

Episode #50
An Education on Multifamily Investing
from the Top Multifamily Online Educators
September 17, 2008

Mosca: Real estate, if purchased well continues to be the single best investment one can make. Welcome to Income Property Investment Talk, a program dedicated to providing investors eager to invest well in real estate, with the knowledge, the resources and the tools to generate increased wealth. Each week we bring the powerhouses of commercial and residential real estate to our program for you to learn from and to call at 1-866-472-5790 with questions or for those of you who have downloaded our radio reminder, our small resident memory program at radioremind.com, shoot us out an instant message and we'll answer your questions immediately. My name is Peter Mosca and my co-host just happens to be one of those commercial real estate powerhouses, Dean Essa.

Essa: How are you Peter?

Mosca: I'm doing well, Dean thank you. Whether you are thinking about investing in rental and apartment properties, or currently enjoy having multifamily buildings in your portfolio, today's show will help you; help you get off the fence and purchase, learn ways to create even more lucrative investments or stay away from those 'deals' that may look good on paper but in reality can prove disastrous. With market dynamics impacting real estate, government bailouts, the sub-prime scenario and financing challenges, the upcoming presidential election, and sustainable development -- successful multifamily investors rely on proven resources. More than hundreds of thousands of visitors a day turn to our next guests and their website as one of those resources. They are Joe Bailey, President and Founder and Cara Rice, Chief Information Officer and co-founder of Grace Hill Inc. or GraceHill.com, the multifamily industry's leading provider of state-of-the-art online education. Bailey and Rice will share their knowledge today for success and detail the importance of relationships with the very best in-class professionals in order for commercial real estate investors to be competitive, skilled, and diversified in any economy or market cycle. To learn more about Bailey and Rice or to learn how to immediately get started generating wealth in real estate, go to today's show page at incomepropertyinvestmenttalk.com/091708. Joe, Cara, welcome to the show.

Bailey: Thanks Peter, we're glad to be here.

Rice: Good morning Peter. Thank you.

Mosca: You're welcome. Joe, since your inception at GraceHill.com, you provide education, networking opportunities for members of the multifamily industry, your membership role has grown to include about 200,000 members worldwide, and those members represent multifamily associates in every job description in every state in the country. In addition, you're doing now more than 300,000 courses a year online at GraceHill.com and that makes it obviously, the leader in providing affordable and easy access to online training for multifamily employees worldwide. That is impressive to say the least.

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Bailey: Well thank you Peter. I appreciate that. It hasn't always been that way of course. We are celebrating this November our 10th anniversary, 10 years of doing this and I'll tell you the first year that we had education out there, we had about 35 courses taken in the entire year, our first year of operation. This is before the Internet really took off in commercial real estate as a tool. It's amazing, today we are having close to a hundred classes taken literally every hour of every day of every week. We actually run a report every year just for fun in January around the second or third just to see who had taken classes on Christmas day. The first year I ran that I just did it for fun and people were actually taking classes on Christmas Day. It's really grown and we are pretty proud of what we've done and I think we've got a lot more to offer in the years ahead.

Essa: Wonderful. How do you, not to give away your trade secrets right out of the gate, but how do you draw people to your site? How do people find out about it mostly?

Bailey: Strangely enough, it's mostly word-of-mouth. When we first started Grace Hill, we went down the traditional marketing routes to try to get our message out there and we met with some success on that but what's happened over the years is people have signed up for our services and they use the site. The popularity of it has grown and word-of-mouth is today by far our greatest source of new business and new membership.

Mosca: That's viral marketing at its best. Cara, earlier Joe had talked about the Internet coming to commercial real estate. Back in the day, I guess in early '93 I was working for an Association of Realtors here in New Jersey and the vice president at the time, Robert Ferguson had a vision and he said technology is going to be a big part of this real estate industry. We met with technology companies across the globe, one stands out, EDS. We eventually came up with a proprietary network called the Realtor Information System, which today if you go online has become the Realtor.org site for the National Association of Realtors. Why do you feel even with all of these things that have been happening over last few years it still seems that this industry might be a little slow in terms of adopting technology and making technology a part of their daily business practice. Do you have a comment on that?

