EPISODE 611

[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 Keith Nelson. Thanks for being on the show, Keith.

[0:00:32.7] KN: Thank you, Whitney. Thanks for having me.

[0:00:34.6] WS: Yeah, it's great to have you on the show. And Keith has an investor first philosophy. I like that. Consistent paying returns. Conservative approach through investing, hitting singles versus swinging for the fences and flexible and adaptive problem-solving. I love that, preservation of capital. Awesome stuff, Keith. I'm looking forward to diving in to that. I know just a little bit about our conversation before we got started, your focus on having multiple safe falls for preserving capital which so important, I'm looking forward to talking about that.

But give us a little more about just who you are and how you got into this industry a little bit and then let's dive in.

[0:01:13.7] KN: Sure. Like I was telling you before, I had a pretty interesting career trajectory. You know, I was DEA, special agent in New York for four years before me and my wife moved to South Carolina, where I took on a teaching career for a couple of years before I dove into real estate. And before I even knew what syndication was, it was you know, me and a couple of buddies from New York trying to buy 12-unit multifamily down South Carolina. Took me about two years to buy our first asset, and then that just kickstarted a career in commercial real estate. We started a real syndication company, Dual City investments and then we went on to creating our first fund two years ago.

[0:01:57.6] WS: Nice, well, you know, two years to getting that first property and a lot of people won't stick it out that long, you know? What was it in you that said, "You know what? We're still pushing forward, we're still going to make this happen even after two years?"

[0:02:10.4] KN: Well, I was doing it part-time, right? I was teaching and looking for assets in my backyard because the introduction of positive cashflow to my New York friends and family was a foreign concept. They'd buy assets and rely on the appreciation of it and I saw stuff down here and positive cash flow. Me and a couple of buddies, my ex-partner from New York just chipped in some money and you know, it was my job to go find that property.

That's probably when I quickly realized that relying on commercial brokers is not the best way of buying assets so it propelled me into, "Well, you know, if they could do it, I could do it too." I left teaching, went into commercial real estate to learn how to find those assets myself and that's a whole other story and really no clear-cut path in teaching that. But I did go in, I was a buyer first and I think that helped me on the commercial brokerage side of things on how to move real estate and know what's a good deal and what's not a good deal.

[0:03:11.1] WS: Yeah, that's interesting, you know, becoming – Going on a brokerage route, but really, your goal was to buy, right? And to learn how to buy. Is that a route that you would recommend to others now is to pursue maybe a career with a brokerage firm to learn that side of the industry?

[0:03:26.7] KN: I would, just the fact that I don't know what your experience is with brokers, but mine was 99 out of a hundred have no idea what they're talking about or looking at. It's astonishing, you know, how people have careers in that business and just don't know basic information. It was a combination of that and having no track record trying to get the decent brokers to call you back was just a nightmare also. I mean, if you could find one, a good one or good couple, that's great. I think it cuts the learning curve down a lot. But personally, I just couldn't do it so I had to figure out how to do it myself.

[0:04:01.8] WS: Nice. I love the – just the mentality of you know, we're just going to go figure this out. And then you said earlier, "If they can do it, I can do it too." And I've had to say the same thing to myself, you know, when I've started learning about real estate. Numerous occasions.

You know, you meet somebody else is doing something that you know, you didn't even know it was possible. And it's like, "Wait a minute. If they can figure it out, I can too."

I want to jump in and really highlight some of the – how you have multiple safe falls for preserving capital, you know, maybe what that looks like and let's go through that a little bit, for you and your team? But first, you know, tell us like, what kind of properties are you all looking for and what are you all – what's your criteria?

[0:04:39.1] KN: Well, we primarily started in multifamily, that's what we cut our teeth on, the market was good. Bought our first asset in 2015. We probably bought six or seven straight multifamily, getting larger and larger each time we did it to start with. But about two years ago, multifamily really dried up a lot and we had to make a pivot. We started looking at other asset classes and I learned all about those, a lot through trial and error, but you know, a lot of research, a lot of reading, a lot of educating. We got into self-storage. We later, in our fund, we have an office building in Ohio. We have a boutique hotel in upstate New York, storage apartments.

