EPISODE 674

[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 Scott Meyers. Thanks for being on the show Scott.

[0:00:33.7] SM: Hey Whitney, glad to be here, thanks for having me.

[0:00:35.9] WS: I'm honored to have you on the show and I know the listeners are going to be excited too, just after hearing your bio with just tons of experience in this industry. I just look forward to getting to know you a little better. A little about Scott and his company, Kingdom Storage Holdings has acquired, developed, and converted over 200,000 square feet and over 13,000 units in the self-storage space, with over 160 million dollars in assets under management nationwide.

He also founded selfstorageinvesting.com, the nation's leading education company that teaches people how to find, evaluate, finance, and manage self-storage facilities through his online seminars, coaching, mastermind, and podcast. 10% of his company's profits is dedicated toward building houses in Mexico and taking his staff, partners, students, friends, and family on these all-expense-paid mission trips to experience the benefits of short term mission trips. Wow, grateful for that, I want to ask you about it at the end Scott but just grateful for how you give back and it's neat that you are able to take your staff and just that give them that experience. I'm sure that has paid forward so many times.

You know, why don't you give us a little more about your background and let's dive in to self-storage a little bit. Over two million square feet, 13,000 units, that's a lot of units, no doubt about it. Definitely many transactions, but give us a little more about your background and let's jump in.

[0:01:58.9] SM: Sure, been involved and investing in real estate, I think, like most people, starting out in single family houses. This is back in 1993. Once I got a job and actually had a little bit of money left over to invest and plan for retirement, again, buying everything I could get my hands on to learn about the stock market.

Only to find out that most folks, the wealthiest people in Indianapolis, let alone in the world, had created their wealth in real estate, not in the stock market. I dove in learning about real estate and home study systems and books and lo and behold, Carlton Sheets was the first home study system I purchased. Bought my first rental house, rehabbed it, refinanced it, rented it out, and then bought two more and just continued on that path until we hit about 75 houses or so, with the mixture of rent-to-own, as well as flat out landlord, just buying to hold on that model to at some point some half and keep the others debt free.

Well, didn't see all the passive income and the freedom that Carlton and the others have talked about and so I thought, "Well, time is a scale. We'll fix this," and got into apartments. As we bought several apartments and about 420 apartment units throughout central Indiana, but it seemed to just kind of compound the problem that was, even though we had management companies in place, still had the tenant to run the business, there's no magic, you can't wave a magic wand over the challenges on you. You still have to pay for the repairs and things that needs to be done, and many people say that, "We'd love to be in real estate if it weren't for the tenants."

Well, what alternative is there? There's either parking lots or self-storage but you can't really create value and force the appreciation and value in a parking lot like you can in self-storage. As I began to look at the model, I visited the Self Storage Association, they had a meeting up in Chicago so drove up and learned as much as I could but, at the time, there really wasn't anybody out there that was really teaching, had written books, or was approaching or mentoring on self-storage.

I began digging in on my own and bought my first self-storage facility with a partner, and then yeah, the rest is history, as they say. I saw the lights and realized that if somebody doesn't pay you, you can lock them out and sell their stuff to recoup your money, it's virtually recession – I don't want to say proof, it's very recession-resistant and inflation resistant, because when times are good, people buy more stuff and they need more storage, and when times are bad then we head into a retraction in the economy or recession, this would be the third one that I'm going through, we know that self-storage benefits greatly because businesses downsize and individuals downsize and there's a rush for storage.

For those reasons, we sold off our houses and apartments and then just went full bore into self-storage and, along the way, then created an education company to teach people how to do this as well. I used to run the Central Indiana Real Estate Investor's Association and began holding workshops, only to realize that, much like when I was looking to find somebody to mentor from or how to learn, how to get into the business, there really wasn't much out there and so we created an education company to teach people how to do this as well.

And then, along the way, we began mentoring and holding seminars and conferences and consulting, and then added a partnering component to that, which allowed us to really leverage taking our techniques and strategies and deploying that through others throughout the country. That is where the lion share of our projects come from right now. Still joint ventures, I speak and I write for the associations, but the folks that I taught how to get into the business, they bring deals to us to wholesale, that we buy or partner on, and that has been the greatest cause for our growth. The reason why we began to learn how to syndicate in the first place is we had a lot of deals, just be more equity to be able to take them down.

