EPISODE 1098

[INTRODUCTION]

[0:00:01.6] 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]

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Whitney Sewell: This is your Daily Real Estate Syndication Show. I'm your host, Whitney Sewell. We are introducing a new segment called The Real Estate Syndication Show Highlights, where we're bringing you a look back at episodes focused on a specific topic that we believe added a lot of value to you in your syndication journey.

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[INTERVIEW 1]

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Whitney Sewell: Our guest is Hunter Thompson, thanks for being on the show, Hunter.

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Hunter Thompson: No problem, anything you get raving me on.

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WS: Tell me the asset class that you're mostly focused on now and why?

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HT: So, I have been focused, for the last four years, on the recession-resistant asset classes, most notably mobile home parks and self-storage. The thesis for those is relatively straightforward, a lot of your listeners are probably familiar with the statistics, as of the recording of this, we're in the 1,100 month of our expansionary period, which is the second longest recovery in history in the United States. It was basically how far the data goes back. So you're looking at that, you're looking at the lack of income growth that has been taking place over the last several decades, you're looking at 10,000 baby boomers, many of them entering retirement for the very first time with very little savings, and there's just a lot of negative

economic data points.

So, this really drew me to look at asset classes that are prepared basically to perform in all stages, the economic cycle. So the key is that something like mobile home parks is relatively straightforward, the worse the economy does, the more demand there is for the product, now that makes sense with mobile home parks over self-storage, and I think it's just as compelling, but it's not as obvious.

So, when it comes to sell storage, people use that product when they're going through some kind of transitional period in their lives, a lot of those can be brought on by recessions, so you think about kids moving home from college or people downsizing or people changing jobs, all of them are more common during recessions, and all of them can be a great way to increase the demand for the product, and so from a big picture perspective, that's the reason that I was introduced into the cell storage asset class, and you self-storage alone accounts for about 30% of my overall portfolio as well.

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WS: Nice, so you're talking about being recession-proof, the performance doesn't really affect it by the market as much as maybe some other asset classes. Can you go in to do a more detail there. Why is it not effective, say like multifamily?

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HT: Yeah. So it's a good question. I think, first of all, the ways in which you can add value, and I wanna specifically say that, I mean NOI, there's just so many ways to add value that it can really help mitigate those challenges. A lot of people have when they think about adding value to the NOI, the reason they're doing it, they're trying to increase the IRR.

Well, when you're late in an economic cycle, it's important to focus on the opposite of that, protecting your equity position. And so, when it comes to recession number one, the tenant base isn't very price-sensitive. So, the main reason is that not only is the man inversely correlated with the economy because of that whole downsizing component that I mentioned earlier, but when you're talking about raising rents, you may go from a 10 x 10 unit, may rent from $150 a month or so. Subprime climate-controlled unit, if you raise rinse by 6%, which is basically unheard of in a multifamily sector, especially over the long-term, you're talking about 9 a month.

So the question really becomes, is the tenant going to take the time off work, hire a rental truck, get movers move down the street, or they're probably gonna do the same thing just for that $9 a month. So, you're really starting to pad your equity when you're dealing with the ten abate, that's not probably sensitive, but there are other ways that you can add value by just implementing more prevalent management strategies that some of the top tier operators do.

So an example I love to give is using U-Hall components. So, we look for properties that have no relationships with U-Haul or rental truck rental companies. We'll buy these properties based on in-place income and then leverage that relationship, facilitate the transaction with movers. And this is obvious, most people are using those trucks when they're moving in and out of those facilities. And we just facilitate the transaction and get a commission from you, Hal, for doing so.

The key here though, and I said earlier about asymmetric returns, the key here is that we're not incurring a proportional amount of risk to implement that strategy, we're not buying the trucks, we're not maintaining the trucks, we're simply allowing you home to park their trucks on our facility. And so I have personally invested in properties where that one line item has gone from $0 a month to 3500 a month, directly to the bottom line, there's really no overhead for doing that.

