EPISODE 1220

[INTRODUCTION]

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Andrew Cushman (AC): The point is structuring flexible exits. Not just, okay, this is what we're hoping for, this is what we're planning, we're gonna get a debt to match that. We also have to consider, what if the debt markets or just the transactional markets aren't what we planned on? You don't want to be trapped, right? You want to make sure that you structure your debt so that you can exit fairly almost no matter what.

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Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Andrew Cushman. Andrew's been on the show a couple of times in the past. We were both at GoBundance, and it was just an honor to meet him in person, but to have him on the show again, he is just an amazing operator, just a great guy, and I love having conversations with him, and he was on the show 100 and also 592 I would encourage you to go back and listen to those episodes.

But, Andrew is a former chemical engineer who found his entrepreneurial calling in real estate. In 2007, Andrew left his corporate position to start a business in real estate, he started off flipping single-family properties in southern California. Sensing a shift in the market in 2001, Andrew transitioned to multifamily acquisitions and has successfully syndicated and repositioned over 2300 multifamily units. He is a frequent guest and panelist on real estate podcasts, educational forms, recently launched the Multifamily Accelerator, and it's a mastermind group for active and experienced real estate investors.

I just enjoy the conversation with Andrew, he goes through some specific deals and talking about even team building, talking about a fire that burned down an entire building and different things that from exit plans to pricing the market right now to a Harvard study that he likes to see, or whether we're talking about population growth or median income, he goes through so many different things during this interview that are going to be so helpful to you as an operator, whether you're a passive investor or an active operator. You're gonna learn a lot from Andrew today.

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WS: We are back at GoBundance. I'm thankful to be doing some interviews live this week, and it's interesting, I know lots of people that are here, and some returning guest, and I love catching up with people, just like our guest today who is crushing it in multifamily Andrew Cushman. Andrew, welcome back to the show.

[INTERVIEW]

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AC: It's good to be back and actually get to meet you in person this time.

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WS: This is great. Andrew was our guest on show WS100, believe it or not, and then WS592, some great shows. He has added so much value to you as a listener and myself already, I'm looking forward to this discussion today, and he's definitely somebody that I look up to in this space, and today we're gonna go into choosing proper debt and thinking about how does that align to your business plan or your exit plan, or different aspects of your business and thinking strategically about that with numerous other things of how he's operating right now in the current economy, in the state of the economy.

So, Andrew, give us a start of a little bit though, I know the listeners have heard a little bit about your back story, getting into real estate and former chemical engineer and some of that background, however, give us an update on this past year or maybe the past year and a half or so, what's been happening with your business – buying, selling, have you just been on hold? What have you been up to?

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AC: Yeah, it's been an exciting year. About two and a half years ago, I finally corrected the mistake of not hiring on some more A-level people, so we added to the team a couple of years ago, and the people that we've added are better than I am at their respective aspects of the business, and that's really born fruit this year, when as of this March, we'll have acquired 108 million in apartments in a 12-month period, which is for us, by far the biggest year that we've ever

had. And we purchased about 2600 units. And we're really excited. Those deals, even though they're early, they're doing really well, and it's been a really exciting time to be in the multifamily business.

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WS: Wow, a couple of things there. Quickly, you recently hired some people that are better than you are, at those perspective things, what were a couple of those things or what are these people focused on that you had recently hired for?

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AC: A perfect example is so, you and I are today are sitting here at the GoBundance Conference, right? Well, at the same time, the National Multifamily Housing Conference has been going on in Orlando, right? And that's where like 8000 owners and brokers all get together and it's like speed-dating networking, right? You meet with a different broker for 20 minutes, like 20 of them in a day, and then you go to the after-party and all that.

For me, I do it and I can do it, but that's kind of draining. Anthony, or acquisitions guy, he gets energized by that, he's really good at that, just naturally, he'll be having breakfast or dinner with brokers three, four, five times a week, right? So, I can do it, but he can do it better because again, it energizes him, he's got the personality, he's likable, he's smart and all that, so he's it and I may see right now doing what he's best at, and I'm here doing other things that I'm better at, and that kind of divide and conquer almost is part of what's really allowed us to grow substantially in the last couple of years.

And I'm, as you mentioned, I'm a former engineer, I've always been a deal guy, always an analytical guy, but I had to, what I really had to learn, and I was slow to the game, that was the business building and the team building, I did way too much myself for too long.

