

**EPISODE 851**

[INTRODUCTION]

**[0:00:00.0] 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]

**[0:00:24.4] WS:** This is your daily Real Estate Syndication Show. I'm your host Whitney Sewell. Today, our guest is Clay Allen. Thanks for being on the show Clay.

**[0:00:32.1] CA:** Thank Whitney, I've listened to your podcast a number of times, good thing to do so and gotten a lot of value out of it, it's a real pleasure.

**[0:00:39.3] WS:** Thank you for that, I appreciate you listening and everybody that's listening right now, just want to say thank you. Again, I can't say that enough, I just to the listeners and your support. I hope you are learning and your business is growing because of the guests and interviews that we're completing.

A little about Clay. He has over 20 years of experience providing debt, equity, and asset management for multi-family owners and operators. Based in the Atlanta office of Old Capital, Clay is focused on helping investors across the southeast to obtain appropriate financing for their multi-family acquisition. He also likes to leverage his experience to write his clients sound feedback on their underwriting assumptions, as well as provide asset management advice after the close.

I got to meet Clay recently just on the phone, I knew he'd be a great guest on our show, he has tons of amazing experience that we get to all benefit from, no doubt about it — but what's

interesting, is he has lots of experience in underwriting and lending but also, a lot of experience in asset management. I think that's a neat piece to bring to the lender side.

We're going to hear more about that today but Clay, give us a little more about you, your background and let's jump into just the current lending environment which so many listening are going to wonder about what that means for their current deals or deals that they're looking at.

Then also, just for us to lean on your asset management experience as well, especially from the lender's perspective, I look forward to hearing about that but let's jump in.

**[0:02:02.9] CA:** Yeah, sure thing, first, a little bit about me and I'll keep it brief. Born and raised in Georgia, south, middle and north Georgia. I've covered the whole state at this point. Went to Stanford University in Birmingham, Alabama and I came back in 2001 to Atlanta and really, been in the commercial real estate field my entire career and to sum it up, it's nine years with traditional banks and construction lending and bridge lending.

Nine years with GE Capital and that would be Joint Venture Equity that we provided to owner operators. It was also a little bit of asset management from an institutional perspective and then also did some underwriting for Bridge CNBS towards the latter part of my time at GE Capital.

Spent the last five years, when I say the last five years, up until August of 2020, as an asset manager for multi-family, two different large GP's covered really the southeast, larger southeast markets but went as far north as Chicago and Boston for a brief period of time. Have a lot of experience in different markets and on-boarding assets.

I would say, as far as real estate goes, I told you I've been in real estate my entire career. I kind of married myself to it, getting masters of science in real estate and a CCIM so I'm not going anywhere, I'm going to stick in real estate for the entirety of my career and just again, glad to be here with you.

**[0:03:17.0] WS:** Yeah, I know, that's great. I appreciate you sharing that, Clay. Let's just jump in to the current lending environment. I know that's changed some over the last year as most of the listeners have heard us talk about many times but it's interesting talking to just someone like

yourself who is on that side of the table and been through the last 10 or eight, 10, 12 months and you know, just hearing your perspective and what's happening right now as well.

Maybe can give us a brief overview of the last six months and then what's now and then we'll obviously go to what you expect.

**[0:03:48.2] CA:** Sure. I guess, looking back in March and April of 2020, there was a little bit of a shock, right? We were all kind of looking around at each other saying, "What's next, what's going to happen in the lending environment?"

Fannie and Freddie, they're just really did their job and providing that liquidity to the market. That continues to be the case today. They released their caps for 2021, 70 billion dollars each for each. That's plenty of loan dollars to go around this year, which is great news. That's great, we're seeing a little bit of thawing out if you will with some of the other lenders with the non-recourse bridge lenders who went silent shortly after COVID are slowly coming back.

Still not nearly as many that are in the market but we also have traditional banks that I've talked to a number of traditional banks between North Carolina, South Carolina, Georgia, and Florida, thus far. There's still some that are a little bit pensive, that kind of want to put their toe back in the water with really experienced operators and their existing clients. Most are very responsive in importing deals for us. That's encouraging.

**[0:04:48.3] WS:** Okay, what about – let's dive into just, I mean, right now, if we're financing a loan, some things we should expect to see or questions maybe from you as we're having that conversation about our next acquisition. What are some things that we're going to talk about today that we wouldn't have talked about six months ago or especially a year ago?