You know, we pretty much run the gamut on investment. If it's a good deal, we look at it, kind of reverse engineer it and then we'll study the market to see if it's a market we want to get in to. But we had to make a pivot when more and more of these syndication groups and funds were being created, it just squeezed the market so tight it couldn't make sense of buying multifamily anymore.

[0:05:42.9] WS: Nice, I love the flexibility, you know? Not just giving up there and you know, figuring it out, making it happen. Tell me again, I know you said you had office and hotel and multifamily and self-storage as well?

[0:05:56.4] KN: Yeah, self-storage is probably the next largest class of assets that we control. I personally like it better because it's you know, you always hear the expression, no tenants, no toilets. I also like it because you know, people don't pay their rent, you get to auction their stuff off. I do like that industry. And you know, thankfully, during this whole COVID thing, our numbers are holding steady and actually in self-storage, they went up a bit.

[0:06:24.5] WS: Nice. Are those units, are those properties, are they all over the country or are they local to you?

[0:06:30.0] KN: Primarily in North and South Carolina. The storage stuff because it's a little more hands-on and you know, some asset managers and what not. But yeah, it's North and South Carolina are all our storage.

[0:06:41.2] WS: What's maybe a couple of crucial points to going to a different asset class like this, you've done in numerous times in different asset classes. You know, what was a couple of crucial things that you would tell the listener to do before they – maybe they've become experts in multifamily but now they kind of feeling the same way. "Well, maybe I should go try self-storage or office or hotel or whatever."

But you know, we haven't done that yet, right? What are a couple of things they need to be thinking about before trying another asset class like that?

[0:07:09.0] KN: Like you said before, you know, if they could do it, you know, I could do it. It's just the mindset, you dive in, learn as much as you can. The other thing is it helps, not necessarily the storage but when we purchased the hotel, we've brought in a hotel manager who knew what they were looking at and talking about.

And that was a little more complicated than the storage. The storage, if you could do multifamily, you could do storage and you know, just like if we do mobile home parks, they're all I think run pretty similar. But my advice is if you're going outside your sphere of the expertise, get someone that knows what they're looking at and what they're talking about and rely heavily on that person.

WS: Great advice, no doubt about it.

Let's jump into some of the safe falls that you all have in place for preserving capital. I'd love to dive in there a little bit.

[0:07:57.6] KN: Sure, we like to come up with at least two strategies of what we're going to do, when plan A doesn't work, right? I think it was Mike Tyson that said, everyone's got a plan until they get punched in the face. That's real estate in a nutshell. Every property we ever took over and nothing goes 100% to plan, so you've got to be able to pivot and fall back on multiple plans.

We've been successful is having that plan B and plan C and in place in case just, "Hey, we're going to increase occupancy, increase the rents and we're going to make a lot of money, doesn't work, what's our backup strategy?" Case and point, the boutique hotel that we bought, you were able to convert the units to condos. It was in an area where housing was a shortage, condos prices were high, conversion makes sense there. If you can't keep the occupancy or something happens, we could have always fell back on conversion or something like that.

We've bought properties before where storage was our B or C plan. Okay, we're going to buy this industrial building, we're going to try to lease it up if that doesn't work, okay, markets you know, the feasibility study in an area says storage may work. We do our numbers obviously, pro formas ahead of time and that didn't work, we did that with a couple of buildings, turn it indoor storage and moving on.

I probably have a hundred examples. But you know, just to think outside the box and have those safety nets. That's what our investors I think appreciate with us the most.

[0:09:30.6] WS: For sure.

[0:09:31.4] KN: Checking out.

[0:09:32.5] WS: You know, like the hotel that you converted, you did convert units into condos?

