EPISODE 750

[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 Kenney, thanks for being on the show again Mark.

[0:00:32.7] MK: Thanks for having me Whitney, it's good to see your face.

[0:00:35.1] WS: You as well and if you are a long time listener of the show, you have heard Mark and I discuss numerous topics about this industry he is definitely an expert, we've also had numerous people on who have learned the business from Mark and are achieving massive levels of success. And so, we just want to thank Mark again for his time but just in case you don't' know of him, he's a seasoned real estate investor, coach, two-time bestselling author and founder of Think Multi-family.

Mark started as apartment investing career over 20 years ago as a side hustle, working 80 plus hours a week in the corporate world. He has purchased over 8,000 units in just the past few years, in six different states. So Mark, thank you again, grateful to have you back on, just somebody of your level of experience and purchasing. Especially in six different states as well and just getting your take on what's happening right now in the market and what you see moving forward, you want to give us any updates on what you all are up to right now? Buying, selling, what's happening in the multi-family space?

[0:01:35.1] MK: Yeah, absolutely. So yeah, we actually just closed a deal less than a week ago, so we are actually in seven states now, which is great. We're still active, it was pretty slow there for a couple of months. I think some people in my opinion were not using that time wisely, that was the best time to start building relationships further because a lot of the brokers and such had a lot more time then. They really did. People that sat around a lot and didn't do much, they kind of wasted some of that opportunity but that's okay.

We were still very active, looking at properties, we, as I mentioned just closed a deal, we have four other deals on our contract, so we're definitely active. As far as selling, we were selling a little bit more now, a lot of properties I like to just hold but we have a couple of situations where it makes sense to sell just because of the returns that we're going to achieve and one property, this is example, won't go into a lot of details on it but you know, we paid in the 40s a door for it and it's going to be close to mid-80s a door after a couple of years.

But we have situation there where the lender is requiring us to rebuild four units that burned down and it's going to be $300,000 a unit to rebuild when we paid, you know, made 40s a door so from a financial standpoint, we have an insurance claim on that but from a financial standpoint, we feel that doesn't make a lot of sense. So that's one we're going to probably look at just getting out of and it's going to be actually a homerun and ideal.

But a couple of other deals were looking at getting some broker opinion on the values, pricing has not dropped off at all and in fact, cap rates are probably starting to compress a little bit further which sounds odd to a lot of people but I think they're going to continue to compress even more, as more money runs into multi-family and out of retail and office space, hotels and we've talked to a number of equity guys as well that you know, have kind of stated that they don't point it at any money and some of those asset classes for at least a couple of years.

That could change but it means these guys that have a lot of money, family offices and such, they need to put their money somewhere to work and that's where they're going to go in the multi-family. It's faired really well over the COVID pandemic.

[0:03:54.0] WS: Nice, I wanted to back up just a little bit, you know, you talked about people not using that time wisely, I couldn't agree more. People just set out and say I'm going to hold off and then losing a feel on the market, I felt like you know, not staying in there, at least in some degree. You know, the guys that are successful now, including yourself, can you give a couple more examples of what you were doing then versus the people that were sitting out?

[0:04:16.2] MK: Yeah, one, we were talking to brokers a lot, you know, brokers actually, they're in that time, they want to talk to you like I said, they had extra time and say they were bored but they definitely had to ask your time but also, they were really trying to get a handle on the market.

They were using us in some respects too which is totally cool about what we were seeing in the market. Hey, you know, mark your 45 properties, what are you seeing in the markets and different markets, how are they reacting differently? They were actually sending out surveys and then they would send out kind of a weekly report, a lot of the brokers were, so, a lot more interaction as far as physical talking, face to face wasn't really going on that much during that time.

Surely, even during the middle of COVID, we started actually physically going to properties and touring them. And making offers and things like that. We were also underwriting a bunch of deals, a lot of people were like, well how's underwriting going to change and we have some rules of how we change some of the underwriting, but at the end of the day, nobody really know what's going to happen, right? I mean, we still don't know ultimately what will happen, but we know we have some really good data points now that helps us provide better information than we had, you know, three or four months ago.