[0:05:26.1] WS: That's a neat transition. I think many of us see the single family model first, you know, then takes a little bit to realize, wait a minute. I've created a lot more work for myself, but you had 75 different things but you said you didn't see the freedom I think you expected? Is that right?

[0:05:43.5] SM: Mmm hmm. By the way, love single family houses and apartments because we were re-gentrifying in certain areas. Just taking something and creating value in it. I've been a junker on my life, did it with bikes and cars, and then began with houses and apartments, and that's great.

But there's just so many moving parts to that, managing the tenants, managing the managers of our apartment complexes, and contractors. With the eviction laws here, and as I talk to landlords throughout the country, most of the rest of the country, those are in place to really protect the tenants rather than the business owners.

I thought, "Gosh, you know, even the best cook in the world can't fix this recipe, which doesn't seem to taste very good." So, that's when I began looking for other aspects to invest in real estate because, you're right, we all love real estate because we can borrow money to buy it, we can force depreciation in value. It's a hard asset that produces income and there's nothing else like it.

If you can find the right vehicle that suits you in your market and you're able to surround yourself with a good team to be able to manage it.

[0:06:35.2] WS: When you decided to move into multifamily, you got up to like 400 units. That's a pretty big accomplishment in itself, most people don't get to that size. What was your method for buying those multifamily units? Were you syndicating them, or were those mostly JV, or smaller type buildings, what were those?

[0:06:51.9] SM: Yeah, those are mostly JVs and bringing in a true partner or two, so we weren't syndicating at that point. They were smaller complexes, the largest we had was 72 units, the smallest being, I think, 36. We roll to find those through just a network I had been involved in real estate and with a lot of investors and having run our large group here didn't hurt.

We had a big rolodex of folks and so we did find one, I believe through a broker, and then the other three through our network.

[0:07:17.7] WS: I'd love for you to elaborate a little more on the thought process behind moving from multifamily to self-storage. Obviously, as the listeners know, we have many or hundreds of multifamily personally, the self-storage argument is very, I think legitimate and I'm learning more personally even about it myself.

You've been on both sides and extremely experienced, so I just love to hear you elaborate a little bit on why did you change your focus? Instead of say, syndicating a larger multifamily and just growing that platform, but to move completely into self-storage.

[0:07:47.6] SM: I think first of all, when I began to look into it, there wasn't a whole lot of folks that were doing it. I also couldn't find a lot of information on it, and I think it's because it was one of the best kept secrets. I mean, the secret's out now, thanks to – well, I guess myself and several others about talking the benefits of self-storage, but there just wasn't much information on it, until I began looking into it but then, when you begin to look at the numbers from a business model standpoint –

Again, very solid, very recession resistant as well as inflation resistant, so it's not susceptible to the contraction and expansion of the economy. Again, by the nature of it, I like to spread my risk, and so that's why I got into multifamily, going from single family, slugging it out for a while until you begin buying apartment complexes, and spreading that risk across multiple units, but with one loan and one business essentially, and then being able to hire property management companies.

I mean, that's where I think most people aspire to get to because it's tough in single family until you get to that place. Well, in apartments, again, still just dealing with that same business model where it felt as if everything and everyone was working against us. People didn't pay, we had to continue to chase them, and we were in decent areas. They were blue collar, working-class areas but still, folks fall on hard times, and things happen in the economy, and they're very susceptible. To chase that money and go through these periods in which occupancy is down, very low, and then having to bring folks in to rehab the units over and over again.

Our average turn was $1,300 and then going to court only to luck out with a little yellow or pink piece of paper with very little ability to collect on folks, especially if they had lost their job. We just realized that there must be a better way. When we looked again at self-storage, very solid and stable. People always need stuff, it works better during a recession because people downsize, yet they can afford a $50 to $75 a month storage unit when they move back home or in with their friends. If they don't pay, we lock them out and then we sell their goods and we recoup our back rent and our late fees, and then when either we're done with the auction or when somebody just moves out on their own, they're done with the storage unit, rather than a $1,300 turn in lost rent, and repairs, and carpet cleaning, and dry wall, and everything else, we take a gas blower and blow it out in 30 seconds, and move in the next person that's waiting in line.

