EPISODE 835

[INTRODUCTION]

[0:00:00.0] 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 Khuri, thanks for being on the show Mark.

[0:00:32.4] MK: Thanks for having me Whitney.

[0:00:33.5] WS: Mark is the co-founder of SMK Capital Management. A boutique investment firm providing diversified investment offerings to its clients. With a focus on passive income and growth.

Mark has been a real estate investor for over 15 years and has created over 40 real estate partnerships with investors across multiple real estate asset classes and regions. Mark, welcome to the show, grateful for your time and expertise and being willing to share some of that with us today. You know, give us a little more about who you are, maybe how you got into this business, what your focus is right now and let's dive in to SMK Capital Management and some of the types of deals you all are doing?

[0:01:11.5] MK: Sure, yeah. Thanks Whitney. Well, I started kind of my career in financial analysis, working for corporate America and bit of the grind, right? Cubicle back in the day and doing a lot of budgets and planning and a lot of spreadsheets.

Started investing in real estate on the side, this is you know, 15 years ago, pre-recession. Didn't love the huge 80,000-pile on employee corporate world and transitioned to a private distribution company, we were distributing trading — cards baseball, Pokémon, kind of all over the country to mass retail. Helped them expand their operations, so I kind of got a lot of experience in logistics and operations and then just kept investing on the side.

The business evolved over the years after the recession, the distribution company essentially went out of business, there you had a lot of product in the Walmart account and Walmart during 2008 said, "Get that stuff out of here, replace it with staple items," right? Bread, milk, diapers and it was pretty quick too. That business turned upside down. I learned very fast about the lack of the diversification and over-leveraging that can immediately impact the business negatively during unprecedented times.

My father and I decided to partner up, we created our investment firm in 2009/2010. Really just to expand on what we were already doing. We had been pulling some family-friend's capital together for a number of years buying distressed single-family, small multi-family, foreclosures, REO's, short sales, a lot of auction properties at deep discounts, Whitney. Back then, you could buy like 50, 60, 70% off — just a few years ago and just took advantage of that opportunity that the market was giving us and then we've just kind of been expanding our footprint over the years.

Today, we focus strictly on commercial, institutional quality investments. Primarily in asset classes that we feel are going to be recession-resilient, we've been focused on that for a number of years now and we find best in-class operating partners that we've oftentimes personally invested with several times. You got the relationship we build, investment options for our clients so that we can all participate in some of the best deals out there today.

[0:03:42.8] WS: Nice. You know, everyone's thinking, "Well, what are those asset classes?" That you're talking about?

[0:03:48.9] MK: Yeah, you know, it's been a bit of I guess, an evolution over the last 15 years so we don't invest really in single-family or small multi-family anymore. We've actually invested over the years and probably about a dozen different asset classes.

But today, we pinpoint it down to three and I'd say four as well but primarily, mobile home parks, self-storage facilities, apartment communities, typically workforce housing, class-B in growth markets that are still affordable and we also have a very unique niche, high cash flow ATM investment.

[0:04:26.9] WS: Wow, incredible. Now, that's awesome that you have the experience too that you know, across a dozen different asset classes and now you've narrowed it down to those three plus of the ATM investment, as well. I think you know, you and I were talking before we started recording, just about how you all bring the financial underwriting and operations together. I thought we could just dive into that and what that means to you, why that's important. What does that mean and maybe, just elaborate on that thought?

[0:04:57.2] MK: Sure, yeah. Having kind of both tools I would call has just proven to be helpful. You know, we didn't settle ourselves up with this in mind. I have the time, right? It's just been our evolution.

Having a finance background, a lot of analysis of course helps, right? When you're underwriting real estate investments. Then also, having operated many assets across money markets in the US, you get a better understanding of how much hard work it really is to perform and to manage tenants, manage properties, manage contractors, and all the nuances in between.

Especially if you have a renovation plan that has a timeline and debt and so, being able to put both of those together and not just analyzing or not just doing operations really helps us, in my opinion just pick some of the best operators and the best deals for our investors.

[0:05:56.2] WS: For sure. Who are the team members that specialize in those certain areas that have helped you all to have this upper hand?

[0:06:03.7] MK: We rely heavily on our operating partners, right? They are number one, key to success and so we've – I guess I'll share a quick story but when I left corporate America and I wanted to do a lot more real estate investing full-time.

I started networking my tail off, Whitney, I went to one or two meet-up groups in southern California for jeez, probably one to two years straight every week or two. Just met some really sophisticated, highly experienced folks that have been doing this for decades. You learn from them, right?