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WS: And we're not gonna spend a ton of time on this because we could do a whole show on team building and hiring A-class talent, those things, but when did you know that you were ready to hire an acquisitions director?

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AC: I'd say about three or four years ago is when it finally dawned on me, I really should have done it sooner than that, because again, I made the mistake of thinking, Well, no, it's me, I'm the best guy at this, it's my name, it's my reputation, and that part is true, but as far as the name and reputation goes, but that doesn't, the false mindset was that it literally had to be me, it's like, no, I can add this person to my team, and when he's talking to people, it's like, yeah, Andrew and I work together, or here's our company, and so, yeah, someone else could do that without me literally dialing brokers for six hours a day.

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WS: I can completely relate. We're in the process of hiring, we just hired a full-time asset manager, fixing on hiring an acquisitions guy, should have done it before as well and we're not as far long as you are, about 108 million, what was maybe the biggest challenge?

I mean, 1.8 million, 12 months. I know a lot of the listeners thinking, oh my this guy, Andrew, he's so far ahead of me, I can't even imagine doing that. Give us one or two challenges maybe that you had to overcome when doing 108 million in 12 months?

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AC: A few years back, I couldn't have imagined it either, right? I mean, when I started this business 10 years ago, if you had said, hey, you'll do 108 million in a year. I'll be like, No, no, no, no, no, that's other people. That’s guys in suits and penthouses in New York, not some dude working out of his house in California with a surfboard in the background, that's just not, no, that wasn't in my reality.

The challenges of doing it today is really is finding the deals, the ones that pencil out, everyone knows that multifamily has performed well and probably will continue to perform well, and there's a ton of capital looking for yield. I say our number one challenge in any size, whether you're looking for 10 units or 150 or 350 is finding those deals; in creating the processes to sift through all the bad ones to find the good and having the discipline to wait.

Especially when you're beginning the eagerness to get the first deal, it's palpable, it's real. We're averaging having to sort through 200 properties to buy one and that, it's tough to do that. But it pays off. So, the biggest challenge is finding the deal right now.

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WS: I just appreciate you highlighting the not too long ago, you would have said, hey, that's not me, which is probably what many of the listeners are saying as well, so just limiting beliefs. I had them at one time as well, never imagined where we would be just a few years later.

But, I wanna jump to just a topic today that we were gonna discuss, and I think it's so important, choosing proper debt to match an exit plan, you and I are briefly discussing this ahead of time. And I'd like for us to just jump in and maybe you have an example that could help us to start thinking about this as well, maybe a project that you did where maybe one kind of debt may have worked, however, when you consider the exit plan. It didn't work as well. Maybe we can dive in there.

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AC: Yeah, I can actually think, I can have two recent examples that are in different ends of the spectrum. So, we got a property under contract in December of 2020, which that was the height of Covid winter, right? That was, all right, winter’s coming, we're all gonna die and no one knows what's gonna happen, and there's a lot of palpable fear of what was gonna happen to the economy and all of that. And so that was also the largest property we'd ever bought at the time was $49.8 million.

And so when we underwrote that, we said, all right, we wanna make absolute certain that we have a flexible exit and almost under any scenario, we're good. And bridge loans these days are, I think, 75% of all acquisitions, although the problem with the potential issue bridge loan is, they're typically short-term, two or three years, maybe an extension, which by the way, you have to qualify for that extension, it's not automatic, you can't just say, I want it.

You have to qualify for it. So we're like, all right, we wanna hold this property for six years for a variety of reasons, but what if the market shifts against us, how do we hedge against that and I'll walk through our thought process so that anyone can apply the same logic to a property that they're buying. Again, big or small, the size doesn't really matter.

So, what we did is we said, all right, if we get a 12-year fixed Fannie Mae loan that comes with six years of interest only, but that part's not really important, so we had a fixed rate for 12 years, meaning the worst-case scenario, we could ride that property out for 12 years, but we want to sell it in five or six. The downside of fixed-rate debt is that if you sell early and someone doesn't assume that loan, you can possibly have a huge prepayment penalty, so what we did with a 12-year Fannie Mae debt or fixed-rate loan, you can get two supplementals.