So, we're looking at that on a care basis, you're talking about $600,000, $700,000 of value added to the property, so that's a great way to protect your equity because in the event that there's a significant correction in the capital markets, that $700,000 of equity is gonna come in very handy. So, that'll kinda give you some of the insights in terms of why I think it's recession resistant, it's about the complex to the asset class and that inverse correlation with the demand.

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WS: And you talked about it a little bit, but do you prefer self-storage over, say, multifamily and why?

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HT: You mentioned that. It's a good question. So, one of the things that I would say about multi-family, I personally love multifamily. So I've invested in virtually every type of real estate, especially commercial real estate, and I love investing in multifamily. I would love to do it again in the future.

I sold most of my multifamily in 2015, probably a little bit earlier than I should have, but the opportunity was there. And to answer your question, I don't see the same inverse correlation. Now, the argument can be made that people are less likely to buy houses during a recession, etcetera, but in most of the markets that you're seeing a lot of activity in, there's a really significant cap rate compression that's been taking place. And the argument is that you're going to see a cap rate expansion within that time period.

So, if you're looking at properties in the Midwest, for example, that are trading at a 55 cap, that we're trading at an eight cap only three years ago, it's very likely that those same properties are gonna hit an 8 cap sometime soon. And you have to be very cautious about the debt you're using if you're looking at multifamily in those asset classes, not to mention the amount of development that comes online in a lot of these markets like Texas, which is where most people like to invest in multifamily.

Again, it's not something you shouldn't be considering, it's just that those are some of the reasons that drove me to mobile home parks and self-storage, I find those thes very, very compelling and hard to debunk, and while they are just big picture, thesis is the data is very, very compelling in terms of backing that claim up.

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WS: So, tell somebody that's listening who is just getting into the syndication business, maybe they're considering self-storage, what are some of the best ways that you've educated yourself about that asset class?

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HT: Well, first of all, I mean, I can link you to a book I wrote, which I think probably takes about 40 minutes to read. And, it'll give you a really good understanding of why I find it compelling on some of the data that backs up some of the claims I've made earlier, and that's cashconnections.com/download/ebook.

I can also point to that, but generally speaking, there's an amazing amount of content available and podcasts like this, I spent years going to networking events that were basically a waste of my time. It really was the networking that I was getting out of it, and not the education podcast like yours, that allows extremely high level experts to come on. People don't hold anything back. If you're having a more one- on-one conversation with them, I imagine so much great content coming out from the podcast community over the last couple of years and going forward as well.

Generally speaking. I'm a huge proponent of the passive investment model, and so if you're a syndicator and you're thinking about doing something like this, I would be very cautious about building a business around self-storage right now, which I would be much more interested in, this is a personality thing. I would be trying to identify best in-class operators that you can joint venture with or partner with.

And so, your due diligence needs to be focused on them as people, their structure their entire operations, their security, etcetera, as opposed to how you personally can buy your first self-storage facility, because of the complexities of the asset class, I think the asset class lends itself to identifying best in-class and partnering with them as opposed to creating your own systems, etcetera.

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WS: So tell us, how do we vet the teams that we wanna partner with, say you find other guys in the self-storage business, you have long track records. They've been in the business a long time. How do you vet? How do you know that's somebody you wanna partner with?

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HT: Totally. And this is the main question because it all has to do with the people you're making a bet, and so number one, I think it's a really good understanding, I'll put it this way, Everyone ask the same questions, but I think if you go two or three levels deeper, you're gonna actually get some data that's gonna be really interesting and will actually allow you to make a bet on the right people.

So, what I mean by that is, when I get that question, I think most people's answer is, look at their track record, look at the number of assets they have under management. Okay, that is absolutely true. And you definitely wanna do that, but going at least one step deeper, analyze that track record based on market timing and market condition. Take a look at when the company was founded, when these assets were purchased and compare that to what has taken place in the economy overall since that time.