For that and many more reasons, we just found that this to be a more solid, stable, predictable business model.

[0:10:08.3] WS: I know, in multifamily, single family, people always say, "Well people are always going to need a place to live," and that's so true. They will always need a place to live. It sounds like self-storage, it's kind of like, "Well, this is a better business model because there's not anybody living here," you know?

[0:10:22.1] SM: Exactly, you're exactly right. And the two that go hand in hand. When you look in the market, if there's an apartment going up, our business model's pretty predictable. 1 in 10 households or 7, roughly 7 square foot per capita, you know, we can kind of draw and follow the rings.

If there's a self-storage facility going up and you can pretty much guess that there's going to be subdivisions and apartment complexes going up as well, it's just a very predictable business model.

[0:10:44.4] WS: Nice. Help our listeners – I know we got just a few minutes left before we move in to some other questions, but maybe you can give the listener just a few good steps to take to get to their first self-storage deal? Maybe that's their focus. Obviously, you know, we talk about syndicating a line capital raising and, you know, investors and things like that but, you know, to syndicate that first apartment deal, really, what's your thoughts on just a few first steps that are most likely to get somebody their first self-storage deal?

[0:11:10.7] SM: Sure. Well, I think like anything else, if you're going to – we've never convinced anybody to bring money into a deal with us, but they need to understand that we're good at our craft. That's the first step, you got to get good at your craft. That is through education now, there's some – you can learn from going to the associations, perhaps visiting some of these association meetings, if they're having those right now within your state, but there's a number of different educational programs out there, approaching mentoring and more books on the marketplace now to at least get familiar with the terms.

For those that are already investing in and familiar with multifamily, the underwriting, in terms of drilling down to an NOI and the capitalization rate, that's all very similar. There's just different nuances to the underwriting and the self-storage facility, and obviously the business model is a little bit different and how to run a facility versus an apartment complex.

Going out and getting your first self-storage facility, you can get a small one. Your money goes a lot further in buying more units in a self-storage facility. So even buying a small one to get your feet wet without syndicating with someone, could certainly be a good way to go. Again, do your homework, but if you are getting into syndicating, I don't suggest that this would be your first one and then try to raise capital if you don't have the experience.

It may take a long time where you have to have some really good friends and family members that will come along with you, rather than going out to a wider pool. So like anything else, no secret sauce, you've just got to learn that asset class that you're asking people to come along with you and partner on.

[0:12:30.7] WS: What are one or two mistakes that you see people making, that are getting in the self-storage business. Maybe things that, from your experience, of so many thousands of units that you just would not know when you are first getting in?

[0:12:42.1] SM: I think perhaps a product of the industry is the fact that most folks will call it a very simple, predictable business model, and, you know, it is just a bunch of metal boxes on concrete slabs. You know, there is nothing rocket science to it and it is very easy and very profitable and low loan to fault rate. You can't go wrong because you have the fact that it is self-storage working for you, and they treat it as a hobby rather than a business and they don't really dig in and learn how to run it.

They don't hire either a property management company, if it is out of state, or even if it is a large facility. You can't know the intricacies of a market that is one or two states away by trying to manage it yourself. Also just the underwriting to begin with, you make money on a stock when you buy it and it is the same with real estate. So getting really good at, or hiring a consultant and somebody to assist in the due diligence, just to make sure that you have crossed all of your T's and dotted all of your I's before you sign on the dotted line.

So, those are just a few.

[0:13:34.7] WS: Nice. So what's maybe the hardest part of this syndication business for you whether maybe on a specific stage or getting into the business or even something recently?

[0:13:45.0] SM: I think, recently, when we think we have a solid offering and we look at the landscape, and what the similar multifamily apartments, mobile home parks, you know, commercial real estate that is tenant-based deals was going for in the marketplace and we put on an offering. We expect it to fill up pretty quickly and it is not the case right now. There is some folks they are still sitting on cash and we may have good returns from a preferred return standpoint and equity multiples and timeframe.

We think we ticked all the boxes, but right now there are some folks that are just sitting on some cash, or maybe waiting to see, and we have more projects that we are working on as a result of the fact that, again, self-storage is so strong, and there is a lot of projects out there that we have been pursuing and a lot of folks wanting to invest in it. We are seeing record numbers of folks that are taking down our packages and attending our webinars.

