EPISODE 328

[INTRODUCTION]

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

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.4] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Mark Hentemann. Thanks for being on the show, Mark.

[0:00:32.4] MH: Hey, thanks for having me.

[0:00:33.9] WS: I'm honored to have you on the show. A little about Mark, he's an Emmy nominated writer and producer who's written for David Letterman and the Family Guy and created shows for Fox and MTV. Also maintains an avid real estate side hustle, having bought a duplex with his first script payments as a hedge against the uncertainty of the entertainment career. He since built a 70 million dollar multifamily portfolio and a company Quantum Capital, which manages and syndicates multifamily investments. His mission is to help others achieve financial stability and freedom through real estate investing, so they don't have to become television writers.

Just a conversation I've had with Mark before we started interviewing, he's been great. I'm learning a little more about his business and what he's up to. I'm looking forward to you sharing that with the listeners as well, Mark. Thank you again for your time. Tell the listeners who you are and elaborate a little bit about on how you got where you're at and we'll dive in.

[0:01:28.4] MH: Sure. I'm originally from Ohio, just outside of Cleveland. I never started out with the intent of being a real estate investor. I wanted to be a writer. I didn't know if that was a possible career. I had never known anybody in the entertainment business, or anyone had at least who had succeeded out there, but I thought I'd give it a shot. I began pursuing that. I started out as a greeting card writer and illustrator in the alternative humor department at American Greetings.

Then my cards got me hired to write for David Letterman. Then moved out to LA, realized – I was in New York and realized that most of the business was in LA. Moved out here and joined a new show called Family Guy back in 2000, or ’99 was when Family Guy started. I was convinced that I was going to be unemployed all throughout the early stages of my career. I was convinced that in six months, I was going to be unemployed and never working again.

What happened is I was in an apartment, my one-bedroom apartment with my girlfriend at the time and my wife now. They raised the rent. The landlord raised the rent and looked at other apartments. We visited an apartment, walked out and saw an open house across the street and we – it was a Saturday afternoon, so he wandered in and talked to the broker. Her name was Junan.

We said we're not really buyers, we just visited the apartment across the street and she's like, “Well, what's your financial situation?” “I had just gotten my first script payments at Family Guy. I had been in debt and broke for what seemed like an eternity my whole life, but I had about $45,000 saved up at this point with my first couple script payments.”

She’s like, “You should put that toward a mortgage.” I was, “I don't want a mortgage.” If I'm going to be unemployed, that's thing I want is the burden of a mortgage. I said, the only thing I would ever consider is it would have to be the best investment I've ever made, because I could sure use some financial cushion, or other source of income for when I am unemployed, which I was always sure I was going to be.

We parted ways. She called me a couple weeks later. She said, “I found the property you need to buy.” There's a catch, you need to become a landlord. She showed me a duplex in a great up-and-coming area. It was marginal at the time, but you could tell it was coming up fast and it needed some work. I looked at it. I could see the potential and said, sure. Got into a bidding war. Got this duplex and tried to embrace being a landlord in this real estate purchase I just made, which I was a 100% convinced it was a huge mistake and was going to be a disaster for me.

I hooked immediately on real estate, turning property into something that was really nice and full. The economics of it worked. I had my next-door neighbor from Virginia as well, Mike Henry, who is a voice actor in Family Guy. He does the voice of Herbert, Consuela and Cleveland, if anyone now watches the show. He was my tenant next door. It was an easy first landlord experience, although somewhat easy. I don't know. Maybe he's a good tenant to learn how to be a landlord within 2000, sold at 2005. Had a pretty remarkable return about [inaudible 0:05:06.1]. I bought it for $435,000, which I was convinced had overpaid, but I sold it for 1.27. By that time, I was completely hooked.

Real estate, I had discovered this thing that I wanted to do for the rest of my life. This was my investment vehicle. It was going to give me security in the entertainment business. Yeah, I was no longer ever going to put money towards just a financial manager who would get me 4% to 5%. I was going to actively invest. I did so throughout the early 2000s and started to build my portfolio.

[0:05:43.2] WS: Nice. It was neat that you said you're writing greeting cards and that's what got you hired with David Letterman. Then you move from there to another show and then all of a sudden, I mean, I hear it all the time, accidentally got into real estate. You met somebody that said, “Hey, you need this property.” Somehow it happened. Now all of a sudden, you start seeing some benefits of owning real estate. It's like, “Okay, wow. This is something I really need to learn more about.”

