EPISODE 1556

[INTRODUCTION]

Dave Codrea (DC): We have individual team members, who'll come to us and say, 'Hey, I found a deal that looks like this is what we would buy, everything else we're operating.' And we've been able to secure deals that way too. It's not just one acquisition guy going out there looking for something. It's a whole team of people out there, keeping their eyes open to see what looks like something we would operate.

Whitney Sewell (WS): This is your daily real estate syndication show. I'm your host, Whitney Sewell. We are back again today with our guest, Dave Codrea. Hope you listen to yesterday's show. We're gonna dive into many things today that I have enjoyed talking about, you know, how's he prepared for that recession? How does he know that he's prepared when he's buying these projects with from having enough cash to the type of strategies or advantages multifamily offers? Pros. Cons. You're gonna hear lots of things that they look at when buying multifamily so they know they are prepared, and why it's so beneficial at the moment for them.

[INTERVIEW]

WS: Dave, welcome back to the show. Honor to dive in further with you. I want to encourage the listeners to go back and listen to yesterday's show where Dave dove into how he got started as a senior in high school buying real estate, incredible story. And we even want to think about that as I am a father, right and raising my children, I want them to think about being an entrepreneur, they don't have to be. But hey, if I can help them, encourage them to think about real estate early on, I hope they follow Dave's footsteps and think about buying some rentals when they're young and learning this business.

So, I encourage you to go back and listen to that episode. And we're gonna dive further into the investment risks and strategies across multifamily and dive in some other aspects of Dave's business and why he didn't get into some other asset classes. Exciting. It's very interesting and a very good point, or even just a smart businessman that thing that they did. So Dave, welcome back.

DC: Yeah. Thanks, Whitney set to talk more and go to just more of the opportunities that are out there right now.

WS: Well, let's dive into the key considerations around investing in multifamily that you all are considering, thinking about right now, what does that look like?

DC: I think, you know, when we're looking at buying multifamily, or any of the deals that we've bought in that space, there's a lot of talk of just, right now, there's a shortage of supply. And you know, we're going to, it makes it sound like multifamily as a whole has so much room to grow, but it's way more focused and localized than that.

I mean, Texas and Florida are excellent markets overall for population growth, which is key to having demand. But, if you look at apartment deals as a whole, they're not equal in every state. And a lot of things we focused on buying those is we want to know, not the five mile radius, but we want to know like the one block radius of what is this? What are the potential opportunities at this asset?

An example of that would be we bought some townhome deals that are directly across the street from an elementary school. It's like they do move schools, right? But for the most part, this is a heavily populated area, that school is not going anywhere. And, it's easy to rent the townhomes simply because they are right across the street from the school kind of matches up with the age and the demographic of people that have little kids are probably in a more townhome starter home as they're growing.

So we look for rental opportunities that fit a very specific case. And where it is not just it is five mile area because of the census report looks like it has a good median income, that's not going to do it. When we're making investment decisions, we want to see exactly what's happening on what the surrounding area is.

WS: Speak to how you stay connected with those local areas like that, or have that much knowledge all obviously you all are buying and you know, lots of different states and different cities, localities now, or you know, maybe it's the deal that's presented to you, then you dive into that space. How does your team find those things that you're talking about?

DC: A lot of it is being out there and driving these areas so you know exactly what things are. And then our relationships and brokerage relationships that we have and team members, they'll look at a deal just like that, like kind of this mid-size, residential, it could be any kind of residential, apartments versus townhomes or something even more creative, but it'd be like, Wow, this looks like a Greenleaf deal. It's right next to some of these core, like more retail core

shopping, schools. And it's smaller, it's kind of tucked away here. It's not the most prominent thing on the street. Like, that looks like a deal we would do.

So kind of everyone across the board in our company knows what that looks like. And with a footprint of people out there operating, we have individual team members, they'll come to us and say, "Hey, I found a deal that looks like this is what we would buy, everything else we're operating." And we've been able to secure deals that way too. It's not just one acquisition guy going out there looking for something. It's a whole team of people that are out there, keeping their eyes open to see what looks like something we would operate.

WS: Yeah, it does take a team of people, to say the least, right? What about just historical data that you all consider our look at, you know, just to share the hate multifamily as the top asset class?

DC: We've always just looked at population growth. If people are going to need a place to live, that sounds like a very basic way of of looking at it. But we're trying to be in areas where there's high population growth. And then that way we don't have to be necessarily the leader or the absolute best at something.

