EPISODE 838

[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 Krone, thanks for being on the show again Scott.

[0:00:32.4] SK: Thanks, my pleasure, good to see you again. I hope everybody's been well in your family.

[0:00:36.4] WS: Yes, they have and we're very blessed and grateful to this show to keep moving forward and grateful for the listeners as well and Scott, for you to be coming back on the show. Just so the listeners know, Scott was a previous guest at show WS483, we talked about converting distressed buildings into self-storage and would encourage you to go back and listen to that and learn a lot more about Scott and his expertise.

In case you didn't hear that, a little about him, while obtaining his degree in architecture, Scott worked as a project manager for Optima Incorporated. During his time at Optima, Scott's responsibilities included notable projects such as a four-hundred-unit Coromandel in Deerfield Illinois and 40-unit Hedgerow in, how do you say that Scott?

[0:01:19.8] SK: Winnetka

[0:01:20.6] WS: Winnetka. I would have not have gotten that right, Illinois. A 51-unit Optima center in Wilmette, Illinois. In 2012, Scott founded Coda Management Group, a firm who specializes in managing real estate assets. Since its inception, Coda has managed a wide range of real estate including single and multi-family homes, retail, commercial, warehouse and self-storage and multi-use flex athletics spaces. Currently, the platform of investments is in excess of 55 million dollars.

Scott, congratulations on your success and just looking forward to having you back on the show and another discussion just bringing out some of your expertise that can help the listeners and myself.

I want us to just jump right into though, but any updates from you and your business that you want to share before we just dive in, I know the listeners and myself just want to know too, just how – what's happened during the pandemic and maybe things how – what's changed and you know, futuristic planning, things like that you're doing too that can help us but before we do that, anything you want to share with them, any updates that's happening with you and your business right now?

[0:02:21.5] SK: Our last session was right before the pandemic. We had the privilege of being able to open up three facilities in the midst of the pandemic and one was here in Chicago. Originally, you know, everybody wanted to shut down things but self-storage was deemed essential. I really fought to work to keep our facilities open to help serve the community.

Just the mass displacement that really happened in March or the fact that people couldn't move is really critical. We opened up the one in Chicago and we're now over 35% unoccupied, that six-month period of time, seven-month period of time, we opened up one in Milwaukee and then we just opened up one in Toledo and we're finalizing one in Dayton and we bought a facility down in Louisville, Kentucky.

We've continued to expand, it's consistent with the model of self-storage in recessionary markets, we are continuing that focus and you know, keeping investing in self-storge during this period of time.

[0:03:17.9] WS: Nice, well, I want to jump into some of that, even thinking about expanding during that time, some people, we've expanded and so many people have grown during this time while others have really pulled back saying “I don’t know what’s going to happen, maybe we should wait,” you know?

I would love to hear your thoughts around that and just the thoughts of, you know, pushing forward even through this time of a pandemic, maybe your thought process when all this was happening and how you determined, “You know what? It’s time to buy some more facilities.

[0:03:46.9] SK: I went back and looked at the last four recessionary markets and it’s interesting you brought up Coromandel because when we were beginning that project, it was, you know, inflation was very high, banks were coming to us and offering us to buy points so that our customers could have better buying power and stuff like that in terms of that marketplace and that was a 400-unit development.

It was a very risk time to be doing 400 units in a recessionary type market. When I look back at all the last four recessions that we’ve been through, self-storage has slightly dipped and then rebounded aggressively. It’s been a pattern, it’s been consistent throughout each of the recessionary markets.

Now, technically, we are not in a recession at this point in time but there’s a lot of indicators and the Fed is both looking at the physical and the monetary policies to address what they can do to keep us from being in a recession and doing all that they can but as long as this pandemic stays active and, you know, we can’t have retail and hospitality and all those different things active in the marketplace, it’s certainly going to be impacting our economy for sure.

We’ve been viewing it and preparing for it as a recession and I think the fact that Blackstone is coming into the self-storage market and acquiring 1.4 billion dollars worth of self-storage assets at the front end of the recession tells you, it’s a pretty good indicator in the marketplace where they think the market’s going.

[0:05:09.0] WS: That’s a pretty large investment, that’s for sure. They didn’t do that without doing a little research for sure.

[0:05:15.7] SK: No, in the last recession, that's when Extra Space bought their portfolio for about 1.2 billion. Some big, major moves in the last two recessionary markets in the self-storage arena.

[0:05:25.8] WS: During that time and making that decision, did you experience any pushback, let's say from other operators or especially investors that maybe have been with you a long time and maybe they're saying "Scott, you know, wait a minute, this is the pandemic, should we be investing right now?"

