

EPISODE 944

[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 Whitney Sewell: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is RK Kliebenstein . Thanks for being on the show, RK.

0:00:24.4 RK Kliebenstein: Thank you.

0:00:33.0 WS: RK is a leader of Coast to coast, a trusted resource in self-storage since 1999, and is a product consultant at ... Intelligence Incorporated, creators of the store track brand and data products for the self-storage industry. As an individual, RK is one of the most recognized personal brands in the self-storage industry, a world-class communicator, author and corporate leader, RK has had countless articles published and is considered to be a permanent authority on self-storage, mobile storage and vehicle storage.

RK welcome to the show, it's encouraging having somebody like yourself with the level of experience in the business, and especially what's happened over the last year, I'd love to hear, does your take on where the self-storage industry is currently, you kinda catch us up a little bit on that, and we will dive into some specifics...

0:01:25.0 RK: Sure, Whitney, thanks. It's interesting how the pandemic has affected so many

different sectors, and we've seen strengthen areas like RV sales, recreational things that we can do on our own in our home, more things that don't require as much public interface, and the other side of the coin has been those sectors that have been hit really, really hard by a hospitality retail, just a number of those that have really had a challenge in dealing with the pandemic.

And challenging dealing with how consumers and business has responded to a pandemic. So a lot of people ask, Well, what about self-storage? We know what really happened in self-storage and how did it weather the storm... and fortunately, self-storage has been recession and event resilient for years and years and years, and we came through even TRA, the Tax Reform Act of 86 pretty well.

We came through Tech bus fairly well. The last great recession, we felt it, no question about it, our foreclosure rate has always been one of the lowest of any real estate asset class, and even during the great recession, we weathered that storm really, really well. We were quite uncertain as to what would happen with the pandemic, but once again, the self-storage has proven itself to be highly resilient to things that happen, it is certainly affected by it, but we rather the storm really, really well.

In the beginning of the pandemic, we saw those natural reactions where people were not opening their offices in coming to the offices, that slowed down the rental stream a bit, but just as that happened, we saw the college universities closed their dormitory, so any self-storage property that was near a university instead of getting that heavy traffic in the summertime when there's a break, they got it immediately when they were moving out of the dorms, so we saw kind of a boost on our industry, right at the very, very beginning of the pandemic.

We did have some effect in the payment structures because people were delayed in making their payments, we were held by stays from the government in our ability to collect rents, those things affected us. But again, as soon as we started coming out of the pandemic from our stay-at-home orders and pretty space on openings, we immediately saw a robust refill of the activity that had been delayed and put on hold during the early part of the pandemic.

Occupancies rose. We got back into rent increases again, is it... As we were able to, there are some statutes that have had limitations on our rental rate increases, but we immediately saw that and then Whitney, the really interesting part was our business pre-pandemic, the industry was really dealing difficulty with an over-building situation or over-saturation in many of the major metropolitan areas, while the pandemic, a lot of those projects on hold, and so what it did is it actually boosted the industry again,

because we saw some of the starts in construction get delayed or even completely terminated, we saw the lenders tighten up a bit. So again, a really negative event created positive actions in salt storage, we also are very dependent in many cases on the RV, in the boat industry, the marine industry, because we store those vehicles any time there's one that is delivered, it has to be parked somewhere, and so with the great increase in interest in RVs and boats, we saw that product fill up most of the vacant spaces that were out there.

And so it has been a blessing in many ways, we certainly understand the devastation it caused and the challenges that have come with the pandemic, but as an industry, we were very, very blessed to come through it and be stronger on this side of the pandemic, and we were on the front side of it.

0:05:22.2 WS: That's awesome. I appreciate that update and just hearing really how self-storage been so recession-resistant or even resistant as you mentioned to lowest foreclosure numbers, but what are some things that are maybe some challenges that happened for self-storage, but what did you learn and what changed because of that?

0:05:38.8 RK: A couple of things from an operational perspective, many of the larger operators, the institutional operators, they were either on the precipice of, or they actually had online rental capability through their websites, and the pandemic just put them in a position to fully execute, and a couple of the large operators had that ready to roll out, they were actually in beta testing, they had just kind of showed the project well.