What's new today that we should expect to have to know about when we're on the phone with you?

**[0:05:12.4] CA:** Yeah, I would have to go back to say, 12 months ago to a year ago to answer that question because debt service reserves and experience are the two things that really bubble up to mind. When I say that, that's really with the agencies, so Fannie and Freddie. Both

Fannie and Freddie requiring debt service reserves, I think everyone's well aware of that by now. Freddie Mac is upwards of 12 months, Fannie Mae is also nine to 12 months but if you're doing small balances, it's as high as 18 months. Still a big check to write at the closing. Right now, the question is, when will that get released and the answer really still is, basically 90 days after all the emergency decorations are lifted by the state in federal government.

Or, there's a test for each Fannie and Freddie that you can pass and they'll release those reserves back to you if those declarations are still intact. When those go away or when those start to loosen up is a big question but looking forward if it was going away. The experience piece is probably something that was not quite as ardent 12 months ago as it is today.

What I mean by that, we are sticking with agencies again. Freddie Mac, they're really looking for a pretty formulaic experienced model, if you will. They want to see three assets owned by key principle. One of which is two years or longer currently, two years or longer. They want to have current experience.

Now, there are situations where you can get a waiver with that. I wouldn't suggest kind of testing with both but purchased one property and ready to buy this property, they probably want to see at least two properties and a really strong market, good operator, good third local third-party property management but that is a case-by-case basis.

Fannie Mae wants to see that experience as well but it's not so formulaic. They don't lay out a formula, the dust lenders for Fannie Mae are a little bit on their own on that and they make a judgment call.

I would go in, your listeners, even if it is for them, I would go in with the understanding that both Fannie and Freddie want to see some experience on your team.

**[0:07:13.3] WS:** Now, how much of that is new, I mean, for right now, versus say, a year ago? The three assets owned by the principle, two years or longer. Is that new, say in the last few months, is that this year or is it always been that way?

**[0:07:26.8] CA:** Yeah, I wasn't with Old Capital back in 2019 but my understanding I think it was third, fourth quarter of 2019 when things started to tighten up a little bit from the experience angle but it's now – you know, let's say go back six to eight months ago. I believe August of 2020, that's when Fannie or Freddie started to really buckle down on that a little bit more and define it more with that formula I just mentioned to you.

It's definitely still, especially with the COVID counts as we record this, as high as they are and those eviction moratoriums extended through March 31 and is likely that they would extend again is my guess.

**[0:08:03.9] WS:** You talked about, I wanted to go back to just the reserves a little bit, the requirement that the lenders are having, you said 12 months, as high as 18 months. But you also mentioned like they can be – they aren't going to be released until, you just said 90 days after the government removes this emergency stake, is that right?

**[0:08:21.1] CA:** That's correct, that's per definition. Again, you can have that released if you meet certain criteria. Fannie and Freddie are a little bit different in how they measure that but there is opportunity to get that back. Most people understand that and by the way, it hasn't slowed Fannie and Freddie down one bit.

I mean, they are doing record volume still. In the way it refi's but definitely the acquisition market is coming back and gaining steam so they're not in a hurry to release these reserves. It's not like their business has fallen off because of them. I think investors are going in knowing that there is a temporary thing, they're going to get it back, probably within a 12-month period and so they're understanding and forgiving of it.

**[0:09:00.8] WS:** How have you seen sponsors, say, restructure their deals to allow for this reserve?

**[0:09:07.5] CA:** Some are considering some of that reserve as future capital needs. Whereas, a buyer goes in with a five-year plan, maybe a capital plan, knowing that they might have to replace a roof in your floor or a pool deck. Those types of capital items that are not required repairs by the lender that have to be done within 12 months.

They're looking to that money to come back to them — so that's one thing. That way you kind of avoid the extra capital raise and the extra crap you're paying to your investors but I'm neither endorsing that nor saying it's a bad strategy, it's just something I've seen.

**[0:09:42.9] WS:** Let's talk a little bit about your asset management experience but you know, from the lender's perspective and I think you can shed a little light there in helping the listener and myself just think through the asset management piece just from your experience and then — love to hear really from the lender's seat now, what you like to see there, maybe that business plan and successful operators and how they operate or how they manage those assets?

**[0:10:07.1] CA:** Yeah, it was interesting. When I — I gave you my history, I went from lending capital markets to asset management, now I'm back in the lending field. My eyes were opened when I became an asset manager because I was working directly with our in-house property management teams.

