EPISODE 974

[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]

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Whitney Sewell: This is your daily real estate syndication show. I'm your host, Whitney Sewell. Today our guest is Drew Senulis. Thanks for being on the show, Drew.

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Drew Senulis: Thank you for having me.

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WS: Yeah, honored to have you on the show. I don't know many people have many degrees and experience in commercial real estate as Drew does. And then he became an attorney, so it's an incredible background and just experience that he has. So pleasure to have you on the show.

A little about, he's the most tenured attorney. Drew and Patel Gaines has represented clients in over 1.5 billion in business and commercial real estate transaction, has more than 15 years of prior real estate related experience before becoming an attorney, including management of approximately $85 million commercial real estate portfolio. He has been featured in US Today, Business Week, Texas Lawyer, in the San Antonio Business Journal where he was named a C-suite Executive Awardee, 40 under 40, and the Outstanding Lawyers List, and was their Man of the Year. That just sounds cool, by the way. He has also been featured in USA Today Business Week, Texas Lawyers and more.

Drew, welcome to the show. I know you have many unique abilities, you have many...just layers of experience in this industry. But, why don't you give us ,you know, a quick background. I know we can't go in depth and all the degrees that you have, you know, right now, but give us a just a short background of how you got the attorney seat that you're at now. And then, let's dive into some of your unique abilities, superpowers, that can help the listener today, you know, on the on the legal side, you know, in their commercial real estate deals.

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DS: Yeah. So it started for me at a very, very young age. You know, my high school job...my father was a civil engineering and architect and so, my high school job was I went to work for him. Started out surveying out in the hot sun, for many hours a day, you know. During the summer and eventually in high school, I actually became a computer draftor. So, I was a draftsman, I drew plans, you know, and then from that I went to college for what many people would tell you forever - got multiple undergrad degrees, got a degree in real estate finance development, got a degree in finance, have a degree in math, you know. So, with the college route graduated from college, and went to work in San Antonio, Texas for a real estate developer who, I managed, oversaw, you know, a large portfolio of multifamily, general kind of retail commercial office building, medical office building, you know, you kind of name it. And also ended up through that, in the construction field and was a general contractor, and I built multifamily and a lot of hospitality, and so. After all of that, you know, I decided, you know, my goal was really always to go to law school.

And so, with that experience then I actually enrolled in law school, graduated from law school. And you know, I've been here to Patel Gaines since I was in law school, graduated law school and so, really my experience, you know, what I tell people is there's not a whole lot in the commercial real estate world I haven't seen, whether as an attorney or personally. And, I think that's the difference, is I think some attorneys get on the legal side of things, but they have zero idea on how the thing how things actually work behind the scenes, you know. And so, I've seen both sides of that letter.

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WS: That's some great experience. I think even as an operator working with an attorney that has that experience is very valuable, I mean, to say the least. That is the most...I guess we're

very focused on become an attorney, right? You know, as soon as possible. It seems that your goal was always to go to law school, that you gained all that other experience beforehand and I'm sure that's paying forward now, you know, in many ways. So, there's so many things we could talk about right on the legal side of this business, but one I know we wanted to start with today, was just, you know, what to know when dealing with Fannie and Freddie, and I know getting into this business, it can seem kind of overwhelming, right? When you think about, you know, getting a loan from Fannie and Freddie or even, you know, just the legal implications. What does that mean? How do we make that happen? I wanted to just, you know, jump right in there from a legal perspective and how to deal with Freddie and Fannie, and how to think through them.

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DS: Yeah, and I think the biggest thing I see especially from if it's a new investor, for some reason, there seems to be some misconception to new investors that maybe Fannie and Freddie isn't available and, or that Fannie and Freddie are direct lenders. So, really, all Fannie and Freddie are buyers of loans - they don't originate loans, they don't loan money, you work with whoever your traditional lender is. Now, your lender has to meet certain threshold and criteria for Fannie to buy loans from them. But I think one of the bigger, you know, not too long ago I had a new group who kind of want to get started in the real estate, and you know Fannie Freddie came up, and there was a "Oh, we can do that." I mean, I thought that was kind of a secret, you know, that you had to meet these certain things and...and the answer is no. If you're in the multifamily sector, and your property meets the underwriting requirements, you know, for the most part, there's a good chance Fannie or Freddie will buy the loan. And it gets you better rates, it gets you better terms, because it limits the exposure of the actual originator - the bank or whoever loaning you the money.

