EPISODE 1367

[INTRODUCTION]

Kevin Bupp (KB): Most of the parking lots, like surface parking lots, and even a lot of the garages are owned by just normal investors. A lot of those small mom-and-pops haven't yet adopted a lot of technology. Either they got a parking lot attendant taking cash, or they've got even those old honor boxes. If you guys have ever seen those metal boxes where you shove your dollar bills in, that's dollar signs to us because that means inefficiencies in a big way.

Whitney Sewell (WS): This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Well, today, I'm going to continue my conversation with Kevin Bupp. We've had a great interview with him. We've talked about finding a mentor, what that relationship look like, how that helped him in such a big way. He has shared so much about his experience and we're gonna cover so many more things I know you're gonna learn a lot from.

He is the founder and CEO of Sunrise Capital Investors which invests in mobile home parks, parking lots, apartments, offices and single-family homes across the US. He has 16 years of experience educating investors to locate, acquire and create higher than average returns from a widely misunderstood mobile home park investing niche. He shares his expertise through the Mobile Home Academy and also as a host of the Real Estate Investing for Cash Flow podcast which has become one of the hottest real estate podcasts on iTunes. He has a new book coming out and you can find that on Amazon. Of course, today, you can find it for free at KevinBupp.com/free-book.

[INTERVIEW]

WS: Speak to the reason to move, say to parking, and what that asset class is like? We haven't talked about parking on the show too many times, maybe once or twice less than a handful from 1400 interviews. So why parking? What does that asset class look like? Maybe give us some of the pros and cons?

KB: Absolutely. That's a great question. You know, we've always liked to stay in our lane, stay focused. You can't be everything to everybody, and it kind of scares me sometimes when you got guys out there, gals out there that are buying self-storage, and they are buying mobile home parks, and they're buying multifamily. And then you know, we're also served by medical office or whatever. They're kind of spread out amongst many different asset classes. There's a lot of carryover and similarities in each of these commercial asset classes, but there are also a lot of unique nuances as well with each individual one. And so we've always like to stay in our lane and just really focus on being the best that we can be in the manufactured housing space. In addition to that, unlike in traditional multifamily, there are not many professional property management companies in manufactured housing space. So, we don't necessarily have the luxury of relying on third-party professional management to oversee the day-to-day operations of our assets. So, we're vertically integrated on that side which is a necessary evil. It's the unsexy part of the business, staff-heavy, and it's not very profitable. Again, that's unnecessary evil in order for us to run the investment side of the company.

So, when we came across parking, I was introduced to it about four years ago, I interviewed a guy on my podcasts. I literally had never met anyone in my life that owned a parking lot or parking garage. I knew someone owned them but like just one of those asset classes you just never really think about, you never dig into too much. I was intrigued by the business model. One of the biggest things I was intrigued about is that, across the country, there are hundreds of professional operators. There are local, regional, and national operators, and many publicly-traded operators. But most of these operators, the majority of these operators, these multimillion-dollar companies actually don't own the parking. They're just on the management side of the business. And what I found when we dug in deeper was that we thought mobile home parks were fragmented, 10 years ago, as far as the ownership structure. Parking lots were equally, if not more fragmented, as far as who owned them. There are a few institutions in the space. If you go to Manhattan, or you go downtown Chicago, there's going to be private equity institution that owns some of those parking garages and parking towers and things of that nature.

But generally speaking, most of the parking lots, like surface parking lots, and even lawn and garages are owned by just normal investors, mom-and-pops, or just small-time investors that are local to that marketplace. In addition to that, a lot of those small mom-and-pops haven't yet adopted a lot of technology. There are still many parking lots you can go to in this country, and you probably can't use a credit card. Either they got a parking lot attendant taking cash or they've got even those old honor boxes. If you guys have ever seen those metal boxes where you shove your dollar bills, that's dollar signs to us because that means inefficiencies in a big way. That and even a physical parking lot attendant means major, major inefficiencies to us. And so we saw parking as an opportunity to buy an asset knowing that we could rely upon a third-party professional operator that's got technology. They've got the infrastructure to take over the day-to-day, kind of like what you do in multifamily, and not necessarily have to build out that side of our business. We didn't have to initially build out a vertical property management or operations company for the parking business.

