

Episode 541

[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 Ashley Wilson.

Thanks for being on the show again, Ashley.

[0:00:33.9] AW: Thank you so much for having me back.

[0:00:35.6] WS: If you're a listener and you've been with us for a while, you should have heard Ashley on show number WS253. It came out July 1st of 2019. I encourage you to go back and listen to that show and Ashley is an expert in asset management, construction management and I would encourage you to go back and hear her in that show.

And we're going to dive in a little more this time, more specifically around the current things that are happening and how she is managing her properties and some insight that she has from some previous experience and expertise as well and how that's helping her make decisions in her real estate business now.

But a little more about her: She's experienced in both construction and asset management, like I said, she also previously worked in clinical RND and boxing research for three of the top pharmaceutical companies in the world. And worked there during the last pandemic with H1N1. She is well versed in virus progression which is very interesting. And we're going to hear how that has affected her real estate business and just having that knowledge.

Her primary goal is to help owners focus on more than operations. She believes operations are always important but in today's economy and a down market, they are the most important.

Ashley, thank you again, you know, why don't you give the listeners just a little more about yourself and let's jump in to what's happening now., how you've changed operations or things you've put in place? And then let's dive into just the insight you have from previous job or previous career and how that's affected your decisions in real estate as well.

[0:02:09.7] AW: Absolutely. First, it's really interesting when you meet a lot of investors, one of the things that they'll tell you is, "I can't believe how my previous career prepared me for what I'm doing today in real estate." And there are a lot of different operational type things that I do in my day to day of managing apartment buildings that are a direct result of what I learned in working in corporate America.

I never once thought that my experience within the vaccine division of GlaxoSmithKlein would have lent itself so well in guiding the decisions that I made today for asset managing the properties that we have.

Specifically, what has been very beneficial is the fact that I understand the process, the inner workings that these clinical trials need to go through prior to receiving approval. And that's not just on a regular trial basis. It's also what's called compassionate use. When therapeutics and vaccines get fast tracked due to a need in the market, you often see this in oncology trials so with cancer patients.

A lot of times, the cutting-edge treatment is found through clinical trials as supposed to what is approved and on the market. but that's why most cancer patients are encouraged to go on clinical trials because they're approximately 15 to 16 years prior to what's available. I mean, that's how long of a ramp up.

When you look at things like vaccines, the trials are much faster than oncology, primarily due to long-term efficacy and safety data is not as stringent in oncology. And I also worked in the neuropsychology or psychiatric side of pharma as well. With respective vaccines, the trials are

really fast and they progress very quickly but when you get to a pandemic situation, you need them available even sooner.

And there's a lot of different combinations. I know people are always concerned about the facts that, "Why do we not have a vaccine available already?" and at the end of the day, there's a lot of different combinations and companies need to work on, because they're such a tight timeline, companies need to work on what's at grade needs and figuring out those combinations.

And we're always kind of – or when I was in there, you're always kind of a little bit behind the eight ball trying to catch up with whatever is in the highest demand tat that time so it doesn't lend itself very well to in parallel create vaccines that are just going to sit on a shelf for possibly decades or hundreds of years and not be used. It's pretty much always the money to run those trials, right? You come into a situation like we face today.

With respect to how that is guiding my decision-making today, I knew that this was going to be an issue. I think more or earlier on than most people recognized. And I think that is due to my previous experience and understanding the disease progression and the infection rate, just some general statistics and looking at how the virus manifests itself with people and you know, understanding how the economy works and you put those two things together and it's a perfect storm.

I think we're all seeing that today. If you back track to the end of February, I was invest in final one to apartment buildings and they were making the decision. First week of March and I contacted both brokers to give them a heads-up, saying, "Hey, at the end of the day, I love these properties but ultimately, regardless of whether you're not – you select myself or someone else for that matter, the feasibility of due diligence is going to be a challenge for anyone because going into units is putting not only your team at risk but the tenants that are living there."