And for anyone who's not familiar with the supplemental, that’s like the equivalent of getting a second mortgage on your house, you get the first loan, the value goes up, and I came and pulled out some cash. So the reason we went with that 12-year fixed debt is because it gave us an option of no matter what happened, we should be okay, I'll run to the options. Let's say interest rates go through the roof and five years from now, they're five or six or seven percent on a loan.

Well, if we go to sell, the Fannie Mae loan is assumable, so we can give some to say, hey look, you don't have to get a 6% loan, you can take over our 3.7% loan and have a really low cost of debt. Oh, and by the way, the downside of assuming a lot it means when someone's assuming a loan, that often means they have to bring more equity because that lists a typically lower loan balance, but because of going with that long loan term, you can get the supplementals which means a buyer can assume the low rate and get a supplemental to get back up to the full 75% leverage, so they get best of both worlds. They get a low or low fixed rate and then get up to 75%. So that's a favorable exit.

Okay, what if we get a few years down the road and values have somehow dropped or like in 2008, there is no refinancing market like you just can't get a debt. Worst case scenario, we can hold for another six years at a fixed 3.7%, if you look at a 12-year period in US real estate history, it's pretty difficult to find a period of time where an apartment complex has worth less 12 years down the road than it was when you bought it, right?

There may be a dip in the middle, but we structured the debt, so the worst case is, okay, we can ride through that then by having the ability to do two supplementals, if the property is extremely well in the short term, we can do a supplemental and pull out cash and return some of that to the investors and have less cash invested, and then when we do go to, let's say we do go to sell in five years, let's say by some miracle rates are lower and someone doesn't want to assume more loan, and you say, well, jeez, now you're stuck with a prepayment penalty. Yes, that's true, we would have a prepayment penalty, however, if interest rates are that much lower, that probably also means cap rates are that much lower in the extra valuation of the property that we weren't planning on, should more than compensate for the fact that we are now, paying your prepayment penalty.

I know there's a lot of technical debt terms that we talked about there, but the point of that is structuring flexible exits, it's not just, okay, this is what we're hoping for, this is what we're planning, we're gonna get debt to match that, you do have to consider that. We also have to consider what if the debt markets or just the transactional markets aren't what we planned on, you don't wanna be trapped, you wanna make sure you stretch your debt so that you can exit favorably almost no matter what.

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WS: I love the long-term fixed-rate debt. I'll just sleep better, right? (Yeah.) But I think also there's this fear around prepayment penalties generally so I don't want that to happen or somebody can assume it or just a prepayment penalty alone, but I think one or two times recently we've sold projects where we had to pay the prepayment penalty but it was more than worth it to still pay the prepayment penalty, and so I just appreciate you highlighting that.

And so, on this project, so you say you get it under contract, December of 2020 or you closed in December.

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AC: We had it under contract, December 2020, closed March 1st of 21.

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WS: Okay, so that project, any chance that you'll sell, what's the timeline for the supplementals or what's next as far as the loan's concerned and how's that going now after you've been into it for a year?

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AC: It's actually, it's going far better than we planned, so we probably, actually, we'll be doing that supplementals and holding for the full six years. Yeah, it's already exceeded its six-year target, and we expect the growth in that market to continue, so it's definitely gonna be a good long-term hold.

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WS: Congratulations, that's incredible. So you're gonna be doing the supplemental, explain that a little bit, what tells you it's time to do that, how do you know when you should do that?

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AC: That's really a good question. And I can't even think of ever hearing anyone discuss that, how do you decide how and when to do a supplemental. So part of it, I would say is how much longer you're gonna hold the property, if you're gonna sell in a year, it doesn't really make sense to go through the trouble and expense of doing a supplemental, however, if you own the asset yourself or if you have investors, so if you or your investors can put that cash to use somewhere else more efficiently over, let's say the next three years, then yes, it might make sense to go ahead and get that supplemental, pull the cash out, and if that means you can do another acquisition, then yeah, that probably makes sense to do that.

Another factor you consider is the cost, it's kind of similar but cost of capital, so if you're gonna do a supplemental and you're gonna pay 4% interest on that, well, if you're gonna use that money to maybe pay off equity or something else that cost you 7% or 12%, well, that, of course, makes sense to do that. And then also just looking at your total leverage, so when we do supplementals or re-finances, we typically only go up to about 65 maybe 70% LTV. What you wanna be aware of is, okay, if I do a supplemental up to 75%, Fannie Mae might let you take that to a one-in-a quarter debt coverage ratio, so let's just say your debt is $10,000 a month, they'll say, well, your net operating income has to be 12,500. In reality, that means you only got $2,500 a month margin, that's not that deep of a margin in the own-an-apartment complex.

