Narrator: Welcome to the REI Diamonds Show with Dan Breslin. Your source for real estate investment, Jewels of Wisdom.

Dan Breslin: Welcome to the REI Diamond Show. I'm your host, Dan Breslin, and this is episode 206 on fast and easy multifamily lending with StackSource founder, Tim Milazzo. If you're into building wealth through real estate investing, you are in the right place. My goal is to identify high-caliber real estate investors and other industry service providers, invite them on the show, and then draw out the jewels of wisdom. Those tactics, mindsets, methods used to create millions of dollars more in the business of real estate. Having access to fast and easy multifamily lending or any other commercial funding is the first step to scaling a multimillion-dollar commercial real estate portfolio. The commercial loan landscape is extremely fragmented with many lenders focused only on certain asset types, or certain loan sizes, or other niche spaces at any given time. StackSource is a national, high-volume, aggregator of those lenders, loan types, contacts, etcetara, providing you, the borrower, with the faster method for finding the correct lender for your particular asset type.

On today's episode, Tim and I discuss how this volume of lenders that StackSource has aggregated will put you in a position of strength when you are funding a deal. Obtaining multiple competing loan term sheets can be difficult when you're buying a commercial deal because of the short timeline to closing. It's multiple calls to the lenders that you're googling and they don't do this kind of asset type, etcetara. Whereas the StackSource platform allows you to provide the details of your project, whether multifamily, industrial. commercial, etcetera, and then matches your loan type with those lending institutions currently lending in that local market and funding your specific deal type. So, the end result is a multiple term sheets allowing you to select the best option for your deal, and then proceed with a complete loan package. And this is in contrast to how I bought my last half dozen multifamily projects which was going around, asking people I know who is funding this type of deal, and then submitting my deal details to that single lender, and obtaining a single term sheet. So, I kind of had no other options if that lender did not work out, and I didn't really have the ability to shop the deal due to lack of time and lack of contacts. Whereas I didn't have access to this platform.

So, my way was a position of weakness and I'm stuck riding with that single lender on that deal. Now, luckily, it worked out for me because I found just the right lender for just the right loan type who lends in my market but that's not always the case, and the challenge can be even greater if you're investing all over the US. Shall we begin?

Hi. Welcome to the REI Diamond Show. Tim, how you doing today?

Tim Milazzo: Dan, thank you so much for having me on. I'm doing great.

Dan: Yeah, absolutely. It was good to have you. Some of the guests I've been a little dormant in the last, I guess, I don't know, 3 months, 6 months, even a year. My business has blown up, exploded, and I, embarrassingly, have not kept up with the pace of shows that I would have liked to. But when I saw yours come by, it was like, let me sit down and make some time for this episode because it's pertinent for what I'm doing. And honestly, you know, if I could confess, the REI Diamond Show has been a format for Dan Breslin to have interesting conversations around real estate investing and usually with topics that like resonate with me, and I've learned so much by being the host of this show. And, you know, that is, worked its way into my business. And like, we've recorded that. And a lot of people have been able to kind of benefit from those conversations too. So, I'm not like the real estate coach guy who's trying to like, you know, source leads from the podcast, like it's kind of a passion project, and it's been really good, selfishly, for me. And obviously, the guests and the audience get to benefit, I love that fact too. But I was excited for this show specifically because as the listeners now, over the past, I don't know, 2, 3 years, I started buying multifamily and kind of hanging on to them versus just flipping single-family houses in high volumes, which has been our business since 2006.

So, when I saw StackSource, and the founder, and Tim Milazzo come through from the booking agent, I thought, "Oh, man. This is a perfect one to kind of get back here on the show." It's pertinent for me and I think a lot of teal estate investors who are listening right now, Tim, you know, flipping houses, and we've got 6 or 8 or 10 properties, maybe single family, and all of our aspirations, usually, a lot of our aspirations as single-family residential real estate investors, we get into the business and we're thinking, "We're going to flip houses, then make some money." And then, we're like, "Man, we got to keep some as rentals. I've sold so many that have gone up in value." And then, we reach a point or we're trying to reach a point where it's let's get to our 6, 8, 10, 90, 100, 450 unit apartment complex deals so that we can really scale this out. And I think it's timely too. I just want to kind of time capsule and put some context here for the audience in our show. We're in March 2022 and we are in the, certainly for me and I came in in 2006, this is the hottest sellers' market that I've ever lived through. And I think this is a once-in-a-lifetime opportunity for single-family investors with where we're poised. But it's really hard to get rental property at reasonable prices, but if you were to look over into the multifamily space, yeah, the market is up, and it's a little hot, but it's not. This like impossibly hot space where everything makes zero sense.

So, if I get into a 20, 30, or 50-unit building, that building off of this cash flow has got to make sense in order for StackSource, or any other lender to take a look at it and fund, the 60%, 70%, 80% portion that the bank brings to the table. So, we kind of have some checks and balances on deals that work in the multifamily space. And I think the opportunity for cash flow investors exists in multifamily, certainly in the near term. I don't know if there's going to be any let-up on the single-family space, but I think it's just, it's good timing to be buying apartment complex deals, commercial deals, due to a little bit different of a competitive landscape in the single-family. And then, of course, once you kind of go that way and you see the way that scale and cash flow works in your favor, it's sort of, at least for me, it sort of makes the time commitment of going through the process of collecting single-family rentals, it's just not really worth it. It's not going to move the needle the same way that the apartment complex deals are for my portfolio. So, do you want to take what I've said, and maybe just, you know, elaborate on that a bit before we dive into our main topic of conversation here, Tim?