But we were still underwriting a bunch of deals, still talking to lenders, still talking to brokers, we were making offers, we were touring properties, you know, a lot of people, just heard the other day to me and my wife was saying that these people, that she heard about, they haven't even left their house since COVID, you know?

That's what we were doing, we were actually – it was basic businesses as usual, we had to make some exceptions on the due diligence, we still were able to do that and things like that but it was more masks and things like that and maybe some tenants were like I don't want you coming in but we were doing exactly the same things we were doing that we were before COVID.

[0:06:00.4] WS: You know, you mentioned that you like to hold properties. Can you just explain that model a little bit in the syndication space because it seems like a lot of operators are going to hold and say five to seven years, their whole plan is to exit. When you say you like the hold, do you mean five years in exit or do you mean even longer than that?

[0:06:16.2] MK: Yeah, I would say, a lot of syndicators I think are getting out two to three years as the market's kind of appreciated, right? The downside of that — not saying anything is wrong with that necessarily, but the downside of that approach is a model using it all the time is that you typically leave a lot of money on the table.

So people that sold two years ago are kind of kicking themselves wishing they had held longer right? Of course, real estate can go down but it will go back up. It always has over time. If you're going to look at properties like that in say, well, do I like the property? You know, physically, does it have the characteristics I like, do I have cash flow and have been able to do some sort of capital events, let's say a refinance or a supplemental loan just kind of second loan on the property.

If I can do those things and return a fair bit of capital to the investors and still hold it, and still have cash flow, I personally think it makes a lot of sense if you like the asset and the area and things like that. Versus just saying that I'm just going to sell it and you leave a lot of money there, are we going to hold properties 20 years? I don't know, probably not. I mean, but they're definitely – properties we're holding over five years for sure but that only really works in my mind, I you're able to make that big, kind of pay day to the investors and if not, then I'd personally thank you do over to your investors to sell a property.

[0:07:32.1] WS: Let's talk about the underwriting a little bit, you mentioned maybe some things have changed or people ask. I know I get asked that a lot as well, what are you doing differently now? I'd love to know, I mean, buying this many properties, you're still very active in the market, what did change or if anything, from the way you were underwriting say January or say December, versus now.

[0:07:50.5] MK: Yeah, one of the changes we didn't have anything over was more the lending changes that came up with the lender reserves and things like that, which has been revised a few times since COVID and for the better, for us. You know, we didn't have a choice on that but as a result of that, we were kind of structuring some deals differently and saying, let's say it is going to be $400,000, we have to put in to the lender day one, the lender says, give me $400,000. I'll hold it for you for a year, if the property performs, I'll get it back to you. That's one example.

So in some cases, we were saying, okay Mr. seller, how about you, you put the 400 grand in for us, you know, about give you the price you want but we're going to do this and things like that. So that was something we didn't have a choice over, the other one with rates, you know, rates have continued to go down, frankly, although people didn't know it was going to happen, we'll see but it looks like they're going to probably stay low for a while, these all — the indicators say that but I don't want to predict that. The other bigger one we had is around, if you want to bridge that, we need a lot of bridge loans, a lot of big value ad deals.

It almost went away over night, for all practical purposes — so it did change the type of deals we were looking at, we're actually doing another bridge loan right now which actually is pretty decent terms on it. But, for several months there, it really wasn't a very good options so we stopped kind of looking at some of those big, huge value ideals. The other one we were doing is kind of spreading out the rehab longer. So if we thought we could do a rehab and 12 to 18 months, we'll probably split it all to 24 or maybe a bit longer because of COVID and things just taking longer to get through.

You have to be careful about that a little bit, spreading it out too long, if you're getting money from the lender, the lender's going to force you to use those proceeds, just be careful a little bit about that. The other big one we were doing was around total income growth. Before let's say, we're going to have money put in the property, maybe $6,000 a door.

