**EPISODE 1323**

**[INTRODUCTION]**

**Whitney Sewell (WS):** This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

Don't forget to like and subscribe but also go to LifeBridgeCapital.com where you can sign up to start investing in real estate today. I hope you enjoy the show!

[INTERVIEW 1]

**WS:** Our guest is Jacob Cohen. Thanks for being on the show, Jacob.

**Jacob Cohen (JC):** You're welcome. Good morning.

**WS:** Jacob, give the listeners a little more about who you are and exactly what you're doing right now.

**JC:** Sure. I started off at a company called Deerwood Real Estate Capital as an analyst, underwriting deals for some of the more senior folks here. Ultimately, as a couple years in, realized where the money was at; it's always on the front-end of a company, not on the back-end. I put my MBA to the side and said, "Let's focus on the cash side of the business," and became a producer.

I'm a vice president now at Walker & Dunlop. We are one of the top lenders in the country for multifamily properties, as well as other asset classes, the company's publicly traded and we have about 700 employees across the country. There's different, I guess jobs for each person at Walker & Dunlop. Mine as a producer is to find investors who are looking to pair up with good capital. We're focused on finding the best capital in the country for your deal.

Now that will involve various aspects. There is a big sale side to it finding the owners, but I would say a more important part of the job is actually underwriting the deal, understanding it and selling it to the banks and then working your way through to a smooth and great closing.

**WS:** Okay. There's a lot of things there we need to – I want us to be able to cover. You talked about finding the best capital for your deal. That's your job, right? You're going to help us find the best capital for our deal. Tell me, when do we contact somebody like you through this

© 2022 The Real Estate Syndication Show 

process of buying this multifamily property? When should I connect with somebody like yourself?

**JC:** It's a good question. I would say as you're either starting the business, or you're already in the business and you want to understand different capital types that you can use for your property, you may want to talk to someone like me, or there are many of us across the country, to understand the capital that's available today. Just as an example, Freddie Mac is pretty much out of the business today for commercial and multifamily properties.

You may want to talk to someone at a company, let's just say to say, "Hey, is Fannie Mae lending today?" If it's not Fannie Mae, who is it? There are aspects to who's lending today and who's hot in which markets. You're from Kentucky, Whitney, so close a deal at Louisville. At the time, Freddie was saying, "Let's underwrite the deal to 70% loan to value and only a 135 DSCR." Whereas, Fannie was willing to go up to 80% per cent and a 125 DSCR, which was able to improve of course on the loan amount.

Separately, besides for Fannie and Freddie, there are many other lenders out there. There's life companies, there are banks, and we want to understand are you syndicator? Are you investing your own family capital? Are you willing to sign recourse? How long of a term do you want?

Then aside from called permanent loans, there's a whole another side to the business of bridge loans, where you may want to buy property and it's a value-add deal and you want to get a bridge loan. On the bridge loan side, it's always a question of do you want to sign recourse? Are you looking for the highest loan possible for your deal? Then of course our job would say, "If you're looking for the highest loan possible, we want to match you up with the best rate as well."

**WS:** The loan is such an important piece of buying a large multifamily property, right? The type of debt that you get, I mean, it can make or break of the deal, right? I mean, it's so many aspects of the type of loan, or the terms and things like that. I wanted to back up just a little bit. You're a mortgage broker, you're finding that debt, you're helping somebody like myself find the correct debt, or the best debt for our type of property that we're trying to pursue, or to purchase. When do we need a mortgage broker, or as opposed to not using a mortgage broker?

**JC:** Back to the first question, I just wanted to finish that was as far as when you come to somebody like us, you need to talk to someone in the market, we're there to help you as a consultant. When we go out to market with a deal, you typically want the sponsor, or the investor to be in contract and have an LOI out. Or maybe even more than an LOI. Have a purchase and sale agreement already done, so when we go out to our lenders and they're

bidding on this deal, they know that if they bid and they have the right price on the right rate, they will win the deal. They're not just waiting to see if the sponsor still is going to get the deal.

