EPISODE 557

[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 Mike Butler. Thanks for being on the show, Mike.

[0:00:33.0] MB: Thank you, Whitney. Thank you for having me. Appreciate it.

[0:00:35.2] WS: Yeah, honored to have you on the show. And you were telling me you listen to the show sometimes, I just want to say thank you personally for listening and to also to the listeners that are listening today, grateful for your just listenership and downloading the show. we couldn't do it with you and so we're grateful for that. I encourage also to go to LifeBridge Capital and sign up so you can connect with me and schedule a call. and happy to help any way I can. I hope you've done that. If not get on over there.

But a little about Mike: He's been investing in real estate in various levels since purchasing his first property, a duplex in 1994. Up to 2008, he successfully added Lexington Park Apartments to his portfolio with a purchase price of 3.2 million. Mike, fill the listeners a little more about what you do and what your focus is right now and let's jump in to your super power in this industry.

[0:01:25.0] MB: Thank you, Whitney. I appreciate it. Thanks for all your hard work. I love listening to the podcast. I learn a lot so hopefully I can add something to that so I hope everybody, your listeners will get something out of this but –

[0:01:34.1] WS: Thank you for that.

[0:01:35.8] MB: You're welcome. For me, I've always been investing in real estate, like you mentioned. I bought my first property back in 1994. I kind of fell into it. Just got out of college. My older brother said, "Look, why don't you buy a rental property. Buy a duplex, live on the bottom of the tenant upstairs, you know, pay the rent and help you out and just try to get something going?"

I said, "Yeah, sure, why not you know?" Ended up buying it, never forget my first tenant, Mr. Bingham. Elderly gentleman, I'm sure he probably passed now. but I remember him calling – I was new, totally, I think I was like 23 maybe at best. I remember him call me and saying, "Hey, you going to pick up the rent?" He'd have to call to remind me to come pick up the rent. He was very great, very nice gentleman. I never forget him. Fast forward, I had some rental – single family rentals here and there. I peeked right around the downturn, around 2008. I had about 15 single-family rentals. Did all my own management. Did all my own repairs. Learned a lot.

Got through the 2008 crisis with some bumps and bruises. Certainly, a learning lesson there. And decided to kind of expanding things to, "How can I become more active in this? And from a passive investor, it's more of an active investor, even I was doing my own work, I was still very active. And I really started thinking, there's got to be a better business model. And in the interim, in 2004, I got my MBA and started thinking more businesslike.

That's when I came across multifamily. Got an education, it worked with a couple of gentlemen, educating me on a whole new business aspect of it. And realized, the economies of scale and all the reasons we all believed in, why multifamily work so well and just expanded from there.

As of today, we have an investment fund that's open for investors. We have a property, you mentioned down in Lexington, North Carolina. It's doing well and my partner has over 4,000 units, we're working together to build up portfolio.

[0:03:25.1] WS: Nice, Mike. Grateful for just your time being on the show and being able to share some of this experience and expertise you've gained over the last many years in this business now. You know, one of your – your main super power, just asset management and during the current state of the market, you know, it's such an important time.

Asset management is crucial all the time. It is. However, it's never been as important almost as it is right now or at least in the last many years. You know, I'd love for us to dive in to some of the aspects of that and just the current state of the market, what you all done. maybe we talk about some property takeovers, what happens after sale or maybe compared to what you would normally do, maybe to what maybe is happening now. You know, some of those things so we can dive into that.

But it's changing so fast, right? I was just telling Mike this for the show as well. You know, just wanted to let the listener know that this is – we're recording this on April the 6th of 2020. Just in case everything is changing so fast. A week from now, we could have more information that may change the way we feel about some things about the way we're managing properties or whatever. You know, how we're managing our business. How we're moving forward and looking at how we're adjusting. I just want the listener to know that and to understand that.

But Mike, get us started about – Just maybe give us some asset management tips that you see, maybe people weren't planning for or didn't have in place or anything that we'd be thinking about right now.

[0:04:53.9] MB: Yeah. Asset management, I think there's a lot that goes into it as we all know. What I've learned over the years, especially getting from single-family to multifamily is that if you're managing on a property as a single-family investor, you're doing your own flips, fix and flips and what have you, those lessons are very transferrable to multi-family.

All the investors out there or the future owner operators who were on the call today, if you do have experience, it's very transferrable. Someone asked me that question before and you will gain a lot of information that you've had before to be able to use the multifamily space.

