

**EPISODE 1178**

[INTRODUCTION]

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**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.

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**Whitney Sewell (WS):** Have you heard of the friendship factor? I bet you've not heard of it before. Well, today our guest, Pete Kelly is gonna explain to you why that is so important at your multifamily community. It's so important. He's gonna tell you how understanding the friendship factor is gonna help you increase your NOI. And if you've been in this business very long, whether you're an active or passive investor, you're gonna understand that, hey, increasing that NOI on that commercial piece of real estate, that large multifamily property has significant impact on the value, right? In a good way. And so he's gonna tell you how you can do this through ways that you maybe haven't thought of before, but also research that they've done to prove how this works and that it works. He shares many examples today why this is so important at your community.

[INTERVIEW]

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**WS:** Pete, welcome to the show. And it's interesting, you and I met a few years back in MHC conference. One of those that we all were leading a large breakfast and lots of operators, they are learning about apartment life and what you all do, how you help communities, how you help operators. I'm looking forward to getting into that today because I know there's many operators that listen and even the investors, I think they would love to see the operators are invested with utilize something like you all, 'cause they can see, hopefully, after this interview, how it helps everyone involved. As you and I got to know each other a little better, I know we are pursuing to use you all as well as we are, especially with our larger communities. But, first, tell the listeners a little bit about yourself, briefly, about apartment life, and what that is but how you got there. Then,

let's dive into some of the research that's been done and what you all do specifically at these communities and how it helps everyone.

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**Pete Kelly (PK):** Well, Apartment Life, we are a faith-based non-profit that's been serving the multifamily industry for 21 years, and I would love to say that I was part of the founding of it, but I was not. I worked for 24 years with a Collegiate Ministry called Crew, and moved over to Apartment Life to six years ago, first as the president now as the CEO. But we're really kind of founded on the basic proposition that relationships are not just good for the soul, they're also good for the bottom line. So we have a program that helps them build relationships in apartment communities that is a great benefit to the resident, but also to the owners and the management.

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**WS:** Awesome, so I guess let's talk a little bit about how an operator works with somebody like you, you know, Apartment Life. What does that relationship look like? How do you get started? And then we'll dive into some of the details.

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**PK:** Sure. I'll give you just a broad overview of the program and how it works, but in our traditional model, we place two people that live in that apartment community and they're like a welcome wagon. They agreed, every new resident that moves in, they throw off parties and events, they look for opportunities to care for people, like a job change or the birth of the child, if a car is broken down in the parking lot the team comes over to help them out. So, they're caring for people, they're connecting them in relationships, and as they do that it creates this sticky community where people wanna stay even when the rent goes up. So, were there officially on behalf of management so when we enter into a contract with an apartment owner management company, we provide them a candidate that we feel like would be a good fit for that community, and then the apartment manager actually interviews them and has the last right of refusal on them. And as long as that coordinator or that two coordinators (inaudible) too, that as long as they meet their approval, they'll conduct the program under the guidance of the management team on site.

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**WS:** I think that's great to know, like the apartment manager, the local manager there, or that

operator has the final say in interviewing this individual or a couple that's gonna come and be a part of that community there. I think that's helpful to know. But also this couple of moves in and their goal is to become a part of the community, right, build community. What are some ways that they do that? How do they get involved? They move in. What kind of happens next?

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**PK:** Yeah, so we look for people who really wanna embody the adage, love neighbor as yourself. And so they're there officially on behalf of management. We're looking for people who would be doing this regardless of whether or not they were being paid or hired to do something like this. But again, they're always on the lookout for people to meet them. So, they could be just walking their dog and strike enough conversation with their neighbors. Certainly, when they host events, they are there to be the connector, so not only are they preparing all the food and preparing the theme of the event, when people come in, they're there to help people get to know their neighbors. And so they don't want all relationships leading back to them, but they, although they do wanna build relationships with their neighbors, they're also looking to connect neighbors with other neighbors. And so when they find people who have common interests they say, hey, you guys have this in common, you guys should talk more. So, they're looking for that way to build kind of a web of relationships in that community where people feel genuinely known and I cared for. So, one way to think about it, if you go back to this, when you're a college student, think about a resident advisor, an RA, that you have in the dorm, they're just kind of there to look out for people to make sure that they go well-cared for.

