**Narrator:** Welcome to the REI Diamonds Show with Dan Breslin, your source for real estate investment, jewels of wisdom.

**Dan Breslin:** Welcome to the REI Diamond Show. I'm your host, Dan Breslin, and this is episode 213 on Strategies to Build Wealth through Alternative Assets with Tom Dunkle. If you are into building wealth through real estate investing, congratulations, you are in the right place. My goal is to identify high-caliber real estate investors, and other industry service providers. Invite them on the show and then draw out the jewels of wisdom, those tactics, mindsets, and methods used to create millions of dollars or more in the business of real estate. Today's guest is Tom Dunkle.

Tom is an experienced entrepreneur and corporate finance leader who specializes in value add self-storage investments, distressed mortgage note investing in dealing private lending, and private investing in multi-family and self-storage properties. Today, Tom and I are going to discuss this $40 million plus of transactions in fragmented dislocated markets, such as distressed debt and self-storage. Tom also has over 25 years of real estate experience and investing experience, including $1.2 billion of middle market M&A and financing transaction experience.

We're going to discuss the internetization. Yes, I made that word up. The internetization of real estate as a trend, especially pertaining to the self-storage real estate industry. We're also going to touch on market selection and of course generating high passive returns. Let's begin. Hi, welcome to the REI Diamond Show Tom, how you doing today?

**Tom:** Doing great, Dan. It's great to be with you. It's been a long time.

**Dan:** Yeah, for sure, so for listeners, Tom and I go back to the early days, probably 2006, when we were both dipping our foot into the Philadelphia Regional Real Estate Networking meetings.

**Tom:** That's right.

**Dan:** What a path since then, right Tom?

**Tom:** I know, man. It's been quite a wild ride, but I wouldn't change it for the world. I know about you. It's been a lot of fun.

**Dan:** That's right. Hey, I'm happy and blessed and pleased and grateful to be here and, and see you where you're at and we'll get into some of that journey and get into what you're doing here today, so maybe to give listeners a little bit of your background, Tom, you can kind of give them the, how I got in real estate and the progression to how I got to Belrose Storage.

**Tom:** Yeah, sure. Sure Dan, appreciate the invite to be on the show once again, but yeah, I was a corporate guy. I got out of business school in 1995 and went in the corporate world doing mergers and acquisitions and raising capital. I was in the aerospace industry. I was in third-party logistics. I spent some time as an investment banker in the technology space in the early days of the internet, so there were all kinds of bumps and bubbles and awesome times and downtimes, but around about 2006 I actually got fired for my corporate job, and I was kind of like, "Okay, I've had enough of that."

Good old Albert Einstein says the definition of insanity is doing the same thing over and over again expecting different results, so I was like, "You know what? I'm done with corporate America." I've been downsized and fired and all this other stuff a couple times by that point, and I was like "I'm going to go and kind of chart my own course, set my own destiny." But here we are, 2006, right? I came out of corporate America. I had some great tools, right? I had a great background numbers and education, all that stuff, but little did we know, right Dan, we're heading into this really nasty market this next few years, so I pretty much got my ass kicked and learned a lot of hard lessons those next few years, but I was determined to stay out on my own.

I was not going back to corporate America, so I had to reinvent, right? And I think successful people they have to do that multiple times throughout their careers, so I had to reinvent. I was in residential real estate that didn't work out for me, so I found distress, mortgage debt about that time through those networking meetings that you and I would go to Dan. I ran into Dave Van Horn, a PPR, still good friends with him today, and yeah, started learning that business. I connected with my partner Joe Downs in 2010. We're still partners to this day, 13 years. We built a great business in the distress mortgage debt world, but along the way, we started looking at different asset classes, because distress debt is great, but it's super volatile, right?

When it's good, it's like really good when it's bad it could be really hard to find product, so we, along the way, we tried hard money lending that didn't work out so well. We were partners in a title company for a little bit that didn't work out so great, but about 2017, we started hearing about self-storage. 2018 we're like, "Hey, this could really be a good ticket for us, because it has so many aspects of it that are very steady, very predictable, good times, bad times, etcetera. We could dive more into that later." But it was really the kind of asset class that we had been seeking out to help give some predictability and to smooth out our business cycle, so 2018, we joined the mastermind groups.

