

EPISODE 1093

[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 Reid Bennett.

Reid serves as the National Council Chair of Multifamily Properties for SVN International. He has been the multifamily apartment brokerage space for 20 years and works with both market rate and affordable housing owners and operators around the country. Reid is also invested with many of his clients as he does not compete with his clients and those he serves within the market. Reid, he's in this chair position where he has connections all over the country. I mean, most majority, you know, major markets and so, he has access to tons of data, tons of resources. We talked about things – things that are in the market that he's not seeing in all of his 20 years of working in this field, and how office and retail were greatly affected during the pandemic and kind of what many of them have done: he talks about cap rates; he talks about who's getting the best deals and things you can do to also get those deals; and, he talks about so many different things around earnest money, due diligence, even the time to close, some terms, submitting your contract, and somethings that you need to know. He talks about some different platforms that they use, and even some ways around structuring his day that you may now heard for but either way, it's going to be a great reminder for you because if you're not doing it then you need to hear it, and so I know you're going to enjoy the show today.

Reid, welcome to the show. You've been in this business for for 20+ years, you're a broker. It's so much knowledge in this space that I'm looking forward to just asking questions and learning from you today. I know the listeners are going to learn a lot as well. I want to know obviously a little more about your background in your experience in commercial real estate, just elaborate on that some and let's dive in.

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Reid Bennett: Sure. Well, I appreciate you having me, Whitney. I've been watching your show, I've seen it on LinkedIn for a long time. Actually you just mentioned the number of shows, I still can't believe that. But, a little bit about my background: I started in the commercial real estate industry in 2001, so this is my 20th year in the business. I've been in multifamily for every one of those 20 years. Started in the neighborhoods within Chicago, eventually grew my practice to the suburban markets and then all across the Midwest, and then about seven years I took over the position of National Council Chair of Multifamily for SVN International which is a 225 offices around the country so now I'm in a number of different markets working with a lot of my colleagues across the country, so I'm happy to say that we can help anybody, anywhere in this country in the multifamily space.

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WS: That is awesome. I just amazing resource there that you have, right, I mean you're connected to so many markets and so many people that are in it all day in this industry and so, it's just all that information right at your fingertips I feel...feels so valuable. But let' jump right in. With that low experience, with that level of knowledge on the markets, all those offices, all those people that are on the ground, speak to the current market situation. You know, I just want us to jump right in. I'd love to know just your thoughts behind what's happening, what you expect to happen and let's just talk about it.

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RB: Well, in 20 years I've never seen this market. Even in the condo craze days of 2006, 2007 and, you know, beginning part of eight – 2008, I never thought that kind of pricing would return into the multifamily space, and especially about...what was it...April of 2019, I host the national multifamily call for our company every month and I remember it's always the last Thursday of the month. So that last Thursday of April 2019 I had some guest speakers from Fannie and

Freddie on and I remember them saying, "At best, make collections are going to be 25% to 30%," and I remember getting off that call being so depressed and saying my wife, "Should we not pay our mortgage next? I mean, is this going to be another like year long battle like '08 was?" And then it just amazingly during this pandemic multifamily has gotten even hotter. I mean when you're talking about sub three caps in the space, and I'm not talking about brand new construction even in primary markets, it's just amazing what's going on in this market and I'm sure many of your listeners are having this challenge of finding deals that are penciling out for their acquisitions. I'm sure you are too as well.

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WS: No doubt about it. That's why I'm sure a lot of people are wondering, that listeners right now I'm sure thinking, "Wait a minute, I want him to explain how we're going to find deals," and I want to get to that but before we do, I want to talk about the market a little more. You said, you know, even in 20 years never seen this kind of market, are any other details around that could you elaborate on like things that you see now that maybe you haven't seen before outside of what you just said?

