EPISODE 1557

[INTRODUCTION]

Dave Codrea (DC): Our whole strategy was to buy value-add deals and be able to refinance them at some point between now and 2026, to provide some cash out mechanism — will refinance or through just earning money on the deal, so that investors can use that to pay their tax liability that is coming out.

Whitney Sewell (WS): This is your daily real estate syndication show. I'm your host, Whitney Sewell. We are back again today with Dave Codrea and we're diving into opportunity zones. What are opportunity zones? Is that something I should be considering? Are you? Does it present an opportunity in the near future for buyers like us and maybe like yourself, as a passive investor? What should you be thinking about if you are investing with an operator that's looking at opportunity zones? There are some things in here that you need to be aware of over the next few years, as you are making those decisions now.

Thank you again for being with us. Another day. We are back with Dave today, I hope you will go back and listen to the last two days of shows. And, he has just been provided so much content about how you got started, even as a senior in high school, to even more recently, that's the classes that he's got into that were maybe weren't the original focus and why and advantages multifamily heading into 2023 and reserve budgets and how he looks at those. I know you've learned a lot. And I hope that you're going to stick around today.

[INTERVIEW]

WS: I'm grateful to have Dave back. Welcome, Dave.

DC: All right. Thanks, Whitney excited to keep the conversation going here.

WS: Yeah, you know, Dave, you are doing a lot in opportunity zones. And, it's something that I have not heard as much on the show about lately. I know, a year or so ago or maybe a little longer, it seems like we were talking about them a lot. But it's interesting to dive back in. And so, why don't you give us highlight though, what is opportunities on what qualified opportunities? And what is that for the listeners that have never heard this before? Maybe why they should know what this is?

DC: Yeah, I mean, opportunity zones came out, like 2019. And there was a lot of information and then the pandemic hit, and it's kind of slow down the conversation about are these good

opportunities, you know, what is the opportunity zone? Should we be there? A lot of that kind of like, I think it fizzled out a little bit. But we touched base to about just being in the game and being in real estate. And that's where you kind of identify opportunities.

We found out about these in 2019. We were repurchasing some big value-add multifamily deals, and the opportunity zone legislation came out. It was like, "Hey, if you just buy these with purely capital gains, from anything that could be stock sales, other real estate sales, any capital gains you have, you could defer all those capital gains and invest them into an asset that's in this opportunity zone." As long as you improve it. We were already going to do that. Anyways, we already had these deals teed up to do their big value-add multifamily deals. So like perfect, we'll just use capital gain dollars outside of a 1031. I think a lot of you are familiar with a 1031 exchange, you didn't have to do the 1031, you could purely sell your asset, take those capital gains, and purchase a real estate asset with it, and defer all your taxes. So there was a good referral mechanism in there. But those taxes do come due in 2026. No matter how that real estate deal performs that you purchased in 2019. Those taxes still come due in 2026.

WS: So yeah, I wanted to point out there, you know, you mentioned defer the taxes, it didn't mean you don't have to pay them, right?

DC: Correct. Yeah. They the government didn't just say, "Oh, you don't have to pay anything anymore." It's like, they just deferred them until 2026. So government looking at that it's at whatever the rate was the capital gains rate at the time, it's a little bit dependent on your personal tax bracket. But you've got a chunk between 15 and 23%, of tax liability that was deferred to 2026.

That in 2026, no matter what happens with a real estate deal, you're gonna have to make that tax payment on it. So our whole strategy was to buy value-add deals and be able to refinance them at some point between now and 2026, to provide some cash out mechanism will refinance or through just earning money on the deal so that investors can use that to pay their tax liability that is coming out.

So I don't know if that's gonna work out on all deals that we've done and opportunities that aren't though, across the board. So I think there's definitely some opportunities outside of the original thesis of buy and hold long-term where people are going to have to make tax payments coming up in 2026. And how close they want to get to 2026 before they know if they have that cash or not.

WS: Yeah, I have not heard many people talk about this, if anybody now that I'm thinking about it about that being an opportunity, right? '26 is coming up, man, like you said, they're gonna have to sell over the next couple years or do something to generate the cash to pay the taxes, right? And so, man, maybe that's an opportunity for buying, right?

DC: Right. It might not be that they might, someone might have done an opportunity zone deal, and it's performing well, but they have this tax liability, so they have to sell something else. So right now we see that with people having to place 1031 money where they said, "Hey, I had this big game, potentially the opposite coming up."

As you know, one thing when you're looking at, if you're just in the real estate space, you're trying to identify what can happen out there and where are there going to be some headwinds. That's probably one of them, that'll come up, is there gonna have to be some tax payments coming up in 25, 26 years that people should try and get ahead of and make sure they're ready for it. So even though that's probably after the current mindset of like, what are we going to do if there's a recession, like in the immediate three to six month timeframe? So but that's two things right after one another that are probably going to create buying opportunities.