If you have flat population growth, someone's going to come in and build something new and now you've got to compete with whatever's next and best. But if you have a growing population area and you have an affordable product, there's going to be demand. Now, that demand and prices of that's going to go up and down, you've got to be prepared. It's not always just it just doesn't always just go up forever. But you're at least in an area with population growth. So you know, you've kind of had an influx of people all the time.

WS: Speak to, you know, even pros and cons of multifamily that may be whether we're active or passive that we should be considering that you all keep in mind.

DC: I think one thing right now that when you have to think about when with inflation kind of where it is, and I know they're going to try and bring it back under control, and they've already pushed rates a good amount to do that. But when you look at multifamily, for the most part, you have rental rates that renew every year.

Now, there's been a lot of news like, "Hey, rental rates are up 10 or 15, or 20%." Because rates renew every year, commercial assets that could be five years before you have renewal. But hotels on the other side, they get to reset their rates every day. So I don't think there has been a lot of news about hotel rates have doubled.

Well, they can raise the rates every single day. And it's seen as a, it's not like a stable home that you're there, you if you want to go to hotel or don't want to go to the hotel, they're raising their rates. So I think multifamily, you're kind of in that middle ground of you've got 8, 9% of your leases that are probably turning every month and you can stay up to date with where the trends are with inflation or what rates needs to be in your market. You don't have to do it all at once like hotels, and you don't have to wait five years in a commercial space. So I think you're in a good middle ground with multifamily purely on that inflation in that rate increase hedge.

WS: No doubt about it. I've thought about that a little bit as we think about our units and what the rents are. And we can fluctuate rents daily, as far as new leases, as far as what rents are, but you are locked in for a year. But it's not like being locked in for five or 10 years, like some retail stores. And so what about even moving into 2023, and just advantages you see of being a multifamily investor, as we head into '23? And maybe what you expect '23 to be?

DC: I think the beginning of the year is going to be a little bit slow on finding opportunities. It's kind of things stable out with higher debt. But one of the core things we've always done as a company is we don't do floating rate debt. And we don't really do interest only.

So we're normally doing loans that are out of the gates are already more expensive, because we're paying principal. So we've been comfortable for a long time with a higher cost of debt. And that's, you know, continuing right now. So I think that's gonna scare some people away and be like, Well, my debt cost is now double. It's like, well, when I look at a lot of our loans, where we have a 20 year amortization, and we're already paying principal, it's like our debt costs are already pretty high. So we're able to put that into deals and be comfortable with it.

So I think that'll help us for opportunities that come up in 2023. So as long as you're in the game, there are always opportunities out there. It's just finding them. It's gotten more and more challenging, really over the past three, four years to find deals that pencil in multifamily. So saying it's going to be harder, it's like, okay, well, it's been pretty hard compared to 2011, when they were trying to give away apartment buildings.

So it's kind of steadily gotten harder and harder over the years to find finding good deals, that's probably going to continue in 2023. And, and there'll be some challenges, but as long as you're in it, you're operating, you'll be able to find what those you know what those opportunities are.

WS: Yeah, I loved what you said. And that as long as you're in the game, there's always deals out there. And I just think, too, you have to be in the game to even know when a deal is a deal.

Right? So you know, a lot of people will get out and say, "Nope, I'm not buying anything for a long time." Well, that's fine. But you're not going to know what the deal is a deal. At least I feel like you're just continually in there like you're talking about. Are you all going to be continually buying or maybe selling or just holding? Or what how do you see that over the next year as we anticipate a recession?

DC: I mean, most of our residential stuff is hold. Now, we have a good operating team. So we're pretty, pretty content with holding and realizing our distributions. If you think about recession, or you think about those challenges, it's important to have reserves, and not just a little bit of like, "Oh, I've got a couple extra $1,000 in the bank."

It's like multifamily. You look at the cost of turnovers, taxes, insurance, like you better have some pretty substantial reserves. When we look at ours we've got typically we have a year of taxes, insurance, and then operating costs as well. So you have a pretty good reserve balance that you kind of have to maintain through good times and bad when things are good. You're like Hamish is distribute all these reserves. It's like you need them. So holding on to those in making sure you have them in your asset will only help it perform over the time whether there's ups or downs.

