

EPISODE 523

[INTRODUCTION]

[00:00:00] 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]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Rahul Patel. Thanks for being on the show again, Rahul.

[0:00:32.9] RP: Thanks for having me, brother. How are you doing?

[0:00:34.7] WS: Doing great, doing great considering all the chaos right now that's happening. How about yourself?

[0:00:40.3] RP: I'm doing all right man, just hanging in there, really trying to do phones on a busy time to do as much as we can for people that are in some more dire situations than us. You look self-quarantined over there.

[0:00:52.6] WS: Yes, we are. I appreciate you coming back on, it's just a great time to just get your opinion, many expert's opinions about what's happening in the market and what we should be doing right now for our businesses and things like that.

But a little bit about Rahul, if you haven't heard of him before then you haven't been listening to the show very long. We've done numerous shows together about syndication and the structure of syndication business and just legal structures and entities and all kinds of different things that you need to know if you are in this business.

But he's an attorney, licensed NBA agent, real estate developer, professor, speaker and serial entrepreneur. He's most commonly known as the managing partner of Patel Gaines, the fifth fastest growing law firm in the nation, where he represents over 8.5 billion dollars in commercial property.

He's been featured in *USA Today*, *Forbes*, *Fortune*, *BusinessWeek*, *Texas Lawyer* and *The Business Journal*, where he was named Man of the Year and Outstanding Lawyer and 40 under 40.

So, Rahul, thank you again for your time and you know, I'd love – you know, just from your so much experience and so many connections in the business that you have, you know, just looking forward to getting your opinion about what's happening right now as business owners, what we should be thinking about, you know, whether it's dealing with our investors to structure our business or business partners or where we even find updates and you know, what's happening right now.

You know, get us started and let's just dive right in to the current issue, you know, of what's happening.

[0:02:15.4] RP: You know, I think first and foremost, I want to start out by telling everybody, I think as a business owner or as somebody who is out there in the syndicate world as a developer you know, owner, I think we got to stay calm come up with a plan and stay vigilant.

I think right now, I think there is constant updates and you know, in the age of social media and in the age of where we have constant communication, I think it's really important to stay vigilant with the updates.

Folks are really start to lean on inside sources, people texting them, telling them, 'Hey, we're about to go into shut down in two hours.' We're about to go you know, going to go into quarantine. This is what we're doing.' You know, I think a lot of those or what it's doing is it's causing mass panic. That's what's causing, I think the bigger issue right now than anything else

I think number one, I really say stay vigilant with the updates and what I'm advising everybody is staying tuned, directly with your federal government, state government and your local government. They're rolling out consistent updates. There's websites, I've been posting them on my LinkedIn where you can go to for resources with all the declarations. You can read it for yourself if you have any questions, contact somebody. But it's right there, stop listening to some of the, what I call inside sources, you've got a friend of a friend and stay in tune with those updates.

Because I think that's how you need to really operate your business. That will tell you what kinds of adjustments you need to make, whether it's public facilities like your gym that you have in an apartment complex pool, really follow those guidelines. And right now, you know, my advice for folks is, play it safe.

Typically, you know, as real estate entrepreneurs, we tend to take risks, right? We tend to take calculated risk. Right now, is the time to say, make some safe decisions, not for safety of your business but safety of the health and safety of others that are out there.

Follow those guidelines. If you're not sure which ones to follow, I give them two rules of thumb, follow your local procedures and if you have businesses that are multiple counties, multiple states, probably offended. Follow the federal guidelines, if they're telling you to do what they're telling you to do is I would say is to follow.

If your state is telling you something that's contrary or stricter, follow that. Follow the strictest of the guidelines that's out there and you should be in good shape.

But stay up to date. They're rolling out every – you know, sometimes it's every couple of hours of seeing new update. Stay updated with what's going on.

[0:04:31.4] WS: Yeah, it's really the panic and the way people have responded from just random information they received has made the situation so much worse, hasn't it? You know, it's just the way people panic or run to the store and buy all the toilet paper, you know? Just panicking.