So, it allowed us to actually enter into a new asset class. It has a lot of similarities with a mobile home park. I mean, basically, we're selling parking. We sell parking and mobile home parks as well. But without having to add additional staff to do that. In addition, we're able to pick up assets and great marketplaces irreplaceable locations that make sense today as a cash flow-covered land plan. We're not developers, not speculators. So, anything we buy it's going to make sense today as a parking lot but inevitably, its lowest use is of its present state. If we're talking about surface parking lot, it literally is never worth anything less than what it is today as a piece of asphalt or gravel with cars parking on it. So, there's a huge future upside as these local markets grow and as these surface lots go away, and they go away for vertical developments to take place. Again, we just saw an opportunity to get into a new sector, get great assets in great locations but not necessarily have to hire a lot of additional staff within the company to actually grow that side of the business.

WS: That's awesome. I appreciate the detail around the parking type business and that asset class. Like I said, we've not talked to too many people on the show that owns them. Like you said, it's just not as known, so fragmented. I love how you talked about something that you could say, hey, we don't have to hire a bunch of people to get into this asset class. And maybe you did some research, you said, there were really good third-party management companies that are doing parking and so you knew you could utilize them. Is that accurate?

KB: Absolutely. I'll give you an example of a recent deal we did. We've done some small deals and we've done some fairly large deals. Now, I'm gonna share the most recent. It's a $34 million deal. It shows you the inefficiencies in this space and where the opportunity lies. So, this one is a seven-story 702-stall parking garage with 12,000 square feet of retail on the first floor. It's in Clearwater Beach so it's in my backyard here in Florida. It was only built six years ago. It was a private-public partnership on Clearwater Beach. There was a private local developer, they're mostly retail guys. Basically, the city put out an RFP, and they wanted to build this parking deck in the north beach area of Clearwater Beach.This local developer got the contract. Ultimately, what occurred is the local developer ended up, they "condo-ized" this entire thing. So, they "condo-ized" every floor. The private developer ended up owning the first floor retail, and then the first, second and seventh floor are parking. I don't know how they arrived at that but first, second, seventh floor are parking, and then the city owned the third, fourth, fifth, and sixth floors of parking. When they got into the endeavor, there was a proforma put forth to the city, like, this is what your investment of whatever their investment was, like $20 million. This is what your return is going to look like.

KB: And ultimately, what played out in that scenario was the private developer got the first two floors, which in normal times, not just like your Fourth of July weekend, in normal times, they're going to get the proportionate share of the revenue. So, they did a really good job negotiating this with the city. They got the better side of the table there. It never met the city's proforma at all for the five-plus years that they've owned it. It sucked then. It just did horrific because - I'm not going to go into detail on the many reasons - but the city was not happy with their investment. They wanted to take that money and redeploy it somewhere else. We, ultimately, met with both parties. We knew the private developer considered selling it. It was a really hairy transaction. But we spent about over a year actually pulling both parties together. We bought parts of the condo and we now own the entirety of the structure. Before we went down that path, we met with a lot of local operators. The operator that was in that garage, for whatever reason, the city went with a group out of Atlanta. Literally, everything they managed was in Atlanta. They literally managed nothing in Florida. They didn't have any local market expertise. They weren't doing a great job, very inefficient, old equipment. They put up some antiquated equipment in there that didn't work half the time. The parking rates, they were charging $3 an hour when they should have been $6 an hour. They weren't changing pricing for really high demand peak times. So, just a lot of inefficiencies in their models.