So, that way you can try to get a really good understanding of how much their marketing, their market expertise played a role in those returns that they experienced as opposed to just the market as a whole. Because the market to repeat the last 10 years is pretty much historically impossible in terms of how favorable a spend. So one of the things that you can do, again, is just trust but verify. So, what I mean by that is a sponsor may claim, I own a 50 million property in Florida, and these were the returns that we were able to generate from owning this property. Well, anyone can claim that they own that property. So how do you verify that? Well, there are services, you can get a preliminary title report, for example, and pull the title on this property and see what entity owns that property, usually $150 bucks, maybe $200.

That way you can actually see if they own the property and then they can run the chain of title just to see where that entity lines up in terms of do they actually own that entity? Those are the types of things I like to do. And each time you take that step, go to that extra level, it may be a little uncomfortable the first time to ask someone to provide that type of information to get their social security number for a background check, etcetera, but those things are relatively cost-efficient and can give you some really good answers, so again, you've heard all the main questions, it's just finding out the follow-up and follow-up question to get to the bottom of what's going on.

[INTERVIEW 2]

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WS: Our guest, my friend, Paul Moore, thanks for Bronchial. Hey.

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Paul Moore: It's great to be her, Whitney. Thanks for having me on. It's an honor.

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WS: Could you speak to what you said about being recession-resistant, about those asset classes and why that is?

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PM: Yeah, absolutely. So, think about mobile home parks, it costs anywhere from 5 to $12,000 to move a mobile home, and so it's believed that only 1% of mobile home parks are owned by institutional investors. 99% are therefore by independent operators, a lot of those are mom and pops and if you can find the right one, acquire that mobile home park and start upgrading the park, upgrading the office, upgrading the experience. You can add a lot of value. I never really thought about what. I thought you could add value to a mobile home park, but you can also raise rents, a lot of the mom and pop owners might have 100-300 lots and they haven't raised rents in many, many years, and they're way below the market.

Well, if you raise rents, and again, I'm not talking about in an unethical way, but if you raise rents to the market value, people are probably not gonna spend $5,000 or even 10 or 12 for a double-wide to move down the street to say $30 or $40 a month. It's probably not gonna happen. And every mobile home park operator I've talked to has said this.

And so, you can raise the rent to a reasonable level. And it's the only asset class I know of Whitney, where the supply is actually diminishing and the demand is the same or increasing every year. You know, there's 10,000 people a day turning 65 in the US, and one in three have zero save for retirement, one and two have less than $10,000 save for retirement, a lot of them do 60% have home equity though, and a lot of those people are willing to trade their home equity to get a mobile home and move in to a mobile home park. And now have $250 to $500 a month in lot rent, and they can greatly decrease their costs and go on to Social Security as they ride off into the sunset. So, that's mobile home parks.

Self-Storage, now, think about it. In great times, when people are crowding the cash registers at Walmart or jamming the check out at Amazon, they're buying stuff, and they need a place to put that stuff. Also baby boomers and millennials now are losing their parents, and there's, like my wife and I's parents are gone. There's a lot of antiques and air loans and things we don't wanna get rid of, but we don't have room for it. Places like Florida, Texas and California don't have basements. Typically. So they need a place to put their stuff. Their addicts are too hot in places like Florida, so they need a place to put their stuff.

And, in bad times, people are downsizing from say, a 4,000 square foot home to a 2,000 or a 2,000 square foot home to an apartment. And when they do that, for a relatively small amount of money, they can store their stuff at a self-storage facility. Now, if I had an apartment, I was running it to you Whitney for $1,000 a month and I raised your rent by 6%. You might move for $60 a month, especially considering you know you're gonna be there for years to count and you've chosen that life.

But, if I raise your $100 a month self-storage unit by 6%, you're probably not gonna run on you all get your friends together, get all sweaty to move your stuff down the street to save $6 a month, and so, especially when you think as a tenant, you're probably not gonna be there more than a few more months anyway, which is what many, many tenants thing, and of course, as it brings their credit card month after month, year after year, they're often there a lot longer than they plan.

So self-storage, tenants are sticky, and I don't mean they have Velcro suits on. They're sticky, they stay. And so, mobile home park tenants through thick and thin.