**WS:** You'd like for us to have an LOI out at least. Really, I'd like to be in communication with you before that, so I can understand how to better underwrite, right? I mean, so that way I know about what debt I'm going to be able to get, the terms, the length, all those things, interest rates. Could you elaborate on that a little bit on how – you talked about underwriting and then selling it to the banks and working your way through this process, how does different types of debt affect our underwriting?

**JC:** The easy answer to that is are you going for a bridge loan, or a permanent loan? A bridge loan in many cases will not give a strong return to investors, because you're borrowing 85% of cost, but you're throwing into there a big portion of capital expenditure. Were you going to renovate the property? In addition, sometimes you're buying to deal where there's only a IO cover, or even a negative debt service coverage ratio, at which point we'll put up an interest reserve and we'll have money there, but investors are in there for the long run. They want to be in there for two or three years and try to really add value to the property, so they can pull out some equity on the refinance.

As far as stabilized loans where someone just wants to beat the S&P and get a 7% to 10% return on this money where it's more of a permanent loan, then you'd want to say what type of permanent loan are you looking for? Some folks are – especially family offices where they're not so focused on the returns, but they're more focused on building equity, building a financial statement.

In such a case, they have no problem with amortization of 25 years, 20-year, will do self-amortizing in loans. Whereas most syndicators, their focus is returning capital to their investors. In such a case, we definitely want to push out to 30-year amortization. In addition to that, we want to push for IO, which means you will not be paying any principal payments during the first couple of years as long as we – I just closed on a loan in Brick, New Jersey where we got four years of IO, so he has four years of no principal payments, which he happens to have no investors in the deal, but he still gets a nice strong cash flow for the next four years.

**WS:** IO, interest only. Just in case the listener doesn't know what that stands for. Four years of interest only. Tell me how that could make or break a deal, as far as when you're looking at two years of IO, or interest only, or three years, or four years, how long should we push that?

**JC:** That's a great question, because people ask us, what do I underwrite? Do I underwrite two years, or four years? It really makes a big difference during two years or one year of IO would

make a big difference to what investors will get back. Now of course, it's all on the front-end, because anything – when you're paying full principal payments, that's really cash that you should be getting, but instead, it's going back to pay off the principal balance of the loan.

Most investors when they put money in the deal, they want to see a return. Every year of IO makes a huge difference. Every dollar we can get, our clients makes a huge difference, which is why they hire us. In many cases, a client will go out to his banks and say, "Jacob, my bank has given me 17 million. What can you do?" We did a deal where we got him 21 million after he came to us at the 17 million dollar loan. In some cases, we can't do better and we'll say, "You know what? You have a great deal from your bank." Most of those cases are for construction loans though, I would say.

**WS:** Okay. You went into bridge and permanent and IO a little bit. Any other things as far as that's going – we should be thinking about as we're underwriting deals and we're thinking about the types of debt, even the length of the debt, the amortization, 25 or 30, or even whether it's a 10-year permanent, or five-year. What else? Walk us through some other things that I better have in mind when I'm underwriting this property.

**JC:** Sure. If you're risk-averse and you're worried about the market – where rates are and where rates may be in three years, you may want to really push for 10, or even 12-year loan to try to keep – rates today are phenomenal, so you want to lock it in and get long-term debt, even though maybe you're going to lose out in five years of doing another cash out refinance, but you'd rather have long-term conservative debt.

Some folks are more focused on just refinancing as often as they can, because every refinance is a return of capital. That's tax-free. It's super helpful. I guess, they'll depend on your personal feelings with the market and your investors and what they're interested in this market. Do they want to park the capital long-term, or do they want to cycle this into many deals over the next couple years?

[INTERVIEW 2]

**WS:** Our guest is Rahul Patel. Thanks for being on the show, Rahul.

**Rahul Patel (RP):** Hey, man. Thanks for having me on.

**WS:** We're going to talk about different types of lenders and how lenders are not all the same and what to look for when selecting a lender. I'm looking forward to hearing about your experience in that. But get us started in like why this topic is important and thinking about

lenders. Obviously, I mean, the lending portion is such an important part of this business. So I'm looking forward to hearing your take on it, but get us started.

