EPISODE 735

[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 Kevin Long, thanks for being on the show Kevin.

[0:00:32.5] KL: Thank you Whitney, thanks for having such a fabulous show.

[0:00:36.8] WS: Thank you Kevin, I appreciate you being here, Kevin was the founding Principal Broker and COO of CBC Advisors until Colliers International acquired CBC Advisors in 2017. In 2017, Kevin co-founded Millcreek Commercial, whose mission is to bring the safety, security and stability of premium commercial real estate to every investor. And we want to hear today how he's done that and get some tips on what he's done and how he helps those investors.

Kevin, why don't you give us a little background on your real estate journey and just what you're doing right now, what Millcreek's focus is?

[0:01:13.5] KL: Well, it's been an interesting journey. And I can speak for the entire show on just my journey but I came from being an economic development consultant and political consultant in commercial real estate. A fellow by the name of Brandon Fugal, brought me over to the dark side. He was the founder, he's one of the premier national commercial real estate executives in the world today. He brought me over to a company called Coldwell Banker Commercial when I was an economic development professional.

Hey, you've got great ideas, you should get paid for them. Came over and got into the brokerage community, that was 1998. Then, in 2013, Brandon and a group of other individuals acquired the Coldwell Banker Commercial franchise in Salt Lake City from Realogy, the largest commercial or the largest real estate company in the world. They own a number of brands but we acquired that franchise, I stepped out of brokerage, became the principal broker and chief operating officer.

Partnered with Brandon and we grew the Salt Lake city office of Coldwell Banker Commercial into a 30 office national brand, CBC Advisors, we became first the largest franchise, Coldwell Banker Commercial franchise in the world. Then we actually became larger than Realogy's Holdings of Coldwell Banker Commercial and then along came Colliers. Colliers needed to be in the inner-mountain west, our home area where we were very strong.

Now, my son, Adam runs the Colliers operations here in the inner-mountain west. I took the intellectual property that would become Millcreek commercial and stepped away and said, I want to kind of go into semi-retirement. I want to invest my money and partner's money the way I've learned, conservative.

We use the word "Safety, Security, Stability," a lot and that's how we invest. I invest in commercial real estate that I want in a very conservative real estate portfolio for my retirement and my partner's retirement. And then we'll allow people to come in and purchase a portion of the properties that we own as a tenant in common. And take, if they buy 10% of a Walgreens, they get to own 10% of that income stream. It's very conservative. Anyway, that's what I do.

[0:03:32.4] WS: Nice, now, I want to get into that a little bit. It's an interesting story, how people get to where they're at in the real estate business. I know when I was much younger, I never even imagined owning a piece of real estate. Didn't know this was a thing. It's just interesting and you've been very successful at it. So, grateful to have you on the show again. Tell us a little more about who your focus is and how you help investors to be able to partner in these types of deals. And I'd love to get into the structure of that too as them being a part of a tenant in common or too.

[0:04:01.8] KL: Yeah, we focus on two types of investors, our product is specifically designed for retirement accounts and for 1031 exchange investors. Two large pools of money that typical syndications are not qualified for because, to be in a 1031 exchange, you can't come into an LLC or special purpose entity and to be in a retirement portfolio. You can't have any debt that is not non-recourse, right?

We have designed a product that fits both of those pools of money, and that's what we market to.

[0:04:47.9] WS: Can you speak a little bit too then, how you are — or maybe meeting investors that are needing that 1031 Exchange. And maybe how you've kind of coached them through that process a little bit?

[0:04:58.5] KL: Yeah, we have a marketing machine. I like to call it 'air support with a nuclear arsenal.' So we really tried to target in for our 1031 investors, the people that are in what I call the '90 Days of Pain.' In a 1031 Exchange, you have 45 days to identify your replacement property and the IRS has no forgiveness whatsoever.

I feel like when someone puts your property under contract, you got 45 days till they're going to close, and then you got 45 days after that to identify. So we call it the 90 Days of Pain and all of a sudden, you can't sleep at night. It's like, "Oh my gosh, I've realized — I've talked to my tax advisor and this million-dollar piece of property that I'm selling, I'm going to have to pay $300,000 in taxes. And I planned to just put it in the stock market and have a nice safe return. But now I don't have a million dollars, I have 700,000, and I got to take a riskier approach and so you just start losing sleep."