KB: We saw that as an opportunity. We went to a couple of local operators, put an RFP while we were in negotiations on this entirety of the structure. We basically got a local operator that managed about 45 assets down on the beaches. So, they've been in the space for a long time and negotiated a triple-net lease with them on the entirety of the parking deck. We, ultimately, had that in place before we closed the property. So, we basically bought that $34 million which in-place NOI was roughly a six cap. It's actually really good because it's an institutional great asset. We got it at a really fair price going in. Lots of headaches to get there but with this new triple-net lease in place, this new operator knew that they were going to raise rates. They are going to implement some dynamic pricing models and basically get peak rates when it's peak demand times and lower the rates when it's lower demand times. They were going to maximize efficiency in this garage. And so, we just got a recent appraisal done on this garage. I'm just gonna say I'm not gonna give the exact but it's in the low $40 millions. We added almost nearly $10 million of sweat equity. Literally, just the value add play was simply finding a better operator. Finding a better operator that actually knew how to maximize the inefficiencies of that garage. And again, this is the institutional great asset.

KB: Cities, they're not smart. They should not be in the business of owning real estate. They made bad decisions, they priced it wrong, they wanted to give away parking for free. They should have been charging more. They would have got the return they wanted if they would just charge normal market rates. They didn't. Private developer was sick of being in a partnership with the city. You know, they were basically keeping their ability to raise revenues down. So, the private developer couldn't raise the prices because the city had to agree to raise the prices and it was a messy endeavor. I saw an opportunity with those frustrations when we pulled together. So, there's a lot of deals out there like that. The thing is, there weren't other people charging for this deal. We had a little bit of competition but it wasn't like what you and I experienced in the multifamily or the manufactured housing space. We weren't up against 10 other people to buy this property. And so that's the beautiful part of parking as well. There's not nearly as much competition to buy these assets.

WS: I love that you said so many great things about that. Do appreciate the example. But something else has stood out. You said it took a year to close on this. Sounds like, there had to be somebody that was willing to go through that process of a year and then going back and forth, I'm sure, with the city and the developer. Kind of being the middleman a little bit, I'm sure there were many frustrations there. But somebody had to be willing to do that.

KB: It was a little bit messier than what I had laid out there. But that's for another show. But, we had to take some risk. We closed on a portion of the garage, we bought the private portion, and we closed in about six months prior. So, we took some risks by doing that but we knew that we had the better, we knew that was the better piece of this garage anyway. So, worst-case scenario, it still would have been a phenomenal return. It would have been a great investment. Not as good as owning the entirety of the structure but it still would have been a phenomenal investment. Basically, we bought the private portion, and we made the city's life hell for about six months is what we did. By being in there and just doing things a little differently than what the prior owners had done and forced their hand a little bit to move a little quicker to sell their piece of it.

WS: Appreciate the color, as well. It's definitely not an easy business, or everybody would do it, right? Well, we shift gears a little bit. How did you find a good property manager for parking? That's not something that we've probably ever talked about on the show. Speak to that.

KB: Yeah. I think, simply put, just literally go whatever respective market we're talking about, literally just go drive around. You'll find very quickly who the operators are in that area. You'll see their signs. I mean, most parking, if they've got a credit card machine, or some type of pay station, it's going to be branded with the parking operator that manages that particular lot or garage. In addition, they pretty much, all of them, have signs with phone numbers in case you have an issue with like getting your car out, or there's some type of incident that happens there. So, one way or another, most of it happens by just simply driving around, or you can get on Google Earth. Now, with technology, even the most antiquated parking companies can be found on Google Places. So, you'll be able to find who actually manages this particular lot. So that's it, there's really no rocket science to it. Find out who's the best but who manages the most in a particular market aren't necessarily the best. And so, what we have found in the area, like Tampa, any decent- sized MSA is going to have at a minimum probably four or five fairly prominent operators. So, it gives you a good selection to choose from.