Rice: I think you're absolutely right about that. I think that real estate is a conservative business so a lot of folks that you see in this industry are not necessarily your risk takers. There is certainly a sense of "if it ain't broke don't fix it" so it can take some convincing to show operators that technology really can improve their operations when they're not necessarily convinced that their operations need improving. I think that in the multifamily industry, we saw a lot of boom of new vendors and new services available to the industry in early years of the new millennium just like any other industry I'm sure. However, I think you can probably count on two hands those groups that are still standing today. So multifamily operators are inherently suspicious when they hear that there's a new solution and then that it's got something to do with new technology, I think their radar buzzes, their guard goes up and they want it to be proven. They want it to be a proven success and they want somebody else to prove it. There is a fear of the bleeding edge.

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Essa: Speaking of the Web and what it can do for the business, take things like attracting tenants and things like that. There are many ways to do that, there is of course the drive-by, there's the marketing that you do through direct mail, but online how important is for example attracting tenants to your communities. In this day and age has online become the premier source for now attracting tenants or is there still some of those old-school methods are still good or maybe both of them working in concert?

Rice: Actually, I think that that's a very astute observation there Dean. Certainly, that's a huge change that our industry has seen just within this last 10 years. I think the typical way that a prospective resident in the past would find their new apartment home would be to perhaps pick up an apartment guide book, reference book in their local supermarket or 7-Eleven and they start making some phone calls or they may drive through the neighborhood where they want to live and pop in and ask for a tour, but that has changed significantly. I think that the vast majority of prospective residents begin their search for the apartment community online and so these Internet listing services are becoming exceptionally important in the leasing of apartments. It also changes the way that the operators have to perform, have to lease their apartments. It's a paradigm shift for them so they've got to be able to change gears and to market their communities successfully, know how to lease when the lead is generated online, instead of a customer walking through their door the way that it used to be done. It's very different and even these days just in the last couple of years the technology has arrived that's allowed the prospects to actually reserve their apartments online. They can lease the unit. They never even have to come in, they never even have to talk to anybody who works there, they can just press a button, get their background checked online, and it's theirs.

Mosca: Joe, do you have any thoughts on that?

Bailey: Yes, I have. Cara is exactly right. The number of instances where someone has rented an apartment site unseen has grown tremendously. It's changing rapidly as the environment changes as far as the Internet is concerned, what it can provide, what can be done over the Internet. Strangely enough, the younger generation, now I'm a baby boomer, I'm what's called a digital immigrant to all of this. I didn't grow up with it and Peter, I don't know how old you are or Dean but I'm sure you probably follow by the same category. But the digital natives, the younger generations, they grew up with the Internet and they grew up with high-speed access and laptops and websites and everything else. Things are changing in this arena very rapidly. For example, one of the new takes on Internet marketing of commercial real estate, apartments in particular is social networking. In other words, somebody out there can typically in a day, they can go on website and say they want a two-bedroom in Atlanta, Georgia and they want to spend this much money and they need a fireplace, etc. and they can find a place that suits their needs online.

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Mosca: I have a couple of kids myself, and yes I am a baby boomer, no doubt about it. People claim I have the mind of a Gen Y but that's for another time but social media definitely has taken off. Kids are on Facebook and My Space and adults have their own linked in. Other sources, Craigslist has taken off like crazy. Hands on, face-to-face it appears that the Web is becoming this digital gathering place so if you can, further explain how that social media is helping to improve the multifamily industry.

Bailey: At this point, the votes aren't in yet. I'm not sure that improvement is necessarily the right word to use here but what is taking place is that the consumer, the prospect looking for an apartment would rather hear comments, critiques, both good and bad about the place they're thinking about renting out from people who live there. They don't want hear the marketing message from the management company. Now again, I'm talking about the younger generation, I'm talking about the 18 to 24-year-old age bracket, which there are a lot of these folks out there. They're wary of the marketing message that is currently delivered or historically has been delivered from the vendor, from the management company. They'd rather talk to their peers and say what did you think about that or what was your opinion on that.

Essa: So isn't it paramount that as managers that we treat our residents very well? That's such a critical, what comes out of their mouth is such a critical aspect of referral marketing and we must really need to treat them well.

Bailey: We really do. In fact, they're looking to social media to try to give them guidance and opinions and reviews of a place that they're going to live and possibly spend 10, \$15,000 over the next year. That's the kind of stuff that's taking place right now. Again, as far as whether or not it's going to improve the industry, I don't know but I know it's a coming trend and it's something that the industry is going to have to deal with. So, as you're saying, as you're leading to here, customer service becomes even more important than it has been in the past.