They immediately were able to deploy and that made a huge difference in the speed and the velocity they were able to capture rentals coming into contactless rental. So that was an interesting part was that the technology actually now have kind of caught up with usage and vice versa, but it also was for some of the independent owner-operators who had thought about contact list rentals and how they could do leasing online to actually figure out the solution that worked best for them and deploy that solution as well.

So across the board, we saw some interesting challenges in how do we handle our offices being closed and then deploying solutions right away that we're there, and unfortunately for us, the vendors in our industry and technology already had those solutions ready to go, they were easy to roll out, all you had to do as a scribe to them and roll out. So that was an interesting part.

I think the biggest challenge that we saw has been in supply chain and in the cost of raw materials, because much of a salt storage property, even if it's a multi-story climate control, there's a lot of red iron in there and a lot of steel, so we're very, very dependent upon steel and Whitney, as you may know, most of the steel in the United States comes through China, and so being wholly dependent on that source, it really caused an interruption on our supply chain.

We already had felt from 18 months ago, the effects of the tariffs, so we had already had a huge increase in pricing for our base product to build with anyway, and then as the pandemic hit, we just saw the difficulty in getting materials really play out, fortunately, the larger firms that provide steel for the self-storage industry, particularly the door manufacturers and the hallway manufacturers where the greatest amount enrolled cold steel is used and fabricated for sale story.

They already had existing supply contracts, and so they were able to continue delivery because they already had those allocations coming to them, they had already picked those prices those that were smart, way over bought, and then found out that they had actually way under bought at the end of the day, because those that needed that supply immediately absorb any inventory that was really out there, we were somewhat affected by construction with labor, as you know

self-storage construction is fairly labor-intensive.

And so erecting all of those hallways and door systems is kind of a specialty trade, and so we did see some issues with being able to attract particularly new workers to the sector as we were trying to adapt to the sale of the inventory that was out there, but again is... And I don't need to over-optimize self-storage because we certainly have all kinds of challenges as well, but again...

We weather do really, really well because we were able to now employ people who had been taken out of the hospitality or the food services industry, 'cause a lot of that labor is not highly skilled, and so we were able to put them to work in our industry. That really made a huge difference as well. Probably the biggest challenge that we've had, Whitney, has been in the payment part of our business.

We had several legislations that occurred that actually put a stay on rental payments, they capped our late charges, there was legislation out there that didn't allow us to get to the rent increases maybe that we had anticipated, all of those payment issues are still prevalent today to some extent, much lesser extent than they were called in June, July, August of the pandemic. But now as we're seeing openings and we're really beginning to see the economy flow back up again.

Those were minimized at the end of the day, but we did definitely feel the effect of people not making their payments in storage, a great number of our customers, our guests or tenants are on auto pay, it automatically goes to their credit card, and so a typical self-storage operation that is He institutionally run, we'll have somewhere between 40% and 50% of their payments on auto pay, so they were unaffected by it, they just continued to roll right through it. As though nothing had happened. So those were probably the biggest challenges that we faced.

0:10:19.5 WS: Were there any underwriting changes or maybe the amount of reserves that you all have, anything like that, that something like happens... It makes you think about it. How you're moving forward? Any changes in those things?

0:10:29.3 RK: So great question, and yes, we did see, particularly in the death side of things, change in the underwriting relative to deserve coverages, moved up slightly. What really happened was a higher level of scrutiny on the projections for rent increases, self-storage is a really interesting business from the aspect of how manage our revenues, the most sophisticated operators, they set rental rates in self-storage to the exact same way you sell airline seats hotel rooms and car rentals.

It's a demand-driven business, and when you have high demand, the prices go up, and when you have surplus inventory, the prices come down, and so what we saw was really that peaking as the recovery occurred, we definitely saw that they were able to move the rents up, but it was on a much delayed basis, those were probably some of the biggest challenges that we have, but the underwriters were saying, look, instead of projecting per 15% increases for next year, we think those should be in the 2 to 3%.

