

**EPISODE 559**

[INTRODUCTION]

**[00:00:00] ANNOUNCER:** Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

**[0:00:24.1] WS:** This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Preston Walls. Thanks for being on the show again, Preston.

**[0:00:33.3] PW:** Thank you for having me again, Whitney.

**[0:00:35.6] WS:** Yeah, I'm glad to have you back. Especially with some of your expertise, it's just a prime time for us to talk about some of these things that are happening and what you all have done and how you're managing it and all kinds of things.

But a little about you in case the listener hasn't heard of you before. I encourage you to go back and listen to show WS416, it came out December the 11<sup>th</sup> of 2019. Preston and I had another conversation and talked more about his background and what they're up to right now. I'd encourage you to go back and listen to that.

But in case you haven't heard of him, a little about him: He held positions at Wall's Property group, Wall's Property Management. He's founder and CEO, currently manages a portfolio of 75-plus buildings valued over 300 million. He directed a ground up, 42 unit, built-green class A, mixed use project including planning, permitting, tenant relocation, demolition, construction leasing and financing. That's a lot to manage right there, Preston.

And is currently building a 61-unit, mid-rise multifamily project in permit for a 58-unit site and renovating several existing value-add properties in Seattle.

Preston, you definitely have lots of experience. Looking forward to getting into this conversation and just will understand what you all have done different because of the current crisis, what's happened, how you are mitigating any of those risks of course and just diving in.

Are there any updates as far as Wall's Property Group or Property Management that you want to provide to the listers before we jump in?

**[0:02:04.3] PW:** You've covered it.

Just with the state of things in Washington, construction sites are for the most part closed down. So, the construction aspect of things is occupying a lot less of my time these days and I have more time to figure out how to get through all this and keep the buildings full and tenants current on the rent.

**[0:02:21.7] WS:** That's one thing we haven't talked about on the show yet about this whole crisis. I want to get into ways that you all have been able to help residents and how it's impacted your cash flow numerous things like that. But on the construction side, what do we do? You know, something like this happens, you have to close that portion down, what happens there?

**[0:02:42.9] PW:** Sit tight is the best thing. I mean, one of the benefits of being in a lower rate environment is most construction debt's variable rate so as labor is primed, goes down should be a positive to your interest reserve. So, it makes it easier to sit on a project that's not doing anything and gives you a little cushion there. But there's not much you can do when the Governor issues a shutdown order for none essential construction sites.

**[0:03:12.4] WS:** Right. Well, we'll weather it, won't we?

**[0:03:16.7] PW:** We sure will.

**[0:03:18.7] WS:** No doubt about it. Well, tell me, can you provide some examples of ways maybe you all have been able to be creative and helping tenants or residents?

**[0:03:26.9] PW:** Yeah, the hardest thing is this has been just such an abrupt dislocation in the market. Just a shock with so much unemployment created in such a short amount of time. And so, one of the ways that we've responded is by creating a lot more flexibility for people in terms of lease terms and doing things that wouldn't normally do. One thing is offering, no repercussions for breaking a lease or getting out of a lease. My goal is to get the right tenant in the right space right now.

If there's someone in apartment and can't pay the rent, they need to get to a smaller place and move in with family or take care of a relative, I don't want a lease break fee to prohibit them from moving.

Another thing we've done is have a number of newly unemployed people with more time, we've turned them into site help, painting stairwells and hallways and cleaning around properties in exchange for rent payment. So that they have the opportunity to work for rent credit.

**[0:04:31.0] WS:** Wow, that's a new one, I have not heard of that one before. What about just the liability of somebody like that working on site, on the property?

**[0:04:38.7] PW:** We hire them as the 1099 contractor. And we have a contract worker agreement with them.

**[0:04:46.3] WS:** Okay, awesome. In the, just creating more flexibility, okay, no repercussion if they're breaking a lease. And just a new one, you mentioned hiring and actually allowing some tenants to do some work that they can do to pay the rent. Is there anything else?

**[0:04:58.1] PW:** Those are the bulk of what we've done for new leases coming in. I mean it's an uncertain time, you might have a job now and who knows what 30 or 60 days from now holds so we're signing new leases with a 90-day risk free trial. So, move in to the space, you don't like it or something changes and you can't afford it, 90 days to essentially move out with no lease break fees.

That's been important too because with a lot less interaction going on, I mean, prospective residents are less likely to tour property and giving someone the comfort to sign a lease without having seen it, having the ability to back out with notice and break these has been important, we've been offering these at 90-day risk-free trials on new leases.

**[0:05:50.1] WS:** Wow, I love those ideas. What about just how long you expect this domino effect occur from the virus and impact cash flow?