For those on the call who are looking, it's their first property, don't fret, don't fear. There's a lot of resources out there, there's professional property management teams. You have podcasts like this Whitney's podcast where you can learn a lot and really gain your information from there.

But yeah, asset management now, going through the COVID-19 crisis has been interesting and I think to sum it up, I think we never gone through this, this is a generational, hopefully never again situation where we've gone through. And what I've always done and kind of continued to do so is just frequent communication I think is the key to getting through this.

And where we've gotten to today so far as you mentioned on April 6th 2020, you know. Constant communication with your tenants. They don't know what's going on. They don't know what to expect. Some don't have jobs. We have rent collections to do and we have mortgages to pay. I've been communicating with our debt lender. So, we've been on the phone a few times but then keeping them up to breast of what's going on and just communicating with the property manager and every aspect of this just really frequent communication for focused no now and that's really helped.

[0:06:31.5] WS: For sure. Yeah, I could not agree with you more. Communication again has always been important, but when people are uncertain of what's happening tomorrow, they want to know as much as you know, right? The lender communication. I'm glad you brought that up because it is such a crucial relationship and you want to be communicating with them as well.

You know, I appreciate you highlighting just if you've been in single-family for a while, those lessons you've learned are going to help you so much, you know, if you're transitioning to multifamily.

But the communication key is so important. Could you elaborate a little bit on maybe what's your communicating to tenants and maybe we'll talk about some of those other things, lenders, and product management. But tenants, what's important for you all to be communicating to them right now?

[0:07:18.1] MB: I think right now, we've sent them the communications over the past three weeks – As an example of three weeks ago, we closed our office down, property manager office. I kept her home. Tenants coming back and forth and probably cross-infecting or what have you. Really following the CDC guidelines. That's been you know, it was a little nerve-racking. We've never not had a property management on site there during office hours. We sent in communication email to the tenants and saying, “Hey. This is what the plan is, this is what – She won’t be there but she’s always available by phone. You can call me directly if you need to.” It’s really almost an acute access to the tenant’s need.

That’s really gone a long way and kind of easing their fears with the tenants. And then that was early mid-March. Now, moving into now a new month with rents due, we’ve sent a kind of a clarifying letter if you will, obviously understanding their needs and fears and frustrations, hopefully minimal. But also knowing that we’re here for them and as what we’ve decided to do internally is as situations develop for each individual tenant, their needs are going to be different. And some have paid their rent already this month. Actually, our collections from the sixth of this month so far have been in-line month over month over the past quarter or so we were actually, knock on wood, hasn’t really affected anything but we’ll see.

My fear is really the kind of May, June, July, may be a little tough, depending on the recovery phase. but we’ll just deal with the tenants or a case by case basis. Because we did explain to them, we do have needs on our end, we have to – this is a property we need to manage and keep safe and to make sure that they have what they need to sustain their rental there.

[0:08:54.0] WS: Yeah, I love that. We want them to know that we’re here there for them, right? We’re not trying to kick them out right now. We want to work with them. We want people in the units that’s for sure. Tell me about the, maybe the conversations with lenders, what would that look like, what do we need to be thinking about, Why would we need to contact a lender right now, I know we mentioned how important it was but I just thought you could elaborate there a little bit.

[0:09:16.2] MB: Yeah, it was if the owner-operators out there now know that if you have a Freddie Mac or Fannie Mae loan, an agency or a CMBS loan, they’ve already contacted us. Was actually surprised, I was about to call our debt servicer and I got an email from him saying, “Look, Freddie Mac, they’re starting forbearers program. They have this in place if you need it over the next 90 days, you have a forgiveness, but they’ll restructure the loan or have something – kind of forbearance or a future payment for any missed mortgage payments.”

Obviously, we don't want to do that, it's a last resort. But the fact that they came out with it so quickly and really kind of says where their head is and where the market's going in hopefully the short-term, you know, pain we have to go through.

But we had to just very frank conversation. They said, "Keep it, look, keep it in the loop, what's going on, this is what you need," documentation and what kind of paper we need to get in but again, that's the last resort that we're hopefully not having to use but they contacted us first. I was very surprised.

[0:10:19.1] WS: Yeah, okay. What about the property management communication? I know that – I mean, we were talking property management almost daily, right? Sometimes numerous times a day but you know, what does that look like on your all's end, what are you all discussing during those times. I know like right now's first part of the month or we just got past the fifth, right, when most people's rents are late by.

What are you communicating with property management right now?