[0:05:41.1] SK: There is that concern but you know, this is an interesting pandemic or recessionary market because it was also in conjunction with an election and the dichotomy of investment strategies that were going to be employed within the tax markets that were impacting it as well so people were wondering, "Do I need to deploy capital now, shall I take my shelter capital gains at this point in time, am I going to get hit up in the future? It was a combination of not just the recessionary market but also what might be coming down the pipeline in terms of changes in the tax code.

[0:06:13.9] WS: What about the pandemic hits, what was changed in your, maybe your thought process in underwriting when the pandemic hit, did anything change as far as how you're evaluating deals moving forward?

[0:06:25.2] SK: The timeframe took longer, we didn't change our criteria in underwriting but obviously, the ability to facilitate the due diligence was greatly impacted. The other thing that we saw was within the lending field, a lot of the lenders were getting tied up with the PPP and the emergency disaster relief.

At first, they pulled back in terms of the lending criteria and then in August and April, they began opening up and then they got hit by the second wave of the PPP. It's been a little bit more of a challenge in terms of working with the banks to get through the underwriting and the due diligence process because of the overwhelming workload that they've had to increase based upon the stimulus that the government has been trying to implement.

[0:07:05.7] WS: What about any other changes, the pandemic has brought, maybe about the operation side?

[0:07:11.3] SK: Well, operations for sure, you know, the operators that we have facilitated our facilities have gone more touchless so that you can implement most of the stuff before you even get to the facility. Some of our friends are going with a totally keyless entry system where they can go remote locks.

We don't feel that our facilities, that's the best use of our allocations and so, we still have personal locks on them but everything else along the lines, you can do paperless and touchless and so, it's just streamlining it. One of the things that we did offer was, you know, since our building was completely empty, we offered an economic discount, and economic incentives but we also ensured that your locker would not be within six feet of any other locker because the entire building was open at that point in time.

It gave us a lot of flexibility in terms of people moving in and people bringing their stuff into the building.

[0:08:03.4] WS: What about moving forward, I ask almost every guest now just about your thoughts on the next six to 12 months in the real estate market. What are your thoughts and how are – what are your plans moving forward?

[0:08:15.4] SK: We're continuing, you know? We're aggressive, we just stayed in the terms of another facility that we're going to be working on in the Tennessee market and so we're expanding that portfolio but we're also looking at existing portfolios so potentially B and C-classes versus just A-class.

We're diversifying not just the conversions but also looking to how we can improve operations. We've also started our own brand called One Stop Self-storage and so we will be implementing that on the smaller facilities and going with more of a completely totally remote operated type facilities and stuff. We're definitely changing and altering but expanding within the self-storage market.

[0:08:54.7] WS: You say different classes, is that something like, say a class-A project just because you all are going to build it or why the change in classes?

[0:09:03.6] SK: The different classes, class-C is more of what we would consider like a penny stock so it's like more of a mom-and-pop operator, third generation, more rural type facility and so consistent yields but not great appreciation but we see some potential opportunity, growth in terms of how we can manage it and improve on the cap rate and the performance that way.

Class-B would be more suburban, similar to class-C in appearance but maybe climate controlled but still drive-up type facilities. The one we're going to be doing in Tennessee will be a class-B facility, it will all just be ground level, it will be an expansion, we're going to be adding around 200 units to an existing facility, new construction.

Then class-A is more urban and you know, drive-in type facility, all environmentally controlled. Class-B, A, B or C does not mean necessarily a good neighborhood and a bad neighborhood, it means more of the quality and the features of the facility.

[0:10:00.6] WS: What about just expected growth, you know, over the next year. I know we talked about underwriting a little bit but what's your growth expectations, say, over the next year versus the year after and the year after that?

[0:10:12.6] SK: We've continued on our five-year plan, which was to have 10 facilities in five years and so we're on pace to do that. We're just changing, we're going to continue the development, we're going to continue to look for that expansion, I mean, we're doing that in Tennessee but that's – it's a class-A facility and we're going to be expanding it with class-B.

More of a working class so it's a nice combination and then you know, we're looking for B and C type facilities where we can improve on the performance of the management.

[0:10:38.7] WS: I know you have some mind-blowing facts about self-storage investing and would you share them?

[0:10:43.8] SK: I think the biggest one, thank you, is that the fact that it's – a lot of people refer to it as recessionary proof but I tend to – I'm more comfortable saying it's recessionary resistant. I think it is the most resistant asset class in all of real estate.

I also think it's the most predictable in terms of modeling and so, it takes the guesswork out of what's going on and that's one of the things that when we're looking at either the multi-family or the single family, there is just a lack of predictability.