Tim: Sure thing. Dan, thank you so much for having me on and, yeah, I'm so excited by multifamily and commercial investment and, you know, commercial real estate, obviously, is a pretty wide net. You've got multifamily and housing and apartment complexes, industrial properties, and office, and retail. Multifamily is one of the stars of the whole commercial real estate spectrum. It has been for the last several years. It's one that has a lot of tailwinds going forward. And the first reason for that is the same reason that housing prices are going up and apartment, you know, rents are going up. There's just a demand and a need for places to live and that's across the United States, and that's especially in, you know, certain dense urban locations, and also, you know, desirable places to live in 2022. People living moving to the southeast, or to Texas or, you know, to their favorite place to live, or somewhere where they think they're going to get, you know, the quality of life that they want. These places are desperately in need of more housing. There's a need of more affordable housing. There's some need of more market-rate of housing. There's even a native more senior housing. And so, that's the first and biggest tailwinds behind the multifamily sector is there's a need for housing, and it's not so easy to put up a lot of new units and satisfy that need for housing, which is going to push the cost of housing, and some of these apartment buildings to go up and obviously, as an investor, that's one way to capitalize.

So, in addition to, you know, the need for housing, the capital markets are really active in multifamily and other areas of commercial real estate. There's money available in both debt and equity for good multifamily deals. You know, I think when you take a long-term investing opportunity and you combine that with a time, where there still, yes, we've seen inflation, and we've seen some rise in the treasury bond yields this year, but it's still a historically good time to invest and to borrow money at a low rate. Interest rates are at a great spot. So, if you have a deal that pencils out, you're going to get a good ten-year fixed rate on that and that's a good combination.

Dan: Yeah, so we've established, this is a great time to be buying property here for the long term. So, why did you start StackSource? And maybe you could kind of give a synopsis of what StackSource does for investors.

Tim: Sure thing. So, I'm one of the founders of StackSource. And then, the last 2 years, I've been building up this business. The way that I came to the idea for StackSource and the need, and what we're doing is helping real estate investors and multi-family and commercial find the best financing for their properties. It's a process that we saw as being archaic, for lack of a better word, where unless you had the relationships with direct lenders like banks, and credit unions, and agency lenders, unless you have them already, or unless you're getting tied in and getting attention from a broker in a big city, there was not much access to knowing what are the different financing options available to me for a commercial property. So, the way I discovered this is, I had family members in commercial real estate. My dad was a commercial real estate broker. I never thought I would follow footsteps into the business. As I was studying Finance, I was really not interested in, you know, becoming a broker and making tons of sales calls and wearing a suit in, you know, hot days and in New York City. I always loved technology, and so I developed my career in roles at big tech companies in New York for several years. And I came back to real estate because I saw the intersection of real estate and tech as this massive opportunity to do things like what we're doing at SatckSouce, and far more.

But what we're doing at StackSource is, you know, bringing a portal where you can input information about the deal that you're working on and instantly get matched and see a menu of different financing options that you might qualify for and that didn't exist in the industry until very recently. And, you know, that is, that's our driving passion is to bring transparency to commercial real estate finance.

Dan: Now, you see, I will share my experience. I remember I think I bought like 4, or 5, or 7 properties of, about like a package of rental houses a while back and I thought, "Well, I'll just refi out of them," and I got a hard money loan, I think, and I put the money down, I don't recall. And then, I remember calling around to some different banks, right? It was the same problem that you just described and calling the bank that I've had to deposit accounts with for, I don't know, thirty years or something since I was a little kid, and I couldn't even get anyone to call me back. They're like boarding me to the guy. He's the commercial, he in just this, like he's just, they're just not even calling back and then I go to PNC Bank. Nice big bank I have my accounts with now. It was kind of the same, makes much of the same experience. We could do this SBA loan in this other thing and I'm like, I thought banks like were in the business of loaning money. And luckily, I had the podcast and had this network of people I could reach out to and start asking, who would use for this finance I found the loan and I ran into the same type of thing when I bought my first, I don't know, 8-unit building. And I'm calling around, and a PNC thing again, and the other ones, and I didn't realize, even though people had told me along the way, Tim.

I had a mentor tell me like, yes, certain banks are going to invest in certain neighborhoods when it comes to commercial real estate. It's not like they have to serve every client that comes through the door through laws. They can kind of be selected with what they want to hold in their portfolio. So, then I experienced that by, like, beating the bushes. And like, luckily, I did find a lender because I was under contract to purchase with hard earnest money deposit down. And I found the bank to take that one. And then, we fast forward another couple years, I started buying again. I called them up to do the next one, and the bank had merged, and now no one's calling me back again. I think it was in the middle of the PPP thing where all the banks just were making so much money from handing out the government funds. They had no time to like take my, you know, paltry little $600,000 loan, or whatever. It was for my multi and luckily one of the brokers who's, you know, I guess I could call him a friend but you know out of the blue, he's here. This other guy, "I'll handle it at this other bank," and he like did refer me to the people who are in.