Mosca: Now Cara, we have about a minute till break. Do you think the Web; the social media Web 2.0 is affecting real estate management of sales?

Rice: I do. I look at it sort of from the side of the operator. I think it's helping to tear down the walls and managers and operators are being less proprietary about their knowledge and their skills and they're willing to share information with each other, which benefits us all.

Mosca: I think if there is one benefit to the Internet and technology in this digital meeting, gathering place, it's that everybody is sharing their knowledge and information about different things. We are speaking with Joe Bailey and Cara Rice, both of Grace Hill Inc. or GraceHill.com. When we get back, we'll talk more about online education, multifamily, and ways to be successful in this dynamic business.

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BREAK

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Mosca: That's right, 1-866-472-5790 and if you did download our radio reminder send us out an IM and we'll answer your questions. We are here with Joe Bailey, founder and Cara Rice, cofounder of Grace Hill Inc. or GraceHill.com. Joe, when we left for break we were talking about the Internet, when it first started, not necessarily being commonplace in real estate. Now things have changed a little bit that the Internet and technology has created almost a transparency in commercial real estate transactions.

Bailey: That's really the truth. It's starting to. The Internet really blossomed as far as general usage in the US population back around the mid-90s when CompuServe and AOL and some of the other ISPs came online and started giving people, everyday folks access to the Net. As far as commercial real estate concerned, that really didn't start taking place in commercial real estate management until the early years of the millennium, 2000, 2001, 2002, right in there. That's when a small explosion took place and really what fueled that explosion was the property management software that's used to manage multifamily real estate. Historically, that software had been local software. You would buy licenses or copies of the software and load it onto the PCs at each of the communities. Then in the early 2000s we had web-based software which came of age, software that was parked on a server in a central location and the folks at the site, the employees on-site or actually dialing in to that server and putting new leases in and recording rent payments and move outs and move ins and everything else. What's happened is the data now instead of residing at separate PCs on separate properties, now resides at a central location where of course it's a lot easier to aggregate that data, put it together into report form, and really get an overall view of your portfolio and what it's doing.

Essa: It's probably easier to backup as well.

Bailey: Oh yes, it's a lot easier. Strangely, that's a small thing but it's something that's caused backups that is has caused huge problems in the past. In the state of Florida, there is a retention pond in the center of virtually every community down there and those things are lightening attractors. Historically, you'll see a lot of PCs in the Florida area, for example, that get struck by lightning or fried and of course the people on site hadn't done backup in three weeks. Everything has to be reconstructed. It's a real problem or was, but with a web-based software these servers are housed in bunkers that have backup generators, lightning protection, everything and it's very secure.

Mosca: Now Cara, as Joe had mentioned, do you see the same thing that maybe in the past investors would not get in there and buy site unseen or renters go in and saying I'll

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take that property without seeing it? Are you seeing more transparency in the commercial real estate business?

Rice: Absolutely. There's no doubt about it. Joe mentioned before the break about being a digital immigrant if you will. They're a little too old to be considered a digital native and I myself am in that same boat, however I like to think that as a digital immigrant I think we learned pretty quickly. So, we are adapting to this technology that perhaps the younger folks who work or rent are more born to. Nonetheless, I think all of us have really gotten into the habit here of doing everything online. Shopping for an apartment, shopping for an investment property is no different. I absolutely agree with that for sure.

Essa: I think it's comical a little bit. My uncle, he's 75 and that typical very difficult to get them on the computer for the first time. We bought him a computer and set him up with an e-mail account and that was about a year ago and now he won't leave the house and we have to bring meals into his room.

Rice: Well, that's to the extreme I guess. Joe mentioned also if I may piggyback, he's talking about the aggregation of data and that really has made a tremendous impact on on-site operations. I can think back to not even 15 years ago when I was on-site managing an apartment community and the reporting was such a burden on the on-site team. It would take pretty much at least half of a day, once a week to generate the reports the home office needed. Then, you could believe the last day of the month, the month end reporting, that was going to be one solid day and one long day with a whole lot of coffee going on. That's just gone away. It doesn't have to happen anymore because of the web-based solutions.