But not as many that are pulling the trigger on some very solid offerings. So those, I think that maybe are some of the challenges to make sure that we're – and we are calling and talking to these folks to finding out what their sweet spot is, or you know, what it is that they may want to see in the next one.

Again, there doesn't seem to be any secret sauce right now. It is just the fact that I think there's a lot of unknown and there is a little lack of clarity form the investment pool right now, that has us scratching our heads a bit. Projects are all still moving forward and investors are very happy but to me we don't seem to I guess we can't get into the heads of all investors to know just exactly what is going to work right now and perhaps we never will.

[0:15:02.0] WS: What's a way or how do you prepare for a downturn, or maybe like we are experiencing now? In the self-storage business, what are some ways that you're hedging against the downturn?

[0:15:10.3] SM: We've been heavy on the development side of the business, because we've had a lack of supply for so long, and the self-storage industry has been in the building phase for the past probably five to seven years or so, but the landscape is still right for many other storage opportunities. Our market is really just a three mile radius, and that is what the market is in terms of how we look at demand for a particular site or spot, but we also recognize that funding is a little tougher on the development projects.

The banks have hold back a little bit, I think our investors are looking at it the same. So our model is changing, in that our existing facilities are filling up, and so as long as interest rates stay low, we maybe exiting. But we are also looking for other existing facilities where some of the mom and pop, some of the folks that are ready to retire, they may not want to try to weather another recession or maybe they've had increased competition and lower rates that are looking to sell.

Or they are looking to add more existing, already cash-flowing projects with up-sign, maybe just some turnarounds to the portfolio That's been the focus for the past probably 90 days or so even pre-COVID and that is what we will continue to focus on. There are some of these folks also that didn't buy several years ago, and treated this as a hobby, and they didn't create enough value, and they bought it in a 90% LTV loan and now they're going to refinance it at a 65 to 70 because that is all the banks will do during a recession.

They may be left with no other options other than to come to the closing table with cash, or to sell, and so we're poised to take advantage of that and then looking at buying those existing facilities.

[0:16:36.1] WS: Nice, so what is a way that you've recently improved your business that we could apply to ours?

[0:16:41.3] SM: Staffing. We have had the opportunity right now, again, we don't celebrate a pandemic or a recession but in self-storage, we're in the trauma and transition business. Naturally, the industry we do benefit from businesses downsizing and individuals. Unfortunately, the recession that is coming along with it has produced a large pool of very qualified people in real estate, and the financial services side of the business. As we've been growing and taking on more projects, we have been able to find some very key individuals.

That we are very fortunate to have that may not have been in the labor pool if we had been looking four months ago. So I think that's it. It's all about we could talk for hours probably, Whitney, you and I both about staffing, and getting the right people on the bus, and the right values.

[0:17:23.0] WS: So difficult.

[0:17:23.5] SM: It is, and we have learned over the years that you cannot bend. They may be a rock star on paper but, until we have three or four interviews, and personality testing, and really date them, and find out that they share our core values, we are not going to put them on the bus and they won't have a seat, as Jim Collins puts it.

[0:17:38.2] WS: Yeah, I would love for us to talk about that further. I know that would help a lot of listeners as well to learn more about your onboarding process, and finding people, but hopefully we can do that soon. What's a way right now or the best source for meeting new investors right now?

[0:17:53.2] SM: We've been putting out some 506(c)'s, which allows us to able to market a little bit differently. We are seeing some results from that, but I think more than anything it is doing the same things that we have been doing, which is to have our own podcast, and being able to be a guest on yours as well as others. Really just doing what we have been doing. Putting out articles, we have a lot of information that goes out from the education side of our business, as well as the investing side.

Being active in forums and I've always considered myself kind of the policeman or the watch dog of the forums. Some of the bigger ones out there that everyone is aware of and there is a lot of free advice out there that people give on self-storage, where I have to come back in and say, "Well, that's not really true. That is not correct," and some things are, "That is illegal," and other instances, just try to sift through the advice that some of the folks are looking at and getting into.

By nature just doing that and being active in various places to make sure that people are doing things the correct way has been a big draw and the reason why people are drawn to us and wanting to learn more about what we do.