RP: Well, first and foremost, thanks for having me on again. I guess for the last couple, you haven't kicked me off. So I appreciate you having me back on here. But I know this is important. We got a few podcasts. We've always – We focus on structuring. We focus on how to bring in the equity. The equity's an important component, but now we really have figured out who's going to come in with the lion's share. It's typically the debt, right?

So for most deals we see, there is usually a pretty strong debt component. About anywhere from 75% to about 50% of the project usually comes in with some component of debt, right? So that's what we're talking about. You've got your lender, right? You got somebody who's lending you the rest of the money, and they're not in it for the ride with you. They're in it for loaning you money to get a guaranteed return on an interest rate for them, and they have an asset that is there, their collateral to some extent.

So they're not all the same. There's many, many forms. What I would say is one of the things that we kind of really focus on and I see what folks really, they look at. When they look at a lender, they look at a few things. One, they look at what's the interest rate they're charging them. Two, how long of a term or what kinds of term were they giving them and how much money are they giving you? When they get past those three thresholds, often times they're viewed now in the same bucket. They're all about the same, which isn't really the case.

So they – One lender offers you $2 million at a 5% interest rate for 20 years fixed. Same thing with the other. They're not the same. There's lots of things that go into it. So if you kind of look at that, you say that's the kind of the component that I would say getting past the first three big steps of staying, "What are the terms? Now, what or who is lending you the money?"

So typically, I look at this and say there's three or four main areas that people are getting money from right now the multifamily space. So conventional. Conventional leading is what most people know about. They have a Chase bank account. They have a Wells Fargo bank account. Whatever big bank that they bank with, they might assume that that's where they go to the first time.

So conventionally, you've got your big banks and then you got your Texas HomeBank, your local bank that anybody can go and strike a relationship with. Those are your two types of primary sources when we talk about conventional lending.

So when we have those forms, what I find is depending on the project size, that may direct where you're going to go. Your smaller local banks have lending thresholds in which you can

go with. So if you're taking the smaller project, $10 million or less. Your smaller banks or a lot of times local banks are really good options for folks to start with. They usually have bank accounts there. They have some requirements to maybe have a bank account with them. But again, a good source because they know your neighborhood, they know your market, they know what you're doing, they may have a real strong relationship with you. So that's a good source to start with from that aspect.

So you got you – I would just kind of break them down real quick, and then we can – I guess if you dive into one. But [inaudible 00:05:20] conventional. A lot of folks then are looking at private equity. There's a lot of now funds that have pulled together, whether it's 50 million, 100 million, 200 million, up to a billion dollars funds that are specifically focused on lending for real estate assets.

That's a whole different kind of monster in and of itself, but that's again another area that people are going to. Then kind of what I would say even more than that, there is kind of different capital and banks that are kind of associated in and out of that private equity realm.

Then I would say the last one that's kind of a subset of that is your family offices. So your offices, your local family offices that have good family methods and pools of money that are coming in to have this type of structure versus saying, "Hey, I want the upside. I want to have – I won't give you the debt. Keep your deed in my name. Have an asset that guarantees a certain kind of return." So a lot of times, you have trust. You have different assets that are looking for some sort of asset maintenance but then some sort of residual income. So that's another area that we can look at. But those are kind of I would say the three kind of areas that you're going at besides the government financing loans.

**WS:** So like big banks versus like your small local bank or a credit union, something like that. Can you give us maybe an example of why you would go to one of the other and maybe even how our experience or our track record or even the type of property might change that?

**RP:** Typically, what I would say – Number one, the size of that project. If you got a $50 million project, typically your smaller banks are – They're beyond their threshold, right?

**WS:** Mm-hmm. Right.

**RP:** So they think you got a partner. They got maybe other banks. So they're kind of past your thresholds. Number one, depending on the size of the project, your local bank and their thresholds will tell you what your lending limits are. My advice typically to many of the folks that are listening to this, start with your local banks if you can. If they're within your threshold, start there. There's a lot of things that you can work through in the gray areas, whether you've had –

You're new to the market. You got a hiccup somewhere along the line in credit rating. You had a project that may not have gone so well or whatnot. Or you're just a little bit new to this in general.