Now you've gone from duplex to so 70 million dollar multifamily portfolio. You've made a few moves since that duplex, that's for sure. What was key in getting you from the duplex to where you're at now?

[0:06:22.1] MH: I think, I tried to buy a building or two a year once I had wrapped my head around that real estate was so great. Honestly, when I bought that duplex, year one of owning it, I was convinced this – I just made the biggest mistake of my life and that this was going to result in my financial ruin. Year two, my first tenant had moved out and I had increased the rents and suddenly, it was covering half my mortgage. Year three, I refinanced and suddenly, they were paying all of my mortgage. Year three, I was convinced that this was the greatest thing in the world.

I went full across the spectrum from disaster to like, “Oh, my God. I have to do this all the time.” I was committed to it. The moves I made, I started buying a couple buildings a year. I would pump any income I had. A nice virtuous cycle of this is when you have this vehicle that you're committed to. I never wanted to buy a nice car. I never wanted to spend any money anywhere else. I wanted to put it all into real estate investments. I was doing that. I became known as amongst my writing peers and entertainment peers as someone who was doing a pretty aggressive real estate side hustle and was the guy obsessed with real estate.

A lot of them would say like, “Hey, could we invest with you if you find something.” It's how I got into partnerships and syndications. I do those sparingly. I do a lot of my own investing. When I find a deal that pencils out as a syndication, I have a group of people I could go to and go into bigger properties that way.

[0:08:09.2] WS: Nice. Really, you started becoming known as the real estate guy amongst your peers, your network and then they're looking to you for that guidance, or how to invest in real estate.

[0:08:19.3] MH: Exactly. Yeah.

[0:08:21.0] WS: Yeah. Tell us about some of the opportunities you're working on now and what's your focus now? From the duplex to doing one or two deals a year, are you mostly multifamily, or you retail? What's your focus?

[0:08:31.7] MH: I am exclusively retail. I've grown – I think I have about 300 units and about to add maybe 75 more. I branched out from LA – I was in LA for eight years. Altogether, I was in LA exclusively for about 17 years investing. I think it's a great market. It's not a market I selected. It was a market that selected me. It was just a pool that I learned to swim in. Because of my financial situation, I wasn't a millionaire, or I didn't – people think la is such an expensive market. I just took whatever I had and bought the cheapest buildings I could find in the best locations.

It turned out to be a pretty good strategy, because I was buying – I zeroed in on these metrics of trying to target about $250 a square foot, which may sound high, but it's actually very cheap for LA, given the cost of the land. I would go for – shoot for about 250 square foot and a 5 cap. Those are challenging metrics to hit. When you hit them, the average cost to build new construction in LA is about $500 a square foot. The average cap rate in LA is maybe in the threes, mid-threes.

I find these old buildings that need work and I buy them for about half the replacement cost. I always make sure they're in the core area of the city, which means not on the outskirts. I'm in Central LA, right next to downtown, right next to the employment hubs. I focus there, because I live not too far from there, but also I've been through the 2008 crash and I know that there's going to be a big cushion when you can buy it that far below market, and you're in that tier of workforce housing that I was in the 2008 recession with those properties, several of them, and they were very resilient.

They maintained the rent levels and we wrote it out and did very well through the 2008. I've came away. It was a scary time, no question about it. In retrospect I thought, this is a strategy that I need to stick with, because I don't need the anxiety of hanging out there with high risk properties.

[0:10:59.1] WS: Nice. You've been in LA for 20 years. You’ve been buying those properties in the core part of the city downtown. I'll appreciate you elaborating on why that was important and how that's proved to have been valuable through the recession and over the years. Now you're diversifying, right? Tell us about how you're doing that and why.

[0:11:17.2] MH: Sure. Maybe about four or five years ago, I think like I mentioned, I had about 21 or 22 multifamily properties in LA. I had started to think I should really pick a second market, because and part of it is the tech boom. The tech revolution that we'd experienced has made data so much more available, than it was back in 2000 when I started, nothing was digital. Real estate was such an opaque and scary investment vehicle that scared a lot of people away. Technology has made it much more transparent and provided so much more information on properties and locations.

I thought all this information is now available, I would like to diversify into a second market and get to know a second market well and also invest in LA. I zeroed in on Austin, Texas. I've now bought a couple buildings in escrow on a third one. I'm going to have about maybe 200 units there in a couple months total.

[0:12:26.9] WS: Okay. Those are multifamily?

[0:12:28.7] MH: Yes. Those are multifamily properties.

[0:12:30.1] WS: Okay. Your focus is on retail now, is that right?