We're at Chicago. So, it's a big city with a lot of banks and a lot of lenders, and luckily, you know, looking back, I'm realizing how lucky I am to have found that relationship with that bank, and they probably done 4 loans for me in the last year or something like that. But I hear what you're talking about plugging in the information to the platform and then, that in a sense is making the calls on my behalf. And before our episode started, there was, you and I were talking a little bit about those loan size. And it's probably more enticing if I'm an investor who has a 275-unit apartment complex with, I don't know, a $70 million loan. Like I just imagine if their loan origination was one point on that loan, and one point on my loan, if I was that guy, I'm just going to try to focus on the other one to, like who wants to do the $600,000 dollar loan. So, I feel like I have this like problem child-size of a deal, and I feel like everyone listening in on the call, I'm sure there's some people who listened in on these podcasts every now and again, we're probably doing some bigger stuff. They probably already have the contacts for doing those larger loans, but where does the seventeen single-family house investor holding property, who wants to get into that 9 or that 10-unit building kind of the way that I did, like, where do they now start? And that sounds like what StackSource is, you know, potentially, the solution for, right?

Tim: Yeah, you know, that's exactly it. And so, if you have a six hundred, let's say, to just make it an even number, we will do some math on this. If you've got a half a million-dollar loan, if it's residential, any residential mortgage loan officer is going to be happy to help you because that's what they're built to do. They're built to get people housing loans. As soon as you hop into commercial, half a million dollars, you have to think about what the incentive of a banker is. Let's say a banker is making a six-figure salary and to make their bonus, which is really all they care about, they have to lend $45 million of multifamily and commercial loans that year. Now, to get to $45 million would take ninety half a million-dollar loans. That's quite a bit of work in 365 days, and there's a lot of bank holidays and vacations. You're talking about closing a lot of loans for a banker versus trying to close 3 $50 million loans. And so, who do you think that average banker, at your typical regional bank, is going to pay attention to? They're going to pay attention to the source of deal flow, where they can get to their number with less work. And that's just the way it's built at banks.

So, you are in a middle ground. As soon as you hop into small multifamily or small commercial, but you're not yet some established investor that's doing $5, $25, $50 million dollar transactions, you're not going to just be able to walk into some institution, certainly not a PNC, but even to a regional bank and necessarily get the time and attention of the banker. So, where we step in with this is we know for a thousand different institutions across the country, what their boxes, and the box is not just necessarily what a loan officer at some branch is going to tell you. It's actually what can the credit committees behind these loan officers actually become competitive with, and approve, and get funded. And if you know that, and you know that at scale, and then, we get a property address for, "Hey, here's a 20-unit apartment complex in Boise, Idaho," first of all, we know which institutions are conceivably able to close that loan, but we're also able to say which ones are going to be competitive, and which ones are actively lending on that asset type now, at that size, in a way that by the time the user enters that address in our system, and some information like the NOI, and the number of units and everything we would need to know, you basically tell our portal everything that you would need to tell to one lender, and then, that gets matched across the dozens of parameters that every one of these lenders care about. And we come back and say, "This is the matching set." These are the lenders that are actually a player you're going to get a good deal, a good experience, and you're going to be able to get the financing and move on to your next deal, which is really how you make money.

Dan: So, let's walk through an example of what happens. One of our listeners is going to buy that 10-unit building. They're going to get that half-million-dollar loan. They're going to put $600,000 down, whatever it is. So, they come to stacksource.com. And what do they do next?

Tim: So the first thing is, you're going to click a big green button that says "Get a loan," and that's where the platform that we've built starts to pop up. So, the other co-founder of the business is a software engineer who was a friend of mine in New York. His name's Nathan, and he was a software engineer at Google right before working as StackSource's co-founder and CTO. So, Nathan and his team of software engineers and designers have put together this platform that essentially goes through a responsive questionnaire about the deal you're working on. So, you're going to give it the property address, the asset type. So, we'd say, you know, "here's my address in Boise and it's a multi-family and I'm acquiring it." All right, now you told us enough where we know what other questions to ask. You say you're acquiring it, are you under contract? When is the contract date? Because some lenders, to get to one, you know, particular detail of what's going to matter for your match lenders, if you're saying, "I have to close this thing in the next twenty days," well, there may be some great banks, and credit unions, and life insurance companies with great rates. There's no way they're closing in the next twenty days.

So, 2 things are going to happen. One, is you only get to be matched to the lenders that can actually close by the closing date, along with other information that would be, you know, asked as part of this process. The second thing, though, is you're going to get matched with a StackSource's capital advisor, that's going to have a conversation with you. And these people have come to our company from lending backgrounds, from commercial mortgage brokerage backgrounds, and in some cases, have been principal real estate investors themselves and or are on the side, they are full-time professionals with us. And they could say, "Listen, that twenty-day is going to lead you in one of two ways." We have lenders that can close in that time period, but it's going to be X percent interest rate. That's not very attractive at 10% say, and here's what it's going to look like. Or you renegotiate with the seller and get this extra time because we can certainly get you a term sheet in the next few days that will close in forty days. You know, that's going to be much more advantageous.

And so, in addition to the technology features in the software, we felt we also have a team of capital advisors that are established in the industry, knowledgeable about the types of loan products that are available, and are able to help with everything, from the preliminary matching to the underwriting and diligence of the loan.