So, it's also your comfort level of, well, okay, yeah, I can get the supplemental, yeah, I can pull out the money, but it's gonna increase my debt burden and talking about sleeping at night, but I'd rather just stay low leverage and making great returns as it is, maybe you just wanna stay a little leverage and sleep better at night if that's something else to factor in is like, how, If you get a supplemental, how much is that gonna cut into your cash cushion, so if the market does shift against us down the road, or how well you're gonna be able to weather that with the additional debt, so those are some of the timing, what else can you do with the cash, and how does that affect your ability to weather an adverse market.

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WS: Appreciate the explanation there. That’s just some great insight. What would have had to have changed on this property to say, bridge, that would have been the best?

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AC: That's a great question, and I can actually give another example to illustrate that. This is a deal we closed about two and a half months ago, where it was late 80s construction, fully occupied, however, a few years prior, they had a fire that burned down the entire building, and when we went in the contract, they were wrapping up construction of the new building, so we were, in the way it worked out, we got those 20 brand new 2022 construction units for the same price we were paying for the late 80s, so that was a great bump right there. However, Fannie Mae and Freddie Mac looked at that as 10% vacancy, right? Because yes, the existing units are full, but you've also got these other 20 that aren't delivered yet, and so that's vacancy.

So, you're below the 90, the agency typically requires 90% occupancy for 90 days. You might be able to get away if you were to go to 85, but basically, it's 90 for 90, so we had to go bridge. That was a factor where if we didn't have the 20 new units, we probably would have done some kind of agency financing, like we did in the one I just described, but this one, we didn't have that as an option, so that's one where we did go bridge, but we got the longest term bridge loan we could get, and we also lower the leverage, so we could have got 80%, we went ahead and got 75% just to get, have that little bit of extra cash, full of cushion and equity cushion, and also knowing that in a market that has extremely high demand, we know that we can lease those 20 units almost immediately when they come on, brand new construction units.

And so, we looked at, I say, okay, there's extremely low execution risk on that piece of the value add, their units are here, they're gonna be, have their COs in a few weeks, we'll lease them up in no time, and then once we have some history on the P and L with that, then we can go and refinance into whatever other kind of debt. So, in that case, to us, we felt like the bridge debt was a relatively low risk because again, we didn't maximize the leverage, the path to getting to the higher valuation and refinancing was very clear, and when we do refinance it, that it's a very good fit for all the other types of debt. So that's an example of where bridge definitely makes sense. And again, there's bridge loans out there with very attractive terms, but they're only one or two years, well, what if the market shifts and you can't get out in one or two years, or what if your contractors bailed on you and the price is one of everything went up and you're only halfway through their renovation in one year, right? Bridge debt does have a use and purpose, but it's definitely to be used a little more carefully, and I would, anyone who goes bridge debt, I would definitely recommend going with the three-year plus the two-year extension, so hopefully at least you have five years.

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WS: On that note, a few questions about that. You mentioned earlier, when we were talking about Bridge debt, you have to qualify, or was that the bridge debt? So, you have to qualify. Can you elaborate on how do you qualify, what's a certain example maybe of not qualifying?

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AC: And this is something that when you apply for the loan, it's in the loan docs, they specify, okay, if you get to the end of year three and you wanna extend the loan first of all, you get to pay a fee, it might be 25 grand, it might be a half a percent of the loan balance might be 1%, something like that, and then what they'll do is, it's almost like re-qualifying for a loan again, right. They're gonna wanna make sure that you have a certain debt covered ratio, they're gonna look at your occupancy, they're gonna look at your expenses, and they're literally gonna re-qualify you for the loan, and then if they think that you re-qualify then they'll say, all right, pay us the fee we'll give you another 12 months.

So, it's not an automatic thing. And so that is one of the dangers is if you get three years down the road and it's 2008 again, and the bridge lenders don't wanna lend, well, so in 2020, bridge lenders just appeared, they were gone, you could not get a bridge loan at the beginning of covid, they just, the only one's lending were the agencies, that was it, right? So, if your loan comes due and you're unlucky enough that it's one of those periods where the bridge lenders disappear and they do, you're not getting that extension.