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RB: Sure. Well I think one of the main reasons we're seeing this huge pricing increase and cap rate compression in the multifamily spaces, two of the areas that were greatly affected by the downturn of the pandemic were the office and the retail spaces. So what I have noticed is a lot of the groups that were focused on those two asset classes, basically shuttered their acquisitions in retail and office and switched over to multifamily. So now you not only have the multifamily focus groups that have always been in the market looking for multifamily, you now have two other groups that typically wouldn't be looking at these deals driving the prices up and the cap rates down, so that's one of the things that we're seeing. Obviously, the historically low interest rates where you can obtain your debt is driven this multifamily market for the past eight years, probably. I have groups that are getting mid-twos as far as the rates. When I started this they were in the eights. So, right there just on a refinance, and that's one of my main competitors right now is the refi. I mean we have so many owners and operators of multifamily that are saying "I don't want to sell my property but look at the rate I can get, so I'm just going to pull all my cash out of these deals and either buy another deal with it or use it to fix up some of my other multifamily assets in the portfolio." So it's kind of a perfect storm right

now. And, also with the fact that you can't make that much in the markets right now, people are just parking money into multifamily assets across the country.

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WS: It's interesting dynamic of, say the office and retail operators, you know, switching to multifamily at least for a time period anyway, maybe for the foreseeable future, I don't know. But can cap rates continue to go down? Like what are your thoughts on like the deals over the next year? What should we be expecting?

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RB: That's a great question, and if my crystal ball was working that well I have the answer to that, but the thing is, especially when groups are looking at IRR, is internal rate of return, you know, you have to put in that cap rate on the back end of the sale and that's a difficult thing to try to put into your underwriting model right now because if you're going in some of these cap rates that are sub-four in secondary and sometimes, you know, sub-five in tertiary markets, it's very difficult to figure out what that cap rate is going to be if you're a five, seven, ten year hold. That's a tough question and it's one that as long as the interest rates remained flat, where they are right now and don't you know take up to 300 basis points over the next five to 10 years, we might continue to see these cap rates.

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WS: Yeah. Wow. Also just as hot as the market is, as hard as it is to find deals, who's getting the best deals right now? If you had to say okay it's this type of operator or this kind of investor or, this asset class, or do you see that right now?

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RB: Well as far as the investors, the ones that are winning the deals are those that are putting up significant harder in this money day one with no due diligence. You know I talked to a client of mine that...he's very aggressive. And I had talked to him, I'll never forget it I talked to him in May, and he said "Look I have \$370 million of LOIs out and I think I'm going to win them all," and then I had talked to him in July said so "How did everything turn out with those?" he said, "I was using pre-COVID underwriting, I was putting 20% on to my purchase price, which was making me feel very uncomfortable" and he said "I wasn't even getting a call back after

submitting my offer." So just hearing some of those kind of stories, and one of the things he said was "I was looking at a deal..." I think he said, Jackson, Mississippi. He said he thought we were going to win the deal, it wasn't even that large of a deal but the guy put \$2 million hard day one up on a Jackson, Mississippi deal. So it's things like that that are winning people deals, you have to stand out.

And you know, the other thing is, I would also suggest to buyers even if you are second place, third place, whatever the brokers are telling you the place you're in, I would submit a full blown offer. I wouldn't submit an LOI, even if it's going to be a backup because things have been falling out for one reason or another, even if it has hard earnest money. And it's a heck of a lot easier to go back to my cellar with a contract, saying "Look, if this group tries to retrade us half a million, a million dollars on this property, we have a group that's ready to roll. Here's their contract and here the terms." I would suggest everybody putting in backup offers right now, especially in these markets as it's kind of hitting just a crazy peak, I think.

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WS: That's a couple of points there that you made. I mean like putting a lot of hard earnest money up, but you also mentioned, like know due diligence. That makes me more nervous, right, thinking about putting up a lot of earnest money but with no due diligence. Who are the groups that would be doing that? Would you say most of those groups are going to be people that maybe they already know that property, or maybe they're already working with property management company that's already worked on that project before? Or currently they're... maybe they have some inside information? What are your thoughts behind like no due diligence and all that hard earnest money?