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**WS:** Do the tenants or the residents there see this couple or this individual as another resident, or do they see them as like an employee of the management company or their apartment community, how are they represented to the community?

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**PK:** So, they are there officially on behalf of management, and they're also neighbors, and so they're a little bit of both, and which puts them in a middle ground. And the beautiful thing about that is people will let their guard down with the Apartment Life team. Because I know that the primary reason that that team is there is to care for them. They're not there to collect rent. They're not there to enforce policies or anything like that. They're just simply there to look out for the well-being of their neighbors. And so a lot of times what'll happen is that their neighbors will let

their guard down and would share helpful feedback that would be very valuable for the management team. And so because the Apartment Life teams where it lives in both worlds, obviously the primary role is representing the management company, but they're able to bring some of that intel back to the management team and say, hey, we just met with this couple that moved in, they had generally a good movement experience, but there was some spots on the carpet, and I think if we were able to fix the spots on the carpet, they would be 100% happy with their move-in experience. So, it's just a little information like that that goes a long way that makes their living experience a little better.

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**WS:** Tell us a little bit about, I know you all have done some research around what this does for the community, and you've learned a lot through that. Share some of that, 'cause I think it's helpful for our listener or an operator that's listening to hear, you know what, you've all done the research to say, hey, this actually does work. There are so many benefits whether the operator has a specific type of faith or not, it's beneficial in many levels, explain some of that research that was done and what you all learned.

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**PK:** Yeah, so you would think with all these people living in such close proximity that apartments would be kind of the most wonderful connected places to live, but unfortunately the opposite often true is most people living in apartments don't know their neighbors at all. They feel very disconnected, they feel very lonely, even worse than they would in a single-family neighborhood. And again, that's not what you'd expect because there's all these common grounds and these opportunities bring the community together. But what we found from our research over the years is that the more friendships a resident has, the happier they are. And it would seem like the magic number is about seven. We've worked with different advisors to do different studies. One of the studies I did was on the friendship factor. What they found is that when an apartment resident knows seven of their neighbors they are almost twice as likely to renew their lease as the resident who doesn't know any of their neighbors at all. And so again, that's just an example where relationships are not just good for the human soul, they're also good for the bottom line.

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**WS:** Yes, that's incredible. What about any examples that you could share of some specific communities, obviously you don't have to share the name of the community or operator, but

maybe some actual numbers that, hey, this is happening in this community, and this is how we helped in what happened because of it.

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**PK:** A number of years ago, in addition to kind of the annual property management survey that we collect from property managers about the impact that the program's having, sometimes we'll do focus groups, so I remember this one specific focus group, and Charles from South Carolina where we got residents together and we just ask them like, what was the impact that the sense of community that you've experienced in this community had on you renewing your lease? I do remember one couple, in particular, said, well, our rent went up by 18% this year, and we're still here, so that tells you something. I love that study.

One of my other favorite stories is about a woman named Cathy in Houston, and I don't think I've mentioned this, but one of the things that our teams will do is we'll do a renewal visit, so 90 to 120 days before resident's lease are (inaudible), hey are you thinking about renewing our lease? So, in this case, Apartment Life team was coming by to visit Cathy, she was a single mom with a young gal, a young daughter, and they said, hey Cathy, we've really enjoyed getting to know you at the events, what are you thinking about next year? And she says, well, I've had this bug infestation that management has not been able to address, and so I've decided, I've already put a deposit down on the new place, and my plan is to move out, and so they're like, oh gosh. we're so sorry to hear that. We'd love getting to know you. We're really gonna miss you. And so later that night, Cathy emailed them back and said, ever since you visited, I've been thinking about the sense of community that I've got here, and this is the kind of environment I wanna raise my daughter in.