Your local banks really are great options. They're looking for good buckets of real estate that they can always land on to keeping their portfolio. They typically keep their paper too. So they will stay and remain the lender in the deal versus trading that piece of paper off.

So when you're having an issue or you're going back and saying, "Hey, you want to go a bunch of property improvements. You've had a great two-year run, but you haven't had enough cash flow to do all those reserves on your own." Your bank might be the first one to come and say, "Yes. Well, we're happy to lend you that because we can see what you've done. We can see that this value-add assets are going to come back."

So really looking at that, I would say what determines that for us. For example, we built this office building. It's a 25,000 square-foot office building. I went to a local bank, struck up a relationship. Over coffee and lunch, he said, "Yeah. I'd love to do the project." From there, we were able to really work through the little pieces that they needed to make sure it was fine-tuned up. But once you say, "We like this project," they were in. So I didn't have to go and worry about some big New York office telling me this isn't going to happen. I knew the folks that were there. I knew what was going to go on. So that's a good option for us.

**WS:** How did you go about building that relationship with the bank like you're talking about?

**RP:** That was actually ironic. I just walked in, because my dad actually had an account there. I didn't have an account there. May dad wanted me to go and sign in on a registration card for his safe deposit box. He said, "In case something ever happens to me, I want you to be able to have access to it." So I said, "Hey, Do you guys do commercial loan?" A guy said, "Yeah. Let me introduce you." And I struck up a conversation.

What was very interesting to me is we bank at that time. My law partner and I banked at a very big bank. I mean, lot of offices all across San Antonio, convenience factor, ATMs, all that kind of stuff and I would go in there a lot and ask them. The private banker would be there and say, "How's it going?" It's going great. "That's awesome. I hear you guys are growing." Yes. Now, we're looking for some money to build a building. He's like, "Oh. Well, good luck." Never once did she ask us or set us up with the department that would do that, because that wasn't really her department.

But yet the foresight from the big bank, it didn't matter. I went to a little bank, and they right away knew what we needed. I was able to get a very good package. We had never built an

office building from beginning to end. So what experience do we have building a $6 million or $7 million project from ground up? None. But we were able to really demonstrate the things that we needed.

But when the loan committee was looking at it, they didn't just look at us from a number and a ranking. They looked at us as a people, and we were able to get approved, and the project was and has been very successful not just for us but for the ban itself.

So I think that in order to strike up a relationship, have a good idea of what you're looking to do. If you go in unprepared, don't know what you're going to talk about, and you're shooting from the hip, it can be a challenge. But if you got some good idea generally of how you've got this organized, what kind of project, where your targets are, you will find local banks to be very receptive because they're looking for good people and they're looking for good deposits and they're looking for good projects to land on.

**WS:** So going from the small bank to now – Obviously, we're doing deals with agency debt or things like that. There are lots of different types of data than the local. When do you make that transition or when are you thinking, "Okay. Like for this project, $6 million or $7 million local bank like that versus nonrecourse or versus different things like that."?

**RP:** Sometimes, it just depends on where you're at in terms of your deal flow, your complexity of where you are, what kinds of projects you're working on. Sometimes, time is of the essence too. You got to get things going. You got to go move quick. So the advantage then again of all those types of agency, private equity, family offices, they have a lot of experience. So they're gone through. They know what to look for. They know what they're structuring.

Many times, they come in and structure the deal for you. They say, "This is what you're going to do. You're going to do an SPE. You're going to put in this much debt. This is the waterfall we expect." They basically run the show for you, which in some instances, especially if you're on your first, second, or third deal might not be a bad idea because you're leaning on somebody who's got a strong level of experience.