I was not on their team necessarily, I was in a separate silo and my job was to manage the manager in a sense to hold them accountable in hitting the business plan, that was before them and my job was to draft business plan by the way but my eyes were really open as to what they have to deal with day to day.

It is a tough job on the property management side. The lenders generally don't see that, not the day-to-day stuff and the institutional asset managers when I was doing that at GE, I wasn't made aware of all the issues that they come up with.

As an asset manager when I was with these two large firms, one of the jobs was to see the capital plans. I just mentioned required repairs, right? Post-closing you have a list of required repairs that you have to get done within a certain amount of time. One of my jobs was to work alongside the construction management team, make sure those were done, communicate with the lender.

Any time there were some sticky situations and luckily, they were few but any time we had some sticky situations in a way, say of a debt service coverage hurdle, an upcoming maturity, I had to

get involved and work with the servicer I work with, the bank itself, the loan officer. That really helped me to understand both sides of the business and then from that angle, I feel like I can resonate with my clients a little bit better.

Especially the early-stage investors, it's an opportunity for me to be a little bit of a coach post-close on asset management side. What's the best strategies for communicating with your investors? How do you draft a solid business plan, what do you think about when you're approving budgets, what's the best strategy for monitoring the asset and driving it to performance, weekly meetings, monthly meetings, what should be included with those and how hard you push your property management teams?

A lot of different things that I feel like it can bring this to my clients that beforehand I probably would not have been able to.

**[0:12:07.6] WS:** No, that's a great thought. Why don't we spend a minute or two there on just drafting that business plan? I think that can really help the listener and myself as you're acquiring a new asset, as you're developing the plan it helps you to think through different parts of the property that maybe you haven't thought of before or things you're going to have to put into place.

Why don't you just spend a little time there and just discuss just that business plan more in depth?

**[0:12:31.3] CA:** Sure, there's a business plan that's drafted at the beginning of the investment before you close. Then there's another business plan annually that's done and this is the way that we operated. I imagine most larger shops operate in the same method. You draft an annual business plan and that's meant to frame the discussion or frame the upcoming budget, right?

The property management teams generally will prepare a budget for you to approve and the business plan is an opportunity for you to put that in front of them and say, "These are the guidelines I like to see you draft a budget." Rent growth, expense growth, any initiatives that you're planning to take. Most of us have a good number of certainly involved in value add and so you want in that business plan to explain to say, "I want to see" I'm going to throw out a

number, “60 units completed in the year” and we’re going to average X number per month. We want to keep the cost to Y and we want to see premiums equal Z.

You spell it out, it’s generally a known thing but you put it on paper and you identify it. The same way if you’re having a large capital initiative, you want to make sure those are good to know in a timely manner by a certain date. It’s not good enough just to say you want to do a seal stripe in 2021. You want to make sure that is done before the cold weather arise and so this is on everyone’s radar. This is going to get bid out and executed by say, in here in Georgia, by October.

Things like that, you know, you want to keep it succinct too. You don’t want to have four pages and I like to challenge people to keep it to one page, keep it to bullet points. There is no need for a book but it is something that again just sets the framework for the budget.

**[0:14:08.3] WS:** You know, I think that is helpful right there just saying keep it to one page and some bullet points where it doesn’t have to be this like big magazine, right? Professional and laid out very well, easy to understand but it is just great to think through those things and like you said even putting dates, having that plan. It is just crucial to the property performing like you expect so you continue to pay out like you’re supposed to and you’re on top of things.

You are ready to tackle issues as they come up but just thinking through the asset management piece as well, you know anything else like even after closing from the lender’s perspective that you like to see operators doing outside of the business plan, you know the communication with you about how the asset is performing, anything like that?

**[0:14:46.1] CA:** Communication is huge, it really is. That is one thing I did when I was an asset manager so again, I challenge anyone to think of third – you know, say an asset manager for a large shop. They’re acting as the GP. If you are someone who owns one, two, three or going to own a property, you are the asset manager as a GP. Communication is really key with the lenders. When COVID came along, we had one asset down near the coast in Fort Lauderdale.

Actually, Tofino Beach just north of Fort Lauderdale and Brower County was hit pretty hard and so the loan officer was out of Charlotte and I gave him a call proactively. I said, “I just want to let



you know we're staying on top of things. We are monitoring your collections on a daily basis, things are actually pretty strong. We're encouraged."