Within the first couple of years, we were going to increase income because of that, well, for a few months there, we were saying, let's assume no income growth, even though we put $6,000 in per unit, we were assuming no income growth in year one. We've come off that on a little bit because we do have number of data points in that have really show them that the properties have performed really well.

Probably the biggest one and the biggest unknown is cap rate. So, you know, we were like, sitting there, in all fairness, all these guys are making these predictions and things like that and you know, they're wrong 99% of the time anyways but, logic will kind of tell you that cap rates would probably go down and people say well why is that and kind of mention some of the reasons why but we always assume they're going up, we use an escalator on annual basis and this thing is going to go up.

So, that's one we kind of struggle with really early in COVID, do we have to make our escalator, it was going to be, let's say, a .2 for a year which is a full point over five years, do we have to make that higher now? So, we kind of point around with that a little bit. I think in all respects that a lot of people are underwriting at the current market cap rate and/or even decreasing it, we haven't gone there yet as far as that model, I'm not saying it's wrong by any means, but I'm just saying, we haven't done that yet. That's probably the biggest caveat but just keep it in mind, for those that don't know, the cap rate has zero impact on your cash flow like absolutely zero impact.

It's only going to be impactful when you sell or refinance or do a supplemental loan and also know that nobody in the world know what that is going to be a year from now. It's a guess.

[0:11:16.5] WS: Okay, well, on that note right there, we want your best to guess on the next six to 12 months. What does Mark foresee, you know, your crystal ball, what's it say.

[0:11:26.0] MK: That I think cap rates will go down, we're already seeing it right now —even on the broker opinion of the value, we've gotten over the last couple of months, we've seeing a lot of traffic at the properties, we're seeing rents being increased on a number of properties that we own.

So I think that will continue. I think all the properties we own, that we share this because I think this is important data, the areas we've had the most struggle with is one property that's in a rougher area in Dallas — for a short period of time there, we were able to give evictions, right?

Notices. So, it was about 12% of the units we gave eviction notices to. And, the vast majority of them actually just left without us doing the eviction. So, good to get them out but then occupancy dropped pretty much overnight quite a bit, right?

So, not great. Those areas are going to struggle a little bit more and then the other area, nothing do the properties per se that it struggled, we have two properties in Savannah, Georgia and Savannah, Georgia was impacted earlier than a lot of other areas in the country because of the poor Savannah does so much with China so we struggle a little bit more there. Now, we haven't done forbearance or anything like that and hopefully we never have to.

We're fine from an overall perspective, but some of those areas are a little bit rougher, the tenants will typically take more advantage of the situation at its will. So, I do think pricing's going to go u p and cap rate's going to go down. I think more money is going to be coming to multi-family. I think there's actually less buyers right now, this is a general statement, we're seeing less buyers in the marketplace, we're seeing a lot more loan assumptions.

I would say, well over half the deals that we're seeing are our loan assumption is an option anyways and that's really because the prepaid numbers are so high on these deals and just from a perspective, one property, eight and a half million dollar loan and it's a 2.6 million dollar pre paid penalty on that. That's a huge thing, right? That's based on equity.

[0:13:26.2] WS: I appreciate you bringing all that to light, I mean, I think it's so relevant right now, I wanted to ask you, from what all is happened right now, has this changed your buying plan moving forward, just like you're talking about maybe properties that were in some rougher areas that have been the ones that struggle.

Has this changed maybe the criteria that multi-families looking for moving forward.

[0:13:46.0] MK: Yeah, that's a good question for sure, we have a lot of data points now which is good, right? You know, this pandemic, you can argue is unique in the way it happened in the industries that were impacted was also unique compared to any other recession. Because places were actually shut down, you could actually go places, right? It's impacted us probably a little bit me personally around I don't want to buy in the rougher areas and we lived in a class A property and had crime there. Like literally, right?