They marginalize our upside, and for some projects that was gonna be problematic because they were counting on very high rental rate increases to get their projections to make return investment objectives.

0:11:42.7 WS: How many self-storage facilities are there in the US?

0:11:45.2 RK: That's a number that it's hard to quantify in some ways, because you have to define what is a self-storage property, do you consider 20 units in a corn field 50 miles out of Des Moines, Iowa? Do you count that one or do you just count those that are in major metropolitan areas, but that number is somewhere around 57,000 to 60,000 self-storage properties in the US.

So what that means is there are more self-storage properties in the US than there are McDonald's, Wendy's Burger King and Taco Bell restaurants combined, and most people just don't realize how many self-storage properties there are in the United States, but once you need self-storage, you drive down the road and you just begin to see that they're everywhere.

It's like, buying a new car, Whitney. You buy a car and you think nobody else has it, and then you drive down the road, everybody's got the same color.

0:12:35.4 WS: Exactly right. No doubt about it. What about, RK, just moving forward, what do you see for the future of self-storage, say over the next 6 to 12 months, anything in our market that you see happening that affects the way you all are operating?

0:12:48.3 RK: Well, I think they're the biggest change that we're going to see, again, not trying to be overly optimistic, but there has been a stall in deployment of capital in some of the other sectors, so for example, hospitality, not a lot of new stores were happening in hospitality money that had been set aside and ascribed to go to either existing purchases of hospitality or new construction starts, that money kinda went on hold, well, we've seen a lot of that flow towards self-storage.

The same thing for retail, we don't know how the consumer is going to respond totally post-pandemic, are they still going to have their groceries delivered now that they've seen the convenience of it, and have used the benefits of it, or are they gonna wanna go squeeze the tomatoes and go to their retailers, so maybe it doesn't have nearly as big of effect on retail, but certainly we look at sectors that have been affected office, for example, has it... That's a great...

All that money that was flowing into office, that stopped because of the pandemic, a great portion of that has now flowed towards self-storage, so we've seen cap rates tighten even a little bit, we've seen high activity levels amongst very solid investors. Private equity is still chasing self-storage, just an amazing level is just an unbelievable how many calls we get from private equity looking to deploy capital and finding the self-storage because we weather the pandemic so well, and as an industry.

We're getting better, better structured, we have more data today in our industry than we've ever had before, better data, more data, more sophisticated tools to analyze it, and so as a result of that, we've really seen the flow of money from other sectors now looking at

self-storage, and quite frankly, our yields are pretty good, particularly in development. It's not unusual to see an 8 to and 9% development yield.

We're chasing IRS or development projects, Mateen still. So it's very robust, and because of that strength, the challenge is that self-storage is very, very capital-intensive. A typical self-storage construction project is going to be leveraged somewhere in the 60% to 65% range, so a 10 million project means that you're gonna need three and a half to 4 million dollars worth of capital to the other part of self-storage is...

It takes a very long time to get to stabilization, you're going to be in the entitlement process somewhere between one and two years depending upon how many barriers to entry there are an entitlement. The construction process is anywhere from nine to 12 months, obviously in inclement weather areas, it takes longer because you have delays from construction because of weather, and then the Lisa process.

While you may become physically occupied somewhere between 24 and 30 months to get economically stabilized may take three to four years, depending on the size of the project. And how much competition there is. So those are the real challenges of self-storage, it's very capital-intensive, it's very management-intensive, it was once thought to be a no-brainer, but we've proven over and over again that you need sophisticated management and tools to properly manage self-storage.

And we've seen that level of intensity for capital means that any time that you have that much equity in a project, it puts pressure on their returns.

0:16:06.7 WS: Where are you all finding deals right now? what your focus on finding the next deal is that brokers, is that sellers, going direct to sellers, is there some other methods?

0:16:16.0 RK: We're still using a lot of internet tools, a lot of people are using Co-Star, it's very expensive tool, but it's a very good tool. Many folks are using craxi to find sites, they're using their local brokers and networks, but the jewels that are out there are those that really are

off-market with the guy at the country club that's got a piece of dirt, that's where you really, really find the best opportunities, it's an interesting thing about self-storage because municipalities say, we don't wanna see boats in people's yards.

