

EPISODE 1077

[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]

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Whitney Sewell: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today our guest is Arn Cenedella. He's been on the show before and it's interesting to think about where he's coming that amount of time, but he's a long time single family real estate broker and investor, enters the multifamily space in the middle of the COVID pandemic. He is a lifelong Silicon Valley resident who moved to Greenville, South Carolina to start a new life adventure. He has completed three multifamily syndications in first year as an investor.

And so, Arn and I today really go through his first 18 months as a multifamily syndicator. He's been in real estate since the late '70s. He has a great background and vast experience in real estate but he's mostly in single family, but then moved to multifamily syndication, but he's accomplished a lot. In a very short period of time he's now been part of five syndications and one of those as the operator, and we go into some details around that specific syndication, things that he learned, right? I mean, he calls some big growth experiences and getting the deal to the closing table and some things after as well, and some key things about himself that has helped him to move fast that I think you should consider in yourself and in your own business.

Arn, welcome to the show. I think you and I have known each other for a few years now and it's been incredible to see your success and everything you have accomplished over the last few

years in this business and jumping in and we are going to talk about that today, and also many things that you learn from I think one specific deal, looking forward to getting into that. But update the listeners a little bit on where you're at in your business and whatnot that...in case they haven't heard of you before.

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Arn Cenedella: Well, thanks Whitney. Great to be here, and I think the first podcast I ever did was with you and so I appreciate the opportunity to come back, and certainly I followed your career and growth and of course you're doing phenomenal as well really mind blowing what you're doing, so congrats on that.

So yeah, when we last talked I just entered the multifamily space, and that may have been, I don't know, 15, 18 months ago and since then, I've completed five syndication transactions for as a co-GP. One is a lead GP, and I've enjoyed working in the multifamily business, I'd spent a lot of fun, I've helped a lot of investors create passive income, and of course I'm always willing to learn more, so excited to kind of continue growing my business and getting better at what I do.

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WS: Incredible. Congratulations, by the way. I mean, five syndications, very short period of time, I mean you've definitely not let the grass grow under your feet. You've been moving to jaking, but how long did that first syndication?

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AC: I would say it took me about six months to get to my first syndication, and just to share a little bit with your audience about that, I had reached out to a syndicator kind of from the LP perspective. I've made seven or eight LP investments in the last year and a half or ups 1,200, 1,300 square foot units. So I reached out to an operator as an LP wanting to learn about their business and their potential investments. And of course, the conversation switched around or, you know, he wanted to learn about me and vice versa. And I told him I was kind of a long time real estate guy looking to get more involved on the active range, on the active end, told him I thought I could raise some capital and he said to me, "Well, when we have a need, I'll reach out to you and we'd love to have you on board" and so probably a month later, he called me and

said "Hey, we got a deal in Augusta, Georgia," which is only about two hours from my home in Greenville, South Carolina. And that was my first opportunity, and I'll always be thankful to those guys and that company for giving me a chance. It was a great learning experience not only raising capital for my first deal, but I was on the ground at Augusta two days with the guys doing the due diligence looking through 167 leases, so I appreciate that opportunity. I delivered what I said I was going to do and that really set the springboard for the next six to 12 months, was kind of getting that first deal under my belt.

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WS: Awesome. So you found somebody, you connected with them, you added value. It sounds like, and people shy away from this I think sometimes, like you were willing to get in there and get your hands dirty as well, right not only was that valuable to that operator but I bet you learned a ton.

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AC: Yes, and you know, I put up some earnest money deposit so I was not an innocent bystander. I had my own capital at risk, and I think the other thing it did was twofold. One, it gave me the confidence that I could actually do it, right. You think you can do it. When you do it then you got the proof, and two, it gave me additional credibility with my investors now. I've been in real estate a long time and raised a lot of money for various other types of real estate investments, but I'm relatively new to multifamily so I think getting that first deal under my belt really helped me kind of catapult and grow my business, and that's been great.

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WS: That's incredible. I'd like to know which one of those five were the one that you were the operator on?