So crime's not going to go away but the areas where it's really, you kind of know the areas, you get familiar with the market so the ones that have a higher crime and the people that — the bad debt is already higher as a general statement, those are the ones that are going to get higher and higher, versus we literally have some property, we have one property — literally 16 months in a row, zero bad debt. For that to happen, is pretty unusual and we have 45 properties and we only have one property that's been 16 months in a row with no bad debt, right? Those type of properties typically are going to perform, will the bad debt go up a little bit? We still have had – I don't even remember what it is, probably a few hundred dollars in 12 months, like literally. The ones that already have high bad debt will continue to have high bad debt.

The ones when you are looking at economic vacancy, people are familiar with that also includes loss of lease. Loss of lease is like someone just paying below market. I much rather have somebody buy a property that has a huge loss of lease meaning people are paying below what they should be paying versus a property that it all goes in economic vacancy but it is bad debt. Bad debt is worse, right? And then just be careful to – I mean not to go into too much detail.

But as far as you are looking at the financials of it, be careful whether it is cash based or a accrual base accounting on the trillion 12 profit and loss because that's where people can get really, really screwed frankly by not paying attention to that and bad debt can maybe not show up on the accrual base and it will show up on the cash base and you are talking potentially hundreds and hundreds of thousands of dollars difference in value of a property based on that.

[0:15:49.4] WS: Mark, how do you prepare for a downturn like this or how has this changed the way you're preparing for future downturns?

[0:15:56.5] MK: Keep cash. No, I mean in your properties. We've always had good working capital, which is money that you just kind of have to have there to kind of like prepaid vendors or that — we've always had contingencies – well I shouldn't say always. The first couple of deals I didn't. Frankly the guy we learned from either didn't know this stuff, didn't teach us, didn't care, I am not sure which, but either way didn't talk about it. So you want to have working capital.

You want to have contingency and you want to have extra in that contingency. No one is going to sit there – I've never sat there on a property and go, "Man, I'm really kind of sad we have too much money sitting in the bank." We have gone reverse the other way or like, "Man, we are waiting on the lender for five months to reimburse this $375,000. I wish we had a little extra money sitting there so we can account for those things."

And you can always return the capital if you want to right? If it makes sense to do that but I would say without a doubt keeping more cash than you think you need. Now someone that has been helped frankly by the lender. The lender requiring what stays an example, 12 months of impish reserves things like that. So that does help, because that gives you a full year of mortgage payments.

[0:17:04.6] WS: Do you have a way that you like to calculate that extra reserve or that emergency budget?

[0:17:09.3] MK: So working capital we do one full month so basis 8.3% and then the contingency above that it depends a lot on whether we have the reserves with the lender. If we do, it gets a little bit of cushion there because you have a full year there and then the other one would be, are you raising money for the cap X or is the lender giving you money for cap X? If you are raising money for the cap X, you can theoretically have less contingency, okay? Because and so you are waiting on the lender.

So the way it typically works for a lender is, "Hey Mr. Lender, we have actually spent all of these money. Here are all the receipts and pictures, please send us the money," and they sit there and twiddle their thumbs and they ask you 10 ridiculous questions and then two, three months later, you get reimbursed you know? So that is where in that case you are going to have to have more capital sitting there because you have to — a lot of the GC's require 30% or 50% down before they start in some cases.

So what do you do if you have a big cap X project? The other one would be depending on how big the cap X is. If you are doing a big cap X project you are probably going to have to assume it is going to go over budget a little bit. If you are doing the one that isn't pretty like value add deal then you don't need to. So the 8.33 for working capital is pretty much the exact science for us. The contingency isn't an exact science but we do look at several indicators about, are we going to have extra money raised?

Are we going to have money from lender come in? Where is the money coming from and how big is their cap X project?

[0:18:36.6] WS: Nice, grateful for the explanations and going in depth Mark. Just to take a pivot just a little bit here, you know I believe anybody that is as successful as you are in business and especially real estate have a high level of self-discipline and I'd love to know how did you gain such a high level of self-discipline?

[0:18:53.0] MK: You know, I think probably my parents. Both of my parents are really disciplined hard workers and I think Tammy is a love-hate with my wife to me or for me because my discipline with eating and fitness and things like that too but I think you know to some respects it is kind of in you. It is easier for some people and I really do believe that. It is easier for some people to do things and to be more disciplined but I do think there are a lot of things in your life you can do.