For instance, when Trump came into the office and he was elected in '16, coming in the office on '17, there was just a huge excitement and we had this single-family home coming on the market and you know, everything exploded in December and January and our home came on on the market in February and there was not another single-family sale, new construction in that town the rest of the year.

After home sitting on the market, we had to rent it for a year and we sold it a year later to breakeven. We had to drop the price by 20% in order just to move it. That sort of – there is no justification, there's no explanation in the marketplace but self-storage, it's very predictable in terms of patterns and so, we can take advantage of those situations within the marketplace.

[0:11:53.5] WS: What about some, just proven passive investments?

[0:11:56.6] SK: Well, what we try to do and that's one of the things that we like about the class-A facilities is the fact that we get both appreciation as well as cash flow and so we view that as a growth stock. We view class-B as a blue chip and so, which is going to yield a consistent performance in both in upward, a bull or a bear market and so what we're looking for in the class-A is if we can buy something at 11 or $12 a square foot, you know, which is well below replacement cost and we're in, we can have a 23 percent competitive advantage against our competitors and so we can alter or fluctuate our pricing to ensure that we get people in the building.

That is one of the things that we really focus on is when we go in and buy, what price point are we going into and buying? And so that is one of our key criteria when we evaluate a deal. We're looking at another type facility in Ohio right now. We're going through that same process and determining whether or not we're going to have that competitive advantage within the marketplace.

Within the class-B's, we look for how we can improve the economic performance of these things because we know that they will perform in both the good market and bad market. If we can improve our management expenses and bring them down from 55 to 35% that's a 20% improvement in our portfolio right off the bat and so those are some of the things that we underwrite and look for that we can make sure that we can take advantage in those marketplaces.

[0:13:19.5] WS: Any tips that you swear by?

[0:13:22.1] SK: Well, the one big tip I think is, you know, you don't make your money on the sell. You make it on the buy and so I was helping a couple evaluate a deal and, you know, they were like, "Well, we want to buy it because it is going to be good in the future and you know, we're willing to pay the owner more because of that," and my response to them is, "Why are you paying the owner now for work that you are doing in the future?"

That doesn't seem right, you know, it's like why do you have to keep paying on this note when you've bought the property and you're doing all the work? I think that is one of the key things, especially in this marketplace, is to understand where the market is going within that asset class and then not overpaying for it because it is just going to put more and more pressure on your ability to perform. That's one thing and the other thing is to really make sure we understand the marketplace. Make sure we understand that community, that asset class so that we can adjust and have the flexibility to move within the product.

We are doing that specifically in our Milwaukee project. As soon as we opened it, we learned that before we opened it up, the demographic suggested that based upon the affluence of the community, we should have a smaller locker configuration because the less affluent the community, the higher they're willing to pay per square foot for smaller units.

But as soon as we opened, this market irregularity hit where people were coming in, we had like 10 people come and said that they wanted a 10 by 20, which is incredibly huge for more of an urban marketplace and so we didn't have that many of them so I told our operators to take out the middle walls of the 10 by 10's and start offering 10 by 20's and so we're reducing our unit count but we're increasing our occupancy by doing that.

[0:15:06.1] WS: Interesting. Now, I appreciate you sharing that. I think it's a lot for us to think about and take in. You know, Scott, do you have just daily habits of any kind that you are disciplined about that have helped you achieve success?

[0:15:17.7] SK: Absolutely. Well, I should first, I absolutely have daily habits but, you know, so everyone has their own definition of success.

[0:15:26.5] WS: We want to hear good ones, you know?

[0:15:27.6] SK: Yes, you know the first thing I do is I'm up at five or 5:30 in the morning and we're going for quiet walks on the beach and during the spring through fall, we're paddle boarding and we're out in the water and it's quiet. It gives your mind an ability to pull back and relax. You know, we just had the privilege of doing an interview with Arshay Cooper, who is in the movie *The Most Beautiful Thing* and it is about these inner-city kids from the City of Chicago who were asked to join a rowing team at their school and they became the first black crew team and he said the first thing they really learned was being on the peace on the water and just the silence, that he's never had that time before to allow his mind to shut down and reflect and just calm itself down and I think that is an important discipline for each and every one of us is just to have time for solitude and reflection and pull back.

For us, that's how I'm able to create it in the morning, in the walks on the beach and going paddle boarding and, you know, getting off to an early morning and that sets the tone for the rest of the day.

[0:16:27.5] WS: Whether it is one the beach or in your living room with a cup of coffee, you need to have that time, right?