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**PK:** And she said, I decided to let go of my deposit and I'm gonna renew my lease, and I thought, wow, that is a big turnaround in the let-go-of-deposit and to do an about-face like that. But again, it shows you the power of relationships. If you're an apartment owner, you probably don't think a lot about the impact that loneliness has on your business, so when your residents are lonely, there are no roots holding them in that community. That apartment that they're running is just a shell, and it's just a commodity. If the apartment community down the road offers a good enough (inaudible), they're gonna pack up and go live over there unless they have roots in their community. And so again, that's where we don't just appeal to apartment owners for the powerful impact that this has (inaudible), but this just makes really good business.

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**WS:** Tell me, as you all are communicating with operators, often and new operators, what's gonna be the biggest hold back for most operators from moving forward with something like this or maybe the biggest risk that they're concerned about?

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**PK:** Yeah, so the most common objection that we'll hear from operators is, should my onsite team be hosting all of those events? So the first thing I'll say is our program is much broader than just events, but obviously the events, that's kind of the most prominent tip of the iceberg, if you will, the most visible part of the program. And might reply to them is, yes, your team can throw an event, even if by throwing an event, you mean putting food out on a table in a common area and emailing all your residents. Now, I lived in a community that did that, okay? Every Sunday or every other Sunday, they would put Chick-Fil-A breakfast biscuits out and email all the residents say, hey, some free food if you wanna come down. But what I noticed in that environment is everybody who came sat by themselves and nobody interacted with any of their neighbors.

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**WS:** Probably got it and left.

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**PK:** Yes, that's the other thing, 'cause those people are introverted. Over 50% of the American population would be self-described introverts. And so they come in a situation like that where they already feel a little awkward and all they see is the food and a bunch of people they don't know. And then put yourself in there, or asking the listeners, put yourself in there, what would you do? Well, some of you would reach out and get to know your neighbors, but a lot of you wouldn't, and what our teams do is they do more than put the food out there really, that catalyst that are proactively introducing themselves to the new people who are walking and connecting those new people with other people in the room and say, hey, I've met Sam over here. Have you met that? And so that's I think what really sets our events apart from what the management team can do, and when you describe an event like that to the average operator will go, oh yeah, my on-site staff, they don't have time to do that or the emotional bandwidth, you know, most on-site staff, all weeks, they're hearing complaints. They're hearing complaints – this is broken, I stepped in poop in the common area or whatever the complaint will be, the last thing they wanna do is, at the end

of the week, throw a big party for all these residents that have been complaining to them all week, and so we'll say, that's what sets us, we would love to pick that off your shoulders. So once the management team that has really worked with Apartment Life, they love it, 'cause it just makes your job so much easier and the residents are indeed happier.

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**WS:** That's incredible. What about new listeners who are thinking about this or wanting to reach out to you all? You know, they're thinking about the cost, right? What does this cost the operator? How does it affect the NOI? How do they look at that? What kind of expense should they expect?

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**PK:** Yeah, so we're in the middle of changing our costs, so in 2022 our costs are gonna go up, so the numbers that I'm gonna give you are 2021 cost. But for most markets, the cost is \$650 a month. That's the primary outlay of cash that the owners would pay. \$650 a month, some markets \$750. In addition to that, they concede the two-bedroom unit to Apartment Life that we'd give to the team to live in, and the team does pay us a little bit to live in that unit, which lowers, keep that management fee, that \$650 a month, lower than it would have been. So, the first cost is the \$650 a month or \$750 in markets, the conceded two-bedroom unit, and then finally, and this is normally already in the budget, some kind of event budget for the team to work with. And we recommend \$1.50-\$2.00 per unit per month so that the Apartment Life team or coordinator has (inaudible) throw a really good party and events to bring the community together.