We really don't like to see the UPS structural and down the street. All the things that self-storage solves those problems and they don't wanna put self-storage, you know it is the ... not in my backyard. And so they limit the availability of building self-storage and part of that is an industry challenge in the very early days, Whitney, when we were an industrial use, we were located at the back of a collision, the railroad...

A terrible locations today, but for the fact that we cast ourselves as an industrial use, that's how it got codified, and so the municipalities still in many cases, think of us as an industrial use, but our business is very retail. Our target customer is the soccer mom, females make most of the storage decisions, they don't execute on it, they don't build the spaces actually, but they will typically be the ones who make a storage decision as to where and what size unit, etcetera.

So they're in the marketplace and we have to appeal to them. That's why you walk into a secure property and you'll hear music in the hallways, there'll be sent misters in there, all of the things in good lighting so that someone feels safe and secure, because when someone does a property to... Or we want them to feel that their personal safety, it is being regarded as well as the safety of the things that they're storing, that has had a pretty strong effect.

0:18:03.2 WS: You mentioned earlier, you just like getting the data and having the tools to analyze the data, any tips on where you get data that you focus on.

0:18:12.0 RK: Fortunately, the self-storage association about a decade ago, under your leadership from somebody who is very data-driven, began to press different groups to provide information for self-storage, we still today cannot get occupancy information with the exception of Reese, they're the only group that gets occupancy information, and they have a very limited sampling of the number of storage that actually report occupancy.

And so we're still struggling on a day-to-day basis to determine what the occupancy level is, almost any storage property in the country from a competitive standpoint. You obviously know what your own occupancy is, but trying to understand what it is, or even the institutional projects who don't report out specific store occupancy. However, the beautiful part is the number of groups, Yardi has gotten involved in self-storage data and they provide excellent reports.

They were the first one to provide debt information, especially CMBS debt, they provided ownership information. So Yardi was early on in the process, and they provide great data, there was a group called STR, who was actually in the hospitality data business, they were really really the preeminent source for data in hospitality, they got into self-storage, they have since left the sector, they decided it wasn't an in profitability for them, and they also saw how strong Yardi was.

And another group called real-time union real-time, which has a product called Radius, an excellent product that also provides information on rental rates, etcetera. And then store track is a great resource, that's a company that I consult for, and store track is known for providing rental rate information. And they actually scrape the internet twice a day. Anybody who has a website that reports rental rates is captured by store track twice a day.

So we also have the ability now to look back as much as three years and see rental rate trends, what are happening with rent rates, and see where new competitors come in and how they affected rental rates as they put more into moratory into the process, and then there's a new project actually on the market that's gonna be released within the next 30 days called Social Explorer.

And it's the role of of a group that did them was one of the first mapping providers for self-storage that actually put self-storage projects, all of them on the US states on a map and then provided data about each one of those locations now, including square footage, etcetera. And what's gonna happen with social explorer is they're combining demographic data that we typically got from Alteryx or era or ESI.

They're now combining that with the supply data from the mapping program, fully integrating the two of them, and then are now starting to provide interesting data points such as projections for new population, and the one supply metric in our business that is ubiquitous is square foot per capita, and so anybody who's reporting square foot per capita, which all of those groups do by the way, are able to give good data and Intel for developers acquirers and owner operators.

0:21:16.4 WS: I know we talked about this a little bit early on, but I wanted to ask you anyway, 'cause you could provide any more light to this, but how do you all prepare for a downturn? Another pandemic happened, something else unexpected that nobody can expect or predict happens. How do you prepare for those things with self-storage?

0:21:34.7 RK: Well, I think we have the same staffing issues that most of the world has, we have to understand how we protect our employees and how we protect our customers, so having plans in place now to know how we can operate with contact list rentals where we don't actually need to see the guest. Very interesting to go see how even the most primitive self-storage projects that are very old and dated, how they handled it.