My first jump in was just by investing passively with an operating partner and learning how they're operating, how they're performing, how they handle bumps along the way and hurdles in the business plan. Then just doing that time and time again with different operators and different asset classes has really helped a lot in kind of fine-tuning what we think to be really a sweet spot is what we try and focus on today, where we can get great returns with limited risk.

[0:07:08.4] WS: Nice, I appreciate you elaborating on – you started going to REI clubs, you started meeting people that are more experienced and then you started investing passively as well, some crucial steps there that people really don't put enough weight on, I think. I mean, your network is so important but having those people that have already been there and done it just pushes you ahead so much further when you can call on them.

Then investing passively as well with different operators, I'm sure you learned a lot from that, that has helped you to create this business and you know, even more at a higher level and faster. Now, the types of deals you all are doing now in mobile home parks, self-storage, multi-family. I'd love to hear just who – how have you scaled, what's been some keys to scaling your business and growing in those asset classes specifically or just, you know, within the business?

[0:07:58.5] MK: Yeah, sure. You know, I think since day one for us, we've really been focused on diversification, I think probably from some learning lessons in corporate America that I had. Today, we focus on multiple asset classes, the main few that I mentioned, multiple locations and operating partners. We're essentially diversifying across those three main categories.

Essentially, what we would basically want to do is to have a nice portfolio that we feel is very well-balanced and well-rounded. Then, the strategy within a lot of those investments, Whitney, as you know very well as of today, we focus primarily on stabilized properties that have a 90% or more occupancy usually at acquisition.

If we do nothing at all to the property, it will start producing cash flow, you know, right away. Positive, in year one, net to our investors. I think we limit some risk by doing that and we also focus on a value-add plan, we got to have a business plan today, we're at a peak market cycle I think — whether we thought this was going to be where we are now or not, this is where we are as surprises continue to rise, at least in the assets we're focusing on — cap rates are off and continue to decline, there's a lot of demand.

It's not a good time to take a lot of risk, right? There's already margins being squeezed and so having the right people that have been through multiple market cycles that understand the sensitivity of deals these days, local markets, et cetera.

Really also helps make sure that we are best positioning our capital, and then, from there again, just diversifying it across asset classes and people and regions.

[0:09:47.0] WS: Are you all doing like a blind fund model or you know, large fund or do you have, you do a fund per property?

[0:09:55.3] MK: We do both, just depends on ebb and flow of deals, of capital, kind of what we think is best positioned for the market today. In 2018, we created our recession-resistant fund, we felt that was a pretty opportune time to combine our asset classes into one investment offering and allow investors to really diversify. You know, I think for as little, the minimum was 50k, not that that's little but you could take 50k and spread it across I think, nine deals is what we put it in to. Mobile homes, self-storage and apartments.

Some of deals by themselves have a minimum of 250k. So, to replicate that fund, would require at least a minimum of a million dollars for an individual investor. We felt that was a really good investment vehicle and a product that will allow investors to spread their capital across what we cherry-picked deals felt to be kind of the best strategy for the time, right?

Today, it's still performing quite well, we're happy with what we did there. But we also look at individual deals, Whitney — and we'll put those together and just have a one apartment and one address and syndicate that as well so we do a little bit of both.

[0:11:11.9] WS: That's nice, it does give investors an opportunity to invest in deals that they might not normally get to invest in, right? I mean, the pool of investors that can invest 50,000 times is much larger than 250 or more per deal, right?

That definitely gives other investors that opportunity. As far as – I know, like some information literature, you know, I have that you had provided, you know, talking about like, "People are more important than property and projections." Could you elaborate on that and what that means?

[0:11:42.5] MK: Gosh, yeah. It's kind of like rule number one for us Whitney. We've just found over the years that although we're in the real estate business, we're really in the people business. What I mean by that is, you could take the best property in the best part of town but if you have the wrong property manager or operator, asset manager, you can lose money still, right?

You have to align yourselves with the best of the best and it's not just track record and performance, that's a big part of it but its character, its integrity, its transparency. It's their ability to pivot when something in the business plan goes left and they thought it was going to go right.

How do they respond to changes, right? Because you could take a proforma, right? Projections for an investment, any day of the week. 20, 30 minutes, you could adjust the returns and you could tweak them up three to five percent just by making a few minor assumptions to the inputs.

You got to be careful looking at rosy projections, number one. Number two, if you're working with people that are over-zealous and providing you with rosy projections in the first place, that says something. We like to focus on folks that are real conservative, that want to outperform projection and that have operational expertise, you know, way beyond you or I. That can take a potential situation that could disrupt performance and turn it into a positive and so, people are more important to me than property.