**[0:05:59.5] PW:** Man, that's – I would love to know. I mean, it's going to get worse each month that businesses are shut down. And when businesses open and what that looks like, how quickly do things come back? I don't expect that to happen soon. I'm preparing for a multi-month shut down and then kind of a slower easing into opening. I mean, there's a lot of businesses that even after you open, how do you maintain distance? A restaurant? How do you set tables so that they're six feet apart?

There's a lot of questions that I think will slow down as we ramp back up, opening up the economy.

**[0:06:47.3] WS:** it's hard to know how long it's going to take to get the engine running again, isn't it? It is going to change businesses. I mean, so many businesses or every business in so many ways and so many that we can even foresee it.

**[0:06:59.2] PW:** Yes. I mean, any sporting event, any group big congregation of people, all of those, they're really hard for me to envision coming back soon. Those will be at the later end of the economy opening back up.

**[0:07:17.5] WS:** What percentage of your current residents have expressed needing financial assistance during this time?

**[0:07:23.6] PW:** When we reached out to our portfolio, we heard back from a little over 8% that had either lost their job or expressed concern about paying April's rent. And ultimately, it played out a little bit less than that. We've collected a little bit better than – 6% our delinquency rate is

just under 6%. I expect that will go up a fair amount in the coming months and will continue to go up as this goes on.

Another interesting aspect in the collections data was how it segmented by property type. There's a very direct correlation between building quality and therefore credit quality of the residents in those properties and their ability to pay. Our delinquency rate, A-minus, B-plus buildings was three and a half percent. It's about 9% in B, B-minus properties. And older renovated buildings in not the best parts of Seattle saw much higher delinquency rates.

**[0:08:30.9] WS:** What about just your advice for the listener or current property owner who is struggling to meet the needs of the residents?

**[0:08:38.4] PW:** I would say, step one is get liquid or as liquid as you can to ride this out for as long as possible, as long as you need to. Step two is getting creative. How many different ways can you think of to keep your residents current? Keep them paying something and not digging too deep a hole for them. Three, I would say breathe. I hear a lot of people that they don't know what to do and so their options are put everything on the table and a lot of those options tend to be fairly extreme measures.

I've heard a couple of people, you know, "I'm putting all my lenders on notice or I'm only going to pay the interest portion." That's before seeing the rent collections come in. And I think your experience as well, the most recent one's collections were better than both of us anticipated. Just taking that moment of calm to reassess, "Hey, seeing all this information around me and it's telling me that things are bad but my own information. What is it saying? What is it telling me to do?"

From there, at some point, we're going to have some great buying opportunities to get back into this market. But just thinking back to the last cycle. In 2008, it was about two years after stock market put in the bottom that the multifamily real estate market bottomed out. So, that was a long period of just waiting for the market to stabilize and get to a good entrance point where you could get back and have some stability and visibility of what rents are going to be doing.

**[0:10:30.0] WS:** You think it is going to take that long again?

**[0:10:31.6] PW:** It all depends on how long the economy is stalled, how long the economy is frozen up, seized up and what ripple effects that has on other aspects of the economy. And then the other wild card is banking or the risk is banking. So how much liquidity comes out of the banking sector and how much do lenders pull back from the market? And we've already had seen tremendous restriction from lenders. It's a hard time to be getting a loan right now.

I have talked to a number of lenders that are either out of the market entirely or have significantly constrained their lending parameters whether that is raising debt service coverage ratio, eliminating cash out refinances, one lender, a couple of lenders are requiring a year's worth of principal in interest payments reserved. You are seeing much higher vacancy rates underwritten, all of which negatively impacts the loan proceeds.

It is hard lending environment. And that is not going to get any easier the longer this goes on, the more economic damage there is and the more people are out of work.

**[0:11:48.9] WS:** I mean in your opinion what is the worst-case economic scenario that we could face as property owners during this time?

**[0:11:56.1] PW:** The worst-case is a liquidity seizure within the banking sector. So, a lot of people out of work, a lot of economic destruction leads to fewer people able to stay current on their payments to banks, that's credit quality to banks, the banks don't have enough cash flow. It causes them to be ultra-conservative on new lending that limits new loan supply into the market. I think it is credit or liquidity risk from banks.

**[0:12:34.3] WS:** This whole thing has brought about so many changes that we talked about a little bit. You know every business is operating differently probably than they have just a few months ago or have in the past but what about just some examples of how your team has been able to either bond or be more productive or be productive at all during this time when we are working in different places and probably different schedules as well?