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AC: Okay so actually, it was the four syndication deal that I was kind of the lead sponsor, operator on, and it was in my hometown in Greenville, South Carolina, so I was happy with that. And, as you know, in this business we're constantly evaluating opportunities and trying to build relationships with brokers and this was a capital advisor firm, they don't really identify themselves as brokers, more investment advisors. And over about a year and a half, they show

me four or five projects in the Greenville area, none of which kind of worked. And then in late February 2021, they brought me this deal in Greenville, and within a matter of about seven days we were in contract and often running, and it was quite a wild ride. We got it done. It's doing very well. I learned a lot and it was a great experience.

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WS: Let's talk about that a little bit because it's incredible what you've done, how many deals, you know, in a very short period of time. Before we narrow down, say on that project, what are one or two things that you would say "Hey, because of this one or two things like, or that allowed me to move so fast in the syndication business, allowed me to do this many deals to really hit the ground running?" I mean, most people aren't seeing a deal like that or maybe aren't even part of the syndication for a year or after, right and they have to be patient and keep going, but you have been a part of numerous projects in a short period of time. What were a couple things?

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AC: Yeah, well one, unlike many who have come into the syndication business, real estate's the only thing I've ever done, okay. So I got into the real estate business in 1978, Silicon Valley. I'm used to big numbers, high values, and high net worth individuals. So, I have to say that was certainly an advantage I had so...

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WS: Appreciate your humbleness but, however, you still had to make things happen.

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AC: Well, yes. And I've been a long time investor for my own portfolio and helping other people, but it's primarily been single family. And about when COVID hit 18 months ago, maybe when we met, I just kind of jumped in and immersed myself in education, your podcast was one of the ones I listened to regularly, I still do. So I kind of jumped in with both feet, and for me, sometimes I leap before I work, so procrastination hasn't been my problem. So, I have a lot of forward energy. I'm fairly outgoing, so I think as I moved into multifamily I shared with a lot of people what I was doing and I don't have any problem making new friends and connecting, and so I think that was a big part of it. One of my associates said, "Arn, the thing I love about

you, is you're just willing to jump in and wing it." And certainly there can be downsides to that but they also can be a positive side so I have a lot of forward motion, so I'd say that push and the longtime real estate experience made the difference.

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WS: That's incredible and I just appreciate you highlighting that too, like you're willing to jump in and wing and it's like, you know, some people say like build a plane as you're flying it, right. And I think there's a lot of benefit in that, the willingness to take the step, right. So many people, they won't, right they just...that fear gets them down, they will not take the step to move forward, it's too uncomfortable and that's where you're going to learn the most, to say the least. Hopefully you assess the risk, right? Of course.

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AC: Oh yes. Assess the risk and the other thing I would say is, during my education period, I made plenty of contacts with people. So, I knew who was going to be my SEC attorney. Okay, I knew that coming in, and I knew nothing about it, you know, I know what a PPM is, but I knew enough about this individual that I knew I could task him with that side of the job and he would get it done because that's what he does, that's what he does 40 times a month. So finding the right team members is important, so I have fairly good self awareness at the age of 67, hopefully, got a little maturity there.

So, the investment advisor who brought me the deal was also a debt broker. And so, I worked with them on getting a Freddie small balance loan and that's a whole different story and I was a big learning experience, but I knew they wanted the deal to go, I trusted them to help me through those steps. The other critical part is, I'm not a great property manager but I have a friend and partner in Greenville, Brian Walsh who is, and when I brought the deal to him he said he liked it. That was really the final piece of the puzzle because I knew I could just handle kind of the syndication, the capital raising, the paperwork side, knowing I had a good operator on the team who would ultimately make this project work, and without him I probably wanted to proceed it so him coming on board made a big difference.

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WS: Awesome. Let's dive on into that fourth deal, right where you're an operator and, we

talked about it a little bit but I want to learn some more about what you learned by being that operator, some things that you're like "Wow, you know, wish I'd known that maybe beforehand." But, walk us through that process a little bit of that project, a little more of the details and let's dive into some items that I want to know and I want the listeners to know too.

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AC: Well, sure. So I would say number one, the big growth experience was trying to get agency debt. Okay, in my real estate career I borrowed lots of money, had plenty of loans, refinance 10, 30 ones, but I would say when you go for agency debt, it's kind of a whole different world. I had to write them a \$9,000 check to get started, I mean that's mind blowing. When you get a residential loan, maybe you pay for the appraisal up front but here no, \$9,000 to get the process started. The other interesting thing was Freddie kind of underwrites the deal themselves, I underwrite it, I evaluate it, my debt broker underwrites it but Freddie underwrites it, and there's always some negotiation between Freddie and the syndicator over what the NOI should be because the NOI ultimately determines what the loan amount is. The other fascinating part about that was Freddie kind of has a matrix, I imagine Fannie does too, where everything's kind of interconnected.

