EPISODE 858

[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 Anton Mattli. Thanks for being on the show, Anton.

[0:00:32.7] AM: Thanks for having me on, Whitney.

[0:00:34.2] WS: Yeah, I can't believe it's taken 850 plus shows to get you on the show and we've been in a mastermind for a good while now together and heard him speak numerous times about financing and help so many people just think through and better understand financing for syndications and the pitfalls, he is extremely experienced, which you're going to hear a little bit about. Looking forward to this conversation, Anton, pleasure to have you on the show.

A little about him, he's the CEO of Peak Financing and has decades of experience in commercial and investment banking, private equity and commercial real estate. After graduating from Zurich Business School in banking and finance, held a senior management positions at major financial institutions in New York, Tokyo, Hong Kong, and Zurich.

During that time, Anton was heading a bank branch, managing cross-border teams financing and restructuring commercial real estate worth several billion US dollars and overseeing loan portfolios consisting of aircraft and ocean transport vessels.

Anton also directs in structuring complex cross border commodity and trade finance transactions for Fortune 500 companies. Anton, thank you so much for your time and being on the show and being willing to share with us and help us to better understand, just the financing piece and things that are happening right now on our market. I know you keep up with those things better than probably any of us can.

Give us a little more about your focus in this industry right now and let's jump in to just the current financing situations and pitfalls for syndicators.

[0:02:03.9] AM: Sure, absolutely. Thanks again for having me on. Our focus is to do finance as we call it, the middle market segment. I come from institutional background and that typically when comes to asset sizes, 50 million end up. Below that, we call it the middle market and that's where we – our firm are primarily focused on — and when it comes to the syndication space, that's where we help a lot of syndicators. As you know, a lot of syndicators are active in the multi-family space so that's only the biggest chunk of syndication financing we do.

But we also do other commercial real estate like office buildings, retail, mobile-home parks, self-storage and all that, it's just that multi-family is suddenly a big piece of what we do.

[0:02:51.8] WS: Now, just the terminology there, just a little bit, you talk about middle market segment and you said, that's 50 million and up? What were those ranges?

[0:02:59.9] AM: 50 million and below, right? The true institutional players, they tend to focus on assets sizes that tend to be 50 million and up, sometimes, they may go for 35, 40 million assets but most of them really focus on much larger assets. Once you are in that as we call it the middle market segment, it's more a syndicators, private individuals, maybe family offices that invest in these assets and that's where we are at the most value because institutional place —

They typically have to rain house financing in place so they do not really need that much of our systems because to have a large team that does it on a daily basis, essentially doing what we are doing for our clients and that's the reason why we focus primarily on the middle market.

[0:03:51.4] WS: No, that makes complete sense, I appreciate you elaborating on that. Sometimes that — especially the listeners, you're getting new into this business, you don't understand some of the terminology and what that means. Let's jump in to just the financing situation as we speak. Obviously, we're in mid-January right now when we're recording this just so the listener knows but Anton, why don't you just give us kind of an update and I also love to learn, just how someone like ourself that's in the syndication business, we're doing deals —

However, we're not in the financing side of it like you are or how can we gain more knowledge and just stay up to date on more of what's happening, how do you do that or how do you suggest that we do that?

[0:04:29.6] AM: Yes, one of the best ways to stay up to date obviously just stay in touch with the rest of the advisors, always live with us on the financing side, read a lot of reports from lenders, also read whatever report we can get. It's important that you are aware of where the interest rates are in the market place, whether it's the treasury yields and other interest rates that are driving the real estate financing market.

That's really the crucial piece, at the same time when you stay in touch, really ask the right questions, both has changed over the last couple of years or couple of months. As a perfect example is that you may have heard me talk about Freddie SPL as an example, that is a perfect entry point for someone who doesn't have experience in multi-family syndication.

Use Freddie SPL, essentially allow for an inexperienced investor or syndicator to do that first deal as long as they're a third-party management. Well, that is now out the window and we still get calls and request from individuals that have heard us, me or one of my colleagues a year ago or three years ago, thinking, "That's the way to go," and now, today, we have to tell them sorry, the situation has changed.

It's important to stay up to date of what is happening.

[0:05:53.4] WS: No doubt about it. I appreciate you bringing that up because I'm sure, there's probably many listeners who try and get into this business, making – especially their first deal or two happen, they probably heard of that and some of them are thinking maybe that's a good option. At the moment, that's gone. Do you see that coming back at all or is this just kind of off the table right now?

[0:06:11.7] AM: I don't see that it comes back any time soon, we never know what's happening in a year or two years from now but talking about particularly the last year when we look at – through COVID-19, that is on everyone's mind, the loans that have had the most difficulty is already pre-COVID but it's only has shown up even more so during the COVID-19 situation —

Are the smaller loans and the smaller loans with "newbie" as we call them, buyers that are the first-time buyers, really make up a big bulk of the problem loans. As a result, obviously the agencies and all the lenders too are now much more careful with someone who has no experience at all in multi-family or any commercial real estate so they just take a more careful approach.