And then we come along and say, "Hey, why don't you invest in 20% of a Walgreens with 15 years left on the lease, and it pays you 6% interest or 5.75, or take a little more riskier approach." Risk is really relative in our realm because we focus on done deals, there's no speculations. We have corporate guarantees but you know, maybe not in investment grade tenant to pay in six and a quarter with a 20 year lease.

We do a lot of that kind of product, you can see what we do and how we coach people at our website, milcreekcommerical.com. And, yeah.

[0:06:39.5] WS: Could you just walk us through a few of those steps or how that works? Are these properties that you already own and someone can come and purchase shares of it? You know, or is it something you have under contract, when does that happen?

[0:06:51.0] KL: Yeah. I like to call it a reverse syndication. My partner and I go out and buy the properties, all cash, we use all our money, we buy them. We take the approach of — "We're buying a property that if COVID happens tomorrow and nobody else wanted it, then it's our property for our retirement portfolio." That's the approach we take.

We have been very blessed because of that approach, we buy very conservative Amazon-resistant, recession-proof properties. And then we have a separate third party company who kind of functions as the escrow. And then we sell percentage interest in those properties. Now, you use the term partner, the IRS specifically disallows us from using that term, because if you're a partner, then that smells like an LLC. And if it's an LLC, it's not 1031-qualified.

So we have co-owners, they come in and they own the property with us and they own their — whatever percent.

[0:07:55.2] WS: You know Kevin, I know a lot of operators that will steer away from 1031s because of having to do the tenant in common' and having to give really too much control potentially to someone else. How do you all steer around that?

[0:08:07.9] KL: I'm not a control freak, it really is a co-owner relationship. But I'm also very experienced in real estate, I've seen just about every deal go great, and every deal go into the toilet, right? The toughest thing we had to overcome when we decided this model would work was the — exactly what you just said, people want to steer away from a tenant in common because of the headaches and the issues.

We identified what those problems were, what has historically been issues with tenant-in-commons and we avoid those issues like the plague. We just don't go there, we stay very conservative, we have four pillars that we stay true to, that's our secret sauce.

[0:08:51.6] WS: What are y'all's, or your thoughts on how the election might affect, say 1031 Exchange moving forward?

[0:08:59.0] KL: Well, 1031 Exchange has been a controversial section of tax code. Ever since my good friends the Starker family manipulated section 1031 to involve delayed exchanges back in the 1960s and 1970s. I've done seminars on this, I grew up in Oregon, I know the Starker family, I know all the background of 1031 Exchange. But let's just shorten it to say Section 1031 as it is used today, it is only used today for real estate. That's its only purpose in the tax code, right? It was initially put forth in the tax code in 1921 to help manufactures and excavation companies, you know, to go out and buy a backhoe and then they need to replace that backhoe to be able to do that without repaying the capital gains — getting your capital gains or repaying the depreciation.

Now, it's used in real estate, never its original intent. So the only law in the books that was never really passed by Congress for its original intent. And the federal agency that oversees it, the IRS hates it. They were forced into it — and that's a really cool story in and of itself. They hate it. We're always in a fight to keep it. We had to fight to keep it in the Trump administration because the Republican Congress wanted to trade it for opportunity zones.

It made sense to trade it. And my partner Lew Cramer, who is just a political savant, relationship savant, knows just about everybody in Washington DC, got the personal commitment from then president pro temp in the senate, Orrin Hatch, hatched to save it for real estate. And we did.

Now, the Biden Administration is advancing concepts to eliminate it. But the argument to keep it is really strong. And I think, will prevail in preserving it, we have in the past. I think we will, moving forward. It is a serious concern.

[0:10:59.8] WS: Just with your level of experience in this industry, can you speak to just how your investment portfolio has performed over the last six to eight months coming up to the virus. Say in March but then you know, post-march as well.

What's kind of happened and what you all see moving forward?

[0:11:16.1] KL: Well we have a really robust research department, when you invest with us, it's like investing with the Uber. As the Uber wealthy would invest, because a number of high net worth companies and families, that if I use their name, you would know, have used our tools in their own family funds, right?