[0:12:33.1] MH: No, no. Not retail. Multifamily.

[0:12:35.3] WS: Oh, okay. Okay. I was confused. Awesome. Okay, so you're strictly focused on multifamily still. Are you looking to continue to grow in the second market? You're looking for a third market, or you're staying right where you're at?

[0:12:46.8] MH: I think I'll stay in Los Angeles and Austin for now and get to know them. I'd rather become an expert. I went through the evolution of Austin is. I remember talking to a partner of mine who's helping me there and I was saying like, if the [inaudible 0:13:04.0] in Austin like, "Man, I'm nervous because in Los Angeles, I reject a 150 properties, if not way more than that before I actually buy one in LA." I'm in Austin and now I'm buying 1 out of 20, or 25. I feel I need – I feel I'm not getting the absolute best properties there. I need to go deeper, dig deeper and get more information. It's taken some time and I've gotten to know the lay of the land very well and found some great properties there. Yeah, I think for those two, those two markets.

[0:13:42.6] WS: Yeah. How did you pick Austin? Of all the other markets that you could have picked, why Austin?

[0:13:49.4] MH: I started with research. Austin has one of the highest population growth of specifically, it was Millennials like a couple years ago and it's becoming a very big tech city. Oracle is there, Apple as there, Microsoft is there. Apple is building a huge campus. The job, it's like top five in terms of all the key metrics that I look for. That's population, growth, rent growth, wage growth, job growth.

Also what I like about it specifically as a Texas market is Texas is very business-friendly. What is perceived as a negative about LA, but actually when you're on the ground as a real estate investor, it helps you – it helps you a lot is the regulations in the barriers to entry that are in a city like LA. I think LA was the two most difficult places to build in the United States are I think Honolulu, Hawaii and Los Angeles.

As a result, we have a chronic lack of supply in LA. If you're a real estate investor, you don't experience the threat of oversupply, which is often what kills boom markets. In Austin, it's similar. In Texas, Austin has the most regulation. It's the most difficult place to build, so it makes me a little less worried about rents softening and value softening, because there's just too many properties out there.

[0:15:22.6] WS: Oversupply. Yeah. You mentioned a minute ago about digging deeper into Austin so you can find the better deals and how – I appreciate you mentioning too in LA, you're buying, you're making offers on one to two properties out of every 150 to 200 you look at. In Austin, I think you said one out of 25 to 50, something like that. You mentioned maybe digging deeper to find those better deals. How are you doing that and what does that look like?

[0:15:50.6] MH: How am I taking deals in Austin?

[0:15:54.1] WS: Yeah. How are you digging deeper to find the deals you're talking about?

[0:15:57.9] MH: Texas is a non-disclosure state as you probably know. There's a lot of properties that trade. There's differences between the market I've experienced in LA and Texas. What I find is a lot of properties trade off market. It's hard to get sales prices. There's often not a lot of sales prices and it might be related to the taxes, property taxes. I find deals – I have a partner in Austin and he's on the ground and he knows the area very well. We both have built a strong network of brokers, of lenders, of property managers there. I think as the way we get more deals is by increasing our network there.

I've gotten to the point where I'm now getting that flood of e-mails that come in on a daily basis of new properties that are off-market, or coming to market. We're just sharpening our acquisition tools.

[0:17:01.4] WS: Yeah. You've focused a lot on those broker relationships in that market, you and your partner, it sounds like.

[0:17:06.1] MH: Yes.

[0:17:07.6] WS: Yeah, so very important, right? I mean, those relationships are key. Any other ways that maybe you've connected to find more off-market properties in that market, especially being from a distance? Are you going there often? How are you doing that to try to find more off-market deals?

[0:17:22.8] MH: To back up to one of the reasons that I picked Austin is it is a very easy flight from LA. You can get there in two hours. I've been there a lot. It's something I can go back and forth in the same day. Usually, I'll stay overnight. Yeah, it's just building relationships. Our property management company has become surprisingly helpful in that. They're all around all throughout Texas. They're also – they're in Austin, Houston, San Antonio, Dallas. They have a wealth of information on properties, property owners.

We've started reaching out directly to owners to find distressed properties. That's another tool that we've added to help find those properties. Yeah, talking within this large property management company, also finding owners who are getting ready to sell and making preemptive offers.

[0:18:20.6] WS: Nice. Yeah, great. Great advice there too. Yeah, I mean, being proactive, right? Finding these sellers, building those relationships as well ahead of time. Mark, your bio mentions that your mission is helping others achieve financial stability in real estate. How are you doing that? What does that look like?