So, it actually comes back to getting the bridge loan, some of those terms are negotiable. So, they had some stuff in there that we were at like, this is ridiculous, I'll give you an example, we pay our property management company 3%, we use third party at all of our properties. Well, they had in there that, well, we're gonna use the higher of the actual or 4%. I'm like, no, we pay them 3%, right? And it sounds like a minor thing, but a couple of hundred units, an extra 1% management fee that can make the difference between you qualifying for your loan or not, or even on a 10-unit.

So, we went through and negotiated some of that out and actually got them to agree to it to make it easier to qualify for the extension if we need it, we don't plan on needing the extension, but again, the first question you should always be asking is what's the downside? What are the risks? How do I mitigate them? Then if you can either sufficiently mitigate those risks or they're acceptable, then you say, okay, cool, what's the upside, right. But the first thing is what's the downside and one of the potential downsides is a lender saying, no, we're not gonna qualify you for that extension. You loan is due in 60 days, so that's important stuff to look at.

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WS: Talk about some sleepless nights at that moment. So why wouldn't the seller have leased up those units before selling this project?

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AC: That's a really good question, you, it's funny when I go look at every deal we've done, it sounds like a one in a million deal, but that's what you're looking for, you're looking for the needle in a haystack. Every single time, every deal they'll say, oh man, that's so lucky. Or how did you find that? Well, you look at a couple of hundred. So that the one that works it sounds like you got totally lucky, but it's 'cause you sorted through a million of them, to begin with.

So, the reason is this, the seller of this property, it was a large fund with roughly 15,000 units, this property was a one-off for them, it was the only property in that market, everything else they had was miles away from it. And a broker that we had a really good relationship with, he had a really good relationship with this owner, and I was like, we've got a guy who would love this property, would you intend to entertain an offer? And they're like, yeah if you can hit this number, we'll go ahead and sell it. And one of the guys like us, you and I, we're trying to maximize every dollar out of every property we can, right? Well, one of the things we've noticed is when you're dealing with funds that have 15, 20, 25,000 units, it's a line item on a spreadsheet. If they can just hit their number and exit and recycle that money, that's what they wanna do.

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AC: And so, the number they gave us, we were like, really? That's, okay, that actually works. I couldn't believe it, right? So basically, it hit the return number and they said, all right, well, if you'll still buy it with these units on a lease, this number works for us and we'll just do it so no one else saw. No one else gets the buzz on it, no one else got the offer on it, it hit their number, it works for us, and that's why they're (inaudible).

So, it’s all based on relationship and then just eliminating a headache for them, because they got this one property that's hours from everything else and oh, it had a fire and oh, it's got construction it’s like, we can take that off their hands.

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WS: How did you build the relationship? What did that look like?

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AC: So, the broker is just someone that I've been talking to for years, he saw us buy something, I don't remember what it was. 'Cause the brokers watch, they're all watching who buys what, and if you buy something in the sub-market that they operate in, they'll often call you and okay, I saw you bought this, 'cause they know you're closer, you just bought something, they know what you like to buy, and they'll be like, hey, well, I got something else like this, so that's how he actually reached out to us.

We've been talking with him for a couple of years, so he knew that property would be great for us, and again, another reason I think we actually won the deal is because what he did, a lot of times it doesn't happen, is he connected us directly with the sales, like, hey, here's the guy’s cell phone number, talk to them, right, so I got to talk to the actual guy making the decisions to sell and build that relationship.

And so now you've got a good relationship with the broker, with the seller, with us, and that's the ideal, ideal situation. Our last three deals that we bought, all three of them, no, four, the last four that we bought were situations where a broker brought it to us and said, here you can talk to the seller, and our team worked directly with the seller form that relationship and the sellers were like, okay, I like you guys, I trust you guys let's do this, and we were able to get the deal done.

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WS: That's incredible. It goes back to relationships. It's just crucial. I just wanted you to hit that. I assumed you were gonna say something about relationships, and people ask us all the time, "How are you finding deals? Where are you going direct to seller?" I'm like, almost all of them are coming from broker relationships.