You know, I understand how to be forward or just our exposure to it, what's your thoughts?

[0:04:50.8] RP: First thing's first is understand your exposure both short and long-term, okay? I think there is two types of exposures, right now, we're dealing with short term exposure. What I mean by that is people are making decisions because of what they don't know right now and that they're dealing with right now. If you're under certain things, you know, managing your short-term problems and your short-term exposures is number one.

Number two, also start to look at long term exposures because there are things that are happening and you really as a business owner, got to now sit down and figure out what that impact could be. You know, right now, for the multifamily kind of market, you may not see the long-term exposure right now. You may not even see the short-term exposure right now. Occupancies are still the same. Nobody's moved out. It's not affecting your business. You're not having to shut down, you're having to take people out of their apartments.

But what you will see is folks that are going to have the inability possibly to make the monthly rent payments. There are going to be people who are unable to make certain payments that are there. Electric payments that you're calculating back into there.

These are things that are all going to be affected as people are being laid off, people go on furlough, people aren't making a paycheck. They may not have an effect on April one, it may not even have an effect on you on even May one which you're going to see some of that effect. We will start to have some plans for that.

And really start to communicate what you're going to do to your investors and also maybe to your tenant, what you're going to do, to do that. Look at your agreements, look at your contract, understand the debts and obligations that are there and that are structured.

Really, you know, speed start to have a conversation with what's going on.

We can get into this but you know, one of the solutions that I'd given some landlords is come up with a plan and this time, that can be beneficial for your end user, your tenants and also for you

as a business, right? It's time to make some good decisions but also some decisions that can help folks out.

So, for example, I've given the landlord here some advice that he's taken. Many of their tenants are on five and seven- and 10-year long term lease contracts. Good tenants, tenants that have always paid their bills and done what they've needed to do. What they've done is given them three months on the front end and they've extended their lease by three months.

What they've done is, "Look don't make your April payment, don't make your May payment, don't make your June payment." Operate your business and do what you need to do to make sure that you are doing other things, right? What they have done is put them some requirements to say, "Please show us that you paid your lender kind of payments and even those, number one, request them relief," right? Request whatever relief you can make.

Number two, pay your employees that have been critical and vital to you, right? Then pay your insurance premiums and things that you may need to pay that are not giving you reprieve, right? Then, maybe extend them three months, so that way, you are kind of working the solution for both of them right now where they need it because their business is being shut down.

Same thing with tenants. There might be some tenants who are saying, "Look, my job's going to return, it's just not right now. I don't know what's happening." Maybe a 12-month lease turns into a 15-month lease with three months being abated right now.

Those are all things that are going to be – you're going to have to work with them, you're going to have to find some solutions. But really, start to look at that. Come out with a plan to find out what's good for you because that we'll see in the multifamily space, people say, "How will we be affected?" You will be affected because many of those people who are staying in your unit are the ones that are being affected right now by this pandemic.

[0:08:29.8] WS: Can you tell me if a listener or myself, we'll need to think through that and say "Okay, we're going to notify the tenants that we're going to lower the rent for a few months," or you know, something that's going to benefit them, something that's going to allow them to be

able to stay potentially a little bit of breathing room till they can find another job or figure something out.

How do we approach that legally and do we come up with some kind of you know, contract? Something that's going to kind of lay that out. Okay, we're going to do this for three months but within you know, it's going to go back up and then we're going to extend your lease or what does that look like?

[0:09:01.2] RP: What I have told clients is first you know, again, you got to go back, talk to your lawyer. Really look at all your leases, look at how you've set up your business, second. Look at, this is like I said, kind of active conversation, understanding what you owe in terms of debt service to your lenders, to your partners and having discussions on both ends.

First, you're an owner, multifamily start talking to all the lenders. Figure out what you can do, they can give you three months reprieve well guess what? You can give your tenants three months reprieve, that's what I'm telling folks is give what you're getting, right? If you're getting three months, give the other folks three months because it's not an opportunity for you to kind of benefit from this.