[0:18:38.6] MH: I think when I got started in in real estate and had been doing it for maybe half a dozen years, I had become an evangelist for real estate investing to all of my peers. A lot of them were not very financially focused. They're entertainment, creative people. I was telling them like, "Do yourself a favor." You see so many people making poor financial decisions in Los Angeles and in the entertainment business, because just nobody seems to be focused on that. I was beating that drum with them as like, "You got to prepare. Give yourself a good financial future. Don't be reckless. Make smart investments. Don't necessarily trust the financial advisors that are currently handling your money. You got to be proactive." The reality is not really anyone was willing to embrace that and jump into real estate hands-on the way I did. Yeah, I'm talking to what I –

[0:19:42.8] WS: You're helping others. How are you helping others achieve that financially?

[0:19:45.3] MH: Yeah. Right now, I try to help them do that. A lot of these people who invest with me are my friends. I want to see them succeed. I want them to build themselves a financial cushion that they can have in a business that we're all in.

[0:20:05.0] WS: Nice. If you could go back to that duplex and knowing what you know now, what would you tell yourself to do differently?

[0:20:12.5] MH: The ironic thing is I look back on that first purchase with that duplex and realize, I would never do any of the things I did related to that. I would never have bought it. Now, I got into a bidding war on that property with 15 other buyers. My initial offer was I think $360,000. It was listed at 379. No, I think I offered 350. It was listed at $379,000. I bought it for $435,000 after two weeks of an intense bidding war with 15 other buyers. I would never do that nowadays. I look back and that seems insane. I would walk away if there's more than three other buyers floating around, unless –

[0:20:58.3] WS: Would you say go right into the commercial real estate and syndicating, or would you say start with that duplex, or some type of duplex, but maybe buy it differently?

[0:21:07.0] MH: I think the duplex is a great place to start. If I were to make a recommendation to anybody, I would say the best economic opportunity there is not only in real estate, but possibly anywhere is taking advantage of that FHA loan that you could use for your first property, you could put about 3% to 4% down. I was not aware of this at the time, so I missed the boat on that one.

I put down 10% on my first duplex. If I could have leveraged that with 3% or 4%, I already made 2,000%. I probably would have made 8,000% return, which is insane. The caveat is you just have to make sure that you can add value. You don't want to go backwards. You don't want to have the property go down in value. If you could add value and leverage it at 4%, which is a 25 multiple, I think there's no better way to get started. Also, it doesn't hurt to learn how to invest in real estate on your own, before bringing in a whole bunch of other people.

[0:22:10.2] WS: Sure. Mark, when you talk to let's say, a new broker now and they say, "Yeah. You know, Mark, what's your buying criteria?" What's your response to that? What are you looking for?

[0:22:20.6] MH: I would say, don't bring me – in a city like LA, I would say, I don't want to see 3 caps, or 2 caps, or even low 4 caps. I want to see above a 4.8 cap. Ideally a cap rate in the low 5s. Again, that doesn't sound great in a lot of markets, but in LA that's a really good deal. What that allows is that allows for 75% leverage. That's where I want to be. I think leverage is important in retrospect looking back at all of my investments. The ones that perform the best, the two components that they all have consistently is good leverage at about a 75% LTV.

I don't want to go higher. I just don't want the risk of that. Then the second component is value add. My criteria are buying a 5 cap, or better at below $300 a square foot, ideally around 250 with a value-add component in a core area of Los Angeles, I would say. That for me is Koreatown, Downtown, Hollywood. I was an early adapter to Hollywood. I got out here never having really been to LA before before I moved here in my 20s. I was driving around Hollywood and it was a dump. It was sketchy, drug dealers, prostitution there. I was baffled. I was like, "Oh, my God." Hollywood is a brand that there's no one on planet earth that doesn't know Hollywood and how is that not the gem of Los Angeles? It wasn't. It was just being neglected.

I was like, “There's no way this is going to remain that way.” I started buying some of my cheap properties in Hollywood to start with and then moved into Koreatown and into Downtown and in those parts.

[0:24:18.8] WS: Wow. What's been the hardest part of the syndication journey for you?

[0:24:24.6] MH: The hardest part for me is I enjoyed syndication. It's fun to do it with a group of people. The hardest part for me is time management. I am writing movies and I'm writing pilots for TV and I'm on the show Family Guy, but I also take on a large volume of real estate projects. Real estate is just something that I plan to do until I'm a 100. I don't know when I'm going to get spit out of the entertainment business, but I'm committed to doing real estate for the rest of my life. It's a very important part of my life and something I'm committed to.