[0:10:43.6] MB: Yeah, we're speaking on a day to day basis, even over the weekends. We have some unit turns that are actually pre-rented that we had to get done so we had to get workers in there and get our crews in there. Just coordinating that. And so our property manager, she's going down about once a week just to get on site, get mail. Now, get rent checks, she was there this morning, you know, kind of doing finishing the collections that people that drop stuff off in the office.

And it's really just you know, as things come about, you know, we try to minimize our exposure there. But at the same token, we just have to balance that. We still have a business to run. Have to protect our tenants and employees as well. We try to minimize that as much as possible. But again, still trying to do what's absolutely necessary.

We put off CapEx improvements right now and we want to keep liquidity with us for a future rent, mortgage payments and things like that. So, we're doing a lot of behind the scenes, positioning if you will, to get through this.

[0:11:40.0] WS: How are you all preparing for that May, June, July, like you were talking about? And I agree, this month, you know, we get a lot of information right now, but a lot of people still had jobs or maybe they still do but they may lose them you know, over the next couple of weeks if they still did.

How are you all preparing for the next few months?

[0:12:01.2] MB: Yeah, we have reserve. With any business, you want some liquidity in your reserve cash, if you will. Mentioned earlier, there's that forbearance program out there but we will not use that as hard as possible, don't want to go down that road. But my sense is from our servicers and they'll be very flexible. But again, let's cross that bridge.

But over the next few months, we'll see. I think we'll have a better idea come mid-April where the tenants are and the communications are there and now that we've gotten through this month, we'll see, I think we'll have a good sense of where May 1st comes along that we know where we'll be.

You know, real estate is a very local regional business. And you see the national trends going out there with unemployment and in all the economics that go with that. But I keep it very close eye on what's going down in the local and regional markets. And that's really what's going to drive our rents coming in our collections in the jobs and what have you.

They didn't, you know, this is down in central North Carolina, the property I'm running point on. They went through a full statewide shut down I think last week. They were kind of waiting. Thankfully the coronavirus has not had – nothing like New York or Chicago or Washington, what have you. Thankfully. But they're doing on a more of a programmatic way, if you will.

We're hoping that the effects won't trickle down as bad to the consumer as well. We'll see.

[0:13:25.4] WS: How are you all – Like really, I mean, it's changing day to day, right? How are you all staying ahead of this?

[0:13:30.9] MB: Internet, talking to local boots in the ground that property manager. She lives about three counties above where the property but she's keeping abreast on what's going on. The local town website, these guys are great source of information in term hat the township or the community and the county is doing. And of course, regional business journals are a great source out there as well.

We always are communicating with them as well to keep an eye on the business announcements. But they've been very effective in getting the word out in terms of what's coming down the pike. In terms of closures, areas, so the more specific you can kind of gauge from that information that regional, local granular information is a way to judge what is happening, what is going to come down over the next 30 to 60 days?

[0:14:12.6] WS: We're not supposed to travel interstate right now, right? Is that right? I can't even remember for sure meaning we can't go from one state to another. We are not supposed to.

[0:14:20.6] MB: Well you have to be essential business and they have expanded that list and property management oddly enough specifically worded is a part of that management process. The property manager can go down there to check property and what have you. It is how I understand it, I gave her a letter. If she does get pulled over for misdemeanor or things like that but that has not been the issue.

I think there is portions of the economy that just cannot stop. And this is a safety issue on how I see that running the property. You know we have things – We have a responsibility towards the tenants and we need to provide a safe living environment and we had to do it so.

[0:14:54.6] WS: Right, I think as an owner you can be in that as well. I mean you have to care for these tenants and I mean everybody has to have a place to live so.

[0:15:01.4] MB: Exactly.

[0:15:01.8] WS: So, have you all utilize the PPP program or have you all looked into that at all?

[0:15:07.3] MB: Yes, the application is in. I got it in on Friday that was the first official from the SBA paycheck protection program that was supported by the Federal Government. The application is in I did got an email today saying that it was received and just waiting on further instructions. The application itself was actually very straight forward. I'd actually put in an application about a week prior and through this SPA the EIDL program, which is economic –

I forget what it stands for the acronym. But essentially, it's you receive it in an economic loss not a physical property damage but an economic loss through an emergency. That system when I put that in crashed, I could not finish the application. So, I called them, I was on a 45-minute wait. They said, "Look, just we're expanding this. There hasn't been an announcement yet but the rumor is that SBA is coming out with its PPP program."