[0:18:51.1] WS: What is the number one thing that's contributed to your success?

[0:18:54.1] SM: I don't know if that is cliché or not but I guess it's just integrity. I mean, you look at the landscape across both the industries that I am involved in, from the educators and the information marketers to investors, eventually that catches up with you, and playing the long game. I never get into real estate and quit my Fortune 500 job to end up coming back to that. This is a marathon and especially in the world that we live today, social media transparency.

I mean you can't slip up too many times, usually once and I would be out of the education business, and the investing business, and certainly the syndication business. Every step of the way we just don't push the boundaries. We don't push the deals, we are good stewards of our staff, our investors, our students, and everybody that we come into contact with. That has paid dividends, and if something we don't even dance up to the line, of which we maybe coloring the truth on a project, or anything else.

Or just even being overly optimistic about something. We take a feasibility study and we beat it up and we'll have them change it. If the market we find is actually even worse, or the deal is worse, and then we add another buffer and a layer in, just to be certain that we are safe, and our investors are safe, and then just permeates through all facets of our business, and that shows. I think people can see that and understand it and realize it when you meet with syndicators and other folks who joint venture with.

What you see is what you get with us. There is nothing hidden and certainly, everything that we say that we do, we better be able to back up.

[0:20:15.2] WS: I agree completely, and I think that’s really just having the long game in mind, and just being as integrous as possible. I appreciate that very much. I want to go and tell the listeners too. Scott and I were talking, and he and his team had put something in his bio or just some things they sent us, just talking about how they believe their success is due to the way they treat their staff, and their investors, and I just think that level of integrity just shows.

Scott is going to come back and we are going to talk about that a little more in detail. I think we can all learn so much for his level of success and just how they contribute so much of that to how they treat their staff and their investors. So Scott, I am looking forward to that. I know the listeners will be as well.

Why don’t you tell us or elaborate a little more on how you like to give back?

[0:20:55.9] SM: Early on, my wife and I, we decided to get into real estate and get out of our corporate jobs so that we could have that passive income and the freedom to raise our kids. We home schooled, and we have been able to travel around the country, and be active in their lives. That was a big piece of it, the biggest piece of why we decided to go on this journey, but the second piece is that we realize that this business is a mission field for us.

We tied on our profits in both our education business and our investing business, and then we go on mission trips. We take that money and take our staff. We take our family, our friends, coworkers, students, partners, vendors, anybody who wants to go, and we build houses. We partner with YWAM, Youth With A Mission, and their division called Homes of Hope, and we go down to Mexico and the Dominican Republic, and we will take anybody along who wants to go and have that experience, of a short term mission trip.

We're gone for four days, we build a house in a day and a half, and then we give the keys away to a deserving family, and take all of those folks along so that they can experience some family-oriented short term mission trip on our dime. We paid for it, all they have to do is get to the airport in San Diego and then we take care of the rest and we run houses 15 and 16 and we'll be building in November.

This is truly our way of giving back. I've been involved with this for a number of years and just absolutely passionate about ending generational poverty in one family and one house at a time.

[0:22:11.5] WS: Love that, and just your willingness to share that, and how you give back, and taking people with you. I just think that's not just giving to that one family that you are building a house for but all of these families, they're experiencing and getting to go. So that is incredible.

Scott, how can the listeners get in touch with you and learn more about you?

[0:22:26.9] SM: Sure, the best way is if they want to learn about self-storage investing, go to selfstorageinvesting.com and my email address is scott@selfstorageinvesting.com. On the passive side of the business, for those that are maybe interested in looking some of the projects we have coming up, passivestorageinvesting.com, where they can take a look at and pull down some other free information as well as take a peek at some of our past deals and some of our current offerings.

[0:22:50.0] WS: Nice, that's a wrap, Scott. Thank you very much.

[0:22:53.1] SM: Thanks, Whitney. Take care.

[END OF INTERVIEW]

[0:22:54.8] 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.

Subscribe too so you can get the latest episodes. Lastly, I want to keep you updated so head over to LifeBridgeCapital.com and sign up for the newsletter. If you are interested in partnering with me, sign up on the contact us page so you can talk to me directly. Have a blessed day and I will talk to you tomorrow.

[OUTRO]

[0:23:35.2] 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.

[END]