**[0:12:55.2] PW:** One's been around leasing I think that's really been an impacted area of the business. You know it is just a short time ago when leasing agents told me that there is no way

people are going to uniformly or consistently lease apartments without seeing them. And like a lot of companies, we've done a lot of work in getting video tours of properties posted, lock box so people can do showings on their own. But we've seen a lot more leases signed without physically being on the property.

That's been encouraging to see a really quick shift in how prospective renters are adapting to the market as well. And you know anytime you can do something remotely like that and eliminate a trip to a property, that is adding to productivity. And we could see some good takeaways from the leasing department from this.

**[0:14:03.4] WS:** Nice, yeah what about the traffic all together, the leasing traffic. Is it been impacted, is it going up and down, what is your feel for that?

**[0:14:09.6] PW:** It's definitely been impacted. I'd say in the recent traffic's mirrored sentiment pretty closely when things were the scariest, if you will, our traffic numbers were the lowest. And as people kind of get accustomed to a new level or a new normal that they come again. And fortunately, in Washington, leasing and showing housing is not something that's been subject to shelter in place or an incident. You know we can still get out and do two person tours of a property.

But a lot of the traffic is coming through the virtual tours. Some of the agents are doing Facetime tours remotely. So just one person is in the space at a time. And they can talk them through the space and the amenities and features and aspects of the property.

**[0:15:10.6] WS:** Wow. Yeah great idea and I have heard different management companies doing different things like that just to still show people the units as they're needing to move. And so, we want to be able to make that available. What about just the impact that you expect this to have on rental rates all together?

**[0:15:24.6] PW:** It's been quite different in the short-term that I expected. I think because there is such a dislocation so quickly it's created a scramble to people to figure out and get in the right place quickly. And in a number of cases that's led to far more traffic than we'd expected on certain listings and some selective price increases.

Over the longer term say the next six to 18 months, with the unemployment rate where it's going and where it's headed with negative GDP numbers, all of that points to lower rental rates and I suspect we'll see some pretty good declines on rental rates a little bit further out.

**[0:16:13.7] WS:** I don't doubt it either. I am sure we are going to see some decline before it starts going back up, right? Hopefully we've prepared to weather that storm. Before we have to go, we're about out of time but just about multifamily financing, how do you see that or how has it been impacted in the long-term going to be impacted?

**[0:16:28.4] PW:** It's definitely been impacted in the short-term. It is a lender's market out there right now. So, if you can find a lender to work with you on your property and you should take it. And get that locked up as soon as you can and I wouldn't be too picky on the terms because I can see the lending environment could get more challenging if the banking scenario deteriorates.

You know ultimately it is going to stabilize the banking environment. It will stabilize. And as property prices come down, the lending metrics will get more favorable to buyers. So, there will be some relief as prices come down.

**[0:17:08.6] WS:** So just a few final questions Preston, what are some thing that maybe you all are doing a few months ago that now that this has happened you're like, "I am glad that we did that."

**[0:17:20.8] PW:** The refinances that are closing now started several months ago before all of this and that helps with the liquidity situation. Preparing the units, photography, virtual tours, videos, all of that helps on the leasing front. So yeah, those are the main ones.

**[0:17:42.8] WS:** So, what about a way you're finding investors right now?

**[0:17:45.9] PW:** We're just communicating with our current investor base, updating them on the status of the projects, on collections information and communicating where we think this is go-

ing. We have not spent a lot of time on focusing on new investors or expanding that network. We are pretty well-hunkered down on – it's just preserving everything that we have right now.

**[0:18:15.5] WS:** Yeah, focus right now is key as usually, but especially right now, right? So, tell us how you like to give back?

**[0:18:21.6] PW:** So, for the past six years we've been doing an essay for free apartment contest. We give out two apartments rent-free for a year. And we're just selecting our finalist from a number of essays submitted. We did Zoom interviews for our four finalists so I am excited to have those two finalists move into our properties in June.

**[0:18:44.1] WS:** Wow, I love that. I have never heard of that before from anybody else. I just love that give back. It's life changing. I am hesitant to say that because it should be. It depends on how they use that relief but that is awesome, I love that idea.

So, Preston thank you again for your time. I know these are not easy questions, it is definitely a time that all of us were hoping was much further out or may never come somehow but it is here and we have to deal with it. And as entrepreneurs, we're going to figure out a way to cross that bridge and jump at a hurdle whatever it may be and find a way to make it happen.

So, I appreciate you sharing just how you all done that and how you are moving forward. But tell the listeners how they can get in touch with you and learn more about you?

**[0:19:21.8] PW:** [wallspropertymanagement.com](http://wallspropertymanagement.com) or [wallspropertygroupe.com](http://wallspropertygroupe.com), either way we'd love to hear from you.

[END OF INTERVIEW]

**[0:27:48.6] WS:** Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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