WS: I love that. I love asking that question. I'm sure the listeners know that now say, Hey, how do you prepare for a downturn?" Or somebody brings up reserves like we always ask well, how do you know you got enough reserves because people he's asked me that, you know. It's like, well, how do you calculate your reserves? And I hear it just all over the place, right? And from guests and from different people in the industry, and it might be, you know, we'll have a month up front, and then we'll start taking it out of cash flow or not have three months up front, and I'm like, oh, boy, you know, I just --

DC: Do the math can get pretty like, all over the place. But, you know, in my world, too, like, we have to have a good amount of investors. So we have to have a consistent message across,. It's too hard to say, "Hey, this deal, we did this. This deal, we're doing it some other way."

So our reserves strategy across the board is the same. We look at all of our assets. And that way, it's easy to communicate to investors or really anyone else and say, like, look, this is how we do it. And it's just consistent. So you know, in our world, we do three months of all operating costs, a year of taxes, a year of insurance, and any capex coming up in the next two years. So you take all those and add it together. That's our reserve plan. And we do that on

every deal that we have. So if we're below that, that means we're not going to distribute, it doesn't matter how much revenue or profit that deal made, we're not at our reserves threshold, we're not going to make a distribution. If we are above it, then we will distribute.

WS: I love that, as you said, a year of operating costs as well or was it less for operating but a year for taxes and insurance, and two years for any CapEx.

DC: two years of CapEx.

WS: Okay.

DC: So, anything that's anything that you know, is planned over the next two years, if you're phasing out your HVAC units, if you've got parking lot repairs that have to be done curbing any that any of that kind of stuff, I feel like you need to be sitting on on that position and be able to pull the trigger when something goes really wrong in one of those situations, and you have an inconvenience for tenants, that's when you run the risk of losing those tenants. If you're not able to fix an HVAC, or you're not able to make a gate repair time, either we like what's going on with this company, they can't afford to fix the gate, they're gonna leave.

WS: You know, I love your philosophy around reserves. And I've talked about it so many times on the show, and the listeners are probably tired of hearing me talk about it, but I just, man, no cash, you crash, right? You gotta have some of these herbs. And I feel like you're probably as conservative or have a larger reserves and about anybody that I've talked to. And so I love that. But how do you speak to someone that says, "Well, Dave, you know, we can get by with six months, and we can do more deals that way." Or, "We could do this deal over here. But you know, we can't get to that year, we can only get to six months is enough, right?" You know, because I get combated about that all the time. So I've just wondered, like how you voice that back to maybe even employees or investors or anybody that says, "Hey, we could do more deals, if you just ease up on that reserve a little bit."?

DC: For me, it's a little bit of, you know, you're speaking out of both sides. When I look at that, like, I want to go do all the deals that we can possibly do. By those standpoint, if we lose a bunch of deals, because we've made bad decisions going forward, I don't get to do any deals ever again. So I think you got to look at it long term. And yeah, we're gonna, just from how we look at deals we would buy, just because of our reserves, how I do debt, I mean, I want to have principle pain debt, it already precludes me from doing a bunch of deals that I will have to pass on, just because of the self restraint that we build into our business. And it's worked, we've

been in business now for 14 years, I'd love to see another 14 years. So I think that, that a little bit of self control, it goes a long way to having a long term business versus firing away on all cylinders, and kind of crash and burn stuff style.

WS: No doubt about it. Love that. And I'll share just a brief story, because I've shared it a few times on the show, but a deal we closed in March of 2020. And this deal, we had a it was a large CapEx, you know, art renovation to over 200 units. And we had a million and a half dollars in a reserve budget outside of CapEx outside, you know, just the thing. I mean, this was just like a reserve budget. And we were scrutinized a little bit. There were other operators that were investing with us as well. And that deal that I know very well and they rock, "Whitney, she think you could you know increase investors returns a little bit if you had a little less and reserves. That's just kind of too much." And, and I say, "Nope, we're all gonna sleep a lot better."

I just want to have that much in there. And so went through that. And then there was the next week that they shut the country down for the Covid stuff, and everybody's happy. But we were all sleeping, okay. Right? Like, we can weather a massive storm here because, you know, nobody knew what to expect at that time.

But anyway, so we were so grateful that we just stuck to our guns and said, "No, this is what's best. And we're gonna hold our ground here." So I love your philosophy on the reserves. Dave, anything else on that before we move on?

DC: Yeah, I mean, I think if you have a capital in a deal, you have the ability to make decisions. If you don't have the capital in the deal, you might be forced into bad decisions because you don't have any other options, right? And you kind of got your low on reserves. Now you got to make this bad decision. Now you're deferring this. And that's how you end up with distressed assets. So I don't no one wants to see that. See that happen? Oh, really, you don't want to be an investment opportunity that does happen to it. But you can avoid a lot of that. provide yourself with, with options, as long as you have the cash available.