[0:09:37.4] KN: No, we actually didn't actually have to. That was one of the few that – I mean, it's fairly new, we've only had it for a year and a half, so it's always a backup plan but so far, we're doing pretty well with that.

[0:09:47.4] WS: Yeah, that's awesome. At least you have that plan there and help me to think through that a little bit and the listener. You are – you know, even like the storage that could be or if you bought industrial and you can turn it into storage. What are some things you are thinking about there that were how you know that this is a valid plan B?

[0:10:04.2] KN: Well, I mean we have software that tells us square foot per capita and all of that. So median income and just owning storage the last five years has taught us a lot on what to look for. But, if those numbers work, pencil that in as plan B and have the capital to do it. I mean it is not crazy expensive to convert an empty shell into an indoor climate control storage. So, thankfully our plan worked and it's what we hang our hat on, just being adaptive.

[0:10:33.1] WS: Yeah, that is awesome. What about any other safe falls that you all put in place for preserving capital?

[0:10:40.5] KN: I mean pivots, we have pivot some on apartments deals. We had a third-party management company that was stealing essentially from us. It went horribly. We didn't raise enough capital to start with and we had to pivot real quick. So instead of turning all the tenants and renovating all the units like our original plan was, we had to make a switch. So, we just did a sample size, renovated probably six to 10 out of 100 units.

Showed that we could push the rents there and then we put it on the market and say, "Hey look, this was our plan, this is what happened, here is the pro forma numbers and this is your path to do it," just proving the concepts and gone ahead and exited the asset.

So, another conversion deal that we did in North Carolina was we were converting an empty building storage and we were going through everything and got the permits, got the zoning and everything lined up. And two minutes before we started the build out, a major competitor opens right down the block. And if you know storage that is probably the one thing that can crush a deal is just more units online. There is not enough population to serve it.

So, we pivoted, we built out a little bit, we used the back for industrial storage and that was a plan I had in mind. I said, “All right these numbers don’t work anymore let’s move it.” We ended up exiting that sooner than later.

But for me, like you said more than that I will hit singles all day long. I don’t have to hit grand slams and homeruns.

[0:12:18.0] WS: Love that. I like that just out to you I mean being satisfied and just being consistent. There is just a lot value in being just consistent and not having the shiny object syndrome I guess, right?

[0:12:29.3] KN: Yeah, I mean we have built – we haven’t done any advertising. I think this is my second podcast I have ever done. You know everything has been word of mouth and we have grown our investment base strictly word of mouth so far and we continue to because we put the investor first and we haven’t missed or I should say we haven’t missed the party, but we 100% win, rate as far as I am concerned.

Win rate I mean I return more capital than you gave me. And that’s another thing we pride ourselves on and you know our fund is doing well during this whole COVID thing. And you know a lot of the so called gurus and you know people you see on Facebook and advertising everywhere I think a lot of them are hurting or going to be and when the smoke clears, I think we are going to be one of the few that are standing.

[0:13:16.1] WS: What do you think helped give you just the mindset of mentality of just pushing forward or just being able to pivot and just taking things as they’re thrown at you because not everybody can do that or they are not conditioned for that or what was that for you that helped you to really have that top and just mental strength?

[0:13:34.5] KN: I think first and foremost the people I surround myself with. My two primary partners are like minded, they’re conservative and they’re problem solvers. When we are hit with adversity, we don’t crumble and crawl into a corner. We strategize. No one panics, we get in a room and just gather options and make the adjustment.

[0:13:54.8] WS: Nice. It is so important who you surround yourself with, no doubt it. Team members are so important. So ,Keith, what's been the hardest part of this syndication journey for you?

[0:14:05.0] KN: The hardest part besides that initial two year searching for a property, I'd say starting with no track record or little track record, it is hard to raise capitals. Kind of what comes first the chicken or the egg? And then we've built the track record and the capital's plan and flow, the deals are harder to come by. So, you know it is a balancing act that is what led us into creating this fund. We thought that would be an easier vehicle to raise and purchase and give us flexibility.