You get a deep robust research department, you know? We have a Rhodes scholar finalist, we have an MBA, we have an economist. We just have a really strong research department. COVID-19 showed us how dang good they are. I think about 20 properties that we had in our portfolio, we have one problem. And it was a hotel. Oops, right? You can imagine the problems that faced. But it's an obvious problem. So our co-owners are able to go, "Yeah, this isn't a misrepresentation, this obviously is a problem." But because we do everything debt free, we're facing our worst case scenario with that property and that is we have to not take rent for a few months while it recovers, right?

But if we give support to our tenant, he'll recover, life comes back, and because we're not servicing a debt, we don't come to a crisis.

[0:12:39.8] WS: Yeah, that's awesome. You did not have to worry about that. What do you see happening over the next six to 12 months, just in the real estate market? I know a lot of the listeners who are passive investors but also operators are always contemplating, "Should I sit on the side lines for a while? Should I be a buyer right now? Should I wait?" what's your perspective?

[0:12:58.2] KL: Well, frankly, I was quite surprised at how the 1031 Exchange market has moved. When the COVID outbreak first occurred back in March, the federal government — I think in early April extended all deadlines to July 15th. And I thought, wow, we're going to get a big rush in July and then we won't have any more business the rest of the year, right?

Because everybody will stop selling. But that has not happened. People are still engaging in real estate, we're still able to find people in that 90 Days of Pain. They still need some place that's safe, stable, and secure to go. And we're having our best year ever and our best month. But part of that is that we're getting way better at what we do, the marketing aspect of it.

[0:13:44.5] WS: It's just an interesting business model that you have. And let me get this straight, or that I understand, that y'all are purchasing a commercial property, you all are able to purchase it without financing. And then you're selling the shares to investors who want to own part of that property. That's such a neat business model. And can you just speak to, see, that business model versus an operator that puts leverage on the property and why you all would structure it that way?

[0:14:07.7] KL: Well, there's a place, you know. Somebody who is 45 years old has a much different risk tolerance and the ability to recover from a catastrophic event, than somebody who is 65 or 70 years old, right? We focus on the person who has a very low risk tolerance. Somebody who says, "I want a stable income. I don't want to speculate on appreciation. I don't want to take the risk of leverage. I just want an income stream, I just want to live comfortably. I want to go to Hawaii." We have a lot of people who have built sweat equity into a duplex when they were 40 years old, right? They have paid it off and now they are 65, 70 years old and their wife is saying, "Hey, let's go on a trip"

"Well, we can't. I got to repaint the bedroom or I got to change out the carpet." To really stay with the income stream they've got to remain active. And they are just tired of that right? So we change hassles for happiness. We were quite often — we have a lot of people who sell their single family rentals for a 4.5 cap and invest with us in a six cap, take that 50% return increase and take off to Hawaii. Because the only thing they have to do is make sure the check lands in their account every day.

[0:15:28.4] WS: Love that, yeah. So Kevin, over your career and where you are right now, what's been the hardest part of this commercial real estate journey for you?

[0:15:37.2] KL: The hardest part, you know, maybe I am facing it right now as it relates to reverse syndications or this tick model. I am facing it right now with the hotel project that I told you about. But overall, maybe the hardest part of my commercial real estate journey I'd say 2009 was really tough. That is where I saw a lot of really smart developers who were using leverage in 2007 and '08 because acceleration in the market was never going to —

Appreciation was never going to end and they were leveraging way too high. And then all of a sudden 2009 hit. I saw that. I saw people experience that pain and go through that bankruptcy. As a broker, I was between projects. So I was to see — but as a broker, you know, it was really tough to do deals, right? So I think that was the toughest place that I saw. I mean that recession was driven by lending policies that affected both residential development and commercial development.

And that was really the impetus for the crash, lending policies around real estate. So that's been the toughest time in my career.

[0:16:49.4] WS: So after seeing that, living through that seeing all of those people struggle, how do you prepare for a downturn now?

[0:16:56.9] KL: I don't go into debt.

[0:16:58.4] WS: I know that was going to be part of your answer. That is a great way. That is a great way. Any other way that you suggest other operators prepare or be prepared for a downturn?