If you actually have a plan and you follow through and don't be unrealistic about it. You know I have always had big goals but I have also done a really poor job of putting my goals on paper and I think that is probably more because maybe my thought process if I fail right? If I put it on a piece of paper, next year I look at it and I didn't make that goal. So that was a struggle I had to get through but I do think you have to give up other things that is where it comes down to.

So for me sometimes I get up at 4:30 and sometimes I get up at 4:00. I don't like to get up at 4:00 it seems too early but I get up at 4:30, on most days I get up 5:00 and again, people get earlier than that that's fine but it is still fairly early. Go to the gym, you know stuff like that. So I am giving up sleep, I am giving up whatever it might be, TV. So if you really want something and not just wishing you had something, you are going to give something up to do it and I am okay doing that.

I give up sweets, I don't drink coffee anyways stuff like that but I'll do that and be like why? I don't really know why frankly. I just feel better if I am not eating a bunch of junk and feel better about myself.

[0:20:16.9] WS: No doubt about it.

[0:20:17.5] MK: But I do think, you know frankly I had a model from my parents. So I guess that my dad was – he was a firefighter. He would be gone 72 hours in some weeks and then he would also be 30 to 40 hours a week at a lumber yard. So he was gone a 100 hours a week and I am not saying that is a great thing. Frankly that is a model that I fell into from a workaholic standpoint that actually caused some issues for me but I definitely saw the model.

My mom working her butt off with seven kids. She made the meal, she did everything, right? That discipline I saw a model. Now with that said, you can have some of the model and still not be disciplined, right? Still a choice but as far as overall like the kids in our family growing up they are all extremely hard workers. Were we just born that way? Probably not. I think we saw a model.

[0:21:01.8] WS: What are a couple of daily habits that you're disciplined to do that have helped you achieved success?

[0:21:06.8] MK: From a regular life perspective, I have been able to carve out more time where I pre-schedule things, which sounds like that's obvious, why wouldn't you do that. I never pre-scheduled. If I want to go off you know 20 hours a day and I just did a really poor job. Now I have pre-scheduled with the calendar and sort of that and again, people think, "Well that is obvious Mark, why weren't you doing that?" I didn't know, I didn't do it before.

I had people in six different countries, they can call me from my IT business and I would be up 24 hours a day taking calls, you know? So pre-scheduling things and now if I'm eating, as an example, I can tell you 100% of the time up until probably even a year ago, I pick up my phone. I am out with friends, I am out with my wife, kids, it didn't matter, I pick up my phone and take the call. Now, I am like, "Well, I am eating," you know what I mean? Or I'm with family, with friends.

Not really that important, I can get back to them. I can tell you if you ask anybody on the street that works with us, I'll tell you I am probably the most responsive person that they know period. I might just saying that because I am that is what I believe you should do but I do give a little bit more time to pay. It is probably not urgent at the moment. It is okay to finish eating, whatever you are doing. So that is one, I think always being active in the market place, always looking.

Kind of following the same steps we have always been following and then just taking care of myself from a physical standpoint. You know I didn't work out for 20 years, now I mean I work out quite a bit. I love doing it and I also eat six meals a day stuff like that. So that is how it helped me just more physically and then the time management pieces help me more from a personal standpoint with family and to me and my wife and friends and things like that.

And then being active all the time no matter what on the business side and I think we are good buyers as far as buying properties and we are selling another property right now and I can guarantee any broker is going to say we're good sellers too and if your whole goal is to screw the other guy in this industry that is a problem and you are not going to go far in the industry if your whole goal is to screw somebody. So don't be a pushover but be fair.

Do what you say you're going to do and don't do things, don't change terms. I can tell you a number of times where I've had plenty of reasons not to do something I said I was going to do but I still did it anyways. That means a lot to people.