"You know, there's going to be issues with vacancy and how banks are underwriting the debt, when they're looking at a T3 because you know, you push that out and see how vacancy might be impacted." I didn't know at the time that we were going to have a national order of non-allowing evictions. But you know, I think that the brokers thought I was crazy. I know they thought I was crazy.

And today, I mean, even just earlier this week, I got a call from one of those brokers just again, thanking me and saying I can't believe how well you called this, you were the only person who did call it. And first, you know, not the only person but I mean, the first that he had heard of.

That I think, you know, saved the relationship too because it's such a relationship-based business. I think that built up a lot of rapport with these brokers that you know, I'm a very competent person outside of apartments. And I'm not just, you know, trying to find a way to delay closing.

So, today, you know, that's on one side of the spectrum on how I operated on deals that were about to close. And then today, it governs every decision that I make with respect to notifying tenants, what I think the – what the longevity I think that this is going to have on our apartments, the decisions that we're making day to day in terms of protecting our tenants, figuring out how to manage our expenses, figuring out how to continue to get leases which I know people might think is crazy, but my weekly lease rate has not changed. I'm still leasing at the same rate as I was prior to the shutdown. I think that's shocking to probably a lot of people but it hasn't impacted the one property in particular at all.

So, I think there's just a lot of different measures that I've taken and our team has taken that have been very helpful. Even my property management team, when I told them that we need to do XY and Z, I think they thought once again I was crazy. And now, they don't think that at all, in fact, you know, we have a lot of back and forth discussion on what we both think is going to happen but initially, what I was saying, "This is going to happen and we need to make plans."

They were like, "No, it's not going to be that impactful, I think it's being blown out of proportion," and here we are.

[0:08:49.0] WS: Could you elaborate a little on what you were - right then in the beginning when you knew what needed to be done, could you just elaborate you're asking to be done now?

[0:08:57.2] AW: Absolutely. One of the things that I knew that was going to happen was, because I had already looked the data, talking about the virus living on a hard surface for up to

several days. And then becoming identified in a study that was done with NIH and Princeton University that came out a few weeks ago and when it became airborne. You know, it can last up to a few hours, that's why we have that six foot by the way spatial gap is due to that concern. For example, closing down our amenities and common areas where people will congregate, making sure that we have limited access into a leasing office which now we've just closed down the leasing office and is gone completely electronic there and leveraged technology.

Making sure that we only have one space on this one property where people need to come and access it because it's the mail boxes and our laundry facilities. So, ensuring that that is wiped down regularly. And my property management team actually brought this up, I think it's an excellent point is documenting that those wipe downs because we have liability exposure when you have a shared common area that's still open.

If anyone on the property was to come down with the virus, then we have documentation to show that we have taken the necessary steps, communicating with the tenants, I mean, there's just a laundry list of things we started doing pretty early on and I think because we did it early on, we safeguarded our community, probably one of the best, if not the best within that area.

[0:10:36.0] WS: That's so interesting. I've interviewed numerous people now that's talking about how they're operating, I have not heard that yet as far as documenting even wiping, you know, when you've wiped things down. I think that's very smart to show you're taking measures to help prevent, you know, any spread at the community. You know, what else have you all done at the communities to help protect, you know, the operator like them.

You're protecting the tenants but then also, you know, after the fact, after this happens, you know, we're still trying to protect ourselves legally as well. But I just wondered, what have you done, you know, what else have you done on site to do that? To help tenants and the operators both –

[0:11:10.0] AW: In terms of helping both of us, I'll start with just in terms of liability exposure. The frequent communication network having with our tenant base is paramount, I believe, to the success of the property being quarantined and also them understanding all the measures that we are taking to protect them. This particular property is located in Amarillo, Texas. And it's

governed under the TAA, the Texas department association, lease contract and within the lease contract, there's a provision that states that we cannot expose, you know, tenants to any sort of risk or liability, 'put them in harm's way,' I think is the exact wording, eliminating that exposure by closing those shared spaces, you know, the community amenities.

we've talked about also too on the protecting a team and also protecting the tenants, we initially did a limited use of the leasing office so it was only for emergency situations. We instructed people to call in advance. But we really wanted to limit the number of people who were coming in and out of the office, we've since now shut down the office and we have our management team working from home. But at the time, at the onset, before there wasn't the shutdown, we really limited all the exposure that we would have in the leasing office.