Dan: Do they just operate in all fifty states or there certain areas that are kind of blacked out that don't really have service on your platform right now, Tim?

Tim: Yeah. We're accepting applications in all fifty states. Unlike residential, not every state requires a mortgage lending license. And I won't bore your listeners with the details, but there are certain that do and we have licensing in certain states, but we've closed one loan so far in Alaska. You don't even have to stay to the continental US. We're accepting loan requests in all fifty states to this time.

Dan: Yeah, you see, I asked the question because I buy my multifamily right now in Chicago because Pete is working with the bank in Chicago, and I know that I can go see Pete and get the loan, and have my term sheet in 3 days, and I can jump up and down, and he can run down the hall to the president's office and get doc sign. And like, I know he can make move mountains if we need to to get to settlement on time and Pete knows the business. And he knows the other lenders. And if I take Pete, a $25-million construction loan on a new,125 apartment complex deal within our Chicago land region, he can collect 4 or 5 different other lenders in the Chicago area to take pieces of a loan. And so, there's this, I'm able to leverage the people resources I have, and that's Pete in Chicago. I don't have many others in any other states at this point. And, of course, we have property management who kind of serve the same thing but, you know, to be able to go on StackSource, for me, I'm thinking, "Wow, now I can maybe take a look at some of these southeast markets where it probably has better demographic growth, better job growth, and better long-term prospects as opposed to, yeah, I'm buying good deals, and they're going up in value, and doing the right thing, to reposition those, but, man, to be able to look at some of those other markets, I'm a busy guy." I'm sure the listeners are busy, right? And, you know, I don't have the time to call around to seven, twelve, you know, fifteen different banks, and figure out who's loaning on what.

So, I feel like some of the value here, yeah, you have this tech platform, but the reality is you're going to get just the right information and then put that in front of just the right person, whose job it is to network around with all these other people. And I imagine you've got some tech leverage and automation there to be able to kind of sift and sort those loans, and who's closing what, on top of that. But wow, it just seems like such a tremendous time save and it feels like, for me, it just removed a limit, a geographic limit, to the way I've been building my multifamily portfolio right now.

Tim: Sometimes just hopping over a county or state line is going to cause you to need to find a new institution because as great as Pete is, his lending parameters are going to be controlled by that credit committee, which is going to be looking at the economics, and they're going to be looking at what loans are already in their portfolio and doing balancing and saying, "Hey, we have enough multifamily. Let's go get some industrial loans." And these things happen every week, at some level, in financial institutions, and trying to stay ahead of all of that, as a real estate investor, is not the best use of time. Finding the right deals that pencil out and work well for you, and if you're syndicating for your co-investors, is how you make the money, you need a good cost of capital but, you know, the one that tops speaking of hopping over a state line, and I know you have deals in Chicago, you hop right east to Michigan, and all of a sudden these banks from Chicago don't want to touch it. And the worst situation we ever heard of was an investor calling forty-one different lenders before coming to our platform for his deal in Michigan. I know that one was in Michigan and we have that quote up on our website about calling the forty-one lenders. And I'm not saying that's the average case of everybody's calling around that many, but this guy had to. It was in Michigan, outside of Detroit., he had all these Chicago context, they couldn't do it. He tried all the Detroit contacts. They didn't want to go so far out of Detroit, even a few miles. And finally, he came to StackSource and we had a term sheet for him in 2 days. He was able to close this deal, and he's coming back to StackSource for every loan at this point.

Dan: So, Tim, is there, you know, we have the forward-facing, get a loan button on the website and we fill out the information, and that's kind of nice, right? There's a little bit of, "Man, I got to fill out this damn form and give all these details over." And for the first one, I imagine is just level of faith that if I invest this fifteen minutes, given all my details, it's going to work in the end. But, you know, for the guy who's running 7th or 8th loan, he knows he's just putting this in the portal. Like it's kind of nice to be able to give just the right information and get it done. But on the back end of that, is there some layer of technology that is doing a lot of this, like, sifting and sorting? Like, how are you tracking these other small lenders from all over the country to be able to plug in with whatever county it is outside of Detroit, Michigan, and be able to get that loan in a reasonable amount of time without having to, you know, work the phone non-stop?

Tim: Sure. So we have our own proprietary database of lenders and we experimented early on, Dan, with having like a database and external database of lenders. And, you know, let's get the lot information for every commercial and multi-family property across the country and find out who the, you know, the debt is being held by. We experimented with that. You know, what we found out is that bringing in house and having a proprietary database of lenders that we have a relationship with, they know who StackSource is, and they're ready, and, you know, ready and willing to accept some own packages from us. They know what the expectations are, has actually improved the client experience because then our lenders are more responsive. Our lenders are, you know, prioritizing to the top of their stack, deals that are coming from StackSource because we worked on the lender side of the portal to meet all of their expectations of what's a great loan package coming across? What are all the details you need on different types of deals? We've worked with them.