This should be whenever you get benefit from past that along. A lot of lenders going interest only. A lot of lenders are saying, "We're going to forgive, we're going to forbear three months of payments altogether, right?"

If we can get that, calculate that and pass that along, what I'm also saying to folks is to pass it along equally, uniform ally to avoid issues where you're saying, "Well, how do you justify who needs it? We're not the small business administration determining who is qualified for assistance to use now, right?"

My position is if you're going to give a 20% rent abatement, 30% rent abatement, 50% rental abatement, give across the board, you will find yourself getting as much public benefit from this by saying, "This is what we're doing is a good steward of this," as you are from your tenant. And also, right now, you know, whether you're a believer of this or not, there's much good karma as you can get.

We're hoping that everybody's good karma can change the course of what's happening. Really, have a good understanding. Have a good plan and use your weekend use, some of your free time to figure out a plan with your attorneys, with your office managers, with your apartment managers to come up with a good plan that works for everybody.

[0:10:38.2] WS: That's some great points. Even just the debt and obligations that we already have in place and trying to go back and talk to the lenders and see what they're doing or what the options that they're giving us to make this work long term, for everybody to make it work.

What about those contracts that we already have in place and how do we approach that with them?

[0:10:55.7] RP: This weekend, we did zoom with family members all over the country. You know, on a normal weekend, we never do that, we're so busy on our day to day lives, we can't do that. I would say, the same situation here is you know, normally, you don't have conversations with your vendors. Call them, that's the number one advice I'm telling people.

Pick up the phone and call them. They're going through the same situation you are and chances are right now, they want to work with you and that you want to work with them. I will tell you what I think what impresses me, at least the most right now, is that people are sticking together more so than I've ever seen except for the hoarders, I think people are really sticking together, people are trying to do what they can to help each other, right?

In my opinion, if you can have a conversation, this is the best time to say, "Look, we've had a great relationship for six years. But I'm struggling right now, I need some help, can you guys help me?"

I would tell you that more often than not, you're seeing people say, "Okay, what can we do?" And you know, at this point, whether you can get your attorney involved or not and issue the contract, make an amendment and send it off and business and keep going on if that makes sense.

It's a good time to really look at a lot of things, cut back on things that you may not need, if you're not needing to heat your pool, if you're not needing to do some services, cut them down, right? Cut down certain things that you just are not needing to do right now. And try to limit as much cost as you can as well.

[0:12:18.7] WS: What about other adjustments in our business that maybe we haven't already discussed that we need to be thinking about, you know? Whether it's – maybe not directly with the tenants but just anything else in our business that you all have had to adjust or planning to adjust that we should be thinking about?

[0:12:33.1] RP: You know, right now, it's still a little early to tell I would say really in terms of adjustments and business, you know, especially in the multifamily, it's a little difficult in some extent because people still need a place to live. But I would tell you, there are people who may start making some changes to how their units are set up and what common areas might be around, right?

A common area is right now, can be the first area that might be able to be shut down, right? Save some cost. Your rent is a figment of all the facilities that you provide, right? Right now, the game rooms, the media rooms, the pool areas, the pool tables, movie theaters, all the different things that you offer might be the first place you want to shut down and people might be – you know, it's about messaging.

The people who are upset are you saying, "Hey, where are we supposed to hang out? I'm quarantined at home, now you don't want me hanging out here?" Number one, it's a figment of public safety, right? Number two, explain to them that if, "I can cut back these additional items, it's going to allow me to help you manage my rent with you, right?" That's what you're trying to do at this point.

It's about messaging and how you message it versus just saying, "Hey, we're shutting this down because we're shutting it down." One is for public safety. And number two, not just the safety of you but for the safety of our staff. And number two, we want to be able to allow, pass along these savings if you can give them a 10% rent break even, I think that's something that would probably message very well for many folks.

[0:13:58.0] WS: Yes, talking about our team or your staff, I think you mentioned. What about those discussions with staff and what needs to happen internally, you know, how are you handling that and give us some pointers?