We started really networking, getting educated, started building our team because my partner Joe and I were pretty good finance guys and underwriting and structuring deals and stuff like that, but we weren't very good at finding the off-market deals, so through our mastermind group, we brought in Tim Kane, he's an expert at finding off-market deals, and then we also it's great to have the money and find the deal, but once you buy it right now you got to run the thing, so we needed some help on the operations side, so also through our self-storage mastermind group, we, we found Catherine East, she's now a 16, 17 year veteran in the self-storage industry.

She was former executive director of the Missouri State Self-Storage Owners Association. She's done transition and management consulting and auditing work at hundreds of facilities around the country, so she knows the operations of self-storage inside and out, so we brought her on the team and then we felt like, "Okay, now we're ready, right? We got the money, we got the leads, we got the operations, let's go buy our first facility." So that was 2020 and we're about now to close on our 12th facility up over three hundred thousand square feet that we've acquired, and yeah, we're just really excited about where we are in this market.

**Dan:** Nice, so what's the average purchase price on one of these twelve facilities?

**Tom:** We're more in like the secondary and tertiary market stands, so these are mom and pop facilities and so they're generally in... the most we've paid to acquire Facility is 6 and a half million. We've gone as far down as nine hundred thousand, but we're generally trying to stick, especially as the business is growing, we're adding team members, we're getting more and more comfortable, more and more experienced. We're targeting deals that are in the at least 3 million, hopefully more. 1 of our goals for this year, 2023, is to do an 8 figure deal, so over ten million, we're growing. We're trying to up our game a little bit.

**Dan:** I asked that because as you were going through the timeline, I think of my own timeline from 2006, my first deal was a $5,500 deal down in Sun Village Chester that I sold for $11,500.

**Tom:** Nice.

**Dan:** I made $6,000 and that was like a mind blowing amount of money. Like I didn't have a successful corporate career.

**Tom:** Sure.

**Dan:** I had to just invent myself from the beginning.

**Tom:** Sure.

**Dan:** There was no reinvention needed. Right, but I look at the progression, even all the way to 2013, '14, '15 in that range, and even when I started the podcast, I remember guys talking about making a hundred thousand dollars on a DME, like never done that up to that point, and the place I'm going with it is like the scale that comes with... I don't know, like some people maybe start with money or around it forever, I wasn't, so the $6,000 seemed like a lot of money, and then, we're doing deals and it's 20 or 30,000, we're doing a flip for that and hey, that was great money and I'll do that over and over again.

**Tom:** Sure.

**Dan:** Then as time goes on, I guess I'm 42 years old now, and it's like, "Hey, it's time to like continue to kind of scale this thing up and I have to keep getting comfortable at the next size of the numbers there." And one of my insights, I don't know, 2019 time, it was like I'm doing math on 8 or ten rental properties or something. We do a high volume of buying sell and like barely any rentals, but I was doing the mortgage calculation pay down on these like $80, $90,000 West Philly houses, these like rentals, and it's like you're paying $150 a month off in the mortgage.

Then it had a 3 flat I bought in Humboldt Park, $400,000 mortgage, maybe it was like a 450 purchase or something like that, and I got a little creative on how I structured that to not have to put a lot of money down, and the payoff was more, I don't remember how much more, but I thought "Hmm, this little three flat in this like gentrifying neighborhood where values are going up." It scared the crap out of me. It's a sign, the $400,000 mortgage, but it was nice to see the 2 or 3 rents in that building, paying down a larger mortgage, and I'm like, if I stopped right now and just had that 400K versus the 9 houses in Philly, or however many I had, they're almost worth almost the same in a sense. Right?

Maybe the 9 were worth more, but it's also like 9 houses, and my insight was I want to buy deals that make sense, that have far higher debt amounts on them, whether that's $800,000, $600, 000, 2.5 million, whatever the price is, because the mortgage pay down over time. I'm going to operate my real estate over the long term kind of a guy when it comes to stuff I'm going to hold and keep in a portfolio, and I just feel this greater impact when I like scale the size of the investments, so I did a ten unit building I bought 2019, did some renovations and that kind of stuff, and I kind of paid retail for it, Tom, but then looking back, I did the I think I was in there for $950,000 and the appraisal was like 1.35, so like that one deal was far better than all the smaller stuff I had bought before that, and so I like started to see the value of the scale and the deal.

Maybe you can relate to some of that scaling of the investment from some of those business models. What would you add and layer on to that Tom?

