, any daily habits that you are disciplined about that have helped you achieve success?

00:20:27.000

AN: Well success is an ongoing pursuit. Always the way...that's the way I see it.

00:20:31.000

WS: That's for sure.

00:20:32.000

AN: If you're a \$100 million dollar company, you can be a billion dollar company. To be billion dollar company, you know, you can do better. There's always room for improvement. But what I really proud of is, curiosity and being shameless about learning and asking and pursuing understanding of things. Sometimes to the annoyance of other people because you know, you realize not everybody wants to just look at everything with like that sense of novelty and like, "Is this how it really is?" Like, sometimes some people are used to doing things a certain way and they don't want to be asking a lot of questions anymore. So, just being shameless about learning. You know, there's no greater joy to seeing yourself improving every day, and even better when financial success is, you know, it's kind of validating that, right? I mean, it starts with learning, like our life isn't all just about, you know, hitting financial milestones, is company but you know, living a wholesome life, you know, from the moment that you're born as a child. You know, you just enjoy learning how to ride a bike, you know, learning how to write, how to speak, like all those things are gratifying experiences. And so, at this stage of my career, continuing that sense of learning and combining that with, you know, financial success as a company, expanding company, going to new markets, it's just a great joy, and I am working on it every day.

00:22:06.000

WS: How do you like to give back?

00:22:07.000

AN: So I have a foundation that I formed pretty much around the same time, maybe a year or two after I founded the company. My goal in the future eventually is, I would like to own my company in terms of my charity foundation. You know, creating personal wealth is not the most satisfying thing. However, I like to have the, you know, greatest impact I can as a human being, and so far my foundation has been focusing on scholarships and providing education opportunities for, you know, high performing students who want another...don't have the opportunities to fully realize their potentials. It's kind of self serving because I've been a beneficiary of that, you know, being a scholarship student myself. And so it's a need that I immediately recognize - that I want to give back. So it's kind of, you know, it's an immediate area that I want to focus on but, hey there are a lot of problems around the world and whatever I can do to make difference...

00:23:13.000

WS: Sure.

00:23:14.000

AN: It's what I'm going to focus on.

00:23:15.000

WS: Now that's awesome. I appreciate you sharing that and wanting to give back in that way and just from your experience, you were given. You want to give back and it's great and you know I just appreciate your time today and giving back, Abraham. And really thinking for helping just even the listeners, and even as a passive investor thinking about companies you're investing with about, you know, how vertically integrated they are, maybe some pros and cons, mostly pros sounds like. But, you know, like you said, it's not for everyone and you have to be comfortable with that construction business or as a trade I think you mentioned. But it's also how you went into just see trend of developing, say a single family rental communities is, is probably here to stay and how, you know, that's probably growing in our space, and just thinking through that even as you're buying multifamily properties and who your renters are, it's just great information to be thinking through as an operator.

So, Abraham How can the listeners get in touch with you and learn more about you?

00:24:06.000

AN: abranova.com is the best place to start, a-b-r-a-n-o-v-a dot com. And for those who have questions or want to reach out to me directly, my email is abraham@abaranova.com. And, you know, our company number is 9195970223, will certainly, you know, reach back to you if you call us.

[END OF INTERVIEW]

[OUTRO]

0:24:28.0 ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

[END]