[0:14:10.9] RP: You know, I say this is a good time to have good, open, honest discussions with your team, you know, I think this is in many ways, this should be a wakeup call for your weakest team members, right? Because if you are weak and you weren't maybe the strongest participant in your team, you're probably going to be the first to be let go.

This is a good time to have a conversation to many of those folks to wake them up to and say, "Look guys, I need you more than I've ever need you now. If you could pick it up, we can together get through this." And for your strongest players saying, "Hey, this is the time to say look guys, I need you to lead because if you can leave a positivity, you can lead with good strength," we can get through this and I think that's where it works well.

A lot of folks who are kind of negative right now. My wife is one of those, she reads a lot and she doesn't sleep now. And my belief is that we've just got to stay positive, we've got wake up, you got to figure out what we can do and we just got to go. We can't unsolve the problem that we have right now. What we can do is work to get forward for tomorrow. And so, I think it is a good time to have discussions with those folks and quite frankly if you are having a face lay off or make some cuts, better to have the discussion to let them know what is coming.

Because they may see it, they may sense it, they can tell so you are better off having the conversation with them so they can prepare as well, right? Because you don't want to walk in there and all of a sudden their Friday paycheck doesn't come, let them know, right? It is a tough conversation to have but you got to have it.

[0:15:36.6] WS: Is there anything that you are doing or seeing other people do even just like we were talking about with tenants earlier with employees maybe we say, "Okay, we are going to have cut back for a few months but we are going to keep you on board as oppose to letting you go," or any options like that you have seen happen.

[0:15:53.1] RP: I had a discussion with four or five folks last night that are going to go into possibly a 35% to 50% executive kind of table cut and what they are asking all of their leaders, executives, top builders as they get 15% pay cut. And likely if this continues, they will probably ask the rest of the staff to take a 25% pay cut. So, lead by example is kind of what we've decided or what I've kind of advice folks is don't start making cuts until you've made some cuts yourself, right?

And I think that if we do that, it is like it will help soften the blow for them. You have to realize for many folks they are truly relying on their Friday paychecks. For many of your investors they may be relying on their investment paycheck, investments checks as well. But many of them may have some contingency plans or maybe able to go a quarter or two without that. So, I think it is the same philosophy. You got to lead by example.

So, if you are going to ask everyone to take a 25% pay cut start by you taking the largest pay cut yourself. And I think that will help soften it and a lot of people will understand. I don't think everybody would be able to understand that. But lead by that. So that is one big area where we have said is if you are going to start to do it start to soften if you can rather than having them make a wide swept kind of cut two weeks from now. What you might be able to save your payroll or save your team by asking them in say incremental pay cuts.

Another thing that I think is a good advice is right now a perfect example last night, I opened up my credit card statement, I opened up my bank statement and I made a spreadsheet and I made a call to probably about six or seven different things that I don't use really and I made some cuts, right? Make sense, there are certain things that I can live without right now. And are necessary credit monitoring, certain types of things that are not so important but just cut down some of the things that I may not need so much right now and I made some cuts.

We cut out some apps that we were paying for that aren't necessary that were doing because we knew we were adding. At the same time, we were adding Zoom, we're adding Skype, we are adding certain apps that we need now to do business to help offset some of the deflate some of those costs we got.

[0:18:04.5] WS: What about communicating with investors right now? What are some things that obviously maybe you can highlight they are worried about or that we should be communicating? I know some things are obvious but maybe there are some things that are not so obvious that we need to definitely be bringing out and communicating with them specifically?

[0:18:20.3] RP: Number one, communicate what proactive measures you are starting to take at the property level and at your finance level. We need to get more measures to that. Are you calling banks, are you calling lenders? Are you calling vendors? What have you done? How much expense have you saved or cut during this time? Number two, engage with them with all proactive measures that you are taking at the property level as well, right?