**Tom:** Sure. Dan. Yeah, and I do. Like throughout my real estate career, going on 17 years here, I mean I've met so many guys like you that just blow my mind at, you started out like really at the very bottom and have grown these incredible businesses that I just really admire guys like you a lot because I definitely started out with a leg up because when I was in my corporate life, right? We were buying, I think our biggest acquisition when I was in corporate world, was like 200 something million? So I was already... so in my very early career I was already around those big numbers, right? And when that company was sold that it was an aerospace company, the CEO at the time, I think he was about 50, he walked away when he sold that company.

It was like 175 million, so I had been able to seize some of those success stories, so it did kind of help my mindset like, "Hey, there's a lot of possibilities out there for doing big deals and creating huge wealth." But when I did go out on my own, and especially after I got crushed in the great recession, and because I went into it with a nice pile of cash, they had built up my corporate career and then by the end of it, I had none left much.

**Dan:** Oh, no.

**Tom:** When Joe and I got together and we started our distressed debt company, the first deal we did, we bought 6 loans for $12,000, and that was like the start, right? Because he came out of commercial real estate, so he got smoked as well. I came out of residential, we were both like trying to figure things out from there, and so but that first deal, I think the largest balance on the loan that we bought was, I don't know, like $20,000 or something, and I think we paid like $3,000 for that particular loan, but anyway, it was like a lot of money, and then I remember we showed some success. We're like, "Okay, we're starting to understand this business, get some traction." And then we bought a loan, we bought a pool of a small pool of loans, but 1 of the loans was like we had to pay $20,000 for it, and we were like, "Oh man, I mean that's a lot of money to put into one loan." But it had a big balance.

Anyway, so we had some success there, and now today, like we've acquired over 10,000 loans over the years. It's going on 900 million of unpaid principle balance. We generated over 50 million of revenue in our distress debt business, and so now it's like in our portfolio right now we have loans in there with balances, 150,000, 200,000, some loans we're buying them at a discount or we're buying them for 50,000 grand and here in probably more if I went back through there, so it's definitely like a progression, and then today of course, we've bought... we're going on what? 40 million worth of self-storage, so I think as you dig into it, Dan, and you start to get that confidence, right?

I think it's kind of a confidence thing and as you get that confidence, you get that experience, you build some more confidence, it's sort of a progression kind of thing right? Because it's a little scary. You don't want to go out on your first deal. I'm sure there's people who have done it and done it successfully, but I think for me, maybe I'm a little more conservative. We didn't want to go out and buy like a $50 million portfolio of self-storage facilities right out of the gates. Our first deal is a million and a half dollars, which compared to $12,000 for 6 loans. I mean, that's a pretty big job, but we've acquired a 6 and a half million dollar facility and then we're about to acquire a $3 million facility, so yeah, I think as you build your team, build your experience, build your track record, I think that allows you to confidently level up so you don't make a mistake, you don't want to go too many steps backwards.

**Dan:** Yeah, yeah true, and I'd probably just... if I could like share with myself, let's say 4 or 5 years ago, I'd probably tell myself to start to think about scale earlier. I mean, we scaled and we've done a whole lot of deals and we're going to continue to do a whole lot of deals that are much smaller dollar now, just with the way our business model actually operates, but I know there's a lot of people listening in our network, let's say in Chicago, you can buy houses for 50, 60, 70,000, put in 70, 75,000 and maybe sell them for like 250 to 300,000.

There's like really big spreads available in some of the more challenged and distressed neighborhoods in the Chicago market, and you probably would agree, like if we were talking about more constrained suburban markets, there's a lot of houses that get flipped and guys are probably making 35, 40,000 and that's great, right? It's a little more safe there versus 60 or 70, 75 or 80 that might come with the Chicago neighborhoods that I'm thinking of, but over time, I don't know, there's something to be said for scale and I just I would share that with myself and share that with the listener that over time we definitely want to expand that way of thinking towards scale.

**Tom:** Sure.

**Dan:** Let's shift gears back to self storage if we could Tom. You were 2 and a half, you were so years, let's say, into ownership. You were about 2 years getting running start and you were running a successful distress debt business and came from the M$A background, I'm assuming very analytical, prepared and conservative, and I think that's good for someone in your position as a general partner in self storage deals. What is the market consideration or the market selection criteria, where you want to find the next 3 to 5 or ten million self-storage asset? What is the thought process behind that? What are you looking for?