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RB: I would say the three points that you just raised right there, I would imagine that's what they have. You know, they have going for the neither have the inside track they know what's going on. Many of these groups own a significant portfolio in that market, they know the property, they've known it for years, they know that they can get \$250 pop because they're already getting that in there other assets that are similar nature and vintage so they almost don't care what the numbers are. And frankly, a lot of the systems that I use to track these deals, I have the ability to underwrite a deal without the owner ever giving me their numbers. A

couple of the systems we use draw off of management software and give me an average price per unit of what the taxes should be, what the expenses should be, what the utilities, and we can basically take all the numbers that we're tracking and the rents we're tracking on that property, put in an applicable vacancy rate and we can underwrite a deal without even having any numbers. And you're going to be pretty close if you know the market, if you're in the market, if you know the property, so those are the groups that I think are able to do this, they know the market like the back of their hand. I know one group, they ran them an apartment leasing company. So they were leasing units in many of these buildings so they knew exactly what the real time lease values were so they knew exactly what they were going to offer on every single deal and they did in every market, every property in their market.

So there's a number of ways they have the inside track. One good source would be to align yourself with a broker that tracks every single deal because that's what we do all day, is we talked to these owners, we talked to these operators, we track all the rents, we track all the expenses, we can give you a pretty good idea of how this will pencil out. I mean that's why I'm in the business, it's not rocket science. I mean, you can do this on the back of a napkin.

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WS: We've done many shows about relationships with brokers and, following up and, providing reasons why you don't like a deal, all those things but is there any, like one or two things that stick out to you that help an operator kind of rise to the top of your list or towards the top as they're trying to get to that next deal?

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RB: One of the things that I've seen recently that, you know this year, I've seen when offers come in you're giving references. It's fantastic if you have a lending reference, if you have a broker reference, and especially if you have recent owners that have sold deals to you as a reference because that's one of the things that we do. If we have a property that we have in the market that are, we have a number of offers and we put a grid matrix together, when we get it down to the top three or four groups we'll ask them to send us references of three recent deals that they've purchased and we'll call them, because if you're an owner and you just sold to somebody that in the 11th hour tried to re-trade you knowing that you are all ready to go and you have to close this deal, you're not going to be quiet about it so, having references, having

something that shows, "Here's my track record, here's the social proof" that's very helpful. And then obviously if you have a lender that's giving you, you know, proof of funds and submitting...the more you submit into a package rather than just a contract bios on who you are, everything about you it makes a heck of a lot easier to put eyeballs on your offer.

Broker referrals where a broker is saying "Look, I worked with Whitney. He was fantastic. He did everything the he said he would do on the contract – from LOI to contract to close" those kind of references are fantastic because as a seller of property and as a broker representing a seller, I definitely want to read all of those and understand who has reputation, who doesn't. I mean, we know who has the reputation to do the re-trading and, trying to grind out and take every last dime at the closing table. We know those people but, we don't know all of.

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WS: And it all goes back to that certainty of close, right? For that seller, no doubt about it. I mean, we've won deals, you know, it had people that are offering more money just because we've worked with that seller before and they had a great experience. But, going back to just some of the terms and things like that as far as I know we talked about submitting an offer and not just bypassing the LOI process, right, so that broker say "Hey, I've already got a contract right here." What are some of the terms right now that are winning deals? That are going to be in that contract that says "Hey we're ready to go"?

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RB: Well, I think, minimal due diligence stays minimal to none. Like we mentioned before, if it's not 100% hard earnest money that have to be in the millions especially on you know, five to \$10 million deal but, if there's a portion of the earnest money, let's say \$200,000 earnest money check that you're stroking there. If you gave even \$50,000 non-refundable day one, that's showing that you're a serious buyer, you know you want this deal. Obviously they're going to be, you know, certain instances where non-refundable earnest money can be refunded if they can't give you clean title if there's an environmental issue that comes up. I mean you can place that into your offer, the terms in which your "non-refundable earnest money" can be sent back to you.