So, one or two years or three years of IO impacts the debt coverage ratio. The term impacts the debt coverage ratio, the term impacts the loan. What kind of prepayment penalty you have impacts the rate which impacts everything else. So, it was a fairly unsettling understanding that that final debt product really wouldn't be known until maybe 10 days before close, which is much different than residential so the whole Freddie experience was good. There were times I almost lost my mind but I just stuck with it, so that was less than one.

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WS: Yeah, and that is a big learning curve, to say the least and often I hear people say, "Well, getting agency that was a lot easier than getting my home loan," would you say that?

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AC: I wouldn't say that because I think normally getting a home loans pretty are easy and, you know, when you're trying to raise capital you have an estimate of how much you need to raise, and you can kind of ballpark it, but until you know what your loan proceeds are, it's kind of a

moving target. At the end of the day we ended up raising more money than we needed, which was perfectly fine. Brian, my partner and I are kind of old school single family guys, we like to sum up our next account, which means you got money in the bank so you can sleep at night. So we didn't mind over raising and we got that done, so that was interesting.

And then, of course, just the whole capital raise process, you kind of believe you can do it, you're confident you can do it, but you actually going to go out and do it, and our capital raised went fairly well. I think the fact that we were both local to Greenville and knew the market gave assurance to our investors, even though we're relatively new to multifamily. Between Brian and I, we have over 50 years of experience in real estate, and the project that we're talking about was 43 units, one story bungalows style so they really weren't that much different than the single family homes we've been doing for years.

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WS: Nice. Are there any other steps that you all took just to ensure that you could make the raise?

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AC: No, we were committed and we invested a significant sum of our own money. Actually at the end of the day we had to reduce our own investment to create more room for investors. So it was a 506 B, it was a \$1,000,005 raise, the purchase price was 2,8. 506 B, we put a minimum of 25,000, and we probably ended up with 30 investors, 20 of whom probably put in 25, so that's a lesson. Generally whatever your minimum is probably going to be the maximum, you know, most people will do the minimum. I don't know what your experiences were but that was ours.

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WS: Yes, I agree.

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AC: And that was perfectly fine because part of this for me was, allowing this type of investment to people who are maybe relatively younger, they know real estate is good, they want to invest in real estate, but they're not yet accredited and asking them to invest \$100,000

is just too much. So we felt good about making the barrier to entry a little bit lower. And the capital raised went fine, it was interesting now we added a document of our investors with Freddie and that was kind of an interesting thing.

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WS: What helped you to have the ability to raise that money? What's one thing maybe that you were doing before this that allowed you to raise that money when it was time to perform?

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AC: Well, sure. Good question. So I had to that day completed three other syndication deals as a co-GP, and I had been educating people and building my brand for about a year, about multifamily syndication, about passive investing. So, I had kind of set the stage and with 40 years in the real estate business, a lot of people already knew me and trusted me so I would say kind of the education over a year plus, in many cases, the long personal and professional history I had with these investors made a difference. My partner Brian is a property manager. He manages maybe 350 units in Greenville, and of course, his client base came out and invested too because they knew Brian. Brian manages their primarily single family rentals, so they felt confident in Brian, my people felt confident in me. The combination of my skill set plus Brian I think was a pretty good team so I think it made sense and it was logical.

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WS: Yeah. Any unexpected things that had, you know, unexpected before getting to the closing table?

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AC: So the project was a 2006 build which of course I was very excited about, and I know you have new and newer construction too. So was the 2006 built but it was definitely affordable housing okay, it wasn't granite counters or anything like that, it was a vinyl siding one-storey building. So, co-star had the units listed at 763 square feet and as we're doing our due diligence we did roof, we snaked all 43 sewer lines, we did plumbing, electrical heating, we had a civil engineer out. And of course, since it was a newer build there wasn't really too much to worry about. But on my first visit to the property, we go in the units and I go, this doesn't feel like 763 square feet.