**Tom:** Sure. Yeah, great question, and we do a lot of work to find the market, right? And we'll look for a market first before we start looking for assets to buy in that market, because I'd rather be in a really, really solid market, because a really good market can help to buoy your asset within that market, and hopefully if you make mistakes, a good market can cover those up a little bit, but we're looking just like in multi-family and other commercial real estate asset classes, we're looking for at least steady, if not growing population. We're looking for steady, if not growing job growth.

We're looking for infrastructure investments being made in that market, so new schools and new roads and new off-ramps from highways and those kinds of highways being expanded, those kinds of big more government related, projects, right? And we're also looking for... we want to see solid income and we don't want to see the income too high, right? Because if the income's too high, those folks are buying big houses that have plenty of places to store stuff, but we also don't want it too low, right? Because we want it kind of in the middle, so like 50-ish, 60-ish, 75,000 for median household income. We like that because it means that they're in a house, but it's probably a smaller house.

A lot of the markets we're in have older housing stock and maybe they don't have attic they don't have basements. Especially as we get down to the Southeast, a lot of those markets, they don't have basements at all because the soil's kind of sandy and what have you, it's not conducive to a basemen, and that's also too hot to go in the attic, so those folks they do use storage a lot. We're also looking for, of course we don't want to see a high level of poverty because that, that's just going to lead us into a facility that we're going to have some challenges on the collection and on the delinquency side of things that we try to avoid, and we're also looking for a diversified economy, right?

We're not looking for a 1 factory kind of town where that factory goes out of business and then the town goes out of business, right? So we like to see a lot of different job industries pushing into that economy.

**Dan:** What are some considerations around existing, or in the pipeline, inventory that's come in on supply and demand?

**Tom:** Yeah, I'm glad you brought that up because that's certainly something else that we look at. When we do find an asset that we're interested in that market, we do our due diligence for sure on the existing facilities that are competing with us, and then also anything that's in the pipeline, so we subscribe to cell storage specific databases and we do our 1, 3 and 5 mile radius around that particular asset, so we can see how much storage is there as compared to the population that's there, so we call that the supply index, right? So we want to see that the supply of storage is at an equilibrium level and not too high.

If it's too low, that means there's an opportunity that's the supply and demand there might be out of whack and it gives us the ability to push rates maybe even more there, so typically the equilibrium it varies by market, but typically it's about 8 square feet per capita in the market, so if the supply index comes in at twelve, fifteen square feet per capita, we're going to be really concerned about that because that would indicate to us that that market is oversupplied. It's not a deal killer right out of the gates because there are some markets where the supply index is high, but they're all full, so all those facilities are full, so we know there's a lot of demand there, and the same thing on the other end of the scale.

If the supply index is, 3 or 4, or 5, that's going to give us an initial indication, still need to do more homework, but an initial indication that that market may be undersupplied and could stand to absorb more self-storage.

**Dan:** What is the target size of asset in square foot and maybe the format of that storage, meaning garages, RV storage parking lot/condition space, so like what is the size of the facility and the makeup of the facility in your ideal target? Perhaps it's what you're buying now or perhaps you're buying something with land in an expanding, is there a specialized Belrose Storage kind of sweet spot model that you believe in that you're looking to build your product as?

**Tom:** Yeah, absolutely, so we're looking f for value add, so these are existing facilities that are at least twenty thousand square feet and preferably if they are twenty thousand square feet that there's an expansion component or expansion possibility, so we can get that up to thirty, forty thousand square feet, and the reason for that, Dan, is because like I said, we're requiring mom and pop facilities, so these are facilities that are not well run. They're not really using software to manage the business.

They're way behind on technology. If they even use technology, they don't really have any marketing, right? So they're not really running it like a business, but what we like to do is go in and we do bring our professional operations team in and to leverage technology, right? So we can run it, run the facility on a hybrid basis and really monitor the expenses, allows us to really run the facility very efficiently by using technology, but if there's an expansion component there that we keep an eye on that because we're thinking about our exit, right?

We want to be able to exit that facility to maybe a larger regional player. There are a lot of larger regional players out there that they just want to clip their coupons, right? They just want to see that steady cash flow. They don't want to roll up their sleeves, they don't want to deal with turning these facilities around. They just want to buy something that's already stabilized so they can come in and just clip those coupons and milk that cash flow, but that's why we like to get those facilities to a certain size.