So, there's still an algorithm for lender matching, but it's only the algorithm to the thousand lenders that we actually have active relationships with. So, we have a capital market side of the team that's based on the west coast primarily. Actually, we have a couple members in Chicago as well. But the capital markets team is constantly keeping us up-to-date, every touch point that we have with the lender. If they quote a deal for us, if they decline a deal that's coming to them from the platform for any reason, we're doing constant updates to this database of lenders. "Hey, you're not doing hotels at this point," or "You have more deposits now. So, your maximum loan size is now higher," and actually we would miss those things. If we were just doing the data scraping and saying, "Well, we know algorithmically all the loans you've done in the last twenty-four months." Well, their box was very different nineteen months ago when they made that multifamily loan in Michigan. And they may not want loans like that for now. So, we're actually going further back in the opposite direction of saying, "Let's keep an active relationship with all of our capital markets sources and make sure they're up-to-date 'til right now, rather than what they've done in the last twenty-four months."

Dan: So, we have to kind of sides of your network right now. We have like the side that I would put myself in on the borrower and I think most of the people on the call who would be listening would be the borrower. And then we have the capital market side or the lender side. So, that's an entire portion of the network that you're having to put effort into maintain, build, keep current, keep engaged, hopefully feed enough business to that they do stay engaged, which could be a challenge. What is the number of the capital markets side? I mean, you know, how many capital market members of the network may be are there? And maybe, also helpful, like, what is the number of people required on the west coast to keep that network maintained?

Tim: Yeah, I bought roughly a thousand different capital sources that are actively maintained in the platform at this time. And that's grown over time. When we launched in 2017, and the team was just me and 2 software engineers, and our prototype at that time. We really start building the company around this prototype. We use the prototype to say, "Hey, what do we need to build? What do we need to do next? What level of service did lenders want and borrowers want?" But it was, just then, it was me and a couple of software engineers and a plan. And we had twenty lenders on the platform. At that time, it took me the hundreds of calls to all these lenders to convince them there would be this value here, just like the small borrowers have to do without us today. But at this point, that we're closing hundreds of loans, and we're going to be crossing a billion dollars of lending on the platform soon, the lenders come to us, at this point, and not all of them that, you know, every local bank in North Dakota is coming in a sort of StackSource on both coasts and in major cities nationwide, you know, the lenders know who StackSource. There's a level of credibility.

We do have a capital markets analysis team that serves 2 functions. One is we're making constant updates to those lender parameters. We're having conversations with them. We are interfacing with them to continue to improve platform and, you know, measure the responsiveness. The other thing they do is underwriting for the deals. Right? So we don't, let's say a borrower got a PDF from the seller on what last year's financials were and they have maybe a handwritten rent roll. What we're actually sending to lenders in the packaging medicine is very important for that responsiveness to stay high, and for our marketplace to be really effective. So, that team has analysts on it that will take that information, and for legitimate deals that are moving forward, they're going to package that. The platform actually just automatic packaging of the inputs that are input by the borrowers and the capital advisors, but the actual underwriting itself, the spreadsheets, and the data, and the comps that we're attaching to the platform, that's managed by the analysts who are real estate underwriting experts.

Dan: Nice. Are there any trends in that capital market itself? As we're here, first quarter, 2022, we all think the interest rates are going up and I'm curious if there's some trends that you're noticing in the capital markets. Maybe there's, I don't know, these smaller banks on the east or west coast are willing to take the Boise Idaho loans. And that's unique, and you're surprised right by certain trends. What would some of those trends look like?

Tim: Okay, so we get lots of data because we have the data of every quote being made to every borrower on our platform and we're able to mine that data. So, a couple of things that we do at that one is we published daily commercial mortgage interest rates on our website. And we're actually going to make that available as like an embeddable commercial mortgage rates table for other websites. If you want to put it on your website and track people that way, that's something that we're going to be launching soon. We're able to help update that daily because we know what's happening in the capital markets and because the treasury rates, LIBOR rates, SOFR rates, all these, you know, prime, and we get a data feed of those. And we can say, "Okay, based on the recent spreads on our platform and today's treasury rate or treasury swap rate, here's where the CMBS market is going to come in from a minimum and maximum."

One thing we've noticed from this data, so treasuries, as of the other day when I checked a couple days ago, and depending on when listeners listen, at any point, you're likely hearing treasuries are higher than they were at the beginning of the year, right? So January 1st, February, they were up about forty basis points. March, they were down a little bit, but still up twenty basis points from the beginning of January. Commercial mortgage borrowing rates have risen slightly faster than the treasury interest rates have, that's pricing in a little bit of risk in the market, risk due to things like inflation, the geopolitical conflicts, and the violence in Eastern Europe. But agency rates, so Fannie Mae and Freddie Mac multifamily loans have rivet risen faster than banks and credit unions have. So, you're going to get your best rate out from a bank, or a credit union, or life insurance company today, but there's going to be a trade-off that those are usually recourse loans. And if you want non-recourse, you're typically going to Fannie Mae, Freddie Mac, or CMBS. But really, a multi-family, it's typically Fannie Mae, or Freddie Mac. Loan size must be at least a million dollars for Fannie Mae and Freddie Mac, but you get the benefit of the non-recourse. So, if you're less than a million dollars, or if you're optimizing for the very lowest interest rate that you don't care about the recourse, balance sheet is winning right now.

Dan: Okay. So, the Fannie million-dollar alone with non-recourse, what would be like an interest rate on something like that term? Other expectated odd things that I wouldn't know to ask for?