[0:23:22.4] WS: Love that. With all the experience that you have now as many deals as you have done. I think you said 45 right now that you have under management, what would you have done different on that first syndication?

[0:23:31.8] MK: I would raise more money for sure. It was a million dollar raise. I think we raised 25 maybe 50 extra that was it, not enough. So definitely would have raised more on that one and you know that deal went pretty smoothly actually. So I would have liked to buy a bigger deal. It was 64 doors, which is still not too bad for your first syndicated deal but I do wish it went about a little bigger because the model work is the same for a 100 or 200 unit deals as it is for 64 unit deal.

And that does cause a little bit of an issue because we still kind of needed a full-time manager there but it is too small for a full-time manager. So your payroll cost ends up being higher on a property like that. So still values gone up a lot on that deal. So I don't really have any regrets doing that deal but if you got a little bit bigger and would have raised a little bit more money for the cap X and things like that for the "what if's" those are the main things.

[0:24:24.1] WS: What's a way you have recently improved your business that we could apply to our business?

[0:24:27.6] MK: I think probably using more data frankly, more data points and I think data is just data but we currently do a really good job getting local expertise because it is just certain things you just cannot get out of data. So having someone that actually knows an area has helped us either go there more or not go there at all. That is probably the main thing I guess using more data.

[0:24:49.2] WS: What is your best source for meeting new investors right now?

[0:24:51.7] MK: You know if you give free content, we have a podcast too. We definitely get a lot of leads in there but we have found doing like webinars, free webinars, right? We get a lot of traction off those. I mean a lot and we have one common up here too and we surprisingly gotten more traction I think off for that and then if you are kind of newer in the industry, I would say try to get on other people's podcast what people are looking to get people on their podcast.

I will get leads for sure every week from somebody else's podcast. There is one podcast we did where we have gotten, I am not even joking probably over 400 leads off it, which is wild on my podcast. I mean it off shines all of the other ones but if we were never around that, we would have 400 less of leads so crazy.

[0:25:37.8] WS: Wow, yeah. What is the number one thing that's contributed to your success?

[0:25:41.4] MK: I think grit, not giving up. It is a lot of things that I could have given up on and in fact multi-family syndication both to me I almost give up on. It took us a year to get our first syndication and we were right on the verge of giving up on it. So, if you have a big enough why and I did at that time, it wasn't really money. I was making good money in the IT business, it was really more family and things like that and marriage. If you have a big enough why and you just don't give up.

I mean it's in every aspect of it. I get frustrated just like everyone else, in a lot of different areas in my life but it doesn't typically discourage me.

[0:26:16.6] WS: How do you like to give back?

[0:26:17.8] MK: So we do have educational platform, which we like sharing. We share a lot more things in my opinion kind of good, bad, ugly than maybe a lot of people do out there and then both to me on our passion about sex traffic industry, which is thankfully it's given a lot more press recently. So kudos to the people who are actually making a really big effort on that. We have a couple of industries that we support, orphanages as well. One in Nigeria and then one in the Philippines.

Our friend started the one in Philippines and the one in Nigeria we have been involved with about 15 years. So basically giving back and frankly, I never knew how I personally would feel if I started making more money because I was always fearful of money in my entire life pretty much, but we have been able to give a lot more than I ever thought I probably would be able to and literally it is changing people's lives. It really is so if you find something you are passionate about, for us it is sex traffic industry and orphanages.

[0:27:15.6] WS: Mark, incredible show. Always grateful to connect with you and see you in different conferences and different places we've been and to see your business growing. Like I said, I have many people on the show who have contributed their growth from your platform. So I am grateful for your time and just sharing what you are doing, I mean now you've went into seven different states and you have four more deals under contract amongst the 45 you already have right now.

And how you're underwriting has changed, what you feel like is happening in the market and just your buying plan moving forward and you have shared so many insights I am grateful for. Tell the listeners how they can get in touch with you and learn more about you.

[0:27:47.5] MK: Best way is email at mark@bankmultifamily.com.

[END OF INTERVIEW]

[0:27:52.8] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

[0:28:33.6] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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