**Dan:** I think some of those regional players too, off the top of my head, I don't recall the number. I had some family member from my daughter's mother's side of the family I guess you could say, and they were running in Allentown and he had like 8 or ten locations, and if he could go from 8 or ten to let's say ten or fifteen, he has the same brand and he has the ability to sort of cross rent when a facility goes. Yeah, he has market knowledge data, the demand at his fingertips where that regional player might be ideal.

Does he want to do the turnaround like you're talking about where, I don't know, I assume there's probably repaving the roads and maybe doing some painting and signage and working your way through this like backlog of collections and non-pay tenants kind of organize that all make a turnkey. Now the guy with ten or fifteen doesn't have as big of a project, so he is willing to pay a little bit higher but premium, but still he may have another level of value add in his pocket because he's going to know the Allentown market a lot better than a single location owner, who's just trying to do the flip and get to him might know. Is that accurate?

**Tom:** Oh yeah, 100%. I mean that's one of the things we actually try to do when we acquire a facility in a market. We immediately point our acquisitions team at the other facilities in that market, so we can maybe add 1 and that way, add 1 or 2 or however many we can in that market so we can get some critical mass in that area. We can actually control the market to a certain extent. We can manage them more efficiently because we can use one manager to manage all of those in the same market, so it's definitely part of our strategy.

**Dan:** Okay, so here's the elephant in the self storage unit, we'll say. Cabaret compression, the deal flow that exited in 2021 and '22 is insane. COVID caused more people to stuff their things in storage. Maybe there's revenue bubble, maybe not, right? How would you speak to the current conditions in the market around the cap rate compression around maybe the revenue bubble of '21 and '22? Because COVID did this disruptive thing and maybe what you're expecting or what you're expecting the self-storage environment to look like in '23, '24 and '25 and beyond, and what are your plans for riding that wave up, down, sideways, through the middle of as we kind of transition?

Who the hell knows where we're going in the marketplace. Right Tom? A lot of people think it's going to crater, probably those of us who've been around in '08, '09 and '10, and then maybe there is a reality where the rates recover and we kind of have the "soft landing" We'll see, but how would you answer or talk on that long-winded setup?

[laughter]

**Tom:** There was a lot in there, Dan, lot of good stuff though, but no, obviously, '21, '22 huge wind at our backs, right? I mean we were pretty much able to increase our rental rates pretty much at will, right? Because there was just so much demand with storage. People needed to turn their spare bedroom into an office, right? Because everyone was stuck at home because of COVID, right? They had to turn their garage into their gym, they needed someplace to put their home gym, their peloton, whatever, so that's 100% true, and that's over, but let's be honest, that is now over, we are in post COVID world and we're seeing that in our numbers, right? So we're back to the normal cyclicality seasonality in self-storage, right?

Obviously we get into the colder months, our occupancy rates are dipping across our portfolio because people might move out, but they're not really moving a lot of stuff in the winter, because that's really what drives self-storage demand, right? It's those disruptions, people having to move, people getting displaced, downsizing, divorced, all those kinds of things that are disruptive and in the wintertime people just aren't moving around as much, and so we're in that little lull right now, but we're also now expecting that the spring market is going to be pretty strong, and so that's the typical seasonality in the self-storage business.

I'm not concerned about that because over 40 years, Dan, the self-storage occupancy rates across all the facilities in the country, through all the ups and the downs during that time period, has kind of gently meandered between about 80 and 90% occupancy during that time, so it is a resilient asset class. It provides consistent income because of that. Now, of course, within the occupancy ups and downs, there's certainly rate adjustments that have to occur, right? So in this slow time, certainly we've been adjusting some of our rates down because we're always looking at that demand curve, right? So if things are hot and things are in demand, we're going to be moving up our pricing to take advantage of that.

If things slow down and we we're having more move-outs than move-ins, then we're going to be adjusting our prices down to try to maintain those folks that we can, but this is just reality of self-storage. I think a lot of people were attracted to self-storage during the last couple years because it those rental rates were increasing by so much, but now we're back to what I would say more normal kind of seasonality in the industry, which again, I'm fine with. I think it is a resilient asset class. I think it's got legs to continue through. Who knows what is going to happen in the economy later this year and into next year, so I think there's the other thing I wanted to point out too is self-storage.