[0:17:09.3] KL: Minimize your leverage. Be prepared for crud, because it is going to happen, right? As you analyze a project, who could have imagined that this coronavirus would hit and we would shut down an economy? I wouldn't have imagined this but fortunately, I was not heavily invested in restaurants. That would be really, really tough right?

Even Starbucks, a stellar triple net lease investment. So, triple net lease investments and some of your listeners may not know. The secret of triple net lease investment is that the tenant takes all of the responsibility. So we don't have to pay insurance, we don't pay taxes, we don't pay for the roof replacement. The tenant takes care of that. So it is very common in retail segments because the retailer is willing to do that to keep his image up and have the perfect locations. So it is very popular in retail. But that is our secret and one of our secrets is triple net lease and Starbucks was the darling of the triple net lease investments, right?

And one week to two weeks after the shutdown, you know, they're headquartered in Seattle. Seattle was an early flashpoint of COVID virus. And Starbucks just went down to all of their owners and said, "We want a year abatement of rent." And was like, "Oh my gosh." So, you know, they are paying some heavy consequence for having made that move now. They used to trade in the four caps. Now they are trading in the fives. And that will affect the cost of development for them moving forward.

So I think it was a mistake on their part. But — and a lot of property owners pushed back. And it wasn't as bad but that struck the industry. That scared us. Fortunately, I wasn't in any restaurant. We were in a lot of suburban markets — banks, medical, pharmacy, discount dollar stores, auto stores, those kinds of things. That when the Depression — so we try to avoid fighting with the online Amazon, right? And we try to avoid that fight and we also try to avoid economic downturns right?

So where do you spend your money when the economy goes bad? You still spend it on healthcare, you still spend it on groceries, you still spend it on drugs — so we try with — auto parts. So there are certain places that we go like right now I won't buy a gas station because I think Elon Musk is way too smart. I mean what am I going to do with a Jiffy Lube — trades really, really low right now, right? But this is part of investing in commercial real estate.

What am I going to do in that 15 year lease is up and everybody is driving electric vehicles and nobody needs the car anymore? I got a great retail presence with a hole in the ground.

[0:19:49.4] WS: Yeah, technology is moving way too fast for a 15 year lease isn't it?

[0:19:52.8] KL: Yeah, so we try to look ahead. We have a very knowledgeable research base. That is what we do.

[0:19:58.6] WS: I feel like most, or the majority of people who have had great success in any business — but especially in our industry have this great self-discipline. I like to ask, is there a way that you have improved yourself — discipline, or maybe a few things that you are very disciplined about that you do consistently that have helped you to achieve the success that you have?

[0:20:20.0] KL: So my partner, my financial partner is a fellow by the name of Tom Smith. Tom Smith was the co-founder of Partners in Leadership and co-author of a series of *New York Times'* Bestselling Books. The most popular of which and the one that is most directed to individuals is a book called The Oz Principle. And I commend that book to everybody. It is a life changing approach to how you look at issues. And one of the principles, I'll share with you, and it is probably my secret to success is that there's a line.

That is what we call it, 'the line.' Thoughts beneath the line is "Whitney screwed it up." If I was late getting to work today — "Because of traffic. It is not my fault because…" Those are low below the line aspects, right? The line is the problem, right? So I want to see the problem, I want to come up with a solution. I then want to make a plan to address that solution. And then I want to implement that plan. So I want to function above the line, asking myself, "How do I do that?" And that's how success comes to people.

Some people refer to it as a positive attitude but really it's staying above the line and saying, "What can I do to make this situation better?" And that is the secret to success.

[0:21:43.5] WS: Great answer, I love that. Thank you for sharing that very much. We'll definitely look that book up, *The Oz Principle*. What's a way or something that you all done recently to improve your business that we could also apply to our business?

[0:21:55.7] KL: I believe that something is not worth doing if it is not done excellently. I have spent a lot of years in public relations and lobbying, representing the timber industry in the Pacific Northwest. And how that transitions into real estate is kind of a weird transition. But I had a really good friend who was a lobbyist for herbicides. He had over his desk the phrase "Perception is reality." I think my council to people is — "You are always auditioning."