So okay where we get into contracts, so the day of due diligence I bring my tape measure, I go "I'm going to measure these suckers myself" 43 identical units. So I measure them and they're about 610 square feet. So that kind of momentarily freaked me out. But at the end of the day, the units were the floor plans were, they were nice, good one bedroom units. And this is just a lesson to the listeners too, CoStar isn't always right so you need to verify some of that information yourself. I mean, CoStar is a wealth of data, no doubt, but I think you got to verify it independently. Computers and technology are great, but once a piece of data gets entered into the system, it can get populated 1,000 times and nobody checks it. So at the end of the day I kind of work through that and that was probably the biggest issue on due diligence for me.

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WS: Awesome. I appreciate that word of advice there too because most of the time you do get that data back, right. You just assume a lot of that's correct, unfortunately or too often it's assumed I should say, we try not to assume anything like that's 100% accurate. But is a great reference often defines all that data, right?

So, now you've closed, you know, what about after the fact now? What are a couple things you have learned after you've actually closed this deal? You're the operator, you know my, you know, should we have done this? Should we not have? Are we happy? What's happened?

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AC: Well I would say we're very happy with the project. We got the units at \$65,000 a unit for the 2006 build. The units are separately metered for water, sewer, and electric. Units were built with washer-dryer hookups with the prior owner not providing washer-dryers, stack washer-dryers. So we're basically static and as you know and your listeners know, rents have gone up fairly significantly here in the last six months, you know, so blind squirrel gets an acorn every now and then. So rents have gone up, we've done some renovation to the units basically cosmetic, they've come in AD budget, we're already at basically our year two rent projections. So, the Greenville real estate market is strong. I think at some point, \$1,000 a month rent is going to be the minimum in America. You know right now, I'd say maybe it's 850. I think 1000 may be the minimum here at some point. Brian has a good crew that turns the units in two or three days, we're providing stack washer-dryers for the tenants, so we're off to a great start,

we close the middle of May, so we've now been into it about four months. When we purchased the property, I think we had eight people who were on man come on, so we increased them whoever left, we've renovated the units. We have a bunch of lease expirations in January 2022 and that's really where I believe we're going to be able to bump the NOI.

We want to be responsible and consider it landlords and so for existing tenants I think our plan is to offer them a rate, maybe slightly below market to keep them there. And I think most of them are going to end up staying given how tight the rental market is. And if some move, we just renovate those units and raise the rent so it's really well and part of that just the Greenville market and the other is Brian's really good at turning these units and managing the property.

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WS: Wow. I mean, congratulations again on making it happen and stepping out there, right. But I wanted to highlight something you said earlier and kind of what you're even highlighting now to some extent was earlier on Arn, you said that you weren't very good at property management, I think so you said or maybe it's not your favorite part of the business but, however, you found a partner that that's his specialty, right? That's where he shines. I've seen it happen so many times in our business.

I mean, I also have a story like that. It's like, you know, find people, build your team that obviously they have skill sets and things you don't enjoy or maybe it's just not something you just dream about, right, or love doing. Would you agree with that?

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AC: I would totally agree with it. It's kind of a tried statement now that multifamily is a team sport that is kind of repeated ad nauseum. But it is true, and with the scale of the investments, you can build a team, right. It's hard to build a team over five single family rentals, right? I mean, there's not enough there to go around.

So, yes, find people who compliment your skills, and I think the other important part is, you just need to kind of enjoy working with each other right because through the course of the transaction there were times where maybe I was feeling a little down and Brian would pick me up or there were days Brian was feeling a little down and i I'd pump them up.

And I think the other thing is, when you have more clearly defined areas of expertise and responsibility, I can take the ball and run in my arena, Brian can take the ball and run in his arena. Certainly you communicate and you come up with a game plan, a team game plan, because ultimately at the end of the day, somebody's got to be in charge, right? Sitting around a meeting with eight people trying to make a decision is not the way to get things done. So, clearly defined roles and responsibilities but communication in some sense of teamwork are really important. Yeah, so without Brian I wouldn't have done it. And I'm trying to get him to go outside Greenville, so if we can get him to do that, watch out everybody, but...

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WS: Here they come.