Of course in the early days of self-storage, right? It was kind of the rusty, dusty metal boxes stuffed in the back of an industrial area. You had to kind of go down the gravel road to find the rusty fence kind of thing, and it's changed substantially. Back then it was maybe 5 or 6% of households used self-storage, but now that self-storage is becoming more mainstream, you're seeing it in more traditional retail corridors, right? It's becoming more accepted and it's becoming more of a... almost like a part of the whole housing strategy for folks, right? Especially millennials who they're not looking to live in the big McMansions, right?

They want to live in a smaller home, they're more mobile, but they still want their toys, right? So they still have their bike and their kayak and what have you, and they purposely live near self-storage because they want to leave their toys over there, so now self-storage is at about 10 and a half, 11% of households in the US are using storage, so that's been increasing. I would expect it to increase, and I know maybe 1%, 2% here or there doesn't sound like a lot, but when you consider there's 120 million households in the United States, every 1% bump, that's a million and 2 new customers that need storage.

There's only 55,000 self-storage facilities in the country, so I think that in and of itself, that dynamic is just going to continue to have self-storage demand, be able to ride through these, these ups and downs, so I'm bullish on storage going into the next several years.

**Dan:** Yeah. You bring up a lot of great points there, and 1 of the things that caused me to invest in self-storage facilities myself was the trend of the internetization of all of real estate, right? So we developed this, the virtual offer at and on the heels of COVID, right? COVID created this issue where people now go to restaurant, right? You probably be like Tom and you scan a QR code.

**Tom:** Sure.

**Dan:** Do you recall scanning any or many of them before COVID came? Like at all in life?

**Tom:** No. No.

**Dan:** We saw QR code. It's been around forever, but it was like, what is this? It's weird, and now 70-year-old people know how to use the QR code and that's like 1 small example of the internet trend and that we thought on our thesis we're doing the virtual offer as a bit of a product for people all over the country, and it's an accepted thing because people were buying, renting and selling real estate completely site unseen, other than what was available to them on the internet. That is insane to think that we've gone through that transition, and I think a lot of businesses who've succeeded lately, let's say Walmart, let's say Target, let's say Macy's to a lesser degree, let's say Nike to a greater degree.

They've capitalized on the internetization of their business models, right? They've gotten much better at digital strategy marketing, etcetera, and I noticed the same kind of thing going on in self-storage where it was a sign and a phone number and not much else. Maybe a website, but it didn't have the ability to book the storage unit, see if it was available, go in, pay my bill online, let alone on Google ads, or be good at search engine optimization, which is what the self-storage operators that I know talk to around the country and have invested in are doing that kind of thing.

I think you're in a good position to capitalize on that trend by bringing that next level of operation to the table, and I think it's a really strong point to go from 5 to 6% of homeowners or people I guess using households using self-storage to now 10 or 11, and the things like the kayak and whatever other, maybe it's a motorcycle they're storing in there and I'm thinking, "Oh, well I live in a condo and I haven't been able to buy my 68 Camaro, although I want 1 so bad, I don't have anywhere to put the damn thing." I'm like, "Maybe I got to look for a storage unit somewhere, that's right locally that I can kind of store the thing." And I'll be part of that 11%. That's now adopting that.

**Tom:** That's right. Yeah.

**Dan:** A lot of really cool trends there going on that you're well positioned to take care of.

**Tom:** Yeah. Yeah. If you can allow me a minute, since you opened the door about technology, I touched on it earlier, but we are really doing a good job. Our operations team is knocking it out of the park with technology and 1 of the things that's a big driver of a consumer choosing a self-storage facility is they drive by it, right? So our facilities are largely unmanned, but we have people driving by wanting units, so how do we handle that? Well, we put a QR code on the front gate at the facility. They can scan it with their smartphone, they can fill out their paperwork, right?

They can shop, they can see the rates, they can pick their proper size unit and they can select, fill out their paperwork, sign with their finger and then they get a code texted to them immediately for the gate so they can open up the gate, they're directed to their unit, they roll up the door in their unit, there's a lock inside waiting for them and they can unload their stuff, lock it up, and be on their way and have no interaction with a human at all. The other thing is at our facilities we use...