And then number two or three, whichever number you look at it is I know one owner own some assets set up a Zoom, right? With a close Zoom session for everybody listening in and was very good calming message to let them know, "Look, we have plenty of cash reserves," and articulated that by a newsletter to the team. But I would tell you right now is a time where people need to keep in touch when you technically can't touch anybody, right? We are staying away from people which is responsible. The handshakes, the hugs are all gone.

So, I think this is a good time when someone can see your face for the first time in a long time. Like you've had folks that haven't had to see you in a while that just been – They love the investments that they made with you. So, it is a good time to let them see your face. Let them see that you are calm effective leader that may bring calm to them as well because they have invested a lot of their savings.

The other important item is a lot of people have lost 25, 30, 40% of the stock market overnight. I don't think that your assets lost that much value at this point, right? You may have lost some valuation maybe, maybe not. But that's another good calming mechanism that you can explain to people. "Hey look guys, we are in good position, cash reserves, our leverage points, our lenders are working with us, our vendors are working with us, our tenants are working with us, we have a plan."

So, if you can sometimes there is no substitute for people seeing face to face in that sense.

[0:20:05.2] WS: What about holding off on distributions? I know that has been a discussion I've seen on social media some or in some masterminds I'm in, you know what are your thoughts about communicating to investors that you know this is probably a time where you need to hold back on distributions so we have the cash reserves, larger cash reserves for the potential loss of cash flow that we were expecting, what are your thoughts?

[0:20:26.5] RP: Yeah, you have to be careful with that. You have to first look and see what your lender documents require. So first of all, make sure you're meeting those cash reserves in full. Some lenders might be modifying their cash reserve requirements by now in this times. So really this is a time where before you do decisions like that, you really should speak with your lawyer and understand and make sure you are making the right decisions.

What maybe seemingly best for you could put you in an issue if you are operating agreements or partnership agreements and the loan documents require something alternative to that. So, it doesn't mean you can't do it. It doesn't mean you can't obtain a necessary votes or in confirmation to do so but make sure that you do so because right now is I could talk about the short term kind of mitigation, what you will start to see is the long term exposure of this come down the pipeline.

The next thing that you are going to see as a result of this pandemic after you kind of that the market starts to fall. And you see the employment rates drop in some of this you are going to start to see the delinquencies, you are going to start to see the banking issues. You are going to start to see the effect of all of that come to light here, maybe six, nine, 12 months down the road. The last thing that you want to do is have done things for the right intent but done it the wrong way, right? So, if you need to obtain the necessary votes do it but that's not a bad idea.

But again, it depends on what your expectations are. If your investors are folks that are primarily retirees that have invested because they liked the guaranteed return and you have spoke those and they're relying on those, well you might have some issues because they may not want to change or modify those things.

So just because you think it's good for the business may not be good for why the LP got into. So, you really got to have some good conversations and understand what you legally and

contractually allow to do into what your investors are who they are and what they're looking for if that makes sense.

[0:22:19.1] WS: Yes, you know we just got a couple of minutes before we run out of time. But what about what are your real estate investing plans over the next say six to 12 months.

[0:22:29.0] RP: Mine personally? I believe that there's really still some good opportunities there. I think there will be some good opportunities to partner with folks that are needing some assistance that didn't have as many good structures and processes in place. So, for me, I think this is going to bring out a couple of things.

Number one, it is going to create probably some exposure for those that did not have good processes and good underwriting and systems in place, right?

There are folks that may not have been doing as much due diligence as they should have and may not have been making the best decisions. So, there is going to be some opportunities there. So, I think for me, yeah there will be some opportunities for partnership for those folks to who are needing that who could not sustain that dip and get back out of it are going to need someone to help them get back out of that dip, could still be a good asset. So, if you're looking for those types of opportunities, I think there could be there.

I also think that it is going to create opportunities to truly kind of invest in some markets that may need it the most in multifamily. I think it is still yet to be seen. It is still too early. Will this have an effect on the housing market? If it has an effect on the housing market, what will that do to multifamily rates of historically when housing prices increased, interest rates are dropping?