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**WS:** This is great to know, I think give them an expectation, but I just wanna bring something to the operator's mind that's listening as well as like, think about the cost of one turnover, think about the cost of one family or a couple or individual moving out and having to marie market, clean, get that apartment ready again. I mean one, it's gonna cost that much typically, right, often. And so I just encourage them to think about that, just this couple or this individual that's going around, even doing just the, what do you call them, renewal visits, right? There's so much value in that right? And going early enough to say, hey, what issues are you experiencing, what's it gonna take for you to stay, we care about you. Ultimately, right, it's so valuable. And we go such a long way. So, what about what size apartment communities, who's the best fit for this? Is that, if somebody has a 20-unit building versus a 400-unit building, where do we fit with something like what you're talking about?

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**PK:** Yeah, that's a great question. We have served owners that have as few as 48 units. Normally, I would say you would probably want 175 to 200 units or more, you know, to concede a two-bedroom unit, you kinda want a certain scale and to be able to afford the \$650 a month. So, certainly, we could serve anyone who wanted us, but in terms of what probably makes the most sense from a budgetary perspective, I would say probably 200 units and above makes the most sense.

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**PK:** Okay, I meant to ask you also earlier a little more about how these people are selected for the community, the individuals that you all decide to place somewhere, I'm sure some operators would be concerned about, well, how do I know they're a good fit for the community or somebody we can trust. How do you do that?

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**PK:** Well, we put a lot of work into the selection process, and I would say on average for every 12 people who apply, one will actually make it through to placement. So, we're looking for people who aren't just doing it for the reduced rent. So, that's one of the first things we vet for is what's driving us. If it's just a, I want reduced rent, then we say this isn't a really good program. We're looking for those people, again, who really wanna embody the phrase, love your neighbor as yourself, and so often our coordinators will come from churches, probably 75, honestly, 75% of our coordinators are just recruited by our existing coordinators. But we're looking for people who really kind of wanna live that way, and have a gift for hospitality and making people feel welcome. And then we'll spend a lot of time training and developing them. So, we train them in Fair Housing, we train them in all aspects of the program, we have video training, we have one-on-one training, we have small group training, we have monthly reinforcements, we have an end of the month close out where every month we report back to the management.

So we have a pretty robust people development system in place for these, but again, at the end of the day, everyone that we would bring for that initial interview with the property manager would kinda bend through some preliminary training and the property manager ultimately gets to make the decision, the yea or nay on them.



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**WS:** You were reading my mind. My next question was gonna be about training, how do they know how to do this? So that's incredible, they receive sounds like lots of training, but also recurring training, so like they're staying involved with you all. Another question around that. What about any KPIs, anything that you all measure or anything that helps you to see, hey, is this actually working in this community?

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**PK:** We do measure almost everything, and I would say if I had a coordinator next to me, an Apartment Life team next to me who say, what's the hardest part of your job? They would probably say the amount of reporting that I need to do, 'cause we ask them to report on everything. We wanna know how many people showed up at the event, how many people were you able to do a welcome visit with this week or this month? How many renewal visits? Every Monday, they send a weekly recap to the property manager, and then at the end of the month, there's also kind of the very data-driven report that the property manager gives along with pictures and some of the commentaries in terms of special access care that they've done for the residents. So it's pretty robust, and that would probably be, our coordinator said, hey, the hardest part of our job is not, loving our neighbors is actually reporting on how our we're loving our neighbors.

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**WS:** That's awesome, and I'm sure you're probably tracking that alongside, say vacancy and renewals and things like that as well, so you can see that happening. How are those relationships built? And actually, one final question around that, what is that a normal time frame to actually start seeing results, is that a month, is it six months, a year? What do you expect there? Typically.