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AC: Yeah, here we go. Watch out. I know that strike and fear in people's hearts, but for now we're really focused on Greenville.

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WS: Arn, unfortunately we just have a few minutes left, but a few last quick questions. What's been the biggest challenge for you in that last 18 months?

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AC: That's good. Actually maybe I'm a little busier than I want to be. So that's about, you know, that's a good problem to have. But I guess when you enjoy what you do, you know, it doesn't seem like work. And I've done real estate all my life. Real Estate's created a good life for me, I've had a good work-life balance. And so, in order to be able to help other people do that, that's kind of rewarding and so I enjoy that. And the other part of it is, I really enjoy the team aspect of it. I enjoy bringing different parts together to the whole and kind of making it happen and getting across the finish line, so love the team work kind of the motivation and work together to a common goal.

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WS: You know you've been in real estate for many years as you said, what about just that

background in real estate, do you have any predictions on this the real estate market in the next 12 to 18 months or six months or anything?

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AC: Yeah. If I learned one thing it's don't get too cocky about knowing what the future is.

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WS: Great advice.

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AC: I mean we're in some unusual times, right? Whoever thought interest rates would be at three? I paid 11 and three quarters for my first house back in 1980. We got negative interest rates in Europe.

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WS: You were probably excited about that. Well 11% interest rate as well.

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AC: I was happy because six months later it was about 16 and a half, and I actually had to work something with my bank or because I bought new construction, it wasn't done and we knew rates were going up so we worked out our whole back. I'm generally bullish on real estate, people need to live somewhere, housing affordability is definitely an issue.

So, I'm bullish on real estate. I think things will be good, I think the fundamentals always matter. They never change. Be properly capitalized, use leverage properly. And if you do that, even when the downtime is hit, you're going to be able to survive and ultimately the curve in my mind has to be up, population growth, time, inflation, all work towards that. So I'm bullish, but it'll be very interesting to see what happens. That's why we live, right? It's to see what happens.

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WS: Great answer. Must have cash on hand, no doubt, and proper financing and not too much debt. But what's the number one thing that's contributed to your success?

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AC: My willingness to learn. I've been in business a long time, I'm a smart guy but over this last 10, 18 months, I've soaked in as much knowledge as I can from people like yourself and others who are further along in this thing so I think the willingness to learn. And for me, it's fun to work. I've been doing single family for a long time now I'm doing multifamily, and it's like a whole new gig though it's the same gig and so you get a little energized and there's no burden there because every day is kind of different.

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WS: Arn, how do you like to give back?

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AC: Right now, what I'm working on is with a group called Score. And what that is, it's a group of successful entrepreneurs, small business people who are helping people start their own small businesses, and you can help them with accounting, the business plan, the whole thing and so that's what I'm doing now. So we mentor people who have the dream of starting their own business and we try to hold their hand and guide them along the way and, it's rewarding and many of them are recent immigrants to this country, and they have a dream, and it's great to be able to kind of help them get a piece of the American Dream, it's it's pretty cool.

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WS: I've heard of Score but I've not looked into them personally, but I appreciate you giving back in that way, even sharing that on the show and I think that there's like Score...what do you call it? Divisions or...

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AC: The chapters all over the country, yes.

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WS: The chapters, yeah. All over the country, so I encourage the listeners to look that up as well, especially if you're a new entrepreneur there may be some resources there, and even a way to meet successful entrepreneurs, right, that are local to you.

Well, Arn, thank you again for giving back to us today and congratulations on your success, right I mean, five syndications, 18 months operating this deal. Appreciate you going through some of the nitty gritty of things you've learned, just growth experience of agency debt and the capital raise process, getting the deal to the closing table even highlighting the team aspect that's helped you and many of us, but even the willingness, you said, you know, sometimes you late before you look, but I think that's so helpful in many ways when you're willing to ultimately be uncomfortable so you can grow. But tell the listeners how they can get in touch with you and learn more about you.

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AC: Well, sure thanks, Whitney. Great to be here and great to chat with you as always. So, my business's name is Spark Investment Group, website is investwithspark.com and you can email me at arn@investwithspark.com. I'm on Facebook and LinkedIn so reach out, I'd be glad to talk to you and help you in any way I can.

[END OF INTERVIEW]

[OUTRO]

0:31:28.0 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.

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