Tim: Sure. Yeah, so the 2 agencies, Fannie Mae and Freddie Mac, they operate very similarly. They're both government-sponsored entities, but they run themselves in, essentially as private companies that have a really big leash from the government financially, right? And so, they are backing a good amount of the multifamily loans that are coming out. What they do is they don't lend directly, they lend through a qualified intermediary. You can't call up Fannie Mae, or you can't call up Freddie Mac. You go to a portal like ours, you go to a commercial mortgage broker that has a license, and they typically do thirty-year amortization, sometimes with an interest-only period, sometimes an interest-only loan overall. Though, that'll be a little bit higher of an interest rate.

But, typically, thirty-year amortization, non-recourse, the lowest potential rates right now. And so, that's going to be for lower leverage deals. That's going to be for deals in primary markets, maybe large cities are going to be in the high 3s today. More likely, if you're not in a large city, if you're a fully leveraged deal, your interest rate is going to be more like, in the low 4s and if you want every single feature that's borrower advantageous, so, the full leverage, interest-only, the loosest prepayment penalty, you're going to be the high 4s for these loan programs today. But the non-recourse means they can't come after your personal assets, if your deal defaults. And that's something that many institutional borrowers really require and smaller borrowers may prefer.

Dan: Yeah, that makes sense. Are those thirty-year, what is it, 10-year term? Is that about the longest you're going to get on any commercial property out there?

Tim: On the Freddie Mac side, 5, 7, 10 are the options. You can get a hybrid which might be a ten-year fixed followed by a rate reset where you can keep the loan for another ten, so up to twenty, but if you're not getting the ten-year fixed-rate at the point, so you have some interest rate risk. On the Fannie side, you can actually get a twenty-year fixed, but the rate is going to be higher. So, as soon as you go past ten these things really start getting a little bit more expensive on the interest rate basis and you might be in the 5s in the interest rate, for something that has the right features and a twenty-year fixed at that point. The most common from banks, and from agencies, you're going to see are 5, 7, or 10, for a commercial mortgage.

Dan: Okay. How would you define, from your position, looking over the data, or maybe even people that you've talked to, who happened to come through the course of running this business since 2017, how would you define the best real estate investors? And what are they buying, and how are they financing those deals?

Tim: Oh, interesting. Okay. So, best, I think, is a bit of a subjective term. But let me say what I see in more experienced real estate investors. So, first of all, they realize what their leverage is and isn't. And I'm not just talking about loan leverage. Though, that's certainly part of it. They know what they're good at and they find somebody that's good at the stuff that they're not, right?

So if you are not a lawyer, don't be the person looking over the loan docs and saying, "Hey, this is a-okay." Big borrowers don't do that. Like experienced, you know, investors with $50-million portfolios don't do that. They don't cut corners, and they don't presume to be an expert in everything. They presume to be an expert where they know they have a competency, right? So, if it's in finding deals, if it's in raising money, it typically starts to center on the things that only investor can do, right? Raising the money, finding the deals, and so, even when it comes to the debt markets, if you're someone working on a $40-million transaction or an $80-million transaction, they know who they know, and they know what they know, and yet they're still going to financing intermediaries like a StackSource or like a larger brokerage. And there may be some financing source out in the market that they just haven't come across because they know that, you know, somebody working on a hundred debt transactions is going to come across capital sources. Even if you're doing ten transactions this year, you're not conceived the same, all the same capital sources.

At that point, the capital stack made start to become more structured where they're letting in preferred equity tranches through the capital stack. So, in addition to going out there and getting a loan, they're going and getting a loan plus a preferred equity investor is something that starts to happen it, like the $10 to $20-million deal mark. They're disciplined in underwriting. Don't cut corners in your underwriting like lowering the exit cap, just to make your deal pencil out. Like that's a cardinal rule that shouldn't be crossed, if you want to be around a cycle or more. So, applying disciplined underwriting to everything, you know, focusing on what they're really good at, communicating well might be another one, right? So, communicating clearly what the business plan is, not shooting over business plans on the back of a napkin to a lender but saying, "Hey, here's our spreadsheet. This is why the deal works. This is why I'm the right investor to make this type of deal work." There's an error of, "Hey, I care about the way I communicate and I know how to communicate my deal."

Dan: Nice. Yeah. You probably have to up the cap rate right now. I mean, with a rising interest rate kind of environment, you should probably be handicapped in that thing by at least a half of half percentage or something, right?

Tim: Even 3 years ago, if you're talking about, if you're just talking about any ten-year hold, and you may be looking at 3-year holds, 5-year holds, ten-year holds, but if you're looking at any ten-year holds, and we're in, historically, low cap rates and you're not applying some expansion into the exit cap rate to see if your deal still works and if you still make money and you don't go under, can you really say that what the markets going to look like in ten years? Can any of us say what the market will look like in ten years? So, it's conservative to say, maybe on a cap rate basis, my building will be worth less in ten years than it is today. Does that kill my deal? If it does, be careful.

Dan: Yeah, it's a bit on the market and the growth of the rents against the negative pull of higher interest rates and higher cap rates at that point.

Tim: Exactly.

Dan: How do you think about brand, Tim? StackSource, the brand, why is it matter?