In the syndication space, I think it's finding a great deal that you're not cheating, you're not doing it for fees that you've vetted hundreds of properties and found a unique opportunity and that you could deliver exceptional results to your buyers. Then it's just time. I have an asset manager, but I think I need to build out my team a little bit more.

[0:25:26.9] WS: What's a way that you've recently improved your business that we can apply to ours?

[0:25:31.0] MH: I think, technology is an ongoing way that I improve my business. I'm using more online. I shifted from QuickBooks to Google Drive, which seems a small thing, but QuickBooks has been standard for bookkeeping and accounting. I think now bringing onto Google Drive, which allows me to share it with my CPAs, with my partners. As we do for example, value-add projects, it's much easier to track. That's an improvement. Systematize.

[0:26:08.1] WS: Is that by using a Google sheet as opposed to QuickBooks to do bookkeeping, or what?

[0:26:13.3] MH: Yes. Yes. Using Excel, but they translate to Google sheets on Google. I think it's the sharing aspect of it. I found with QuickBooks, QuickBooks was a little too elaborate for me. It was a little too complex. I wanted some simplification of it, because I had to do it across dozens of buildings. I needed something a little simpler, and so I handcrafted my own spreadsheet with my CPA. Now it's great. It's easy. That's part of I think the – the thing that improves my or anyone's syndication business is automate wherever you can, systematize wherever, you can and leverage the help of other people.

[0:26:58.2] WS: What's a recent system that you've put in place that's really helped you?

[0:27:02.5] MH: I think I'm always trying to find activities that I do and find out if there is a system to them. I think this recent overhaul I did with my accounting and bookkeeping is a recent system that had saved me hundreds of hours a year by adapting to a new format for that. Then as I ventured into the Austin market, I think having a partner on the ground there has been a great resource. It's not exactly a system, but it's leveraging the help of others and we break up what we need to do. It's been a great working relationship.

[0:27:45.9] WS: What's your best advice for caring for investors?

[0:27:50.0] MH: Best advice for caring for investors. I would think, make sure you never forget you're serving them, you're not serving yourself. We're at a point where the market is flooded with syndicators. I think, just be careful if you're on the investing side of a syndication, make sure you vetted the syndicator. I think if you're a syndicator, make sure you're in this for the right reasons. I mean, you could make a lot of quick money if you just go out and grab investors and plug their funds into investment. If you don't know what you're doing, you're going to lose money for them and yourself and your syndication career is going to be short-lived.

[0:28:32.8] WS: What's the number one thing that's contributed to your success?

[0:28:38.1] MH: The number one thing, I think passion. I am obsessed with real estate. I love it. Then I think maybe a trait that I have is I've always been calm demeanor. I can plod along endlessly. That's how I got into the entertainment business. I could take a lot of punches and keep moving forward, until you eventually get to where you want to be. Real estate is that way too. It's fun, it's exciting. In order to succeed in it long-term, you got to take some punches. We're all going to go through a recession sometime in the near future and it's not always going to be rosy and stellar returns. You got be ready to weather the downturns, as well as the boom markets.

[0:29:30.0] WS: That's almost the definition of being an entrepreneur, isn't it? Being able to take the punches and keep moving forward.

[0:29:35.0] MH: Right, exactly.

[0:29:36.3] WS: Mark, we're about out of time. How do you like to give back?

[0:29:39.8] MH: How do I like to give back? I like to contribute to charities. I am in a bunch of environmentalist charities, but also I contribute to homelessness. Because I'm in the real estate space, I want to give back in that arena, but also to investors and anyone who's coming of age in today's environment, in today's market. I have a lot of fun teaching people, teaching people how to use real estate as a way to build their financial future. That's fun for me.

[0:30:17.2] WS: Awesome. Mark, you've been a great guest and I really appreciated hearing your story going from writing greeting cards to being a successful deal sponsor and doing very well. I appreciate just you elaborating on so many important points. Tell the listeners how they can get in touch with you and learn more about your business.

[0:30:33.2] MH: Sure. The name of my company is Quantum Capital. The website is quantumcapitalinc.com. You could reach out to me directly at mark@quantumcapitalinc.com.

[0:30:46.9] WS: Awesome. Thank you, Mark.

[END OF INTERVIEW]

[0:30:49.1] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get the latest episodes.

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[OUTRO]

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