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AC: Again, for someone who's like, well, I'm looking for 10 units. If you're looking for 10 units, it's both. I go direct to seller and talk to the brokers because the brokers and the agent, they spend their lives building those relationships, so Whitney, if you're looking for 20, and I know you're not anymore, but if you're looking for 20 units in Indianapolis and you've been building a relationship with a broker for six months, nine months, two years, and that broker knows that you're looking for 20 units built between 1990 and 2010, and he has lunch with a guy who's like, you know, I think I might sell my property, Whitney's been looking for that. Right? He's gonna call you first. You get that deal before anyone else sees it.

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WS: For sure. Tell us about, or maybe walk through the exit plan a little bit with that bridge debt on that project.

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AC: So, we're in the process of leasing up those units, the fire marshall took four weeks to come out and do the inspection, and everyone's just sitting there twiddling their thumbs like, dude, can we get these Cos, please? Not surprising that got delayed, so the plan is to lease those 20 units up quickly, and then all the rest of the units were doing the light renovations and then we're adding some amenities and light stuff on the exterior, the rents are, I'm getting deal merge right now, but I think the rents are about $1780 below today's market where they should be, so the plan is in 18 months' time, we'll immediately get those 20 units leased and then we're also doing light renovations in all the rest of the units bumping the rents on those, and then ideally sometime between month 18 and 24, yes, refinance out of that bridge loan. But again, it takes an extra year. That's okay because we get that initial three-year term, hopefully, it won't. But then, but if it goes the plan will be out in 18 to 24 months, put a different kind of debt on there, probably agency there is agency debt without pre-pay, if you go a floating rate that as it steps down, you can often pre-pay it within year two or three without a maintenance penalty, but we'll evaluate what the market looks like there, and then the plan is to hold it for a total of five years.

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WS: Nice. For the listeners too, what's a yield maintenance penalty?

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AC: Yeah. How they calculate it, it's literally like calculus. It's crazy, I got them to send me this, I'm like, no one can tell you, well, how much is it gonna be? No one can answer that question, but it's like, well, it depends on this. And I finally got a sheet one time on how to calculate, it was literally like if you remember from high school calculus or college like that, (I don't even wanna think about it) yeah all those crazy Greek letters and these formulas like, oh my gosh, no wonder no one knows how to answer this question, right, so yeah, so yield maintenance can come, I'm sorry, what was the question?

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WS: Yield maintenance penalty, just like what is that?

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AC: What it is, is essentially the agencies, like, Whitney, if I loan you 100 grand and you say, hey Andrew, I'll pay you 7%, and you stay in the 7%, and then you do whatever, and then you pay me back, I'm like, okay, cool, right. It's my money. Well, what the agencies are doing is they're selling that debt on the secondary markets and it's getting packaged up in securities and all that, and so when that happens, they have to essentially guarantee a certain yield to the investors that are buying that debt on the secondary market, so that means if you pay off your loan early, it screws up those securities that they made, and so how they fix that is they say, okay, you can pay your loan off early, but all this yield that we're not gonna get because you paid off early, you have to give us that so that we can give it to our investors.

And what they do is they say, well, okay, you're paying this loan off early, and they say, well, okay, we can re-loan, if rates are lower, they're gonna come back and say, well, yeah, we're gonna re-loan this money, but we're gonna get less of a rate on it, so you have to make up the difference because you're the one paying enough early, so give us half a million dollars, and we'll go ahead and call it good, right? If rates are higher, let's say they loan you the money at 3% now, they can loan it back up to somebody else at 4%, they're gonna say, okay, cool, we can loan this at a higher rate, but you're still paying in us off early, so you're not gonna owe us as much of a penalty, but you're still gonna owe us some. That's basically the idea is when you get that loan, they're counting on making a certain yield from you because you borrowed that money, and so if you pay off early, they want you to maintain that yield for them, even though you paid off that loan.

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WS: No, I appreciate that 'cause some of those terms we hear often, and I would just want the listeners to understand as well what that means, and they can get through with their graphing calculators out, TI85. I still have mine, I have to get there at the TI85 outlet. Check it all out. I haven't heard anyone bringing one of those in a long time.

So, I wanna shift gears just a little bit, 'cause I know there's many questions that you and I both get around the current market and the economy and picking markets, things like that, so I want us to have a few minutes to discuss that, so tell us right now about are you buying? Are you, so obviously, we know you're doing some buying, but what's your philosophy right now for just the state of the economy and buying, selling, picking markets? Let's go through some of that.