It did happen and we did get the application in and we'll see. So, I guess maybe we'll have another call in a month and see where things are probably.

[0:16:06.3] WS: Okay that is interesting. Very interesting.

[0:16:08.2] MB: I will give an update. But we'll see but right now the application is in and we'll wait and see.

[0:16:12.8] WS: So, are you all still looking for deals right now? Are you still making offers?

[0:16:17.1] MB: Yeah, we are. Actually, an offer went out this morning. BUT, a huge but in capital letters, certainly not underwriting these deals, these opportunities the way we were even a month ago. So, a lot has changed and as you know multifamily or commercial property's value is based on the revenue that the property can generate. Well, when you are looking at a property or with rent rolls in February then this isn't going to work. It is a different time.

So, you know they are going out but there is definitely again, go back to the communication piece. Communicating with the brokers as well as even if we get to an LOI accept that LOI stage, we've told the brokers, "Look, we need to get on a phone call with the seller. If we are going to get through this together you know this has to be a team approach." And this barrier that the brokers I understand keep we have to have a clear communication and clear expectations on what we're going to go to because we don't know.

You know the property is not going to be able to perform and not hit that 90% occupancy in 90 days you know at a typical level. It is the whole price point is going to change. And so, we'll see but yeah, we are still making offers now and our timelines and closing dates are different. We have been in close communication with our debt lenders in saying, "What is the best way to underwrite this from a debt standpoint?" They are our biggest investor and we need to go in this with eyes wide open.

[0:17:35.4] WS: Could you elaborate on how you all have changed your underwriting to plan say for this next six to 12 months?

[0:17:43.4] MB: Right. Well some guidance along with the forbearance programs at Freddie, the agency and Freddie Mac and Fannie Mae have sent out guidelines for their underwriting. And what their insisting on is anywhere from nine months to one-year escrow reserve at closing that is to cover mortgage payments, taxes, insurance and CapEx.

So that certainly – They were looking at close to a million dollars in the deal we just send this morning. It is additional capital we need to bring into the deal. That changes the rates of return, cash and cash return. It changes the purchase price and our hands are being forced if we go CMBS-type no loans. So, we have to factor that in there. So that is where the communication with the brokers, "Hey, this is all for above, we are planning on X." Everybody is aware of it now. So, this just came out of the past two weeks. So that's what we're factoring in on there as well.

And we can get that money back if the property performs well. But I just found it very interesting that they came back with those guidelines very quickly as well again. And I think the nine months to 12-month escrow hold tells us where the government's mind is and when we see economy will turn around again. You know why not six months, why just 90 days? You know you have to ask yourself why is it nine months to a year?

So, I think they are baking in, the being CMBS, I think they are baking in an economic recovery somewhere or workforce recovery I should say somewhere around six to nine months, I am thinking.

[0:19:14.8] WS: Yeah because even if they open everything up the economy doesn't just take right back off.

[0:19:19.3] MB: Yeah, I wish. That would be great. That would be a perfect scenario and President Trump has said it multiple times it is a wish list. but you know the fed are doing everything they can do. I just heard on the news this morning they're talking about maybe reissuing war bonds, which I think is a great idea and I would love to see that. I think that would go a long way into prodding liquidity into the Federal Government.

[0:19:41.9] WS: So, do you have a place where we could find that the underwriting expectations of Freddie and Fannie?

[0:19:47.6] MB: Yeah if you go to Freddie Mac, their website or any of those CMBS to guide or entities, you can find their information. That is a great resource.

[0:19:55.4] WS: I assume you all have changed probably your rent growth expectations and things like that over the next year as well?

[0:20:02.0] MB: Exactly. You know – If again, it is a very local regional type of issue. We are certainly watching closely in our primary markets that we look that we are investing in, which is Tennessee, Georgia and the Carolinas. We are very focused on the southeast. Always have been. And so, we are definitely again keeping abreast of how the interconnection between job growth or loss thereof in the rents and receivables.

[0:20:27.8] WS: Okay. All right Mike just a few more questions before we run out of time. But tell me what was the key thing let's say two months ago or three months ago that you all are doing that prepared you for this event?

[0:20:42.8] MB: I think you can't prepare for something like this in the sense that just shutting off the economy is just – this is unprecedented times that we are going through. But also, I think hopefully people will – everyone will glean from this as how interconnected our economy is and how it affects our lives. I am sure a lot of people in this call know that. But it is interesting to see how people are realizing now how vital just a simple, some simple things are.