WS: Alright, Kevin, I want to shift gears a little bit. I want to go back to, if you're willing to relive it a little bit, I almost don't want to ask you to but you know, the 2008 crash. All that stuff that happened then and maybe you can elaborate a little bit on how that affected your business? Obviously, I'm sure that some rough times. You called it what? Three years of damage control, I think you said. Obviously, it's very hard stuff. But you didn't quit there, right? You didn't just say, hey, you know what, I'm going back to J-O-B route. I'm out of this real estate thing. You didn't do that. And I think a lot of people probably did and never really recovered, probably mentally, just from the loss, recovered and were able to keep going in the space. But you did, thankfully. Can you speak to that a little bit? Maybe what happened? But then I'd love to compare what's happening right now compared to then? What do you know because you lived through that? You were investing then and I'd love to hear your thoughts.

KB: It was a challenging time. You know, looking back, about the only thing I would have done differently is that I would have - and I didn't stick my head in the sand. I gave real estate a break and I started a few side businesses. I literally met my now wife, I met her about three months before this major default happens. So, it's kind of interesting timing. Yeah, interesting time to say the least. I met her and I knew that things weren't going on that great. I remember I had a conversation with her one day and we arrived at a place down the beach. We were riding our bikes and things were going well together. And I'm like, I really liked this girl, like I have a lot of fun with her. But I don't want to lead her down, lead her stray down this path and think that, you know, he's got this waterfront property like I knew things were gonna get fairly ugly. And so I just laid it out and I said, I think it's gonna be a bumpy road over the next six to 12 months. She was in commercial banking. But, I still don't think she really understood the breadth of it, I really don't. But she stuck by my side and so, we're still together today. We're stronger because of it.

And in any event, the one thing that I would have done differently probably was start buying sooner. It's really hard to get yourself out of a boat when you're in the bubble. I had a lot of friends, as well, that lost a lot of money during that period of time. Florida was kind of one of the ground zeroes like Arizona, Las Vegas, California. There was a number of markets that just got hit harder than a lot of the other markets. So ,Florida was one of those. I mean, Florida, the state of Florida was just decimated. And so, it was really hard for me to step back and actually get an outsider's perspective. I was too far ingrained in this local bubble or this view of Florida bubble and all I heard was negative everywhere. It was really hard to see the forest through the trees and all the while, there were opportunities left and right. But, to me the sky was still falling and I didn't know was gonna stop falling. So, I would have started buying sooner because I feel like we missed a couple of years of good opportunities or run up to where we are today.

But, I started a few side businesses during that period of time that were related to health and fitness. I was a big runner at that point. My wife was a runner or my girlfriend at that time was a runner. Really, the one thing I could control in my life was how I felt. Every day I woke up, first thing on my mind was who's gonna knock on my door today? What am I gonna get served with? Just lots of challenges. But there's nothing I could do to fix that more than what I was doing. But, the one thing that I could have complete and absolute control over was my body and how I felt every day, what I put into it, the fuel I put into it, and just the mental clarity that I needed to kind of push through those times. So, I chose to start a business related to health and fitness which allowed me to be around other people that were not real estate related, that were really focused on their body and their performance and things of that nature. Honestly, I look back, that was probably one of the best decisions that I made because it really put me in a completely different mind state. I think it allowed me to stay healthy, mentally healthy, with my relationship with my now-wife at the time. Because if all I talked about on a daily basis was how bad things were and oh, the real estate's horrible and I got bad credit now and I have no money to set in the other, I'm pretty sure that she would have moved on and found someone else. And so, as far as getting through it, I think that's really what carried me through, just really focusing on myself and just making myself be the best person I could be, for not just me, but also for her. I didn't have kids at that point in time but I knew I wanted to go down that path at some point. In any event, it took about three years of that to really get through the other side, I would say.

WS: Just a couple of things there. You said, you focused on what you could control, you know, and it goes back to mindset, right? Who you're surrounding yourself with to talk about, you know, you're surrounding yourself with people who weren't just negative all the time. They weren't in the real estate business, they were focusing on improving themselves and all that. I'm sure that was so helpful, no doubt about it. Then you got back into real estate. And you know, was that something that maybe your wife then was like, oh, wait a minute, Kevin, we've already done that thing. We're focusing on something else. How did you stay on the same page and move forward back into this space again?