[0:07:04.7] WS: That individual that's listening now is thinking, "Oh no, Anton. I was hoping that that would work for me to get that first deal done." Are we going to go to – they're going to have to partner with somebody that has the experience, bring somebody in that has the experience, is that kind of going to be the route for them now?

[0:07:19.3] AM: Absolutely, that's the right approach. Frankly speaking, we always recommend that that even be previously, right? Even though it was available for someone to do it on his or her own, you always recommend to partner up with someone because you avoid so many mistakes if you partner up with someone who has already gone through that situation.

Now, it's just a must and that's really the best way, right? That's – if you have a good deal or a great deal that you find, as you know, Whitney, there are so many people out there that are willing to partner up with you. It's not that you're not able to find partners but what is required is that you expand your network well before you find that deal so that once you find that great deal, you already have the ability to reach out to someone, right? You cannot just find a deal and then start calling people then they don't' know you and unlikely will partner up with you.

[0:08:15.8] WS: You know, that's great advice. Expand your network before the deal, right? While we're on that topic too about, you're saying about asking the right questions, I wanted to go back to that, when we are speaking to someone like yourself, help us to think about what questions are the most important just so we do get a really good glimpse into what's happening right now just in the financial market?

[0:08:36.2] AM: Yes, really, what is important for anyone to understand, just because you receive a T12 and the rent roll, that doesn't mean that the lender will take that T12 and rent roll so the financials, and say, "Yes, we will provide finance and based on these numbers." Ask, how would a lender underwrite this particular deal and that is probably the most important question that one should ask because that's where we see the biggest mistakes where someone is underwriting a deal, makes an offer, sometimes even go under PSA, and then they start seeking out financing and then they are all surprised when the loan proceeds and all the terms of that long due to come in at the level that they originally anticipated.

[0:09:24.1] WS: What are going to be – how are we going to know that, what are going to be some of the issues that you're going to see there of how the operator underwrote versus how the lender's going to underwrite?

[0:09:33.0] AM: Yeah, unless it's a bridge loan, obviously bridge loans are a little bit of a different animal, maybe can't underwrite to proforma but when it comes to the typical stabilized transaction, a lender underwrites to the last three months as a general rule, the last three months of rent collections, the last one of ordering from collections, and then the lender will underwrite the expenses to their own underwriting standards as well as to about appraisable underwrite expands it.

It doesn't matter where the T12's expenses are, it doesn't matter where you think that the expenses can be, it's really what the lender and the appraiser thinks, where the expenses come in. Now, on top of that, particularly when it comes to Freddie loans, Freddie will very often even overwrite what an appraiser will say or what the lender will say because they take essentially all of that risk so it's not a shared risk.

Sometimes we see deals where we have lower expenses until Freddie comes back and says, "I think the expenses need to be raised." It's important to understand that particularly the expenses, it doesn't matter what the T12 shows and it doesn't matter what you as a buyer think where the expenses will be.

[0:10:51.2] WS: What's the best timeline there as far as you know, showing this deal to you and then obviously get in front of the agency as well. Before we're obviously have hard earnest money, things like that so we know we can proceed with this deal like we think the underwriting should be.

[0:11:05.4] AM: Yes, the best way really is that once you find a deal that you think makes sense, obviously you go particularly in the current environment where you have a lot of buyers out there. It's definitely still the seller's market. We cannot look at every single deal that someone is looking at but if someone is underwriting a deal and feels like, "I think this is a good deal and I think we want to make a run for it and we want to send me the LOI."

That's the point when they should reach out to us so we can essentially validate their own assumptions when it comes to loan proceeds, interest rates, interest only and so on.

[0:11:43.9] WS: Let's jump a little bit ahead to just some of the pitfalls for syndicators right now or financing pitfalls that you're seeing and maybe just more current situations for our current market that you know, you have an eye to that we don't, that you could help us with.

[0:11:58.3] AM: Yes, we now have 2020 has passed, right? For some, I would say, the timeline probably was running away from them where they thought that they could close by year end and then they run out of time. Now, we don't have that situation luckily until this year in November and December but that is something that everyone should be aware of.

Very often you think you have 60 days to close, so much time and in reality, it's a very tight timeframe because there is so many various items that need to be addressed. Now, the order pitfalls really is what is so important for everyone to understand is and particularly for someone who comes from residential real estate where you apply for a loan, you very often can get that rate locked and you know that you essentially get these loan receipts within a couple of weeks when you close.

This is just not the case in commercial real estate including multi-family. Even if someone gives you soft- quotes, the soft-quotes are always subject to changes. Even if you get a loan application, that's no guarantee, right? It's subject to the underwriting, it's subject to future collections, right? If you apply today and you may submit December collections and T12's.