0:29:54.6

AC: Yeah, we are net buyers, although with that said, we have taken some chips off the table in 2021 as far as picking markets, I'd say it largely depends on your goals as an investor, if you're gonna invest in your backyard, and then now you're talking about picking sub-markets or suburb or something like that.

However, I would encourage everyone don't be limited by geography and just oh it needs to be close. So, that's definitely not true. My philosophy is to live where you love to live and invest where the returns are the best. So, there's terms of picking markets with multifamily of any size, you wanna start with fundamentals: population growth and job growth. And if you're like, well, okay, that sounds great. But how do I... Where do I start? The Harvard Center for Joint Housing

Studies produces a fantastic map of the entire United States, where you can go on there and by County, it's color-coded in blue, they show you every county in the US in the population growth.

So, if you have nowhere no idea of where to start, go to that map and start in the areas that are dark blue. Because the number one driver of multifamily rent growth and high occupancy is population growth, 'cause even if someone's gonna buy a house, I forget the number, but something like 80% or 90% of people when they move to a new market, they will rent first, right.

So, if you're in an area with strong population growth, the huge rising tide or tail end or however you wanna face this. That's number one. (Tell us where to find that report again.) If you Google it you'll find it but it's Harvard Joint Center for Housing Studies I believe, and it's a map that they maintain and you can zoom in, zoom out, you can pick counties. It's fantastic. (We'll try to link that in the show notes, but go ahead, number two.) Number two is median income, and I recommend don't use a radius, you actually drill down to the sub-market and zip code or even block level, and we like areas where the median income is generally 40,000 and above, but the key is, is you wanna make sure whatever rent you are charging is going to be affordable to the majority of people in that area. Right? So, what is affordable mean? Generally speaking, someone can spend 25% or less of their income on rent, so if your rent's gonna be $1,000 a month, $12,000 a year, you want the median income to be 48,000 because 12,000 is 25% of that right?

Now, is it a hard cut-off? Absolutely not, right? If it was 45 or 40 even, and it's a great otherwise great deal, yeah, you'd still wanna consider doing that. But those two things are gonna give you the greatest chance of success in making sure that the vast majority of the market can afford to rent at your property and still cover a flat tire and not get late on rent, and that tons of people are moving in and there's a whole long list of other things we screen for beyond that, but those are the two primary factors that you wanna look for in terms of picking a market. And if you do that, you're setting yourself up where the odds are much more in your favor of having success. And yes, those markets probably are gonna be a little more expensive, but that was actually my first deal, one of the reasons I bought it 10 years ago is 'cause it was cheap and I could afford it. And that's actually a mistake. When I look at the 2,600 units, we've done, like when I look at it right now, the most successful deal in terms of equity multiple profits, all that is actually the one we paid the highest price for.

So, buy the right asset in the right market, and that sets you up. Now, as far as well, ok, jeez, prices are super high, are you worried about things coming down. There are headwinds, we're definitely watching interest rates, how high those get. But unless you're short-term hard at, it's really tough to think of a better asset to be in the multifamily. But we have a chronic housing shortage in the US that is not changing. We have wage inflation, which means people can’t pay for higher rents. We have commodity inflation like through the roof. What is an A plex? Well, it's a package of commodities, it's wood, it's copper, it's steel, it’s all these things that are going through there, so the cost of that asset is going up as the dollar devalues, it's gonna take more and more dollars to buy a piece of real estate. So, in hard assets like apartments tend to do really, really well in an inflationary environment, also, if you take a long-term view, I think we talked about this earlier, as long as you have the underwrite to enough cash flow that you can hold on to that property through any dips that inevitably will come long term, we're a big believer in housing single-family and multifamily.

0:34:31.0

WS: I wish we could continue this conversation a lot longer, unfortunately, we just have a couple of minutes left, so maybe just a 30-second answer on the next few questions, just couple of things I just really wanted to get to but it’s just been a great interview. Tell us what predictions do you have, say for the next 12 months, and you only have about 30 seconds.

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AC: Fed will, hike maybe anywhere from three to six times, we're underwriting six, just to be careful, rent growth, 2022, maybe 4-6%. I think it'll cool off years after that, which is a good thing because the current increases are not sustainable. Multifamily pricing will probably, will rise in 2022, but not nearly as much in 2021, and I think it'll flatten out for a few years after that, but again, I think is a good thing to kind of let the market breathe and catch up.