WS: Yeah,for sure. Well, I wanted us to back up just a little bit, though, about just opportunity zones in general. And maybe you could elaborate on some of the risks involved in doing maybe an opportunity zone fund that we haven't talked about, but then maybe also why you would as well, maybe other potential opportunities that we haven't talked about that, you know, would encourage you to do an opportunity zone fund. So kind of risk, reward help us walk through some of that a little bit.

DC: If you think about multifamily, (it) was really set up perfectly for the opportunity zone legislation where it's saying if you purchase an asset and whatever you bought it for, you had to double your investment in that to qualify for the tax deferral. That lends itself very well to multifamily assets where you're buying an older vintage, and you're going in and doing unit upgrades and you're doing some exterior work. It's relatively easy to double your basis in multifamily asset, just with the renovations that can be done. A lot of that is a good opportunity. But I mean, there's risk with any renovation project that you can do. So sometimes, if you're looking at, "Hey, I'm going to make this investment," you want to make sure you're doing it because it's a good actual investment, not just because it's going to defer some taxes. There's no point in taking on outsize risks to defer taxes, and something that's not going to work.

So opportunity zones, I mean, they're all over the US, every city, for the most part has somewhere. And it's a good thing to look at even now, when you're buying any deal. If you're going to do capital improvements, like is it in one of these opportunity zones, it's a pretty easy way to ensure that you can defer some taxes that are going into it through 2026. But overall, sometimes, there's a deal that to pitch like, "Hey, this is an opportunity zone deal and therefore that just makes it good." That's not the case, you still got to underwrite and make sure the deal is in your skill set, in your wheelhouse about how to execute on. Or if you're the passive side, you're an LP investor, make sure that you're underwriting a deal. And looking at it that it makes sense from a deal standpoint, not just from a tax standpoint.

WS: Any changes since 2019, that we haven't talked about that maybe the listeners should be aware of?

DC: Since 2019, they first rolled out the maps, they redid some of the maps a little bit where they added areas and contracted areas. So if you would zoom in to very specific city wide information, like sometimes this block was in, this block got moved out of it. It's almost like redistricting, you know, like some areas moved a little bit on the maps, which is important to look at. So there might have been some that were created or new in the 2020, 2021 that you can go take advantage of right now as well. We've done that in Atlanta, where we looked at areas that kind of got added when they did the revision of the maps, and we were able to buy deals based on that. It was helpful.

WS: What about your vision for 2026? And your projects, your fund? What does that look like? How are you preparing for 2026?

DC: The tax standpoint where we did our deals, we did six deals that were in this format, speaking with our investors, knowing that, "Hey, by '25, we have to make potentially at least a 20% distribution of capital." And we plan to do that through refinancing between sometime now and then.

And, I mentioned on some of our other stuff, too, like we're doing mostly lower leverage debt, and we are doing principal payments on all of our debt as well. So with the math works on our standpoint, when we're just holding that asset through 2026, that we'll be able to pay down off principal that we could then pull that money back out to refinance and distribute that to our LPs so that they can make those tax payments.

So we've mapped out the investment strategy of that deal to coincide with the tax planning of it. So really have a deal where we have a three, four year cash flow plan, and then we plan to hold them past that. So you're looking at a deal cycle that's for the most part 10 years. And for a lot of times, that's hard to kind of wrap your head around and say, "We're gonna make a 10-year commitment to this one piece of real estate for this fund." But we made sure going into that all of our investors were aligned with that decision process. So with that alignment, and that transparency, we've been able to have a pretty good cash flow plan to manage that over the next 10 years.

WS: Any fear from say the team or investors that hey, recessions coming debt so expensive, are we going to be able to refi like we plan so they can get their capital pay their taxes. How do you think through that?

DC: Yeah, certainly. You know, we had one of our opportunity zone deals that we, we had a loan that was set to expire in 2023. And we started on this in early 2022. And that's kind of rates were startin. Starting to hear like, "Hey, this is going to start going up."And then it took us almost seven months to fully get that refinance done, because we were in the middle of doing the renovation work. So you can't get a great stabilized loan on a renovation project, you've got to actually finish and rent everything out.

So we're able to do that kind of came down to the wire. And ultimately, and we were not able, we only have 50% leverage on that deal. We're not able to get any cash out now. But, by not having too much leverage, we were able to ensure we did have debt. And then by the time 2025 comes around, we'll have paid off enough that we can distribute greater than 20% of the equity so they can make their tax payments. So it only was able to work if we had too much leverage that that would not have worked as smoothly as it did going back to investors and saying, "Hey, we can only refinances the 50%." We had 70%, 80% construction debt going into that we would have been in a pickle, say the least. I think so definitely some fear around that.

WS: I think it goes back to our last conversation too, and just being prepared for recession and proper reserves. And, you know, you had mentioned, 50% leverage across this fund. And I just think that's a, that's a great place to be in. And and unfortunately, it's not a common, it's not the common place to be in with having 50% leverage and that kind of reserve budget. And so, I

think that's just set you all up for a lot of success and being diligent and conservative and sticking to your guns about that.