WS: That's right. So well said. You also mentioned there actually, we talked about a little bit in the last segment about digging into different asset classes. And I was noticing on your website, you know, you'll have quite a bit of multifamily. But then you also have a few restaurants, or maybe a few dollar generals, different things like that. Speak to getting into those asset classes. Why you would do that? Is that still part of the focus or the plan? How do you get that fit into your plan?

DC: And we fit it in patiently, right. So a lot of times if I'm driving around, and you see like, "Hey, this looks neat. This looks good. This looks neat." And it seems like wait a minute here, like I thought we'd stay in focused. But on the other side of that a lot of the fields we bought outside of multifamily started because they were right down the street from a multifamily deal we had.

So it was it was kind of a natural progression of, you know, one multifamily deal we had on on a street here in Atlanta, a restaurant, when we don't operate the restaurant or we don't, we don't own the restaurant business. But the piece of real estate came up and it was right down the street from an apartment deal that we owned, and we're on this road all the time. So we know the area, we know that it's a good property. And it was vacant at the time. So we purchased that what is now a restaurant, because it was right next to we've already there the whole time. So a little bit riskier.

It's not, you know, it wasn't something that we were necessarily had a distinct skill set in, we didn't know the area very well, we knew we were getting a great deal. And we were able to lease that. And now there's an operator and the operator in there. They operate the restaurant, they're doing very well. That's kind of the commercial asset that we're able to get right down the street from one of our apartment buildings. So we have a lot of now commercial assets that are really just there down the street from apartments that we had, and it looked pretty similar. So there was something that we could operate. And we knew about them, just because we were in that specific area. It wasn't 200 miles away in a different city.

WS: So you all are managing, anything that's outside of multifamily, you all are managing as well. Correct?

DC: Yeah. So we have two teams, now we have a commercial team, and residential team. And they work together. We have the same kind of support team around that for accounting and insurance and CapEx work. But mainly because we are buying one in two storey brick buildings, they're all pretty similar. They're in the same locations. So we can operate those collectively with the team that we have.

WS: Yeah, that's awesome. Well, I just wanted to highlight that to listeners. I know we've talked about me and saying so focus, but I love that you all said you know what this is we're already in this area, we know this area will, here's an opportunity, you all went after these opportunities

that were close by other assets that you already had. Well, Dave, is there anything else? You know, around our discussion today, you want to mention before we close out the segment?

DC: No, I think when you're looking at just other opportunities that are out there, I think you just got to stay focused on the area that you're in. To me, it's like as long as you can operate and see how something is working, you can get more comfortable with that, with that investment decision, whether you're the general partner in it, or if you're one of the limited partners coming in. And we frequently have limited partners that are local. And they're, you know, this is their passive investment. It's not passive for me and my company, we're very much active in it. But they want to be able to come and see their investment dollars at work they want to be come and see how things are happening.

So I've encouraged people to invite your visitors out to the deal, show them what you're doing. We think about our strategy with our businesses really like a triangle of relationships. So we have our investors. On one side, we have our tenants and residents, and then we have our team. And the more things we can do that really bring those three pieces together on a piece of real estate, the more comfortable everyone can be with it.

And really just more transparent. It is. I think that's what probably everyone wants in life is transparency, whether you're a resident, you know, whether you're a tenant, whether you're an investor, you want to know how things are being done, how are those decisions being made, and as transparent as you can be with with anyone, I think that will just make that relationship better, and ultimately make your investment perform better as well.

WS: Communication is key, right? Yeah, almost in any relationship. It's so important. And that transparency, man, about what's happening. Yeah, it doesn't matter if it's tenants or investors, like you said.

Dave, so grateful for your transparency today and just sharing even how you all are branched out outside of multifamily and why but then also your thought process behind reserves. And you know, I love that and just how you laid that out. And I think that's helpful for the listeners who are active investors or passive to hear as well as they're looking at deals. To invest in passively or as they're looking at buying deals, right, you know, how, how much reserves What should I be thinking through? Should I stand my ground on that? And then just even some of the advantages, disadvantages pros cons about multifamily as we think about that, coming into the recession, you know, into a recession in this over this next year.

So grateful again, for your time today. I want to encourage the listeners to stick around, he's going to be back tomorrow. We're going to dive back in. Dave, thank you so much, listeners, how they can get in touch with you?

DC: gogreenleafmanagement.com is our website. And you can find me and our whole team on there or you can find me on LinkedIn, just Dave Codrea.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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