But I think just having that liquidity there. If you are going to do a syndication, which is what we do, you had to have reserves there for the unknown. We'll always want more money but near is it where do you strike that balance between having enough reserves and then returns you needed to provide for your investors? So, you know that is one thing that we did have and then we're continuing to use and just protect if you will and hopefully, we won't need it.

[0:21:28.9] WS: How do you all calculate the amount of reserves that you need before purchasing a property?

[0:21:34.5] MB: Well there is a standard for any mortgage or loan that you'll get. Some mortgage, they'll require a reserve usually it's 200 to $300 per unit that you keep there for CapEx and things like that. We like to from our debt standpoint at minimum three months debt service. We like to have more. We fluctuate as we would feed into that or build that up. But a minimum three months reserves. You know now people will say, "Oh, you need six months" you know. The lenders are looking for nine months to a year.

But a minimum I think depending on the deal and the size and your cash flow it is very variable numbers, but minimum three, ideally six.

[0:22:10.6] WS: Okay, what is a way that you've recently improved your business that we could apply to ours?

[0:22:14.9] MB: I think having strong processes in place. You know going through any onboarding or takeover property you always inherit some processes from the previous owner whether good or bad. You always want to inject your way of doing things in our own business models. But I think just having this open communication, to have that ready to go through times of emergencies. And then that accessibility is what I think tenants really want to see.

And also, our investors. That is one thing we didn't talk about earlier but you know we have also frequently communicated with our investors. They want to know what it going on. They also have a huge stake in this. So actually, after our call I have another email to send out to them giving them an update on where our collections are after five or six days. And local market news I give them and so they have the flavor and the feel and the pulse of what is going on.

That is a big thing for me is to always communicate with our investors on what is going on that is good or bad.

[0:23:05.5] WS: How are you finding investors right now?

[0:23:07.3] MB: Same thing. Interestingly the investors we have are the smartest investors that I have ever dealt with. And they are great. They've even asked me now and I not only forward over the emails, but also call them individually, spoken to them. They understand what is going on but also want to know if there is something I have in the pipeline because they are looking to still invest. They understand it long-term positive aspects of investing in multifamily real estate.

[0:23:30.8] WS: Nice. So, Mike what is the one thing that's contributed to your success?

[0:23:35.4] MB: I think that relationship that – It's really our investors and how we deal with them or our tenants and that face to face if you can, at re very least put at most is just that accessibility. I think it is so important because this is a relationship business. Any business is whether it's from pizzas to Porches. Where you're going to have to build that relationship for your customer and in multifamily our customers, our lenders, our investors, our tenants, our workers and what have you, our employees.

It's just that is really the one thing I think the takeaway, is that in good or bad times if they know you have their back, they will support you. And I am seeing that now. It is a very heartwarming response that I get. So, I am really appreciative of that.

[0:24:14.7] WS: And tell us how you'd like to give back?

[0:24:16.4] MB: I give back to investors and really educating. I love doing this. It is a passion of mine. I have not transitioned to a full-time investor if you will. I have spent 30 years in the healthcare space as a clinician. And I have actually I treat my investors as if they were my patients in the sense that informed consent. I want them to know everything at a very granular level what's going on and I found that they really appreciate that.

And I treat our investors as almost like limited partners, but I treat them to GP's, I want them to know what is going on. I always tell them if you want to invest with us, I want you to learn as you earn and come in and we tell you what is going on. If you have a question about something, if you are looking to deal it yourself or something else or another investment you want to do, I'd be more than happy to talk about it. And give my point of view on it. So, I really enjoy working with investors, teaching other potential investors and the benefits of multifamily. I love it.

[0:25:11.8] WS: Mike, unfortunately we are out of time but thank you so much for just your willingness to share your experience and your many years of experience investing in real estate and now your syndication business and through this crisis as well and how you all are moving forward and still making offers and how some things you all have done to safeguard yourself in moving forward, I appreciate that.

But tell the listeners how they can get in touch with you or learn more about you?

[0:25:35.4] MB: They can call if you're going to send information out but you can always find me on the web. Our website is carolinamultifamilyinvestments.com. It is all one word. They already can contact me, feel free to email me. I can also give you my 800 number that's a 888 number that you can always call and reach out to me if they want to just talk or maybe invest or may look at again, coming in on an investment and then learn on the side as well. As I say learn as you earn. They can reach me there. And just feel free to email me as well through mike@carolinamultifamilyinvestments.com.

[END OF INTERVIEW]

[0:26:06.9] 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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