If the collections come in lower in January, that may negatively impact the loan proceeds. If an interest rates move up from today until you do the so called rate lock, your loan proceeds might be negatively impacted.

Same thing if interest rates move up, your overall lump proceeds maybe blower your interest rate is higher and your debt service coverage constraint with your loan. It's important to understand that you just do not know a hundred percent where your loan proceeds and terms come in until you have that final loan commitment and that is, in most instances maybe just a week or two before you close that on that deal.

[0:14:01.9] WS: You know you had mentioned even before we started a little bit, you're talking about the treasury yields and what's happening right now and everything that it affects through the deal to the closing table for sure, you know when we say treasury yields, I would like for you to elaborate a little bit you know, a lot of listeners not heard that terminology, I mean I don't understand really what we're talking about there but could you elaborate on that and then you know, the current market of that. What does that affect?

[0:14:26.4] AM: Yes, so here we really specifically talk about non-recourse loans whether they're always typically with agencies and CNBS loans, which are the most common loans but it's only on multi-family side, it's Fannie and Freddie multi-family loans. Most syndicators and buyers in general and owners that we refinance the go for around 10-year terms. Sometimes they go for seven years, sometimes for 12 years but that is the channel lead tenant 12 year are probably the most popular long-terms.

For the actual interest rate that is based on the so-called ten-year treasury and that's – you have to treasury bonds that are being issued by the US government and they trade in the market on a daily basis and whatever the interest rate yield is for that investor at a particular time, that is what is the interest rate is based on for that loan, right? You take a treasury yield of let's say today at roughly 1.15%. It is a little bit high but just as a take-around number.

Then the lender adds as a spread to that, which can vary quite a bit from deal to deal but the treasury yield plus the spread ultimately translates to the interest rate.

[0:15:53.0] WS: Okay, so where would see that or watch the treasury yield, how do we stay up to date on that?

[0:15:59.9] AM: To various sources you can go on Bloomberg, you can go to the Wall Street Journal and many other sites, whether you're tracking it not just on a daily basis but even in intra-day. You do not have to even subscribe to a service to follow that, so it is a very easy way to track that. Now what is much harder is to track where the spreads are and the spreads change on a regular basis and the spreads depend so much on the property, on the market even on the sponsors and that's where really, we come back into play there.

We can tell you roughly speaking where spreads will be for a particular deal. It can be that the base spread might be that you're only in interest rate is at 3.5%, right? But if it is a great deal with a great sponsor and depending on the leverage, you may get down into the low 3% and for someone else in another deal it might be in the upper threes to the low fours, all right? There is a wide variety of interest rates depending on deal that is based on property, property size, sponsor quality, asset quality, so many variations that can impact that spread.

[0:17:14.2] WS: That is going to go back to that relationship with somebody like yourself, right? We were talking about earlier asking you, "Hey, is this underwritten properly?" Or the way that you would as the lender, is that accurate?

[0:17:25.2] AM: Absolutely, yeah.

[0:17:26.5] WS: Anton, any other and before we move on to a few final questions, any other tips or anything you'd like to provide just for our current market that the operator right now that's listening needs to know?

[0:17:37.0] AM: Yeah, so I would say the key piece really is do not pick a broker or a lender based on an indicative term sheet, right? We have right now, we have discussion with a buying group. They collected a couple of term sheets from various brokers and they come back to us and say, “Well, you are pretty competitive but we have another quote that is a few basis points lower” right? It doesn’t matter. We have no control over ultimately where that spread is going to be.

Just realize that it’s all the best estimate when we quote. Even when you get a loan application that is not guaranteed yet. It is really when the loan commitment is issued.

[0:18:22.0] WS: Anton, I ask operators that are on the show all the time about how they prepare for a downturn and from your seat, as that lender, that person on our team that’s helping us think through those things, I’d love to know what especially what were in now to this pandemic, you know who has – what operators have survived the best and why, how are they prepared and how do you like to see people prepare now? If they are sending you deals or sending you underwriting, what does it look like to be prepared moving forward as well?

[0:18:53.9] AM: Yes, so I would say whenever a downturn comes, one of the key pieces is that you do not have a force capital event, right? In other words that you do not have to sell or that you do not have to refinance during that period, right? That means when it comes to the financing, make sure that you do not have to refinance at any time within less than two years because if you have to, you have a pretty significant risk that you cannot refinance.

Now obviously the exception is when it comes to bridge loans. The reason why there is no way around there and as long as there is an off meat on the bone and you have an experienced operator that is still fine but for a stabilized asset, you definitely do not want to be called in a situation where you have to refinance during a downturn. Now, how to make sure that you are not forced to sell a property during a downturn or going to a default with a loan is that you raise more equity so that you have more of a cushion.