Mosca: Absolutely and a couple of things in that regard. One is that the sponsor of this program, RealSource, they have a software program as well called MaxCap that helps property managers understand what is happening in their markets and not only from a financing perspective but also from a vendor and from a worker perspective, who is doing what, when, and where. You're absolutely right that software is changing the way the business is being done. Then on the flip side when you're talking about all this multifamily software and programs that exist out there right now for the manager, there's also a software package if you're interested in getting it from this company called RealSource, you can go to incomepropertyinvestmenttalk.com/091708, today's program. It's called RealSource Analyzer and it helps investors analyze the properties they own versus potential properties that might be doing better. I just wanted to throw that in there for our investor listeners. Joe, we've been talking a lot about the Internet and the fact that Grace Hill right now would have to be considered the premier online educator for multifamily professionals. I was hoping you could explain. We talked a little bit about your growth. It dates back to the changing of the guard there. We all survived Y2K. We all were concerned with that but we got through that and now can you talk a little bit about distance learning and real estate operations. What are some of the advantages?

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Obviously, I think numbers, attendance, dollars, high quality, those types of things and the support that you get from that type of training delivery.

Bailey: I'd be glad to. If you look back historically in our industry, you go back 20, 30 years ago, all training was done the same way, it was done live in person. As some of the bigger companies, the Reed explosion in the early '90s, some of the larger fee management companies from back in the '80s, as these companies got bigger and their portfolios expanded, there's a lot of geography to cover. You could own a hundred properties located from coast to coast. Historically the folks that work on site that operate these properties tend to be a little younger. They tend to be in their 20s, maybe early 30s and there's a lot of turnover on site. You get anywhere from 50 to 80% turnover on an annual basis. With that kind of turnover, your training needs are through the roof. You've got to train a lot; you've got to train very frequently, and in a lot of different locations across a lot of geography. When you look at the time it takes to put together a live class and somebody has to travel, the students, the instructor, or both then you really start to look at the cost of doing that. It's pretty strong. You're looking for a single day of training for one person; it's at least \$500. Some of the industry magazines we subscribe to and listen to say can be upwards of \$1500. For example, with an online course because it's self-paced, there's the student and the course, that's it there's no instructor per se other than the course material. The students then able to go in at their own schedule and get through the class. They do it a lot quicker than it takes to go through the same content in a live setting.

Essa: Can you give an example? Say I'm a listener, I may have a small fourplex under management or I may be in an institution like you said with properties coast-to-coast. Can you give our listeners an idea of what to expect when they get up online? I know because I just played with it all morning and it was phenomenal but can you try to paint that picture.

Bailey: Sure I'd be glad to. When you have turnover, you design learning paths for these new employees. Learning paths simply tell the student, tell the employee that they need to take this course, this course, this course, and this course. With Grace Hill, it's really simple. You go online to Grace Hill, the student logs on to Grace Hill. We give them what we call a training code at Grace Hill. It's basically a company credit card if you will and they are able to go in and actually access the training. For example, a new leasing consultant that's one of the positions there is a lot of turnover in and you're talking about the student that can go through all the basics of leasing which normally would take a day to day and a half to teach in a live setting, they can do it in about two hours. The cost goes from being 500 plus dollars for that student to go through it down to as little as 15 to 20. So, from a cost perspective it's a no-brainer. One other great advantage to this too is the fact that live instructors, as good as they may be, are going to teach the same class differently every time. There is always a nuance, a change, an emphasis placed here as opposed to the last time it was placed somewhere else. With online training, it's delivered

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the same way every single time and it really gives some consistency to the training that you're trying to deliver at the end of the day.

Essa: What I like about it is that I went online to train, and I would watch and I would stop the tape, stop the stream and I would make some notes and then I would click start again. I could get up and go to the restroom and come back. It was just wonderful this morning. I spent probably 2, 3 hours.

Bailey: Well, thank you. I'm glad you went in and had a look at it. The book marking in there is great because we all know especially in a business office you're going to get interrupted, the phone's going to ring, somebody's going to walk in. So we have it built-in so that if the student does get interrupted, they can simply exit the class, it bookmarks wherever they left off, and then when they have the time they can come back and start right up at the exact page that they left off. It makes it really easy.

Mosca: Cara, as chief information officer to hear these types of kudos and the fact that you're putting all this knowledge online must make you feel proud.