In terms of additional steps on our team on our maintenance side, we are only handling emergency requests. I think that 'as common place across owners, I think that's a no-brainer. But the more importantly I think is the communication to the tenants on why we're doing that, we want to protect them and we want to protect our team, it's a two-prong approach. I think that you really have to be very clear on what you're doing and why you are doing it. And I think the why is sometimes missed off on those communications. I think that creates a little bit of anger from the tenants if they don't understand why you're doing it.

Another thing we've done, I'm just trying to think of all the things, our models, we have a model and we have converted that so you can access it through codes and lease that way.

But another thing we did very early on and this is an idea that we came up with, in co-ordination so myself and the property management team and I said, "You know, we're not going to be able to have people walk through these units and probably a couple of weeks from now." This is very early on mind you. But this is after the property management team it's like, 'Okay, you know, you might be right but you know, we don't know, right?'"

I said, "No. I know that this is going to happen, this is going to be very difficult to manage this." So, the property management team came up with this idea, we already had floor plan of all the different unit types. But what we didn't have is we didn't have like a virtual walk through.

We have it on kind of you know, those like integrated type floor plans but with respect to actually seeing the unit, we didn't have that. So, what we typically do is we show someone the model but we also show them the unit type that they're interested in with respect to what we're doing now. They can access the model and the model gets cleaned down and gets documented as well.

But the other thing that we do too is with respect to the different model types before we closed down, we had our management team go in video a walkthrough of every single unit type. You know, if they're interested in a different unit type and they want a better visual than the floor plan is presenting to them, they can still see it through this video. I think that has helped us too with leasing.

We also changed our special that we're running right now. This market is a very heavily conceded market. I don't understand why but it is a very competitive market. And we have always been very competitive with the concessions. We have been right in line with all of the other apartments in that community, but we have taken in even more aggressive approach to show longevity. So, we are now extending our special not only for the first month but for the second month too.

So, to encourage people who they might still have a job now. Well they have to, to come to the property but if they still have a job now but they are concerned about coming, changing where they're at or moving where they're at, they know that the second month is heavily conceded as well.

There is a few other things we're doing too. I don't know if you want me to go into it. But I just think that what's been incredible about this experience if you want to look at the silver lining is how creative everyone is getting with different strategies.

I don't think there are any strategies that are bad strategies. I think that every strategy works or doesn't work depending on the market and the community that you are in. And it is just about really knowing your community. We are in the process right now of calling every single tenant just to check in how they're doing. And then also too we did an audit of what job sector they're in to see our exposure for people getting laid off.

[0:16:24.6] WS: What was the method of doing that just phone call or?

[0:16:28.1] AW: Phone call. Yep.

[0:16:29.6] WS: Okay.

[0:16:30.1] AW: So, we are in the process of doing that right now, checking in and also checking who they're employee by to just see, "Okay, you know does this property have a 60% exposure to be unemployed, you know?" That is something that you should know because that will govern your decisions on how you could help these tenants through this next couple of months.

So just really everything in life that is funny comes down to communication. And once again, we are in a situation where it really comes down to communication. So, there is a lot of great things you can do but at the end of the day you just need to communicate them.

[0:17:11.8] WS: What would you say is the top thing that is going to help you to weather this storm? You know I mean from the lack of cash flow or lack of potential just delinquencies over the next couple of months whatever that may be but you know what is going to help you to weather this?

[0:17:26.8] AW: I think it's two things. I think one is being flexible. The amount of information that's coming at us on a daily basis from the government alone is overwhelming and every single day based on what is being said at the White House changes what actions you take right?