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WS: So you talked about, like the property of any meet specific requirements. I thought maybe you could speak to a few of those requirements and even requirements for the operator to be able to use something like a failure if you're ready long.

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DS: Yeah. And so, it depends a little bit on how you're structuring, but for the most part, Fannie is going to be what we would consider kind of a conventional, you know, five to 30 year term, five to 30 year amortizations, a full 80% LTV, those are going to be...it's going to be your traditional, you know, more traditional type financing - what they call conventional, and you're going to have to meet those thresholds. Right now, I think on a conventional Fannie, I think they have a one and a quarter DSCR debt service coverage ratio, so the property is going to have to actually generate 1.25% of whatever that debt service is your, your mortgage payment. And there's a couple of things that work into that calculation, and they're going to do that so one of the things, one of the difference between maybe a Fannie is, they're little bit more conservative, because they're basically insured by the institution that is Fannie Mae. They're going to use actual income versus some of your non-Freddie, non-Fannie debt. Traditional lenders, they may allow projections. And so, some of the thresholds are like we talked about 8% LTV. I think it's, right now 1.25 DSCR, you're probably going to have to have pretty close if not over 90% occupancy so it needs to be stabilized properly.

Now, all of this, and one of the other big misconceptions I run into, it's really kind of weird because there's two misconceptions and they completely contradict each other. One misconception I get from clients is, you can't do anything to a Fannie loan. They're all what they are, set in stone. That's not true. And then the other side is, well, it's just like any other loan and we can go to negotiate. The reality is it's somewhere in the middle. However, usually the negotiating with Fannie is a process. It's like a government process, it literally takes a committee and so what the trap we run into with clients when they're buying and they're trying to get Fannie modifications, is they simply haven't built in enough time and their purchase agreements to allow that to actually happen, because it can be a 30, 60, 90. During coronavirus last year we had somebody that would take six months. And so, there's just not enough time and so now they're up against the wall that they have to close. Most sellers aren't willing to give extension after extension. And so the reality is, yes, you can negotiate and modify with Fannie. It takes a while, and most of the time it's just not feasible from a temporal aspect to do it.

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WS: So know who your lender is, ahead of time, right? I mean which I hope you do anyway, I hope you're having those conversations with your lenders, but you need to understand some, I guess realistic terms, realistic timeframes. And I would say, even speaking to other operators that are, you know, dealing with those lenders, particularly at that same time but it may be valuable as well, you know. Drew, anything else as far as pros and cons? You know, going after agency debt like that that you could share with the listener.

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DS: Yeah. So, I mean, I think the pros are pretty well known. The pros are you're going to generally get the best terms the market has to offer. You know, you're going to get the full amortization fixed rate at whatever prevailing markets are. The cons are, again, it depends on what your strategy is. I mean, if you're a value add multifamily guy, you know who's coming in and buying, you know, a $10 million multifamily or $5 million multifamily deal, but you know you're going to put a million and a half in it, and you're at 60, 70% occupancy right now, but that's your goal, it's 1, 2, 3 year goal, you know put money into it, get rent stabilized occupancy and then sell it. This isn't the deal, you know Fannie's probably on the business side, not going to work for you, number one, number two you, won't qualify, you won't meet the occupations, you probably won't hit day one DSCRs. So, that's really kind of the downside is, it's really for those stabilized, which are still great cash flows, are still great cash on cash. You know, you can do great investing, but it's not that 1, 2, 3 year guy who's going to make some cash on cash, and then sell and make a huge, you know, upside on the sale. That's not what this vehicle...this is, I guess, you could probably say more of a buy hold strategy.

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WS: Are there any legal considerations that you could share? Let's say for the passive investor that's listening, who's looking at deals to invest in that maybe, you know, are looking at agency debt versus say a local lender - credit union something like that.