And what they did basically was they just followed an emulation model set by the institutions where you are placing locks inside units and allowing people to go in and just rent by themselves and not have to have that human interaction, a lot of interesting ways to handle that inventory, but understanding what inventory we have that is managing our move-ins and our move-outs is critically important to responding to any change in the way we do business.

Whether it be positive or negative, so making sure that our on-site folks, typically the manager, 'cause as you know, there's only typically one to one and a half FTEs on, and he's like, We're not a big employer, we don't use very many people and that's one of the reasons the municipalities don't like us, if we don't create a lot of jobs or fairly self-sufficient, but that's why they call it self-storage because you expect the consumer to do most of the lifting, so to speak.

But we have had an opportunity to understand how employees can best use their time, how they can take time that they were spending in customer interface, and they could use that now for marketing. We also, I think, have been better at collecting self-storage, we use better tools now to make sure that we collect our rents on time. And certainly one of the things that we've had to do is to understand what are the state statutes.

One of the interesting things of self-storage is it is one of the asset classes that is the most favorable to the landlord of any asset, plus even though we're direct to consumer, we have the best protections in state statutes that allow us to get that unit back should someone not pay... That's largely due to not only the national self-storage association, but state associations that also have opined on guidance from the national group and made sure that legislation that is written is favorable to self storage.

We don't have to go to the court to evict someone. We can give them a 30-day notice and they're out basically, we're on month a month contracts, so it's very easy to change rates, it's very easy to request someone to move out, and it's very easy to rent self-storage, so all of those things make a pretty big difference.

0:24:07.9 WS: RK, are there any daily habits that have that you are disciplined about, that have helped you achieve success?

0:24:13.5 RK: So I'm kind of becoming more and more of a data I... I don't have the educational background to be a data scientist, but I'm in love with numbers, I just love to see transactions in a deal guide to begin with, so integrating data and transactions is probably what I would recommend for those who are out there chasing deals in self-storage or trying to figure out whether this asset class is even write for them as an investor, is to understand the data points that are out there and then how they affect the day-to-day operations of self-storage.

It's one thing entirely to say that there's eight square foot per capital... Well, that's a supply metric, it's not a demand metric, but unfortunately, most of the world interprets it as a Demand Metric, and it's not applicable ubiquitously, you can't just across the board say that there is

one supply metric that works for demand, and so I spend a lot of my day, understanding transactions and specific deals, looking at supply versus demand metrics, looking at occupants, understanding where rental rates move...

Because that's what we're really looking for, is how are we going to get a return on our investment? So I spend most of my critical parts of my day looking at that data, looking at specific transactions of self-storage properties in specific markets, and I think the best way for most folks to either require, develop or invest in self-storage is to get into the nitty-gritty of it and understand the rental rates and the projections.

That's our Achilles heel of any developer or acquire or even operators, understanding how we project rental rates and achieving the rate that we project...

0:25:52.3 WS: What's your best source for meeting new investors right now?

0:25:55.1 RK: Well, fortunately, I have opportunities to speak with groups like your audience Whitney, and that oftentimes will bring inquiries about it, and I don't try and sell anyone on getting into the self-storage business. I know this has been a very bullish presentation, if you will, about our industry, but quite frankly, I've been in it 30 some out years, I don't really know much of anything else.

I just know that I love self-storage and it's been very, very good as a blessing to myself, my family, and the folks who have been in the self-storage industry, so I think from that perspective, it's important that we understand the dynamics of how the day-to-day operations affect our business because everything is self-storage at the end of the day, happens with the point of contact in the customer-facing transaction and that backing up goes all the way to finding investors, people coming into the sector looking at it.

They use self-storage one and 10 households use self-storage in the United States now. And we often see those folks out on the perimeter and they will either have consultations with groups or they will be looking at groups or websites like list self-storage where they're trying to

find transactions to underwrite, and that will come to professionals like myself and say a lot...

Help me understand the industry, help me to understand the underwriting, I have a brokerage package here, how much of this can I count on and how much of it is the brokerage responsibility to provide a sale to his seller? So there's some optimistic projections out there that put around that are not realistic, we really see it in brokers who do not use self-storage as a daily mechanism for their business.