You are always being judged. We're told not to judge, right? Judge not that ye be judged, you know all that good stuff and that's true. But the reality is that we are always judging. We are always assessing somebody. And so everything that you put forth, people will judge it. I have a family that loves college football and theater and in the theater world it's, you're always auditioning.

[0:22:51.9] WS: You are always auditioning. It is great to remember that, no doubt about it. What is your best source right now for meeting new investors?

[0:22:59.4] KL: So for our 1031 Exchange clients, our best source is we scour numerous databases for people who have for sales by owners. For agents who have — we work through real estate agents. We pay the best commissions in the market because I used to be the broker. One of the largest commercial real estate principal brokers in the United States, running CBC advisers. And so we pay a really healthy real estate commission and work with real estate professionals.

So we try to find those who have small investment properties listed. You know if somebody's got $20 million coming out of investment there, you know they'll go get an adviser and they'll do this themselves. But somebody who's got four million, two million, one million, $500,000, they need us. We are very good at finding them and then we have a young group of — I call them warriors. But young sales reps who just pound the phones and work tirelessly and we get in front of people.

[0:24:02.9] WS: Knowing what you know now and after all the deals you've done and different types of structure and partners and different industries and real estate, what would you have done differently now, say, on your first commercial real estate deal?

[0:24:15.8] KL: I would have worked harder. I've learned that there is no exchange for hard work. I grew up on a farm. I was a middle child, so my older brother did most of the hard work. And so early in my career, I thought things just blended on the table, right? But they don't. It takes hard work and that is one of the things we try to share. We have a mentorship program. We work with Colliers International, we list all of our properties with Colliers International.

We are the only product of this type that is on the national commercial real estate platform. And with Colliers, again, in conjunction with Colliers, we run an agent training program. These are the young stripling warriors, that I call them, that are out pounding the phones for us every day. And we teach them how to be commercial real estate agents. And so we teach them to stay above the line and to work and there is no exchange for work.

I think it was Woody Allen that said, “80% of success is showing up.” Work hard and then work a little harder.

[0:25:19.6] WS: Great answer and maybe this is the answer to the next question as well but what would be the number one thing that’s contributed to your success?

[0:25:25.9] KL: Prayer. I am an extremely blessed individual. You know it would be really cool to say, “Oh it is hard work and intellect” but it’s I’m blessed.

[0:25:35.7] WS: And how do you like to give back?

[0:25:37.2] KL: I love to give back, I have a foundation, The Jason Long Foundation. My wife loves children, we have nine children and they are quite old, right? They are 21 to 41 in age. But I had a middle son, in the middle, who was a college football player. And was serving his church when he was 19 years old. Went out to serve his church and while he was serving his church he was diagnosed with leukemia, passed away a year later.

So we have The Jason Long Foundation, we have a college scholarship for a football player at BYU that we have endowed. And then we sponsor Christmas at the Huntsman. So the Huntsman Family, many of you have heard of Jon Huntsman Jr. running for president and then of course, Huntsman Chemical, they used their family wealth much greater than my family wealth, right? Way greater, right? To create The Huntsman Cancer Institute. It is where my son was treated.

But we give back to that institution with Christmas at the Huntsman every year. So every year we show up on the Huntsman on Christmas Eve, we carol and we give every patient gifts and we give cool stuff to the Huntsman caregivers, right? So that is what we do, that is our big give back I guess.

[0:26:51.2] WS: Wow, well Kevin grateful for you sharing that and just giving back in that way and just sharing with us today just from your level of experience over many years and different parts of the industry and your success. I am just very grateful for your time and then really letting out how you all help investors and how you all minimize the risk in such a way to get to the safety and security, stability. Love that. And just walking through the tenant in common process.

And how you all have implemented that in your business. Kevin, how can people get in touch with you and learn more about Millcreek Commercial?

[0:27:21.4] KL: Millcreekcommercial.com is our website. It is an awesome website and if you want to get a hold of me directly, you can email me at kevin@millcreekcommercial.com. And Whitney, in closing, let me tell you and all of your listeners and the people watching this, stay above the line and work your guts out and then work a little harder.

[0:27:45.1] WS: Awesome show Kevin and I am grateful for your time. That's a wrap.

[0:27:48.8] KL: Thank you. Bye-bye.

[END OF INTERVIEW]

[0:27:51.1] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

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