Your rental rates are going up. If the housing crisis drop and these interest rates rise as well, you might see rental rates change as well. So, depending on where you are there could be some good opportunities or right assets that were trading at very low cap rates maybe to go back on the market. So, I think there is still good opportunities to invest, good opportunities to partner. I also think we'll see some more people start to collaborate a little bit more than they used to. So, I think there's to be a good opportunity. I know it is a wrap up or probably getting close to wrapping up, I would say the interesting thing is maybe this is an opportunity for the

world to have a few minutes to heal itself. It is maybe a perverse way to do so. But we are starting to see people really come together a little bit.

So, I think that there is ways to help people get through this opportunity.

[0:24:36.1] WS: Nice, I meant to ask you a minute ago. Do you have a reserve number in mind that people should be thinking about when they're operating multifamily property like right now, we should have this much in reserves?

[0:24:47.2] RP: You know there is probably two good schools of thought here. There are those just like everything else, there are those that are super conservative with their business and there are those that are a little more aggressive. So, there is no real right or wrong way. But I think those that are conservative right now are probably feeling good about themselves. Those that are aggressive are probably saying, "Man, we should have been."

So, it is so hard, I think whatever your reserves are they are probably not sufficient or they won't be sufficient given what is happening. So, I really think this is a good time to up those reserves. Again, look at yourself, see what you are able to do. If that is within your manager's discretion to up those reserves without having to go back and hold distributions maybe you change those before you hold distributions. So, there is lots of different ways for you to kind of adjust and make some modifications without having to trigger certain things.

So, I think this will change the way we underwrite business for short, you know whether you want to call it short for the next two years or five years, I think it will change the way we underwrite business. You will see reserves go up, you will get to equity ratios change, I think. So, I think it is going to change the way we do business and so for those that were doing it fairly conservatively are probably going to say, "Well, we are already doing this."

And they may just up their conservative later. So, for their investors there may be less rattled by this right? Because they are already prepared for this. So, for those who are not as prepared I think it's time to message that and say, "Okay guys, here is what we need to do in the next six months and this is why we are doing it, right?" So, I think another good time to really model

yourself off of understanding who is doing well in these times or has a six months roadway to be safe and try to model yourself off of that.

[0:26:26.4] WS: Nice, well Rahul a great show. Tell the listeners how you like to give back before we have to go?

[0:26:32.4] RP: Absolutely, right now if you follow us on LinkedIn, Facebook or on Instagram, we have started a challenge. I challenged 100 business owners to donate at least a \$1,000 each, which is a \$100,000 and I want to give it back right to San Antonio, North Texas and the Houston market to where we can help them locally. So, if you follow us on www.patelgaines.com on LinkedIn, on Facebook or on Instagram, you will see how we do that.

So, no time better than the present to see how we can help each other back and so that is what I am challenging. If you can't donate a thousand, donate whatever you can. If you can't donate at all, share the link maybe somebody else that you know could donate. So, anything at this point helps. And I want to give that right back to those that are in need at the most in our community.

[0:27:17.0] WS: Great. Well thank you very much Rahul and also, I will tell the listeners as well that we are recording this on March the 23rd, 2020. You know two weeks from now a lot of things could change. It could be much worse, maybe it's better but just so if you are listening to this you understand you know when we recorded this.

So, when we're talking to because it won't go out for probably a couple of weeks. So just so you know as you are listening to this and we are talking about things that are happening in the market right now. But Rahul any other ways they need to know to how do they get a hold of you?

[0:27:42.9] RP: Like I said, look us up on our website, www.patelgaines.com. My phone number is 210-460-7787. Stay safe, stay strong and we'll get through this.

[0:27:57.0] WS: Awesome, Rahul that's a wrap. Thank you very much.

[0:27:59.8] RP: Thanks brother.

[0:28:00.3] WS: Have a blessed day.

[0:28:01.8] RP: You too.

[END OF INTERVIEW]

[0:28:02.3] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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