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DS: You know it can really go both ways. Again, it depends on what your strategy is, you know, the Fannie deals will let you have what we call the org chart, or the investors and the passive investors. I will say, I guess about 2018, Fannie really started looking hard at crowdfund, crowdsource deals. In fact, we had probably a six more period where I personally had eight deals that we just couldn't get Fannie to agree buy them. And so, the market really turned. Now, Fannie's not a no, but I can tell you the struggles we have with Fannie, even though the property qualifies, even though the principal or we call the sponsor kind of qualifies. We are getting a very hard look at the true crowd funding, and when I say crowdfunding, I mean those investors who, you know, have hundreds if not thousands of, you know, $25,000 investors. I mean if you come in with a group and everybody's 25, $50,000, you know, usually get through that, but if it's a true crowdfunding, we've done a couple of those deals where it really took a lot to get Fannie to agree that on the back end. They would buy that loan and remember, that's important here, remember Fannie, Freddie don't loan money, they don't originate loans, they buy loans, and then they sell them as a mortgage backed security. And as part of that, they guaranteed to that trust who owns it, that if those payments aren't made for principal and interest, they will make those payments for them. So it's an insured investment on the back end which basically frees up liquidity for lenders to borrow, to loan more money.

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WS: I know we talked about a little bit, but I wanted to ask you again at your for the, let's say the listener, that's an operator's, especially a newer operator that hasn't, you know, done agency debt yet, some considerations things they need to know accent. I know you mentioned a few things, but I wanted to specifically ask about that, so for that, that's listener who's, you know, they haven't done agency debt yet, you know, and they're thinking, okay, you know. I know you talked about some requirements for the loan and everything for the property, you know, but anything else?

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DS: You know, there's not a whole lot. Let's say you have a multi family deal right now. They do refinancing. You know, they have that available. And so, from an actual operator standpoint, it's just like any load. And so, I think one of the other things is, your actual underwriting, most, if not every single time is going to be what we call a D.U. - desktop underwriting system. A D.U.S. And so, it's going to be the actual lender you have, and I think that's one of the things that I think I would probably stress, again, is your lender relationships can get you a long way as well. And think, again, there's a little bit of misconception that you're doing with this government program and really you're not, you are dealing with...and now it can come from both sides, I've had a lot of lenders kind of push back and say "Oh well, you know Fannie" and they kind of use that as a wall to not negotiate, not really true. Sometimes it is, but an experienced lender and or, you know, real estate attorney or council can kind of guide you through. And I can tell a client, and in a matter of seconds usually "Hey, what is it you're trying to do?" i.e. we want to have this completely unique organizational chart or so and so's manager and we want to switch back and forth. Not going to happen. But, if there's some little things we can do in there, so for an operator standpoint, I think it's just while you're operating, before you do that, I would say the biggest part is getting the relationship with the lender who can do Fannie Freddie deals, and they'll be able to tell you they don't have incredibly...but again, it's all up to the individual lender.

But if you are comfortable with the lender and the lender knows you as an operator, chances are you're going...that lender will underwrite you, even if maybe you don't have 10, 15 years of operating experience, because I think that's another one of the misconceptions is, well, "I haven't been doing this for 30 years so, no one's going to loan me money." Most of the underwriting is on the property.

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WS: That right there is just great to hear. I know it's great to hear from most of the listeners who are newer to the space, right? I mean, most underwrite is going to be done on the property, find the great deal. Obviously they're going to want to see experience on your team but there's relationships, right? You know, find people, you know to partner on that first deal or two that has that experience, you know, whichever you do not have.

Are there...one or two things that you would say, especially over this last year that cause people to fail when trying to get a loan or agency debt?

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DS: So, in general, I think going in...I think you even said this earlier, that the unrealistic expectations. If you're buying a property, and you're at some, two, three, cap rate or something like that, and you think you're going to walk into a lender and get any kind of loan, other than...now, with that said, I have done a deal, actually did last year with the three, three and a quarter cap rate. But the only loan they could get was a 60% LTV. And so, which for the deal, public, it really went bad and the client had, you know, source funds to get it done, and we were able to get it done for him. But, it's that knowing...I think you have to educate yourself before you go talk to a lender big for two reasons. You don't want to be taken advantage of - lenders do this every single day. And so that term sheet...one of the things I constantly counsel my clients on is the difference between the term sheet, and the loan documents and the reality that many, I still have clients who've done this for a very long time, who basically just look at the top lines of that term sheet and says, "Oh, great interest rate, great amortization, LTV." Those are all my...and then they don't read the next eight pages. And, you know, we've gotten into a couple of deals, again, knowing your property, knowing the property, especially if it's a buy, getting that referral, knowing where it comes out because they're always qualify you know. That top LTV will say "We'll give you 80% LTV," and then you get down to the actual paperwork and it says, subject to underwriting at 1.5 DSR. And so, if you know going in, don't sign that term

sheet. I mean because you put all this money in time and usually you're doing loan on the back end after you've done all your due diligence, and I've had a couple of deals fall through where it didn't appraise, but the reality is, based on the actual financials we had, we could have known that from day one. And so I think that's a misconception or misunderstanding, is if a lender gives you a term sheet, it's the same as lender saying, "We're going to give you what's on the top of that page," and all of it is a lender saying, "We like what we see so far, but let's see what it really looks like."