Tim: Well, you know, we just hired our first marketing director a month ago, finally, after operating the business for the first several years, and growing fast, and we tripled the business last year and, you know what the marketing strategy was, Dan? It was, every time I've learned something interesting about the industry or about how specific types of deals work, or things that can kill deals, I read a blog post about it. I love being transparent about "Here's what we're learning," because one of our core values is curiosity, right? We are curious about what else do we not know yet. Another core value of ours is intergrity and treating everyone from our lending partners, to our borrowers, to our colleagues, in a way that's transparent and honest. And we just have tried to be who we are. Now, I'm excited for the future because with the hiring of a marketing director, I think our design and our ability to communicate that brand is only going to go up from here and she's doing an awesome job in the first month getting us ready for just a bit of a touch-up and a refresh to our colors, and our fonts, and our website, and everything that's going to come along with that, which is going to be excellent, I think.

But, so far, it's just been, "Hey, what do we know? What do we not know? Let's try to learn it." And here's who we are and that's been our brand. So, we're at thirty-two people at the company now. We were at 8 people before the pandemic. We actually have seen a lot of attention and a lot of people searching for financing online through the pandemic and, you know, we've done our best to keep up.

Dan: Now, you see, it's funny like you start a business and it's a small team, you know, a handful people around a conference table, and there's not really much concern about things like the culture and, you know, what does it feel like to work here? And then, I feel like we were lucky at my company. I think we're over fifty people but we kind of have 3 different locations at Chicago, Atlanta, and Philadelphia, and they sort of have their own flavor with Diamond Equity. And each of those operates independently with maybe a slightly different culture, but the cultures that have developed there, the same kind of a deal. We want to have that integrity, the curiosity, the attention to details. We're trying to figure out how to do everything better in life. Right? That's not like just specific to the business. We want to know how everything works. Right? And we want to be better at it. Evolution is kind of one of our core values and it seems like, I mean, the people on the team are making money and that's probably why they show up.

If the money was gone, I'm sure they'd be gone too. They're not there for the culture, but it feels like when we come into those meetings, it's just really enjoyable to like be a part of the team and kind of just, I don't know, experience it. It's almost a fun place for people to come. Not like ping-pong tables fun. Not like pinball machines in the office fun. But just like a fun and fulfilling, we're setting goals, and we're hitting goals, and we're on this mission to deliver our service. And it feels like that's why people want to be on a team and continue to be on the team. Of course, they're making money too. So again, you can kind of take that whole culture thing with a grain of salt if you have to. But it's interesting to see as companies go from, you know, seed-stage into like sustainability stage and then, who knows what stage is might come after that, but how important it is to have people feel fulfilled on the team that way, you know?

Tim: Absolutely. Yeah, and it's a little different for us because a lot of our team is remote. And even before the pandemic, we were starting to go remote. And now we have all these capital advisors across the country and, you know, they are in different locations. We have a couple of hubs in New York and LA where we have office space. And, you know, we have people that come into an office, but the majority of people are remote. So, a lot of our culture is like, the way we chat with each other online, the phone calls, the occasional team outings where we're coming together and really enjoying each other's presence, but the work itself is something that sets the culture and the way that you do your work is an important piece of culture. And I think it's right to call out, culture is not ping-pong table, so that can be a nice accessory to culture. Culture is primarily how do you think about your work? And are you going about the work in the same way, with the same standards, with the same values? And that is primarily what culture is.

Dan: Nice. Is there anything else, Tim, about what we've talked about so far today that I just didn't have the awareness to ask? Is there any unanswered question that you could think of that maybe is asked when you do other podcasts, that the listener may have on their mind, that you feel like we should touch on here as we get to the wrap-up?

Tim: I think it's been an excellent conversation. I'll add one, I'll throw one thing over too. Today, for StackSource, borrowers are submitting these loan requests and getting matched with all these capital sources. Something new that is in data on our platform and is going to be growing on our platform is that for certain loan types, it will be more similar to a residential loan process in that you can get an instant rate quote. Now, that will be specific, for now, to stabilized multifamily deals with loans at least a million dollars, and because those will be backed by those government agencies that we mentioned earlier. So, the Fannie Mae and Freddie Mac loans where you'll be able to enter the requisite information and instantly get, "Here's my rate. Here's my loan options. And here's a menu of different loan options I can get from Freddie or Fannie." That will grow over time. We foresee a future where about a third to maybe as high as 40% to 45% of the market will be eligible for these instant commercial mortgage rate quotes. Not every commercial property, and not every commerciale deal, will ever get an instant quote because commercial could be more complex. But a growing segment of them will someday get instant loan quotes and digital closings on the platform, which we're really excited about.

Dan: Nice. There it is. We have real estate investor audience, we're business owners, we are looking to create wealth, the REI diamonds, you know, real estate jewels wisdom. What book recommendations would pop to mind is being very pertinent, maybe about our conversation today, maybe just to the audience, maybe they were just impactful for you in general, Tim?

Tim: Sure. Well, I love reading and so, I'll put one out there that I read recently. I read a Ray Dalio book that, I think he wrote a couple of years ago about why nations succeed and fail, and I haven't really ventured too much into macroeconomics. I've done a fair amount of reading about microeconomics and, you know, debt cycles and, you know, what is the federal reserve doing, and how is that going to impact the next few years of investing? This was the first time I've really gotten into the macro side and Ray Dalio is a famous hedge fund CEO for Bridgewater Capital, and he gets into long-term economic cycles. And like what was the rise and fall of the Netherlands, and the rise and fall of England, and the rise and potential fall of the US? And that is really interesting to think about the policies, and the economies, and how they trended over hundreds of years rather than just decades. And so, that was a really interesting recent read.