Now, some of that is forced by the lenders as you enter — as a lot of your listeners have heard — we have all of these principle interest as per requirements by both Fannie and Freddie and a lot of buyers obviously are baulking at these numbers. We are not happy about that either but we are not really happy about it because it is sitting with the lender and outside of our control. However, we still believe that it is the right thing to raise that money upfront so that it's available for that bad day when you actually need to have access to that cash, right?

Whether you have that PNI escrow requirement or not, I think it's important that you raise that money so that you have that additional cushion in place.

[0:20:45.4] WS: No doubt. Is there a way that you like to see that calculated as far as like a reserve or emergency budget?

[0:20:51.5] AM: It really depends a lot on the leverage of the deal of the in place that's a risk coverage. I personally would say you should try to have a situation where you will be able to cover at least three months without any collections, right? Obviously with the principle and interest, you've reserved that you are forced to do, you will be in a good spot there but even if you do not have it, that's what I would recommend in the current environment to do. Some are more aggressive; others are actually even more conservative.

[0:21:27.7] WS: What about just you, I know you don't have a crystal ball but just your long-term experience in real estate, what do you see in the next six to 12 months, what is your expectation in the real estate market?

[0:21:40.8] AM: Yeah, so obviously there are very different environments we are seeing. Multi-family has been very strong throughout the whole COVID-19 situation. We have had maybe two months where it was really tough and for the middle of March maybe into May and then everything started to improve very quickly. There we continue to see a strong interest there compared to the other asset classes. Obviously, hospitality and retail are still suffering greatly.

I think hospitality sees massive opportunity but it is primarily opportunities for cash buyers or very low leveraged buyers that can pick up deals at cents on the dollar. I do not really see that's going to happen in the multi-family space because there is just too much interest and on the allocation from investors including institutional's that go into that space. I do not really see that that is going to change. I think we probably and again, that is just my crystal ball.

I think we will see some stress in the first half of this year including multi-family because we will see some collection issues that are popping up and that might be a brief period where there are some buying opportunities for syndicators but as we get into particularly when the majority of the population is vaccinated, I think we will see a very strong rebound in the economy. I also feel that if someone is currently owning real estate and they think about refinancing, they probably should refinance now.

Everyone talks about the low interest rate environment. I am not really that confident that that is going to be the case. I would say the upside risk from my perspective is higher than the downside changes when it comes to financing.

[0:23:38.1] WS: Awesome. Well Anton, just a little shift. Do you have any daily habits that you are disciplined about that have helped you achieve success?

[0:23:45.2] AM: Just my daily habit is really just focus, right? Get up and start focusing on what you need to do and do not lose the focus, right? Obviously, everyone talks about getting the past place in order and all of that. That's all fine and I try to do that as much as I can but I think whatever you do throughout the day, I would say focus on whatever you do at that given point is so crucial so that you are not distracted by anything else.

Then obviously with that is really structuring your day that you have the ability to focus on a particular item, finish it and then move on to the next.

[0:24:25.8] WS: What's the number one thing that's contributed to your success?

[0:24:28.7] AM: Persistence. I have gone through a lot of up and downs with various economies. I was also in the US, I was in Asia, in Europe, I experienced massive negative situations in economies, which also had a negative impact on our personal investments and personal life. I would say it is really persistence and realizing that it is just a snapshot in time and things are going to improve regardless of what situation you're in. That is probably the biggest contributor to my success.

[0:25:07.3] WS: How do you like to give back?

[0:25:09.1] AM: We do a couple of things but I would say one of – because we are in multi, we are very active in multi-family, what we support is a local homeless shelter. The only homeless shelter in our county, where we have one of our offices here in Dallas and it's a homeless shelter that is a little bit different from most that they are not just feeding the homeless and housing the homeless but they are actually actively supporting them to get back on their feet and be independent. It is called Samaritan Inn in McKinney, Texas so that's where we are very actively involved with.

[0:25:49.4] WS: Anton, a pleasure to have you on the show. I am grateful for your time and just sharing your expertise and just knowledge. Really your insight of the current financing market and what's happening right now in the real estate market and just providing your insight and just going through so many things from institutional players to middle market to how we should educate ourselves and seeing on top of different things and treasury yields and what that is.

Even to refi-ying now and emergency reserves, grateful for your time. Tell the listeners how they can get in touch with you and learn more about you?

[0:26:20.3] AM: Sure, the easiest really is by email. My email address is anton@peakfinancing.com. You also can find me on LinkedIn, on Facebook, I am very active there too so it is pretty easy to find me.

[0:26:35.7] WS: Awesome, that's a wrap Anton. Thank you so much.

[0:26:38.7] AM: Yeah, thanks again for having me on Whitney.

[END OF INTERVIEW]

[0:26:41.8] 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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