Rice: It does. Thank you, Peter. It does. It's been a very rewarding experience. Training and education is what we love to do and we've got a similar passion for multifamily so it's just a nice marriage here. If I might share with you, there are a couple of other benefits that I see of distance learning that Joe didn't mention.

Mosca: Outstanding Cara. If I can because I'm aware of the fact because my producer has got my ear, he's letting me know that we have 30 seconds to the break. So, if I can ask you to hold those additional benefits and when we get back we'll talk more with Joe Bailey and Cara Rice from GraceHill.com, the premier multifamily online educators. Remember 1-866-472-5790 or drop us an IM.

BREAK

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Mosca: Cara, Joe was talking about some of the advantages of distance learning. He talked about cost; he talked about consistency within the education itself, what are some of the other advantages that you wanted to talk about?

Rice: Peter, one thing that comes to mind is just in time training, the ability to get your associate or yourself trained exactly when you need that education. Here's an example. Let's say that you've got a new associate on site and one of the first things you want to have them trained in is their housing laws. Let's say that you do not have your own training department in house, so you utilize the local Apartment Association for that training. Guess what, their Fair Housing Seminar, their annual Fair Housing Seminar was

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last month. So what options do you have? You may have to wait 11 months for this associate to get their fair housing training but that's not a very good solution. Distance learning solves that by making the courses available to the student at their convenience.

Essa: Do any of these courses give them continuing education hours?

Rice: They do. We have been working with some of the apartment associations nationwide. Even some of the management companies themselves recognize the hours spent in training. They sure do.

Essa: That's wonderful, because I know that when I take, there are courses in the Valley here in Arizona in the Phoenix metropolitan area, there are courses all over the Valley offered by title companies and anything to do to get a realtor or property manager in front of them. I only go to the ones that I get credit for because I know that's important.

Rice: Another benefit that I wanted to point out is that it's certainly easier to reach all of your associates. Nobody ever thinks it's a good time to stop business as usual and take training. So having to commute to a hotel conference room or something like that for a seminar, that's a burden and that disrupts business as usual.

Essa: Especially now with gas at \$3.50, \$4.00.

Rice: Absolutely. Sure, so if your student can take training from their desktop, you don't have to reimburse them for that. It's certainly more convenient. We've actually seen an interesting trend with our training. We see training at unusual times. Joe had mentioned earlier that there is always training going on on Christmas day. Sunday mornings are a very big time for training. It's just interesting. You can see by those trends that folks are fitting in education when it's convenient for them and that is also when business is not quite effective. Training in the middle of the day when they're touring apartments or speaking with residents or posting rent checks, that's just not the best time to do it necessarily. Another huge, huge benefit that we see is the ability to manage your training effort. By utilizing online training, there's a lot of tracking tools involved so you can see exactly who has taken what. You can see who hasn't taken what and when they need to take it. Joe mentioned earlier about learning paths. It's easy to create requirements for associates based on their job title or based on their tenure and really manage the education, the knowledge, and the skill levels of all of your associates. This also comes into play as a risk factor. It can reduce your risk for example if you are able to track and document and verify everyone has received fair housing training for example. If you should face a fair housing allegation, you can turn around and say look we do this, this is when we do it, this is how we do it, and you can show that you certainly made the effort to get your folks knowledgeable and compliant with fair housing law.

Mosca: That's incredible Cara. I think that all applies to and I know Joe, you love this term, I'm not sure if you coined it but I love it myself, this "data wave" that is a waiting

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the commercial real estate market. Can you talk a little bit about what the “data wave” means to you? How will it impact commercial real estate valuations and risk?

Bailey: I'd be glad to. First of all, whether I coined it or not I'm going to plead the fifth on that. Just take that for what it's worth. What we've seen and this is absolutely amazing to me, years ago if you were going to buy community or build a community, you needed to get financing for the effort. You put a pro forma together. In the process of doing that you would go out and either conduct market surveys yourself or else pay for market surveys from some of the vendors out there that do that sort of thing. That data you've got about how that market is doing typically by the time you got to put it all together, you've got your numbers in your presentation together and you're ready to talk to somebody about financing, the data was old. A lot of the market surveys that you get out there today, they range anywhere from three to six months old. The reason for that is real simple is that historically the way that data was collected was by getting on the telephone and calling the community and asking them what their rents are.

Essa: The market is so dynamic these days, three months is way too long.