He had not even reached out to me yet, you know? He was so appreciative of that and that helps set the tone for you lender and GP relationship for when bad things can happen, right? If you can develop that relationship early on and be communicative, that's really a big plus.

**[0:15:47.2] WS:** You know, I like asking every guest and especially people on your seat, you know as a lender, just about how you like to see people prepare for a downturn. As you are looking at deals right now in the current market, what do you like to see there? What's different now than maybe it was a year ago that you like to see that says, "Okay, this operator is prepared" for say the unexpected?

**[0:16:08.7] CA:** Yeah, and that is one thing I'd say coming back from asset manager days expect the unexpected especially multi-family. You're dealing with people and people are messy business and it will happen. I would say stay liquid and what I mean by that, that's a simple answer, right? I mean it is just common sense, have cash reserves even in the best of times. I ran into a half-a-million-dollar issues on my sites. You know, whether it's elevator issues or lift station issues.

Just a number of things can come up, termites, right? You want to have, well, our general rule of thumb was two months of operating expenses in reserves in your operating account. You don't want to be scrounging around each month or each quarter depending on your distributions. You know, scurrying about looking for money to pay your investors, only being left kind of cash poor at the property because the unexpected will happen. That is the biggest piece of advice I could give.

**[0:17:03.2] WS:** Yeah, have those cash reserves. I know I talked about it numerous times on the show. I feel like we have an extremely large reserve budget when we are doing a deal and I've had people say, "Oh it's too big" or it hurts returns, things like that. I mean it might hurt or affect returns a little bit but until we closed the projects like in March, the week before the country shutdown and you know what? After that happened, nobody is saying anything about that big reserve in that situation.

I know they are happy that we have it. Thankfully, we haven't had to use it. We haven't missed any distributions, things like that but I am thankful that we have it, right?

**[0:17:34.1] CA:** Yeah.

**[0:17:34.5] WS:** I'm so thankful that it is there because nobody expected this pandemic or all of these stuff to happen but you know, anything or any ways that you have seen that structure? You said two months of operating expenses in reserves. Have you seen operators do anything else or ways that they calculate how much we should have in reserves? I know it is going to change versus in different classes of properties maybe or how heavy the lift is as far as the value add, things like that but any kind of calculation or anything there that you've seen people do to say, "Okay, this is how we know how much we need."

**[0:18:04.7] CA:** No, that is really the primary method that I have seen in the two shops that I have been a part of, it is really measured off the number of – the amount of expenses but you know, I mentioned two months. That was something that we, as a rule of thumb, we did pre-COVID, right? It might behoove you to have a little bit higher mindset on that, you know maybe three months. I don't know what the right number is.

I mean I think it is going to vary asset to asset, right? I mean if you are in a class C-type property and you are really concerned with your collections, you might have a bigger problem than the class-A, double-A property. We have better credit so it is going to be asset to asset. One thing I would encourage everyone to do as well and it's easy to do this, when you run into cash issues, don't immediately go to the capital reserve, right? That money should be set aside for those needs because those are real needs.

You know, it is kind of like Peter Thiel to PayPal, "I am going to take from that reserves and then things are going to get better. We're going to replenish the capital reserves" rarely happens because in most cases, there may have been a miss in the underwriting and you're just not – your property is just not generating the cash-on-cash that you thought it was going to be because there may just been a miss. Don't rob Peter to PayPal. Just rely I'd say to stack up some cash at the property in reserve.

One other thing, Whitney, I would mention on that, think about having a separate account. Think about this with your own personal finances. You don't necessarily want a million dollars in your operating account. You want to set aside say, \$500,000 for that into a separate account. Held at your bank an internal account, whatever you want to call it, money that you can immediately get to if you need to but it is not there to be spent on, you know if –

We can put it another way, if it is sitting in a separate account, you know the balance, right? You are not having to guess every month and it is set aside for a specific emergency.

**[0:19:56.0] WS:** Clay, from your experience, what do you expect to happen in the next six to 12 months just in real estate market? I know no one has a crystal ball but I just love to ask people with your level of experience.

**[0:20:06.0] CA:** Well, I think more deals are coming out and we are not seeing any shying away of interest in multi-family. I think you are still going to see cap rates that could soar close, whether or not they'll continue to compress a little bit. I kind of doubt that. We are seeing the treasury tick up recently from 60 basis points, now today as we record this I think it is about 1.1%. I am not a believer that cap rates can't compress that much more but I think there is plenty of liquidity in the market both in the debt side and investor interest.