Now, of course, they're motivated to earn the most amount of money they can. But again, you're also getting a lot of expertise and advice from somebody who knows what they're doing. So, again, know kind of what to look for. If you're going in that realm, then I would tell you, if you do not have a good I would say solid track record or haven't done deals before or at least have good advice kind of coming down the pipeline, they may end up stealing the show from you if that makes sense, for lack of better word. They might steal that show from you. Now, you're going to have to hit it, and your deals flow with your investors differently than what you have assured them before.

So you might've – Kind of we talked a little bit about waterfalls and structures I think in a previous podcast. But that might alter everything. It might really do it. So you're going to have to be prepared in that realm as well. But I think good level of experience, and then that allows you to push back too and say, "No. This is our structure in our term sheet." You might be able to get multiple people to kind of be bidding on your debt versus the only girl that would go to the dance with you.

**WS:** So what's going to make that lender as far as the small lender like you went to your local bank? What's going to make them stand out to you? I know in this case you were in there, and somebody just struck up that conversation. You all got to talking. But what's going to make others standout? I know they're not all the same. What do we need to be looking for when selecting that lender and what's going to make them stand out to you?

**RP:** The first one I'm going to say is, it's very tough because you can't quantify. But I would say gut feeling. You really feel good about sometimes what somebody says. Sometimes, they're just saying what you want to hear, and sometimes they're really saying what it is that you need to hear. I think I always say the best decisions that I have ever made have been on my gut, and the worst decisions sometimes were based on what a spreadsheet told me to do. So I would tell gut feeling is really, really number one.

So in this particular instance, I just very comfortable with the speed at which they moved. They were a little bit slower, but they took their time, they really asked a lot of questions, and they felt honest about what we're trying to do and what they are trying to ask for versus saying, "Here's a list of 10. Number two doesn't – What you gave me isn't number two." He said, "Well, we don't have a number two." It's like, "Oh, okay." So a lot of times, they'll just get kicked back. Sorry, you don't have number two. You don't have number three. You need to have number two in this format.

The difference is when you say, "Oh, I get what you're doing. Can you maybe provide us something else that would be a backup?" So gut feeling, number one. Number two, I would say seek experience. So they're going to do their homework and due diligence on you at the same time. You have the ability to do due diligence on them. Lots of things you can do. One, contact a better business deal. Find out what people said about them. Number two, ask them for a list of previous references. I mean, if they can ask you for your credit references and things like that, you can I would say ask them. If they say, "I don't have anybody. I don't need to share that. I'm not going to give that information to you." Then choose another one. If nobody gives it to you, then nobody – I mean –

But a lot of times, they will be willing to share information with you or you could find deals that they have structured in the past. Sometimes, a lot of them are just advertising. They'll literally advertise it on their website, which project they finance and that they did contact that person. How's it been going? It looks like you've been with them for three years. Any issues? So a lot of times, just doing your own homework on their experience or what people have experienced about them is a very good indicator too, because this isn't a one-year, six-month diligence marriage. You're going to be with them for a while. So there's lots of things than can happen, occupancy trends.

Houston just got hit with Hurricane Harvey a few years back. That was devastating for folks, because many folks didn't have flood insurance, wasn't required. You could be – I mean, lots of things can happen. You could have road foreclosures in certain areas, and it could affect your business. School could just shut down, which is a premise of why people built an apartment complex by it and then the school moves. So many things can happen. So you really want to have a good idea of how they react, because we all as humans – Somebody is in charge of that decision.

If you're making your payment and you're doing everything you need to do, then you may never get a call from anybody. But the time you need to have that knowledge is saying, "Okay, I got to call Whitney up and say, 'Whitney, I'm having an issue this year.'" Then it's a matter of you and how you make your decisions of what you do for me versus what you're able. Some days, you just may not be able to. But in many instances, those matter.

So I would say go with your feeling. Get some experience. If you don't feel comfortable there, then really get enough homework on them and find out and see what people are saying about them as a lender.

[END OF INTERVIEW]

[OUTRO]

**Whitney Sewell:** Thank you for being a loyal listener of The Real Estate Syndication Show. Please subscribe and like the show. Share with your friends so we can help them as well. Don't forget to go to LifeBridgeCapital.com where you can sign up and start investing in real estate today. Have a blessed day!

[END]