What else besides earnest money, I mean the time it takes to close. A lot of people are trying to

close deals. The typical if you're going to have the due diligence days, we're typically saying about a 30 day due diligence on a larger apartment complex and many people are doing a 30 or 45 day close after their due diligence, so it's a 60 to 75 day cycle. And you know, what you're talking about a certainty of close if you're involved with a group that puts your deal under contract takes the full 30 days and then maybe ask for another two week extension because they're they haven't done all their due diligence in time. They can put you back 50 days and then all of a sudden, they'll say, "Yeah, you know what? We're pulling this deal." So that's why it's real important...I was trying to explain this to my dad who was a retired principal, and he's only bought homes in his life. He said, "Oh, you don't just take the highest price" I said no, because you can lose 45, 60, 90 days, and then have somebody pull, and then you try to go back to that second buyer, the market could totally changed by then, or the second buyer could say you know "Now my offers 500,000," a million dollars less. And so it's very important, like you're talking about earlier the certainty of closing a deal and really having the confidence in that buyer, even if you have 25 offers coming in a deal.

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WS: Before we moved to a few other questions, anything else around the things that maybe the operator should be thinking right now as they're making offers or as they're working with brokers to get the next deals or maybe market specific things? Anything around that you want to elaborate on before we move on to a few other questions?

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RB: Well, I just think you need to make as many offers as possible in this market because it's so competitive and I've heard buyers say that they're submitting 100 offers to hopefully get it the table of 10 deals. And so if trying to get two deals a year or three deals a year, you're going to be probably submitting 100 offers a year, I would say. And then if you break it down monthly and weekly it doesn't seem that daunting to, you know, a lot of the buyers but you have to be underwriting a ton of deals and submitting offers on, you know, a ton of deals out there and make sure that you're prepared to have your terms typed in those offers because you're coming up against a lot of competition in this mark.

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WS: What platforms do you recommend or places to gather information? How do you gather

just knowledge, market knowledge and what's happening? What sources do you rely on to be accurate for current market information?

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RB: Are you talking about as a buyer, as a broker?

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WS: Yeah, either one.

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RB: Okay. I think everybody – whether you're an owner, operator, a broker, banker, you need to have a CRM. And that's just where you can track every one of your clients, every owner, every property. And then once you have the CRM...I use RealNex, it's fantastic. It's built by brokers for brokers. It gives you the ability to track every deal, you can tag owners, you can tag properties to it. And so once you have that created, then you need to get multiple systems. I mean from Reanime to Prospect Now to you already Matrix, Co-star, we have all that. So what we do is, we take all of that and we put it into our centralized database. Real Capital Analytics is another one where you're tracking every single one of these loans, you're tracking every single property in existence in your market. And once you have that fed all into one system, then you can track that, but it took me 15 years to build the database that I have right now. And so that's where I think rather than trying to do it all on your own, I would align yourself with brokers that are in that market, that are tracking these deals, they're going to save you a ton of time and you know probably 83% of the deals that are transacted in our market are done with brokers. So you can get an off market deal but I think you'll spend a ton of time chasing "off-market properties." And I've even had clients of mine call me up and say "Hey, I just got this off-market opportunity and they're putting the quotes up from the fifth broker today," and I think a lot of sellers do themselves a disservice by doing that, by not putting not selecting one broker and putting it out there to the market as a unified front because the line, you may attest to this, if you get handed a deal from five different brokers, you're probably going to back off of it saying "Nobody has control this, we don't have a serious seller." So I'm kind of going off on a tangent but I would align yourself with brokers in that market and take care of a lot of the research for you.

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WS: Yeah, more than 90% of our projects have come through broker relationships and, no doubt about it, the time well spent building those relationships.

Reid what about when you're working with operators now, how do you like to see them to be prepared for a potential downturn? You know everybody we talked a little bit about the market and things you're seeing now you haven't seen in 20 years, but when you're working with operators, how do you see them being prepared for just the potential unknowns which most people expect something to happen things like six months to 12 months from now. But what are they doing to be prepared for that?

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RB: Sure. I think what those operators are doing is making sure that they're operating as efficiently as possible with their current assets and, you know by that I'm just saying, you're reducing the expenses to, you know as much as you can from the utilities. There are a number of resources that you can use to reduce the utilities. I have plenty of those that can refer to you from water conservation to electric. I would start doing that now, getting your property prepared to have a reduced expenses. I would also really look at the market rents and make sure that you're maximizing your market rents, where they are and where as it relates to your comp set.