I think that is going to continue. You have again, the lender stalling out a little bit and the agencies are still there lending. A little bit more of the same I think from the third quarter, just more activity.

**[0:20:44.6] WS:** Do you have any daily habits that you are disciplined about that have helped you achieve success?

**[0:20:49.5] CA:** One of the beliefs I think I thought about this and I don't believe I'm there yet and I know that I'll ever believe that I'm there yet. I think that is one thing that kind of continues to push me in a sense. It's kind of resetting the bar. One thing that I do more routine is I am an early morning person as well. I hear people saying 4:30, I am not a 4:30 guy. I am probably

more 5:30. I get up and I make a point to spend time in prayer and then also kind of resetting myself for the day, for the week.

Planning out, I am a big believer in *The One Thing*, the book. I have listened to that two or three times over the past six months and putting that into practice. Look at my annual goals each day down to the quarterly, monthly, daily, resetting your daily goals and habits by *The One Thing* has been a really good benefit.

**[0:21:35.4] WS:** Well on that note, what is the number one thing that's contributed to your success?

**[0:21:38.9] CA:** Well, I think it's just that it is not saying that I am there yet, resetting the bar and you know, for me to say if I am successful is to say that I've reached where I want to be and so I am not prepared to say that. I think I want to continue to move the bar.

**[0:21:52.4] WS:** I like that, I like that a lot. Are there any ways right now that have worked really well to meet new investors, you know, just in your line of work?

**[0:21:59.2] CA:** I'm one of the new, I guess members if you will, of Clubhouse that's taken off all of a sudden. By the time people listen to this it may be all over the world, I don't know but Clubhouse is a great app. It's Zoom before, so everyone has to get used to that. We are doing here at Old Capital, we're doing monthly speaker series, which I invite everyone to. They're fantastic and a great, great spot to meet other aspiring GP's and existing GP's, limited partners who want to invest with you.

Just the medium of technology has been astounding. It's really filled the void. I am a people person, I love getting in front of people. I'm an extrovert so I'm looking forward to being able to do that more often but in the meantime, technology has really saved the day.

**[0:22:41.1] WS:** How do you like to give back?

**[0:22:42.7] CA:** I guess a couple of ways. I am pretty active in my church by way as an officer and a deacon and so we have a fund that we help people in need at the church through that

fund. I take up a case here and there every now and then, walking through it and we try to provide some help where needed. There is another area that I am a board member of the group called Feeding the Homeless Project here in Atlanta.

It's made up largely of real estate folks. I've been a part of it for a few years now but our job is not monumental. We are not trying to cure homelessness or solve the hunger necessarily. We need weekly downtown Atlanta and pre-COVID and post-COVID, we cook a really large breakfast for the homeless. They lined up a 150 to 200 people were lining up and be a part and the whole idea really is just reminding them that they have dignity and they're made in the image of God just like I am and you are and everybody else.

That's all we are, I mean that's what we do, but it serves a great purpose and it has simply given us a time to connect with them and again, give them the dignity. In the meantime in COVID, we've been just preparing in the kitchen and delivering directly to people on the streets by the way of driving around and whatnot but it's still very rewarding.

**[0:23:47.5] WS:** Clay, I appreciate you giving back in that way and just your time today as well, speaking through just like current lending environment, what's happened, things we should be thinking about and those reserves and the experience piece that maybe an issue for some operators at the moment, you know but then also just from the lending perspective, that asset management piece and the business plans, some great tips there that you've provided and staying liquid in those reserves.

I'm grateful for all of that, tell the listeners how they can get in touch with you and learn more about you?

**[0:24:15.4] CA:** Yeah, I can do that and also I'll do that and then I wanted to let you know, we talked about a business plan. I have a template if anyone is interested, please feel free to reach out and talk to me and we can provide that. It just kind of gets again, one-pager, it is nothing fancy. I am happy to provide that. You can call me at 678-357-2631 or you could reach me on my email at [callen@oldcapitalending.com](mailto:callen@oldcapitalending.com) or just go to the website, [oldcapitalending.com](http://oldcapitalending.com) and you'll see our profiles there.

**[0:24:43.3] WS:** Awesome, that's a wrap Clay. Thank you very much.

**[0:24:46.2] CA:** Thank you.

[END OF INTERVIEW]

**[0:24:48.2] 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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