So, I think that if we keep the shutdown, you would react to different way as oppose to if the shutdown is lifted. I think there is things that if there is no shutdown there, no shutdown tomorrow let's say the question becomes, "Do open up your community spaces? Do you open up your amenities? Do you want to have that exposure?"

Because in all reality the virus isn't gone. So, I think you really have to know that. You have to know your community demographics, do you have an elderly heavy population, do you have a transient type of tenant? Are you tenants only staying for a year and then leave? I mean it really

depends on a lot of different situations I don't think there is a one size fits all approach. So personally, I think that you have to be very nimble and be able to synthesize information very quickly and not be married to certain path because it is inevitably going to change. So, I think that is definitely one thing.

And then the second thing is the devils in the details on this. So, in my opinion, I think the only way that the majority of properties are going to get through this is really looking at things at a granular approach. So, a lot of people right now look at this situation and say themselves, "Okay, it is an income approach. We are so concerned about the income. The lack of income that we can evict people," and it is a very heavily focused income approach.

But there is two ways that you would impact your inner why and let us just go back to the basics. It is income and expenses. If you can increase your income or decrease your expenses, you increase the NOI. Ideally, you'd like to do both. In this situation you might not be able to do it. So, on an income approach, we are still doing the things. We are attracting new tenants we're giving incentives for people to stay at the property. We are contacting people who are previously gave us notice to vacate and see if they want to change their mind and stay at the property, give incentives to keep us a strong tenant base in place, you know ideally that is what you want to do.

But on the flipside, you want to look at every single expense and see where you can trim the fat so to speak. That doesn't necessarily mean laying off your entire boots on the ground team, your property management team. It means literally looking at every single expense item that you have and seeing, "What can we trim down during this process?" I learned very early on when my dad and I started our flipping business that you just need every single person to give up a little bit and it makes a huge impact to your overall budget.

So you know if your expenses are a \$100,000 a month and you can get everyone to come down about 10%, which really isn't that much when you look at every single item and in this state of the market, I think a lot of people are open to that idea of coming down 10% because to be honest it is 10% or nothing, right?

And because a lot of people are judging between, “Should I come down 10% or is this person going to go look for someone else to do what service I am providing for them right?” And if everyone can be flexible and come down 10% I mean that is 10 grand you save right there. So, that gives you a little bit more flexibility in terms of the people who are not paying their rent. And that’s the whole idea. If everyone gives up a little and we all gain a lot. It is when people are very – they can’t give up or they are unwilling to give up that’s when you have to look elsewhere.

[0:21:31.8] WS: What are some of the ways you’ve cut expenses or are there things that you found going through that process in so much more detail potentially and what have you been able to cut?

[0:21:41.4] AW: So we are going through – When I tell you we’re going through line item by line item I mean every single thing even our utilities we are contacting the utility companies seeing what options do we have for delaying our payments from pushing them out of over the year. A lot of companies actually already have programs in place where you can do that. A lot of people just don’t know how to ask where you can push out your payments, even if you have to pay interest along the way, it is still especially in this situation it might be more advantageous to do that.

You know we see Fannie and Freddy kind of taking a little bit of that approach right now. But the idea is that if you go through and you look at landscape and you look at all of these different things, someone might be able to just trim 10% off without changing your service. So that is the first approach. The first question you ask is, “Okay, let’s say, “I’ll use landscaping for example.

“I need you to come down by 10%, this is the number I need to be at.” If they say now then you look at what they’re doing and look at what you can trim from what they are doing. “Okay, let’s break down this budget of where this is.” I mean you should already have a budget break down of every single thing they are doing but let’s just hypothetically say you didn’t do that to start with.

Let us say for example they have tree trimming in there and they are doing it on a monthly basis but you know you could push it out quarterly. You know the trees aren’t going super-fast like

come on, right? So anyway, you look at once again, the devil is in the detail. So, you look at the details and you see where you can trim and you say no pun intended and you look to say, "Okay, all right. I am going to take out the tree trimming and we are going to push it off for three months or so." And then you literally go through every single line item and do the same.