Another thing is just make sure that you are providing the highest quality maintenance service to your tenants, because that's the number one thing I see owners and operators lose tenants, is because they're not they're not getting on their work orders fast enough, and then so they're going to move to the neighboring property that does take care of their tenants in that way. That's huge on the downturn, is just the operations of the property, and being as efficient as possible.

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WS: I think that's a great point. You know, maintenance is always a thing that keeps tenants or makes them leave so fast, right? Taking care of those requests, I think that's great you brought that up, so important. What about a couple of daily habits, Reid that you have that you're disciplined about that have helped you achieve success?

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RB: Well, one of the things that I've done probably the last two years, because I had hired a business coach two years ago, I think it's typical where a lot of people in business for a long time and they kind of get set in their ways and just hiring a coach allows you to create practices in your daily life and, one of the main things that you hear about, you know, most of the stuff but until it's put into practice like time blocking and putting your call blocks in there. If you're looking for deals you need to be on the phone calling brokers and owners, you know, in that market and you need to say "Look from nine o'clock to 11 o'clock every day I'm doing this" because otherwise you're going to get to six, seven at night and say "What the hell did I get done today?" You know I just answered emails and, put out fires and was reactionary so one of the main things that I've learned, especially over the last couple years, is to really get my schedule under control, and not be so reactionary and just start the day saying "Okay, open up my email and see what problems I need to solve right from there" to set aside that time and stick to it, put it in your calendar as if it's an appointment so if somebody says "Hey, tomorrow at 10:30 can I meet you for coffee or can we talk about something?" You'd say, "Actually I have a meeting until 11, but I can do it 11:15" that's one of the huge just kind of game changers that has happened to me over the last couple years.

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WS: It's so important and like I said, it's not something that all of us probably haven't heard at some point, right? But when you have that coach, if somebody just said a little bit of accountability right? And sometimes you know it's going to follow up and say "Hey, did you do that?" Like have you implemented this yet? It's so important. And I could not agree more like turning the phone off so you can focus on something else or having the time to set aside. I like what you said there too, if you made an appointment on your calendar to do this thing, even if it's just email like somebody else wants part of that time you can say "No, I already have an appointment," right? Have an appointment, there is something already filling that time, but what about this or other time? It's just a mindset shift there. But what about if you had to pick one thing that's contributed into your success, what would that be?

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RB: It's persistence. It's knowing that especially in the real estate game that it's going to be

90% plus rejection. You just have to hold out for that 10% that's going to make your career and make you a good living and, it's very difficult to wrap your head around that where you're going to be told no 90% of the time all day long when you're calling somebody asking him if they have anything for you to work on or would you sell your property. So just knowing that and trying to get into that mindset of the 10% yes is going to make your life. I think that's one of the things that I always focus on each day, especially when I get down after you know having 20 calls where nothing happens from those calls. So all right well that's not going to happen tomorrow.

Actually I just started coaching in the commercial real estate industry myself. I can make a lot more in the real estate business rather than coaching but I'd like to give back that way also. I was on the development committee in my local community, I'd like to do that as well and then we also do the Chicago food depository every year and pack for the homeless and those in need.

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WS: Awesome. Reid grateful to meet you and have you on the show. Just great information, I mean for somebody like yourself has been in the business for many years, and have a kind of feelers out, right, just across the country everywhere was so much information, and helping us to see different things that you see in the market right now, ways to win deals from our hard earned money to no due diligence to even the terms as far as having some non-refundable, time to close, thinking through that and the platforms that you use, and even scheduling your day. Just grateful for your transparency and helping us in a big way, but tell the listeners how they can get in touch with you and learn more about you.

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RB: Sure, I mean you can find me on LinkedIn. I'll give you my cell phone, 7732517342. And you can put up my email, I can give it to you – it's reid.bennett@svn.com. That's r-e-i-d period b-e-n-n-e-t-t at s-v-n, Sam, Vic, Nancy dot com.

[END OF INTERVIEW]

[OUTRO]

0:26:18.0 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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