KB: That's a great question. Honestly, she made a move on from commercial real estate. So, she had worked for a number of banks, she did mostly lent on hospitality and retail. Obviously, both those got absolutely crushed as well in 2008. The bank she had been with was taken over by the FDIC. I think about a year after we started dating. So, she was kind of fed up with having all of her calls with her clients became negative. I mean, basically calling loans due and they weren't fun conversations. They weren't, hey, we're ready to make your new loan for this new project you have going on. So, she made a switch in her career to get into a different career path entirely. You know, at the end of the day, it's interesting, because she's always been supportive. I had to come up with a way to make money after things started crashing. I had to figure out a way to actually put food on the table and to just make it by month by month. And I never had a real job.

So, I would like to say that, um, it wasn't funny back then but I really wasn't employable. I'd never really had a true W-2 job. So, I wouldn't even know, I wouldn't have known where to go at that point. Because it would have, in my mind, it would have been real estate related because that was all my expertise. So, in real estate at that point, no one was hiring. She was always just very supportive of any idea I had, any entrepreneurial idea I had. Again, this is me trying to grind and fight my way through for these three years and find a business that actually could make reccurring revenue month in, month out, and she never shot me down on any of those. Some were kind of harebrained ideas, right? But she never shot me down. So, when it came time to really talk about getting back into real estate, I mean, I kind of laid out a plan of here's how I'm going to get here, here's how I'm going to get there. You know, I didn't have good credit at that time. But here's how I think we can work our way around that and actually get creative with financing this and the other. She was on board. I never, you know, she just never pushed back. She's always believed in me. I didn't beat it before at that point in time but just her being supportive during these kind of dark moments, like she was the one, like she was the right person. I mean, I got really lucky I found that needle in the haystack. So, she's just always been there for me, no matter how crazy the idea was, and that's what entrepreneurs do. They come up with sometimes harebrained ideas, we just roll with it. You know, if you've got someone, a loved one in your family, that like crazy uncle Kevin, you just gotta roll with it 'cause sooner or later, one of those ideas, it's going to be the million-dollar idea. So you gotta be supportive of them. That's just, the brains are wired a little bit differently. Our brains are wired just a little bit differently than a lot of others.

And so you know, I didn't get any pushback, Whitney, as far as getting back into it. She was, you know, mobile home park she was, kind of, she didn't really understand that so much. Definitely, we had a lot of dinner conversations related to this mobile home park and she never would go up and actually, she had never even saw that property until probably a few months before we actually sold it. So, we owned it for almost 10 years and she had actually never even seen it. Thank God, she didn't, because she would have probably been like, what the heck are you doing? When we took it over, it was completely vacant, had vagrants living in it, graffiti. I mean, it was in a rough shape, had been in REO for two years and so. But she questioned mobile home parks? Everyone has that, everyone kind of lumps mobile home parks in that one bucket of like, they're just on the wrong side of the tracks, bad elements, you have bad people in there but that's not the case. And so, she was supportive, and we pushed through and once I proved to her financially, the success of that one, no questions asked anymore. It was just like, hey, go do your thing. Buy more of those if that's what makes you happy and that's what makes money. Go do more of that.

WS: Yeah, that's incredible. I just appreciate the color there, too, just you all being on the same page. No doubt that could have been so difficult. I'm sure it was.

WS: How can the listeners get in touch with you? And also and I know you've written another book.

KB: Yeah, absolutely. Thanks, Whitney. Yeah, you can see it on my shelf back here if you're watching the video. It's called "The Cash Flow Investor: How to Create Legacy Wealth Through Commercial Real Estate Investing". I just launched the book about a month and a half ago. You can buy it on Amazon for $20. Or you can just go to my website and I've got a free copy up there for a period of time. Just go to KevinBupp.com/free-book and grab a copy of that. You can also contact me through my website, KevinBupp.com. Just go to the Contact Me page, and that's where I host my podcast as well. If you want to learn about what we've got going on as far as in the investing world through our company, Sunrise Capital Investors, you can go over to InvestWithSunrise.com.

[END OF INTERVIEW]

[OUTRO]

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