Well, Dave, I want to jump to a few final questions before we have to end this segment as well. And it's just been great to learn about opportunity zones and dive in there as well, because like I said, we've not talked about it much over the last little bit. And so it's great for the listeners and active and passive investors to be aware of that, and maybe potential opportunities, like you're talking about coming up. And and so I want to ask you, what's been your best source for meeting new investors at the moment for Greenleaf?

DC: You know, starting a while ago, now, it's been quite a few years, our best source of meeting new investors is really the old style of going out and meeting people. It's not as scalable as like an internet marketing campaign, that's for sure, right? But, it does enable us to have great relationships with those people. So we're doing, you know, meetings in different cities throughout the year, where we go meet with our, our current investors and prospective investors.

And typically, when we're doing something, if we're able to provide transparency and value to our investors beyond the simple, you know, you sent me a check, and I'll send you a check back. Right beyond that size of the transaction, we're able to get a lot of referrals from within our network. So the majority of our growth is fueled by referrals, not from advertising, or not from any other source, really. But that's been tired of spending with people and building those relationships, where you're able to provide them value simply beyond that check that you're sending back each quarter.

WS: What's a big challenge you're facing right now in the business?

DC: It's more, you're hearing a lot more headwinds that are going to happen. The past, you know, six, seven years, there's been a lot of tail winds in the real estate industry where any kind of decision could get covered up. Because everything was doing so well. And now when we face some headwinds, whether it's from population movement, interest rates, what's gonna happen with cap rate expansion.

You got a lot of different headwinds that have to be navigated and trying to be transparent about that with your investors, and even with your team and yourself around like, "Look, these are some of thethings that we're going to face, we got to get to make good decisions going

through this." I think rate increases, any loan that's coming due in 2023 is going to be a challenge. You're going to be looking at paying significantly more in debt service going ahead. I think also, we've started to see some of the banks are certainly pulling back on their, their the leverage that they're willing to give out. So there's a good article from the runs Fundrise. But talking about how banks are essentially, they have their capital requirements that they have to maintain, with rates going up, you're seeing capital at banks, like our deposits at banks, who are taking those and putting them in treasuries or people are taking those and putting them in other assets, which reduces the cash in a bank and then reduces the amount that they can loan out.

So 2023 kind of has higher rates, and less available that in the market. So I think there's going to be some challenges around what that looks like. I feel like we've been preparing for rising rates for a while. So they are first loan maturity. We have some stuff in 2024. But the majority of our loans are over four years out and our average debt is at like 3.2%. So everything we have is fixed principle pain long term, which I'm happy about that position. But I think 2023, anything coming up, there's, you know, it's going to be some hard work to get those deals to pencil out and keep going.

WS: What's the number one thing that's contributed to your success?

DC: Not quitting is maybe as simple as that sounds, but just not quitting and knowing like, look, you're gonna get through stuff, you're gonna work through it, you're gonna figure it out. And just keep going. A lot of the times in the in the operating side of the business, right? Anytime you buy a deal, it's always like, there's so much energy and excitement. But as soon as you buy a deal, you now own that deal. And that's when you know, you can run into a one hurdle after another.

And, knowing that you're there with your team to help solve these problems. And that's really where the kind of roll up your sleeves and get the stuff done and figure it out. And, not quitting and making sure you can get through all that stuff is key, you can run into some hurdles, and you're like, I did not want to have to do this one. broken pipes in the middle of the night, all that kind of stuff. It happens. You just got to get it out, quit just go figure it out.

WS: How do you like to give back?

DC: I think anyone that that meets people throughout this process, it's much easier to do things as a team. And I was lucky to meet my business partner here in Atlanta, who just started

a summer camp when he was in high school. So I was buying real estate in high school, he started a summer camp. And we do a summer camp to Greenleaf that's free for our residents at some of our communities, we can't wait to spread out to do it all at one place.

But for some of our residents, we have a summer camp that we run where the kids come for free and and we have pretty much everyone in our team volunteers in some capacity to be there and help out and give these kids an experience that for the most part they might not have. They're certainly not gonna have it for free. But we try and do that. And we're trying to grow that through, we started a foundation, we're trying to grow that each year.

And if we can just add a day or two, every summer for these kids, eventually, if we look out 5, 10 years, we'll have a multi week summer camp that we can operate. So we're excited about doing that. That's one of the things we love. And it's always fun to do stuff with with kids and see them smile and interacting with everyone in the community.

WS: That's awesome. Dave. I'm grateful to have had you on the show and grateful for just spending this much time with listeners and myself. Just your willingness to give back in that way and be so transparent and just lay out many things getting started to reserve budgets to opportunity zones. I mean, we've talked about a lot and I know the listeners have learned a lot. Tell them again, how they can get in touch with you and learn more about you?

DC: My contact information, it's on gogreenleafmanagement.com. My whole team is there. And then you can also find me on LinkedIn at 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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