And so far, it's been better not perfect and you know we continue to say, "Hey, our next fund what can we do different? How can we add more safe calls?" And continue to raise capital and whatnot. So, we are constantly improving as like seeing how we do something better. And that is how I like to look at everything after looking at thousands of funds or thousands of syndication groups, how can I do something a little bit better than everybody else? And that is what we tried to do.

[0:15:01.0] WS: Well, what is a way that you all have recently improved your business that we could apply to ours?

[0:15:05.8] KN: I mean just our conservative mindset. You know we don't buy property off speculation. We but it off at minimum cash flow most of the time other than the conversion deals and some construction deals we have done. But we try to have that plan in place and say, "Hey look, this is – We're buying it at minimum cash return and what is the worst thing that could happen?"

And I have to be honest, I've never thought that a pandemic would be on our list of things to consider. But we'll think of that next time also. So just conservative mindset. And just to give you a quick story, before this whole coronavirus thing happened, we were under contract for a 10-million-dollar shopping center in Tennessee and the tenants were two big box tenants were Gold's Gym, a call center and a bunch of restaurants. You know before this, we were like, "Oh, shoot this is all Amazon resistant tenants and it is doing well. It is a growing area," and all of that and then bam.

Luckily, we didn't go through with that but something and just another thing, you know you don't know what you don't know and just think worst-case and hopefully they'd be okay. But I am glad I am not stuck with that challenge right now.

[0:16:15.3] WS: Yeah, a few months ago some solid restaurants and a Gold's Gym you would have thought were great tenants.

[0:16:21.0] KN: Yeah, it was great.

[0:16:22.6] WS: Yeah, so awesome. And yeah, sometimes there's just things you can't account for specifically, but there is other ways that you do. You have reserves or there is some other back up plans like you talked about. We have a plan B. And I love that just that mindset of what is going to happen when our plan A doesn't work? And so what has been your best source for meeting investors right now?

[0:16:41.9] KN: Like I said just word of mouth, friends and family and just recommendations. The best recommendation that we have gotten are through our investor accountants. So those are always good, when an accountant refers somebody after doing their taxes and seeing their returns and whatnot. So, that is just how we are going right in. We are set up, we got cash on the sidelines and investors, you know hungry to go, you know they trust us. And we are ready to come out of this thing firing all cylinders.

[0:17:12.5] WS: And tell us, what is the number one thing that's contributed to your success?

[0:17:17.6] KN: Finding the right people to work with. Again, going back to my example of the crooked management company, we recently hired a full-time manager and doing things in-house and she's been a lifesaver. My partners you know, you surround yourself with people that work harder than you and are smarter than you and you'll be successful.

[0:17:37.9] WS: How do you like to give back?

[0:17:39.4] KN: Well, actually just recently we bought a truck load of Amazon returns general goods, we sort it and we are going to give all the medical and disinfectants and gloves and all of that to ocal hospitals in Greenville. So that was a good, yeah, we got a pallet full of toilet paper also.

[0:18:01.7] WS: Congratulations. Wow. Well, Keith I am grateful for your time, pleasure to meet you and to have you on the show and just you stressing the importance of having a plan B and plan C and just the mental strength that you have. I love just knowing we are going to keep pushing forward. We are not giving up, we can pivot, we can make this work, we can make this happen and we can do it. If somebody else can do it we can figure it out and do it too.

So just thank you for that. Thank you for sharing that. Tell the listeners how they can get in touch with you and learn more about you?

[0:18:30.8] KN: Just our website, dualcityinvestments.com and email me and the phone number is on page. So, if they have questions, feel free to reach out.

[0:18:39.3] WS: Awesome. Thanks, Keith. tThat's a wrap. I appreciate you very much.

[0:18:42.9] KN: Thanks, Whitney.

[END OF INTERVIEW]

[0:18:43.8] 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]

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