Bailey: It is. It's way too long and when you look at risk, the more data, the better data that you have about that market, what's going on in the market, is it trending up trending down, where are the rents exactly, etc., all of that really goes to risk. The better decision you can make, the less the risk. What's happened is, we've seen this, is that the web-based solutions out there, there's a couple of companies for example. There's RealPage out there, Yardi, Intuit, AMSI, Dominate, these are all some of the big players. They all typically have web-based solutions. What happens is that data sits on that server and there are other companies out there now that are taking the data off those servers or getting it from those servers and delivering that data to the Internet listing services, the online advertisements for the apartments. In the meantime, they're looking at the data and scrubbing the data clean of identity. No management company name is mentioned. No resident's name is mentioned. No property name is mentioned. The data is being aggregated; it's being put together. We saw an application recently this past June at the National Apartment Associations annual conference that absolutely blew me away. It showed you a map of the United States and it allowed you to drill down in that map just like you would do on MapQuest or Google and take you all the way down to a sub market of any city out there. It would show you what the rents were and this is real time data. It's as close to real time as you're going to get. It's usually less than 24 hours old. This is real time data that shows you what's going on in that marketplace. Of course, as they build up this data stream, they are going to be able to trend data as well. That means that somebody on Wall Street who's underwriting an IPO for a read or a follow on offering or somebody who's going to a bank for financing, for a construction loan or something, the data that's used to confirm the numbers and confirm the proposed performance if you will of that asset, that data is going to be a lot better than it's ever been.

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Mosca: Finish Joe. I'm sorry.

Bailey: I was finishing up. I was just saying that all goes to risk. It gives you better data to make a decision that you're going to have to make to loan somebody money or to actually go forward with the deal if you're the prospective owner or developer. You have better data rate in front of you that's as close to real-time as you can get it and like you say, that goes to risk. It reduces the risk. It increases transparency within the marketplace and it's just something that hasn't been available before.

Mosca: Joe, you mentioned risk and you talked about financing so I'm going to take this opportunity to bring on a guest who's waiting on the line. I know I spoke to you guys earlier about this. His name is Stan Hanks. He's with RealSource commercial and the fact that you're talking about lending and financing, I think this is an excellent opportunity to bring him on and discuss what is happening right now in the marketplace as it relates to financing and lending. Stan are you there?

Hanks: I am. Good to be with you this morning.

Mosca: Hey Stan. You know this, apartments comprise about 25% of all the housing units in the United States as well as a quarter of all commercial and multifamily mortgage debt is outstanding. We've heard about the government bailouts. The government-sponsored enterprises, Fannie Mae and Freddie Mac account for about 35% of the total multifamily debt outstanding, more than 300 billion. That's relatively small compared to what's happening in terms of residential. Talk to us about financing today. The person running, Phil Weber, who was the senior vice president of multifamily, Fannie Mae is basically telling people we have money for you, tell us what you've got and we'll see if we can finance it. What's your opinion? What's happening in the market right now?

Hanks: I would completely agree with that statement. What we're finding in the market more often than not is that we have willing buyers but the sellers are still pricing their product probably higher than where the market is. Since cash flow is still relatively good, what I'm finding is that the sellers are less inclined to reduce their price to where the buyers think the cap rate should be. That's probably a bigger disconnect than financing these products. I'm looking at rates right now on an 80% loan to value, which is unbelievable that that still exists but you pay a little premium for it. You're at a 5.9% fixed rate for five years at a 1.2 debt coverage ratio. On a 10 year fixed rate it would be 6.1%. What we're finding is there is still money to be had in the multifamily, self-storage product and it's very competitive. But, what I continue to find is a challenge is sellers are not coming down to a price where the buyers think the properties worth. To the sellers out there, if they want to liquidate, it's not for lack of financing.

Essa: So, this comes to a matter of educating the sellers of debt service coverage and what it takes to get financing. Doesn't it come down to and this is pretty much off the

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subject but doesn't it come down to the broker who is listing their property to educate them on where they need to be?

Hanks: I think the brokers right now probably more than any time have a chance to really step up and influence and be a real advocate for their sellers. If someone's wanting to sell, let them know that it's going to be a real numbers. Let them know that it's going to have to be a cap rate that's reasonable, probably in the sevens. Let them know that, make sure they understand how to calculate a debt coverage ratio and use rates that someone can achieve out there and they'll be able to sell their property. The second-biggest item is going to be the opportunity for people to get their down payment because often times I comes from selling or refinancing and that just takes a little longer today. Someone who's buying may be waiting for their property to sell and then do a 1031 exchange. So, the markets a little slower but clearly the money is available and transactions are being done. We closed two last week, signed up another student housing deal this week, and we are going to be closing a large tenant in common project the first week of October. So, deals are happening.