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WS: What are you doing different right now, or are you doing anything different right now as far as preparing for a potential downturn than maybe you were doing two years ago?

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AC: Yeah, a few years ago, we basically just almost always went with the fixed debt and like, okay, we're gonna sell in five years or whatever, we are being much more cognizant and proactive about setting ourselves up to have flexible exits in case we are in an adverse market when it comes time to do so.

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WS: Yeah, a great show for this to talking about debt and thinking about planning for that on the front end. Right? And so, tell us what about what's your best source for meeting new investors right now.

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AC: So, we track that, we look at that every quarter, our number one source is referrals, so existing investors referring friends or family or whatever. And then second is having conversations like this actually and people say like, oh hey, I'm gonna check that guy out or something like that. In order to get in our investor list, you have to fill out a short form and then do an interview and call and all that, but on that form, one of the questions is, how did you hear about us? And so, then that feeds into the database, and then once a quarter, our virtual assistant, tallies that all up and sends me a report.

0:36:18.0

WS: Nice. Is there a specific system you use or CRM that helps you with that?

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AC: I use Salesforce from the broker side. And then we use IMS and Kajabi and MailChimp for the investor’s side. I'm not personally involved in like how they set up those forms and all that, so that again, getting that, I finally outsourced that. I don't know how to send MailChimp forms, I'm gonna bring someone who does.

0:36:42.2

WS: I get that question often. Like what do you actually use, what system. But what about a couple of daily habits you are disciplined about that have helped you achieve this level of success?

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AC: I have pretty set routine to try to go to bed about the same time every night. Sleep is an absolute top priority, no matter what is going on. Exercise is the same thing, I almost never miss that, so those two. And then also trying to focus on, we talked a lot about relationships, but making sure personal relationships are good first because I mean, it goes back to anyone who used to work in the corporate world, who's the guy who's doing the worst job, the guy who's in the middle of a divorce because he's fully distracted, understandably, and so focusing on my marriage and the kids. If all of that stuff is good and then it's so much easier to be present and productive in business and everything else.

0:37:32.8
WS: Love that answer. I could not agree with you more. And I would even extend that to your team members, I think about even asking some questions of them sometimes are encouraging them to think that same way, it's only gonna help your business, right. If they're not distracted like you're talking about. What about how do you like to give back?

0:37:46.1
AC: Yeah, we're connected with a lot of cherries at home, I'm not good at giving of my time, that's a goal to improve. Most of our giving is financially at this point, and actually one of the ones that we added significantly this year was for people trying to do adoptions, which I know that’s some that you focused on a lot. And that was super cool. We actually help somebody out and we get an email and they're like, I feel really bad about this, but do we know you? I’m like, no, you don't. We just really like your story and have a heart for this, and we're not, me in particular, we’re not that we're best suited to help people adopt but not actually do it ourselves, that's not my skill set, but some are doers and some can be enablers and so it's like as long as that kid gets a better life one way or another, then hopefully that's making an impact.

0:38:33.5
WS: I appreciate you sharing that. That's incredible. I look forward to hearing more about that, obviously personally, but Andrew, it's just an honor to connect again in person, even here at GoBundance. Again, grateful for the opportunity to do some in-person interviews here, grateful to connect and it’s just a great show. And thinking about the debt, thinking about our exit plan and how those things are connected in a big way, are we planning long term when we're thinking about that dead on the front and what type of debt and even the terms of that contract. Like

you're talking about, hey, they are negotiable. We can go and say, this does not make sense. Right?

So just grateful for you, even your outlook in the economy and just predictions that you have for this next year and how you're giving back as well, how can listeners get in touch with you and learn more about you?

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AC: I guess you could join GoBundance so I could meet you in person, but now the easiest way is just our Vantage Point Acquisitions or vpacq.com, and there's tabs on there that connect and you'll come to my inbox, and yeah, happy to have a conversation or connect on LinkedIn. If you do connect on LinkedIn, still send me an email through the website because LinkedIn, I see me, it’s spammed like crazy, so I actually don't really read those messages, so please do connect in the real world.

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WS: Andrew, thanks again, I hope you have a blessed day.

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AC: All right, good talking to you, Whitney. Thanks.

0:39:42.6

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