Those that just abelian, they're either at an industrial guy, retail guy, and they have a client who has a self-storage property, they end up listing and their projections tend to be the least acceptable, but just going out and checking the sites of where properties are available and trying to intersect with potential investors and equity guys who are trying to get into the sector.

0:27:56.6 WS: Nice. What's the number one thing that contributed to your success?

0:28:00.0 RK: I've had some very good mentors in the business, that has been probably the biggest thing that's helped me to become in boost and stay infused in the business, guy named Dr. Ken Wooly, who was the chairman and extra space for a number of years. I worked for Ken for a few years in the early days at extra face before it was a publicly traded company, and he has had a profound impact on my career and on my love for self-storage.

His partner, who also became the chairman at one point, Spencer Kurt at Extra Space also has had a huge impact on my love for the industry, Spencer gave me some opportunities early on in my career that were unbelievable to me, I am forever indebted to the folks who I have intersected with, and on a day-to-day basis I have to tell you, Whitney, the owners and operators that the folks out there on the front line who may own that one self-storage property, like I said, 50 miles in a corn field, they're just the heart of our industry.

And I am so blessed and appreciative to have an intersection with many of them at some point and learn from every self-storage experience that has come my way, every day, I look forward to learning something new about the business, meeting someone I've never met before who

has a totally different perspective and is able to give me and shed light on my career in terms of better understanding of how other businesses could positively affect self storage.

0:29:26.7 WS: I have to be ready to learn from others and understand their point of view. It's value right there. No doubt about it. How do you like to give back?

0:29:34.3 Rk: I do a lot of pro bono, if you will, consultations, I spend a lot of time talking with folks who are interested in the business, but don't really know either how to get into it or what to expect from it, and I'm very, very transparent about the business. I push, you need capital, a very few people believe how much capital you really need, and so I try and walk them through the exercises. I give back in that sense.

I do a lot of authoring of articles to the industry to help people become better informed about trends that are occurring, sometimes it backfires on me. It was really interesting, back in April, I wrote an online article that got published, and the fallout from that was a legislation got drafted around my article, very unfavorable to self-storage, and it passed, not only did it get drafted, but it got past... And then other municipalities picked up on it, and they never called me to find out what I was really...

If I had an opportunity to expand on the premise that they picked up, I could have explained what it meant more to the consumer and to our industry, but that never happened, I never heard from them, they just drafted the legislation and it got past... It has to do with late charges and being able to pass on delinquency charges to tenants, and so it's interesting that you have to be able to give back though, and be able to put it out there for people...

I'm a highly believable on to pay it forward, I am a mentor for some folks in the industry, and I hope that they will also go out and do as I have done, which is to just fully immerse themselves in our industry, and if they like it, stay with it, if they don't like it, maybe there's a better sector for them to perform in some... Storage is not very sexy, Whitney, we're just... Those garage doors are just metal doors with people that they see them as just metal doors, and for me, I see every one of those doors is opportunity.

I see every one of those is a story, if you will... And meeting the needs of the consumer in... The number one reason people use self-storage is around a move, buying a house or selling a house, I'm building, all those things cause the use of self-storage... And so it's interesting to me, I try past those doors, I see those locks on them, and I think about how many other transactions occurred to make that lock it on that door.

0:31:54.8 WS: RK, it's been a pleasure to get to know you a little bit and as you're willing to share from your experience in self-storage and really helping us to better understand what happened last year and self-storage through the pandemic, and what you see in the future as well. Tell the listeners, how they can get in touch with you and learn more about you.

0:32:10.5 RK: Thanks. So I'm very approachable via email, and that's a very easy email address, is the letter R the letter K @ASKRK.com. rk@askrk.com. And my telephone number is 561-797-2721, and I'm not very text-friendly Whitney, I'm one of those guys who checks my text to the very last, so you're better... If you need me to catch me if I'm on an airplane, I an email or leave a voicemail for me.

I'm very good about returning calls and messages, but I do spend a lot of time in airplanes traveling to look at sites all over the low...

[END OF INTERVIEW]

[OUTRO]

0:32:49.4 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.

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