Dan: And I assume that separate from Ray Dalio wrote "Principles" recently. This is another of Ray's books.

Tim: Yes, he's written 2 or 3 that have the word "Principles" in them, since that first one was such a success. This one actually has "Principles" in the title too. So, the first part of the title is "Principles for Dealing with the Changing World Order," and the subtitle is "Why Nations Succeed or Fail". It's a very long title. And so, I figured just say, the Ray Dalio book on Why Nations Succeed or Fail because you will find Principles in the name of all his books now.

Dan: Makes a little easier to find the right one. Cool. The Crown Jewel of Wisdom, Tim, if you could head back to, I don't know, you're just getting out of school, getting out of college, or starting your career all over again and you could share with yourself something that you know now, today, after you've obtained some level momentum in your life. What would that be?

Tim: People are everything. People are everything. It's not what you know, it's who you know and it's the way you treat them, and the way you build up relationships over time. So, I think coming out of college, I was eager to increase my "What?"and I should have been even more eager to increase my hoop."Who?"

Dan: Wow, solid stuff there. All right, cool. Contact information, if anybody wants to get a loan, some more Tim Milazzo, where should they go?

Tim: Yeah, so I'm happy to take emails at tim@stacksource.com. Obviously, you can go to stacksource.com. You can find me and my colleagues there and our email addresses. I'm also active on LinkedIn, have a Twitter and Facebook. Usually if you searchedTim Milazzo on any of those, I should be the first one that comes up. So, LinkedIn, email, if you want to talk to me about business is great.

Dan: All right cool. Hey, appreciate you taking the time today. Great conversation. I learned a ton. Got a couple pages of notes and thank you for coming on the show to him, Tim.

Tim: Thanks so much, Dan.

Dan: Low-cost capital is the fuel of any volume real estate investment business. As a real estate investor, I am sure you're well aware these 2 facts. First, your business is driven by access to capital or starved from a lack thereof. And two, you make more money when you reduce the cost of said capital. Whether you're looking for hard money loans to fix and flip houses, rental portfolio loans, or even a line of credit, lending home offers the most competitive rates in the market. Currently, as low as 6.49%, which is good for fix-and-flip, single-family loans. I pay 10% myself at fundrehabdeals.com to my private investors. So at 6.49%, if you like that interest rate, go to reilineofcredit.com. Even if you're not currently in the market for a loan at this very minute, I encourage you to still go through that one-minute sign-up process right now so you can get on the email list. That way, once you're ready, and you have a deal or a few, their name is top of mind. Plus, as a bonus for signing up through reilineofcredit.com, you'll receive a free iPad when you close your first loan. That's reilineofcredit.com.

Thank you for tuning in to the REI Diamond Show. Remember to review and subscribe on your podcasting app. Just search REI Diamonds and click subscribe. If you're interested in receiving my weekly big idea email, where I provide the most valuable jewel of wisdom that I discovered during the recording of the most recent episode, you can sign up at reidiamonds.com. Also, at that site, you can access the 206 episode archive or even apply to become my guest on the show. Again, that's reidiamonds.com. So, in 2021, my house-flipping business, Diamond Equity Investments bought and sold 355 houses, and so far, about the third, a little more than a third of the way into the year, we're at 112. Currently, we also have 172 deals in our inventory, either owned under construction or under contract and awaiting closing. And I share those numbers to share this next piece, which is the 3 ways that you and I might do business.

So number 1, if you are interested in having access to real estate deals that you can buy, fix, and, flip for profit, go to accessrealestatedeals.com. And number 2, if you are an accredited investor, who is seeking double-digit returns on your money, you can sign up to passively fund my projects and receive private mortgage investment opportunity emails at fundrehabdeals.com. That's how you join my personal network of private lenders to potentially fund my projects. I don't send any third-party projects out to that email list. And number 3, probably the most important, at least from my perspective right now, and hopefully yours, perhaps for the right person, I am looking for additional solid business partners in Atlanta, Chicago, Philadelphia, and Phoenix.

The role I am looking to fill is that of the acquisition manager. Our acquisition managers are like the conductors of each deal. We provide leads, capital, and a company culture of consistent training and consistent profitability. In other words, everyone on the team is consistently making money and our acquisition managers earn the highest split of anybody on any deal that we ever close. So, if a partnership of this nature sounds exciting to you, please visit careers.diamondequity.com for details and instructions on how to express interest. This is a very exclusive position, only to be filled by the right person who is dedicated to deal-making, hungry for big opportunity, and ready to become a loyal Diamond Equity team member. This may be the life-changing opportunity that you've been searching for. Skills which would move you to the top of the list include sales background, strong follow-up skills, quick proficiency with numbers, and, of course, negotiation. House flipping experience is a plus, but not necessary. Go now to career.diamondequity.com and maybe I'll catch you on one of my own internal Diamond Mastermind calls, open only to my inner circle.

So, we are at the conclusion, my friend. Next up, we have real estate developer branding, Cobb, joining us to discuss his single-family development strategy. He's operating in Tennessee, customized just for today's red-hot, low inventory, real estate market. I'll catch you and Brandon next time.

Narrator: Thank you for listening to this episode of the REI Diamond Show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at www.reidiamonds.com.

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