[0:16:32.1] SK: Absolutely. You know, my mentor, he starts at 3:30 or 4:00 in the morning. He makes a fire in the fireplace and drinks some very intense Middle Eastern tea and that's his daily routine.

[0:16:44.5] WS: Anything else in your morning routine that you can share that's like, "Man, I'm going to do this to get my day going," or maybe how you schedule your morning?

[0:16:51.1] SK: Well, not so much just in the morning but I've also embarked on a two-year program of transformation that I just started this fall and we're going to meet quarterly and it is a two-and-a-half year program and for me, if I am going to be an effective leader, I first have to work on myself. You know, I can't expect others to be improving if I am not improving and so that is one of the things that I am focusing on this year and you know, engaging.

There is a lot of reading, there is a lot of self-reflection that goes into each of these core things. I mean we have to read like four or five books within the quarter and so you know that's part of my – not necessarily my morning program but my program throughout the day.

[0:17:31.8] WS: What's your best source for meeting new investors right now?

[0:17:35.7] SK: We're certainly seeing the growth and expansion on that. You know people are just becoming more familiar with us as we've expanded and grown. The podcast such as yours has been very helpful but we've also been pursuing other venues in the marketplace to get exposure for us to meet people and so we've joined different organizations and associations, which influence decision-makers within the marketplace just to get our name and our exposure out there.

Those are some of the things that we're following and one of the things that we are doing in response, we are launching our whole porthole this quarter. That will be launched in 2021 where our investors will have the ability to go online and you know, from a prospective investor to seeing what the investment could include that will have the offering, the subscription, all of this information and once they invest, we will have all of their portfolio and their K1's and everything that they'll have at their disposal throughout their investment period with us and so we are launching that porthole this year.

[0:18:34.4] WS: What's the number one thing that's contributed to your success?

[0:18:37.3] SK: I think from a long-term perspective, you know, I think from beginning when I was at Optima, that, it was tough. When I went from being a part-time employee and student to a full-time employee, the owner mandated eight weeks of 80 hours and so I mean I was making like a buck twenty five. The people who had stayed part-time were crushing it because they were making three times their regular rate but if I hadn't had that long-term perspective of what was my long-term goal then I would have quit and given up.

I've always had more of a longer perspective in terms of what we are trying to accomplish and I think that is very important when you're investing is not to lose sight of the long-term focus. Your short-term investment means might have to change because of the marketplace but having a long-term perspective is critical. The other thing I would say is, people ask me like, "How do you control the market?" You don't. You don't control the market but you respond, you can control how you respond to the market and so we never tried to set the market but we try to respond to the market and so that's one of the things that we really focus on is how we can best respond in each of the markets that we're facing.

[0:19:49.8] WS: How do you like to give back?

[0:19:51.6] SK: Well, I mean one of the things I'd like to do for your community is if people find a facility or they find a building that they think is a good potential and they want to get into it, if you go on to our website or you email us and mention your show, Whitney, then we will give them a free hour to consult with them and go over it and assess what is right for that property and if it's a good deal. If you want us to sign a non-disclosure, non-circumvent, we'd be more than happy to do it but we know that this market is too small to try to cut around people. That's not our goal and objective and so we'd be able to offer that up to your community.

One of the things I always like to do in is we're part of a group of 35,000 people as well and there is a Facebook community and in that community of people post questions and so I am constantly searching through there to try to find the harder questions or through Bigger Pockets to see how we can just add value to people and give.

I think that is one of the things that we really enjoy doing in our company is just helping people that are a little bit newer in the journey and, you know, it's a bigger team concept than what I was first taught. What I was first taught, it was just focus on yourself and don't let your competitors know anything about it but my perspective on that has changed dramatically.

[0:21:07.7] WS: Scott, again, I am grateful for your time and coming back on the show. Again, you're definitely an expert in this space and you know, just love the conversation and you being willing to share about what the pandemic has done to your business and even growth just through the pandemic and just that long-term perspective. I love that thought process and just having that mindset too of thinking long-term, whether it's leaving your day job or whether it's during a pandemic.

Even a few things like getting up early and those quiet walks on the beach, how important those are. Grateful again for your time. Any other way the listeners should get in touch with you, how can they do that?

[0:21:39.4] SK: They can do that through two different ways, so info@codamg.com or they can go to our website, codamg.com and they can fill out the form there and that will get to us and either myself or our director of sales and acquisition, Martin Taradejna will be reaching out. You know those are two of the best ways to get a hold of us and you know, please reference your show so that we have a frame of reference to know that, you know we can contribute that back to you, Whitney.

[END OF INTERVIEW]

[0:22:06.2] 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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