[0:13:21.6] WS: I love that, I just thought of people are more important than property or projections, I could not agree more. Who that person is, whether it's your ad operator or the property manager or all these people are so important and can just wreck a deal in a hurry. But man, you know, good team.

You said it really well and you said, you just have to align yourself with the best of the best and you're going to go there together, you know? Working together, no doubt about it. What's something Mark though, that just knowing what you know now, coming from the corporate world, you know, different positions there and then moving into real estate, growing this business now.

What is something now that you know now that you wish you had known when you were in the corporate world or moving into real estate?

[0:14:04.8] MK: It's harder than you think. When I first started, I just, you know, my first investment was in 2005, right? I bought a condo for myself, it was highly outdated, I renovated it personally with friends after work. I go to Home Depot and learn — and the market was still at our tail at that point, right? My valuation two years later skyrocketed. I said, "Oh man, this is great. I can, you know, it is going to continue forever and I can pull money out and go buy something else," and that quickly stopped when 2008 happened.

So, that was a quick learning lesson that it is not simple and learned, you know, you don't want to rely on natural market appreciation especially now Whitney, right? We're at the peak of the market, so while there might be some, you have to really pull a lot of levers to increase revenue and reduce expenses and so that takes a lot of work. It's not like you're just buying something and sitting on it and watching it grow. It doesn't work that way.

I think that's what I've learned is that it's harder than you think and if you're just going to dip a toe in, do it a little bit here and there, it's going to take a long time, right? You better be ready for that and that's okay if that's your strategy but just have expectations upfront. It is a long game, there is no get rich quick here. You need to work your butt off day in and day out. You got to hustle and you got to read a ton and be on top of things in order to succeed.

[0:15:34.1] WS: Great advice, no doubt and I want to just a few things on that though while we're talking about that, how did you gain that high level of self-discipline? What are some ways that you can help the listener to think through just creating that self-discipline to get there through those hard times like you're talking about?

[0:15:50.1] MK: I think some of its character Whitney, I am very ambitious just by nature I think also disciplined because I really love it and so I wake up every morning excited to go to work. I can say that, I know people say that all the time but I've never – 15 years ago that wasn't the case, right? But you have to love it, I think that helps a lot and you have to also be excited to do what you're going to do. If it's just another thing that you think you might try here or there, you know that's okay. But it is probably better to be passive.

If you want to start a syndication business, you got to put all of your skin and everything you got, effort into it to be successful today. There is a lot of competition and then we're also in a situation where there's a lot of risk because of where we are in the market cycle. I think hard work and having that ambition and just that love and that drive from day one is important.

[0:16:52.2] WS: Do you have a couple of daily habits that you're disciplined about that have helped you achieve success?

[0:16:58.4] MK: Yeah, you know I have – a lot of people have a morning routine and they do yoga and they do meditate and they soak themselves in ice baths. I don't really have anything that specific. For me, I like to read news every day in our industry about trends, market cycles, what's going on. I enjoy that so I do that every day. I also – to stay organized and kind of on track, I have Post-It notes that I use all the time Whitney and at the end of every day, I'll typically set up my next-day-schedule. Then I also have some running goals that there you go. The running goals that I am working towards and constantly updating as well.

[0:17:42.0] WS: Nice, where do you get that news that you're reading every day, you know, about the industry?

[0:17:46.8] MK: Yeah, I subscribe to you know, some national journals and some data sources. Green Street Advisors is great, they put out a lot of contents and data. Marcus & Millichap as well, National Real Estate Investor, those are three that, you know, they've got content every couple of days if you subscribe to them and really stay on top of things.

[0:18:09.4] WS: What's been the hardest part of this syndication journey for you?

[0:18:12.9] MK: Good question, I think it would probably be filtering out all the noise. There is so much out there, Whitney. If you're in this full-time, like we've been for a decade now, a lot has changed. A lot continues to change and so remaining on track, remaining disciplined and trying to really focus on doing one thing very well is what I think has been hard. We've evolved over the years, you know we are still learning every day. Nothing is perfect, not for anybody and you got to stay on top of it so you can remain afloat and continue to thrive and provide. For us, we want to provide our clients with the best deals.

[0:18:52.7] WS: How do you prepare for another downturn?

[0:18:55.5] MK: Yeah, well we've been kind of doing that now for a few years Whitney. Honestly like 2017, 2018, we stopped buying more correlated assets — correlated to the market. Historically, single-family is a big one where market evaluations have been tied to the economy, right? That isn't the case today but I don't know that anyone would have thought that but we'll see what happens in the near term if there is a flood of potential foreclosures or some of these loans that have been forbearance.