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**PK:** We work with (inaudible) advisors, they're an economic research firm that's well-regarded with a department industry. And at the end of one year, after the program's been placed one year, we can do a (inaudible) impact study that will show the economic impact that the program has had on the community, it's a survey-based study that we do where we survey the residents here directly from them, along with the management team. And on average, (inaudible) advisors would say they've done these over the years, they would pay on average, you're saving your clients \$188,000 a year between residents turnover or resident retention. Staff retention, that's a piece

that a lot of people don't think about although right now, in the midst of great resignation, people are thinking more about how do I hold on to my on-site staff, but the program has been proven to hold on to your good employees, so that's the second thing. And then marketing costs. So \$188,000 a year to the NOI is what our program brings to the average owner. So yeah, after a year, I give it a year to really know for sure, because it takes a while to build relationships and for the residents to be fully aware that this program exists for them.

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**WS:** Yeah. That's awesome. I didn't think about the connection on the current employees there at the management team and how it would affect them and relieving them of some things, growing their team in a way that they're not almost responsible for managing somebody else, so they, just a couple more questions, what about some daily habits that you have that have just helped you achieve this level of success?

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**PK:** Boy, that's a great question. Daily habit. Well, my personal habit, I'm a follower of Jesus, so I'm a Christ-follower. So, one of my daily habits is to spend a little bit of time in the Scriptures, reflecting on a different attribute that God would want to have in my life. And yesterday was humility. Today is boldness, but I have 31 of these attributes that one day a month, I just kind of reflect on that attribute and how could I live that out? And so I'd say that's one daily habit I have now for people who are listening to this show, maybe of a different case entirely or of no faith, but my encouragement to them is regardless of whether or not you have a religious faith, thinking of an attribute that you want to have true in your life that you want to live out, and kind of mapping that out over the course of the month and really deeply reflecting on that, I think that's something that any of us could do and most of us would want to do.

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**WS:** Incredible, appreciate you sharing that. But what about, how do you like to give back?

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**PK:** Generosity with my finances is a very important thing, but I think being engaged in the community around it, so one of the things that the church that we're involved with is that we help out with a refugee ministry here in the Dallas-Fort Worth area. So in Southern Fort Worth, there's an apartment community that is a chunk full of people from around the world who've had to flee

their countries due to war or persecution. And so probably one of the best rewarding volunteer experiences we've had as a family of each month going down there and helping out with food distribution. And it's not just as Americans coming and meeting the needs, but what's really been fun as seeing that people, the refugees themselves, helping one another carry food back to their partners, carry food to their cars. A lot of times the kids, the kids of the parents, the refugee kids, will help out with the distribution, and so it's been super, super rewarding.

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**WS:** And I appreciate you sharing that. We've personally been involved as a family locally with distributing some food to families like that, and as much as anything, I want my children to be involved in that and giving and seeing that, hey, not everyone is fortunate as they are, so I appreciate you sharing that, Pete. Mentioning doing that as a family, it's incredible and giving back in that way.

But grateful to just you sharing about Apartment Life, and I just hope it exposes our listeners, operators to this option of hey, how they can build a better community and how it can directly affect positively their NOI, right. Ultimately, the value of the property. So I just think that that's so valuable to know that this is out there, that this is a service, something that they can outsource that I just think compared to the cost has a drastic positive impact on not just the income of the property, but just the value or the tenant's life personally inside the community themselves, so grateful. Pete, thank you so much for the show today, tell the listeners how they can get in touch with you and learn more about you and Apartment Life.

**0:24:30.2**

**PK:** Sure, yes. If you wanna read more about Apartment Life, you can go to our website, [apartmentlife.org](http://apartmentlife.org), and that we've got all the information that I spoke about today on the website. But if you wanna reach out to me personally, Pete Kelly, P-E-T-E-K-E-L-L-Y @ ApartmentLife.org. That's my email address, petekelly@apartmentlife.org.

**0:24:51.5**

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