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WS: Important to know what it really looks like, right? Now, Drew, you...I know you work with lots of operators, you see lots of deals, I'd love to know like, how do you like to see an operator to be prepared for a downturn?

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DS: You know, that's an interesting question. Several years ago...so just to back up a little bit, when I first came into real estate was after college, was 2006, great 2007, I was in real estate in 2008. So, and I was kind of new to it, and so there's really only one true answer, there's a lot of things you can do strategically in your legal setting up, one things we look at is cash calls. You know, I remember doing a deal, a large deal in 2008, 2009, where it was smaller 25 $30,000 investors who didn't look at the way the operating agreement and realize that there's a there's a full cash call provision. And so, for those who don't know what cash call means is, if the entity, if the property usually...if it's losing money, a cash call literally means the managers of that organization can send out an email and say, "Guess what, everybody? There's 10 investors, we're million dollar short, we all equal shares. I need $200,000 check by the end of the month." And so, while you can't necessarily prepare for the ultimate demise, you can prepare for not having to come in with more than you originally, you know, originally thought you would have to and so that's one of the biggest things, is you know as an investor, especially as a passive investor. I know it's 60 pages. I know it's 90 pages, but please read the document, some of them are crystal clear on what will happen, and it still comes as a shock when it does actually happen.

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WS: Make sure they have reserved budget.

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DS: Yeah. Make sure that reserves in it. Was gonna say, the one true answer to any downfall is cash is king.

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WS: That's right.

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DS: We also work in the real world, you know, we don't all just wake up with millions of dollars and cash. So, the reality is you got to balance those two. You do need cash reserves, that's an always in any investment, any sound financial investment, there's got to be a cash reserve.

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WS: What about any predictions that you have just for the real estate market over the next six to 12 months?

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DS: The thing is before coronavirus, you know, I always used to tell people my crystal ball is broken. But now I tell them it's just smashed. And so the reality is, I think we've gotten through what we need to get through. I think real estate and the reality is, in the multifamily sector, it's really done pretty well in fact, you know, just going back to the Fannie and Freddie, that's the absolute majority of their portfolio especially over I think they did, you know, hundred and 65 billion, you know, last year on multifamily deals. In that sector, I think real estate...I think it's here to stay. I think, the one thing that concerns me is, are we going to be in that 2008 real estate bubble again? Because prices are, you know, they're going sky high. But, I think...on the other side that, again, using my actual real estate finance degree, if you look at roll numbers - I was actually having this conversation with a, with a finance professor about a month ago - you can't just look at one side of the equation. Yeah, real estate prices because he was looking at sales prices, but if you look at cap rates, if you look at, you know, cash on cash, if you look at those, they actually haven't gone so far out of whack. And because rates have gone up. And so, when you're looking at the entire deal, and so, if you stick to your metrics - if you have a good metric that you like, it's just like any kind of investing. When you do the one that you know going in you're uncomfortable with, that's usually the one that ends up biting. You know, I mean I can't tell you all the time, they're like "Oh, man I love this market. I love doing the 50 unit deal. I love doing them at a six and a half cap. I love this category. I love this metric," and then all of a sudden they're sitting in front of "this is too good of a deal to go by," and you know it's not their metrics. And then three years later, two years later, whatever, well that deal didn't end up working out. It's well, yeah, because you knew it wouldn't. So that's...that's really the thing is, you know, if you're comfortable, if you're in your niche, if you have your metrics just keep doing to them.

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WS: Yeah, there's definitely a lot of value to be had in focusing, right? And staying in your lane, you know, having those metrics like you're talking about or thinking wisely before you change courses, right? Or pivoting, you know, especially changing metrics or underwriting and what you know will work.

What about, Drew, any daily habits that you were disciplined about that have helped you achieve success?