Mosca: Joe and Cara, we talked earlier in the program about the fact that you have 200,000 members worldwide. You do about 300,000 courses throughout the year. You have several hundred thousand visitors a day to GraceHill.com. Do you have any questions of Stan as it relates to financing? Are your members, are your viewers, do your students have any questions of you that maybe you'd like to throw at Stan at this point?

Bailey: I definitely have one. Stan, just a quick question about this part of the cycle, the real estate cycle, it really seems to me like the downturn here has happened quicker and it's a lot faster. We are on the downside of a cycle right now and it sounds like the drop has happened so fast to quote a phrase that "the marketplace is just having a hard time catching up". Does that sound reasonable?

Hanks: I completely agree because the cycles are usually a little slower in coming and people can make adjustments on the way. I think people saw this coming, I just don't think they saw it as quickly nor as deep because so many factors happened at once. It wasn't simply the sub-prime but then you have the credit crunch with the energy crisis and those wrapped together took what was going to be a drop and created almost a freefall effect.

Mosca: I thought somebody had a question. Cara, do you have a question of Stan?

Rice: Well, I would ask you Stan to get at your crystal ball. Here's the question that all of our operators would like to know and that is when are they going to be able to push their rents again?

Hanks: I wish I had the answer. You probably understand that market-by-market it's impacted. I'll tell you from the financing side, if anyone's interested in a good product to

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have right now, my lenders are more excited about multifamily right now than they are of any products that they have. If they're excited about they want to lend on office space or some of your clients want to buy office space or manage office space or manage retail or manage grocery stores or manage self storage or manage multifamily, the lenders are going to be much more aggressive on the multifamily. But, it's interesting that you asked that question because it used to be we could actually lend on some pro forma that rents would increase. Right now, the expectation is that your rents will stay where they are for at least 12 months.

Bailey: Peter, I've got one other question for Stan if I might.

Mosca: Yes, absolutely Joe. Go ahead.

Bailey: Stan, without getting into politics, it's just kind of follow-on basically to what Cara was suggesting there. I'm sure you're following the election along with everybody else. Where are we in this process and what historically if you know, what historically has been the outcome of the markets here following a presidential election.

Hanks: We are following it really closely obviously. I think there's so much uncertainty. Generally, and not to sway anyone either way but the realities have been historically that as a Republican goes in because of their encouragement for lower government and fewer taxes and the spur of economy, you have a tendency that Wall Street reacts favorably to that. Whereas the Democrats, they react a little more conservative and so from the side of the equities and Wall Street, the impact you may see that first. What's going to happen is the rates will follow. Historically we've shown when Wall Street goes up and people put money back into equities rates have to go up because they have to give some incentive for people to put money into treasuries and other more secure, less risky but lower returns. Usually what you find is as Wall Street goes down the rates tend to follow but as Wall Street goes up the rates will follow there. Take what you want out of that but that's the expectation. Right now I don't think anyone's expecting what's happened in the past to happen after this election because there's so many other factors that are coming into play right now.

Essa: You mentioned multifamily being very favorable in the eyes of some of your investors. Do you think that's because they are predicting that it's going to be difficult for a little while for tenants who want to go ahead and purchase. They may not be quite ready yet to lend on them so that they think that the stability of the multifamily sector is going to be there for a little while? Could that be one of the reasons why they're really bullish on multifamily?

Hanks: No question. I think that's one of the key reasons. I think another key reason is you are seeing much less new inventory coming on line. Across the board you're seeing that. Second, you are seeing that obviously there is an impact with multiple foreclosures happening for various reasons. What you're finding is that it's not raising occupancy

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necessarily because a lot of these homes are then being turned around and rented but it's not increasing vacancies. So, what they expect to see and that's why they can't raise rents right now but they expect to see consistency in multifamily. If you're consistently right now at 88 to 92% occupancy, they don't expect that to change in a lender. That's why they're excited about it because the other products they're looking at, they don't know how long these leases, if you're leasing to a mortgage company or title company that's doing business, that lease doesn't mean a lot to a lender. When you have an 80-unit apartment and 70 of them are full, they are pretty confident that you'll stay approximately that during this downturn.