If that comes back, so we've just positioned ourselves and really our thesis hasn't changed that much in the last few years, Whitney. You've kind of expected a recession or a correction and by being a bit defensive with strategy, we've continued to flourish and you know, focusing on lowly correlated or inverse and correlated asset classes and on strategies within those asset classes and then also geography and of course, people.

[0:19:57.6] WS: Could you give an example of what you correlated asset class or you know, a market inside of that asset class or something like you're talking about — just to help us better understand?

[0:20:07.2] MK: Yeah, sure. You know, stock market is obviously a big foundation of that. If the economy is suffering, businesses are suffering, you're stuck, evaluations are typically going to go down. That's correlated to the overall economy and then you have historically single-family homes have often been correlated because if you take residential real estate versus commercial real estate, the value of residential real estate — even if it's a rental property — is based on the other rental or the other homes in the market, right? Comps,

It doesn't look into what is the net operating income that that house is producing. Whereas commercial real estate, the valuation is based on the revenue. It's a business, and so the evaluation of that business is directly correlated to its performance and how much it's producing. Generally speaking, we find that to be a little bit less correlated. Now within that asset class of commercial real estate, we like to focus on, yeah, let's take mobile home parks, Whitney right?

They are one of the most affordable housing solutions in the country and they have limited or declining supply and that's a very unique combination in itself when you are looking at real estate. Limited and declining supply is really just you can't find that in any other asset class. You can always build an apartment or build self-storage or maybe land, right? Would be the one anomaly, which is hard to produce income from.

But mobile home parks, generally speaking in desirable locations were built in the 60s and 70s and today, local municipalities, you know have that mindyism — "not in my backyard" — and you just don't really allow or want more of them and so if you're going to go and try and build, you know like a mobile home park, it is very hard to do that and it's very hard to do that in a desirable location. That alone makes it pretty lowly correlated to the market where you have flat or reduced supply and it is very affordable and so the demand typically goes up during tough times.

[0:22:22.1] WS: What's your best source for meeting new investors right now?

[0:22:25.7] MK: This honestly is talking to people because we've always been relationship-focused business that's been number one for us. The first time we went out and raised capital outside of our family and my friends is we invited folks over to our house and gave them a business plan and presentation in our basement, right? They invested with us not because we were amazingly true experts in our niche but because they trusted us.

They knew our character around integrity and they knew we're going to work our butts off to protect them and their money and so that relationship is so important with the people, Whitney. It just comes back to that so most of our – a lot of our investors today and investments are referrals from other investors and that's important to us. We continue to network, we continue to meet folks and share thoughts.

[0:23:22.9] WS: You know that's awesome and it speaks volumes too and you start getting those referrals. It is probably one of our best sources now, you know is referrals and it doesn't happen overnight though but that's awesome. What's the number one thing that's contributed to your success?

[0:23:37.6] MK: I think it's drive honestly, just the love and continued persistence to push-push-push and learn-learn-learn and never stop listening. You got to listen a ton in this industry because there is so much going on and really just working hard.

[0:23:52.6] WS: How do you like to give back?

[0:23:54.1] MK: You know pre-COVID, I was teaching a course at a local community college, real estate investing principles and best practices. It's just for fun but it was a great course. It was a four-week intensive course where folks would come in person and learn a little bit the old-fashioned way, right? You know, in a classroom setting and I love teaching it and to this day, I still have some students reaching out to me asking questions, saying thank you and that you know, it's great to see that transfer of some knowledge to folks is something that they keep and retain for years. Right now it's hard to do that because of COVID but I'm hoping to get back into it once it's safer.

[0:24:37.2] WS: Nice. Well Mark, I'm grateful for your time and it's great to hear your story just coming out the corporate world and then moving into this, just really building a successful real estate business and congratulations on that but just you know, how you elaborated on having the financial and operational expertise, you know, just how that's benefited you all and then just talking about even reading the news every day and what you're focused on there.

But many parts just what you've talked about, different asset classes down to those three core ones that you're focused on now and what you expect just in our market cycle right now. I am grateful for your time Mark. Tell the listeners how they can get in touch with you and learn more about you?

[0:25:15.5] MK: Sure, yeah. Thanks Whitney, it's been fun. You can check us out online, our website is smkcap.com and feel free to reach out. My email or email is info@smkcap.com. There's a lot of information on our website, trends, knowledge, resources, videos and yeah, happy to help folks in their journey.

[0:25:37.7] WS: Awesome Mark, that's a wrap. Thank you very much.

[0:25:40.2] MK: Thanks Whitney.

[END OF INTERVIEW]

[0:25:41.6] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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