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DS: You know, honestly, my saving grace is my team around me. They honestly do a tremendous job, you know, keeping me number one focus. We like to have fun here at Patel Gaines as well, so I will say that, but keeping me focused, keeping me on task, making sure we're meeting our...and having that, kind of that person to push back. And so really, you know, one of the things I would definitely say is, surround yourself with a good team, whether that's an actual team member, bring it on a staff or something like that. But, you know, one of the things when I was when I was in college - in undergrad, I actually did, you know, some charity work for financial responsibility type chair for high school students. And, you know, it was amazing how some of those people - and this was, whatever that, 10, 15 years ago now, you know, I still get contacted by some of them who came from some pretty basic means, I guess I would say, were very successful right now, and you know the emails and the phone calls are pretty gratifying to say "Hey, you know, when you stepped in when I was 16..." And so, I think that's the biggest thing is, the support system, talking to people who done it.

One of the things I do love about the real estate community is being an attorney who's worked in other areas. Some are so protective of their intellectual property what they call it. Real Estate folks, men and women, for some reason, I consider myself one of them, we love to talk, and we will tell you about our experiences, will tell you about the good ones and we'll tell you about the bad ones, and so really having kind of even mentorship or people just to have done it before. So you maybe don't do it, and do it wrong. I think that's huge. I think that's important.

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WS: What's the number one thing that contributed to your success?

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DS: My thing was just focused, as I said from a young age. When I got into real estate, I realized I want to know everything about real estate, and there were several people are like "Well you can't really know everything." And so, I just started doing any and every job involved in real estate and so I think it's just, it doesn't have to be a laser focus, but I think it's just figuring out what you are - either you're good at it, you want to be good at it, but you have to love it. You know, in the past experience whether it's a client or I'm just really are technically interested in real estate, but they, "oh, they love money." And so...but sometimes that just doesn't work out, you know, I tell a great story when I was managing that, you know, $85 million portfolio, you have to love your job because I was literally at one point in a suit and tie with investors trying to get a deal done and got a phone call from the tenant, who was having this dispute with the next tenant, about a dumpster and had to go show up and climb in a dumpster and prove who's trash can who is using. So, you have to love your job to be able to actually do that and not be like "Yeah this is it for me."

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WS: That's a great story out there. Maybe we should talk about this story on another show, but yeah, that's so true, right? You do have to love it. I think any entrepreneur as you begin a businessman, you better love it, right? Because you better be ready to get kicked in the face numerous times and other listeners have heard me talk about that get back up. If you don't love it, you know, it's going to be hard to get back up, that's for sure.

Well, Drew, how do you like to give back?

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DS: So giving back for me, again, is really what I appreciate is mentorship. You know, I love to talk to whether it's, whether it's in my company, and you know law clerks, or really just teaching

people, hopefully, teaching them, what I know. I think it's a valuable lesson and even if, again, they're not really interested in the topic matter, it hopefully instills in them a willingness to learn because this, you know, my profession...you know, I don't think people realize the law literally changes daily. You know, and so we have to learn every single day, every single matter. And so just staying on top of that in my mind giving back is really just as I said, I've done some mentoring things. I really like high school-level, personal finance because I think that's where it all starts. And I think, just candidly my own personal opinion, I think that's one of the things missing from our high school education, is a personal finance course or just a finance course in general.

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WS: I agree. I was not taught anything about how even to balance a checkbook in high school. It just helped the importance of it, right? Not at all even think through that, you know, make sure you got enough money in there. It could be that simple but, yeah, I agree completely. Appreciate you sharing that, giving back in that way and is lots of thought, you know, of how mentoring others, you know, and helping them pull others up, you know, with you as you as you climb the ladder as well, whatever your ladder is.

But, Drew, pleasure to meet you and have you on the show. I've enjoyed doing numerous shows with your group there and just amazing team, you know, that you all have and experience in this business, so thank you for just sharing today about, you know, working with Fannie and Freddie and the ins and outs, pros and cons things to think through as best investor or even as a new operator, things you need to know, you know, as you're looking at getting that agency debt.

So, Drew, thank you for that. How can listeners get in touch with you and learn more about you?

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DS: I think probably the best way is to either myself or my firm, you know, just look for Patel Gaines PLC's website. It'll have all of our information. We do a lot of real estate law, you know, we do actually property tax law as well which is huge in any kind of real estate investment. And so, you can just go on there and find my contact information and reach out to me if you like.

[END OF INTERVIEW]

[OUTRO]

0:28:44.0 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 invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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