Essa: Then you have the office market being overbuilt and you have the retail sector so dependent upon the economy, which is questionable.

Hanks: Those are factors that are all playing into the minds of the lenders. Frankly, I'm excited for myself and my company that we're still one in business and we're strong and we're in the multifamily sector. Fortunately for me and for our business, we've been able to get through this time. But, for anyone in the real estate business it's just new territory.

Mosca: Outstanding. Stan Hanks, how does someone get in touch with you if they want to learn more about financing or to actually talk to you about getting a package?

Hanks: No problem and I encourage that they do it sooner than later because there are some really good opportunities out there, really good rates. The best way to get a hold of me is 800-929-2150 or Stan@RealSource.net. I'd love to help any of your listeners.

Mosca: Stan, thank you so much for coming on again and we look forward to having you on in the coming weeks.

Hanks: Thanks Peter. Thanks Dean.

Mosca: Excellent. Stan talked Cara little bit about the presidential election and then you asked a great question about that, what's going to happen or Joe did I apologize. I'm not sure which one of you guys did. The one word we keep hearing from both sides of the local spectrum is change, change, change, and change. What do you think Cara is the biggest change in the commercial real estate arena in the past couple of years?

Rice: You know there's been a whole lot of change. It's hard to point to the biggest. Some of the things that come to mind are the consolidation of owners and operators. There are less management companies than there were at one point and then the same can be said for service providers as well. One of the things that I'm very optimistic about however and I'm optimistic by nature I'll admit. In spite of all the uncertainties around us, I'm optimistic at the change in multifamily of something we touched on earlier, the breaking down of the barriers and people being more willing to work together, collaborate, share information for the good of the industry as a whole.

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Mosca: That's an outstanding point. Now we were having such a great conversation. I appreciate Joe and Cara both asking Stan questions, that we blew through our third-quarter break. We're going to have to end the program a little bit earlier, so let me turn to what we normally do with every show and ask each one of you to share what your golden nugget is for today. What would be your golden nugget Joe?

Bailey: Well in terms of a golden nugget, the focus for us is education and trying to get your employees educated. Get them educated up front, early and that's whether you use us or anyone else out there to provide education for them. Somebody once asked me if I have all this turn over why should I spend money on educating somebody? They're just going to turn around and leave me after two years. My response to that has been what would you rather have uneducated employees that sticks with you for eight years or someone who knows what they're doing and stays with you for two.

Essa: Exactly.

Mosca: That certainly makes a whole lot of sense right there. Cara what about you? What would be your golden nugget for today?

Rice: well, I'm beating the same drum which of course, we've drunk the Kool-Aid together here and we think that education is the key to success in multifamily management. So, I would encourage individuals and owners, management companies to take advantage of any opportunities they have to educate themselves, to educate their associates for the good of their products and for the good of their company as a whole.

Mosca: You simply can't go wrong with education. If you want to know more about Joe and Cara and Grace Hill and what they're doing, you can go to their website. Again Joe it's GraceHill.com right?

Bailey: That's correct. Yes.

Mosca: You can also go to our show page at incomepropertyinvestmenttalk.com/091708 and learn more about Cara and Joe and what Grace Hill is doing. We really thank you guys for coming on the air with us. We see an opportunity here for us to have you on a whole lot more because this hour just flew by and I know there are a lot of things that we didn't get to talk about and we appreciate your time here today.

Bailey: Thank you so much Peter. We appreciate the opportunity to talk to your listeners. We really do.

Rice: Thank you very much. It was a pleasure to be here.

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Mosca: Outstanding. Dean, we had Joe and Cara share their knowledge for our listeners here today and we are very fortunate for that. Next week, we're going to have Glenn Phillips. Glenn is a sales, business, and marketing coach and he's an active Rain blogger. That's one of the topics I know Cara and Joe you probably are doing a little bit of and your company is doing that we didn't touch on. Next time we have you on the air, we're going to talk to more about that social media aspect. Glenn is a blogger and he is going to come on and he's going to discuss from a service economy to an experienced market the importance of emotion. Emotion in purchasing decisions, emotion in selling decisions and how impactful emotion is to the real estate transaction process and for real estate investors.