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WS: So if across the board, like everything was the same as far as a number of people looking for that asset class, say 10% page per the size of tasteless or a number of those units across the country, what class would you choose then? Now it's your experience with each one, let's say the field is equal and all of them?

0:15:38.2 S1: Out of all those three, I would choose a very specific value-add formula with self-storage. So, there are 53,000 self-storage facilities in the country. They're growing by 2,000 this year, so I guess there'll be a, well, you do the math. That's 55,000. That was a joke. But seriously, 55,000 self-storage facilities in the country. It's believed that about 40,000 are operated by independent operators like mom and pops.

And so, there used to be a mantra, if you build it, they will come. And it was true, because self-storage was new in the 70s and the 80s, and people could just build a self-storage facility in a field near town and it would fill up. And so, these operators operated these like mom and pops, they operated these like a passive piece of real estate. And that was the draw for me. In 1999, I almost built a self-storage facility near a little town called Rocky Mount Virginia. And I had the land available and I thought about it, but then I thought, “Oh man, somebody else could throw in another 500 units right next door, and I couldn't really stop him,” and I'm glad I didn't do it 'cause I didn't know I would have been one of those mom and pops that needed to be acquired.

But anyway, these mom and pop operators often don't have websites, they often build it for a fraction of today's value, they're getting a massive return on investment, they have a part-time person working a phone, and they don't have a showroom, they don't do a lot of marketing, they don't raise their rent, there's all kinds of things they don't do that a professional operator could do.

So, here's the opportunity Whitney, like I said, of all these asset classes, this is what I would do. I would go in and find a self-storage facility but in the path of progress, but that's outdated, that is perhaps doesn't have a website, doesn't have great marketing, all these things and maybe has some room to build additional units. I would acquire that.

So number one, I would acquire from a mom and pop, you know, they say, you make money when you buy... Well, with this strategy, you make money when you buy, when you operate and when you sell. So, number one, I would acquire from a mom and pop. Number two, I would go in and change every policy and procedure that made sense, for example, I would add a really nice website. I would start looking for tenants who are not price sensitive, I would start calling off the tenants, I'd start raising rates to the market rent, I would start selling the units individually to tenants based on their motivation, their income level, etcetera. In our words, we can get to know each tenant with Facebook and all the other tools we have out there, we can actually get to know these tenants. And we know if one comes from California and they're relocating and they're building a home, and it's gonna take them a year to build a home, well, they're not gonna move and we can raise their rates a little bit more than somebody else who's really price-sensitive.

So, I would market that way. I would operate that way. I would add U-Hall, and Penske, and that would add $100 to $3,000 a month. I visited with one recently in rock ledge who said that they were revenue from you, all of their commissions alone were 5000 a month, I would add you all... I would add a showroom with locks, boxes, tape and scissors for sale, I would add admin fees, late fees, and I would begin to really evaluate the demand of the market, you know, a mom and pop owner just says, “Hey, we're out of 10 by town. Sorry” but a great operator price is the last one or two in a high demand unit size, much higher... Yeah, we've got 10 x 10, they're X and they're higher than what we sold the one for last week, and I would additionally go in and evaluate what the sizes were that were in most demand, and then I would build more of that size or I would, you know, this is just cheap metal and concrete, I would knock out some walls and reconfigure to get the sizes that were in the most demand. And that's what a professional operator does.

And so, I would operate well, and then I would plan to sell it to an institution. In fact, I would do it with several in a region, I would bump them up to a professionally run operation, I would add units if I could, and then I would sell it to a read for a compressed cap rate, and so that is a long answer, but that's what I would do, and if you look at the value formula in commercial real estate versus the value formula for residential, you'll know why I would do it this way and why I would be in commercial real estate in general.

[END OF INTERVIEW]

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Whitney Sewell: We hope that you enjoyed the Highlights show today. You can always listen to the full episodes that were featured today by clicking the links in the show notes page. And in the description box, let us know what you've thought of this episode or you can go to lifebreidgecapital.com/podcast and click the feedback button. Let us know how we can add value to you. Thank you and talk to you tomorrow.

[OUTRO]

0:20:51.0 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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