If you meet someone who is unwilling to do that there are a lot of people right now looking for work. I don't think you are going to have a problem finding someone who is going to be more agreeable to negotiate a new rate and secure some business. So, I mean at the end of the day you don't want to have a mass exodus of your service providers. But at the same time, you also don't want to have your property foreclosed on. So, you know there is a delicate balance there.

[0:24:01.3] WS: That's great advice and I hadn't heard anybody else talking about that either, actually approaching even the utility companies and saying, "Hey can you all work with us what can that look like over the next few months and what options?" I mean at least asking what options do we have, right?

[0:24:15.4] AW: Well, everyone is so focused on how to pay the mortgage. But at the end of the day people pay the mortgage first. The mortgage isn't going to be the thing that doesn't get paid. If it does you are in a whole other host of problems. I mean the things that don't get paid first what you are going to go through are all of these fringe type services that are being done on the property. And then it will be the utilities and then it's your mortgage and your tax and your insurance.

So, in terms of priority the lowest on the totem pole are the things that most likely will be flexible. But you should still also talk to your service providers and your mechanical type people.

[0:24:55.5] WS: Just a couple of questions before we run out of time, Ashley, but how is all this changed how you will move forward or maybe do some things differently?

[0:25:03.8] AW: One thing I will definitely will do differently is I'll think about reserves when purchasing a property differently. So, an approach that I have historically taken on how much reserves you should have in place when you acquire a property. I think historically of you look at all of the events that we've had to date, those reserves wouldn't been sufficient. But when you

look at the potential impact that today you know the coronavirus can have, I don't think anyone
–

I mean I am sure there are other people I shouldn't say that I don't think most properties today are positioned well with how we did reserves previously. So that's definitely one thing I think that is a lesson learned that everyone should be taking from this.

[0:25:53.4] WS: Do you have a way that you are going to calculate that or I ask everybody that brings up reserve and nobody really has a good way of saying this much but do you have some way that you calculate that?

[0:26:05.3] AW: So, what I do is I look at that occupancy in the area, the expenses and I see what it would take to cover a property for a certain period of time given different factors and job diversity in the area, recession resistance. It is a whole host of components that I am looking at. And then you know, "Am I pushing the rents really hard, do I foresee a recession coming at that time?"

I mean everyone said that a recession was on the horizon but this virus could have come at any time. It could have come in any time in the market cycle and that makes it interesting because it just so happened to coincide with when we are overdue for a recession. And I don't think that you should lose that learning that it could have come at any time and all of these other indicators, those I mean the one thing that going back to something I learned in the firm ago is that pandemics typically happen on a four year cycle.

So, a lot of people say it's a government conspiracy because it always coincides with the election. And it just so happens that in an election year, it just so happens that typically that happens. But if you look at the overall different combinations of influenzas, they typically go on a four-year trajectory, which is in it of itself interesting. But just to keep in mind that there are other things outside of the normal factors that people look into to come up with your reserves.

[0:27:36.6] WS: Unfortunately, we are out of time, Ashely. But tell the listeners how you'd like to give back.

[0:27:40.6] AW: So, I like to give back through our properties. I partner with different local organizations within all of the properties, every time I come down whatever drive that we are doing next I purchase things that we can give on behalf of the community to work with the different local organizations within every community and I believe that if the community wins the property wins and it's just the way that I think that everyone should do business. So that is how I like to really have an impact on every property besides just improving the particular property I like to improve the community too.

[0:28:18.1] WS: That is awesome. Thanks for sharing that. And tell the listeners how they can get in touch with you and learn more about you.

[0:28:23.0] AW: Yes, so you can go to badashinvestor.com and from there you can link to all of the different companies that I have. But in addition, I just created another website mfops.com. so Multifamily Ops that is what M-F stands for, mfops.com. And I am posting information there to help other operators navigate through the time that we're going through right now.

[END OF INTERVIEW]

[0:28:57.5] 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]

[0:29:37.2] ANNOUNCER: Thank you for listening to the Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to

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