**Dan:** What does the sign on the QR code say specifically? Do you recall what the call to action is or how that [inaudible]

**Tom:** It says, yeah, to rent a unit scan here. It's pretty simple

**Dan:** Enough.

**Tom:** It's pretty simple. Well, once they're on the property, if they are having difficulty, we have smart security cameras, and so the customer can go to the security camera and kind of like wave and say, "Hey, I have a question." And it'll prompt the manager because every facility we have has a manager assigned to it. They're just not physically there, and so they can have a conversation with the customer through the smart security camera because there's voice back and forth there, so they can handle the customer service issues in that way as well, and it helps with security because when those security cameras pick up somebody on the property that's not supposed to be there in the middle of the night, they can holla out at that person. Like, "Hey, get off the property right now before I call the cops." Kind of thing.

**Dan:** Nice.

**Tom:** We're using technology in a big way there, and then of course, the software management systems are very sophisticated now. They help us track our delinquencies, track our move-ins, move-outs, our revenue how people are paying and just all all of those things that you really need to understand how to run the business.

**Dan:** Okay, so let's shift gears again and we'll go with this from the syndication side of the scenario, so are there some pitfalls for high-net-worth investors in any syndication? And perhaps how would they be avoided or addressed if we were talking about Tom Dunkle's next deal versus someone else out there?

**Tom:** Sure. Obviously, as a full-time investor myself since 2006, I've certainly, been in some deals and made some mistakes along the way as an investor, so I would say a lot of the times those bad deals boil down to a bad sponsor, right? And so I think what high net worth investors tend to do is they hear about an asset class, they do a little homework there, they want to get involved and then they start throwing money at these different deals, which I give them a lot of credit for wanting to break away from the more "traditional investments" stocks, bonds and mutual funds and take that step into alternative investing, but I really wish that people would take a little more time to first vet the sponsor, right?

You're handing over your hard-earned money to someone who's running this deal, right? So what's their background? How long have they been in this asset class? What's their level of success to this point? How many exits have they had? Those kinds of questions, and so I feel like a lot of investors, unfortunately, they skip that part because they're so excited about the deal or the asset class or the projected returns or what have you, so just I would encourage people to spend more time on the front end and of course thank you, Dan, gives me the opportunity to do a little plug for Belrose Self Storage or Belrose Storage Group, but I've been a full-time investor. 17 years before that I was in corporate America doing deals.

I've been around transactions and, and projections and financing and all that stuff for a long, long time. All of a sudden, Dan, I'm solidly in my 50s now, if you believe it or not, so I think you want to find somebody like Belrose Storage Group, not only has someone like me and my whole team, but we have the team, we have the core values, we have the vision, right? So we're a real company and we invite anyone who wants to come to our office, kick the tires, check us out, that kind of thing, but, but we're building a business here and our vision is to really help as many people out there as we can, to create that financial freedom that they're looking for through real estate.

If you're looking at a deal and you find that it's maybe a 1 man band and it's joesponsor@gmail.com, you probably don't want to... you might want to take a hard look at investing with that guy because if he doesn't even have a website or a legitimate email address, that's 1 little red flag to look out for, but we have a whole... I don't know if you've meant to do this, Dan, but we have a whole E-book actually on what we call the SAFE Investing Checklist, and SAFE is an acronym, it stands for Sponsor, Asset, Financials and Exit, and it's basically a compilation of the questions and tools and things that I've learned through my investing career, through my trial and error and mistakes and whatnot.

The questions that you should ask your sponsor, the questions you need to ask about the asset you're investing in, the questions to ask about the financial aspects of it, the tax aspects of it. And then E is for exit. How are you going to get out of this thing, right? It's not like you can go to schwab.com and click, click, click and sell your position in a Belrose storage group deal because that's just not how we're set up, so as an investor, you need to go into the deal knowing that your money's going to be tied up for a period of time, and you need to be okay with that, but I would say, again, just to reiterate 1 last time, I really encourage investors out there to take more time. First looking at the deal sponsor before getting excited and just jumping right into the deal.

**Dan:** Yeah, and on the getting excited piece, so here's a trend that I noticed I get a lot of being the podcast host. I get a lot of emails from sponsors and we're coming off the heels of a very unrealistic return scenario kind of thing, and I get a lot of reports about their last deal and the returns are absolutely egregious. I'm not even going to mention them, but even me who's investing in stuff and somewhat conservative and those sponsors and doesn't invest in some, invest in others, even I am like, "Oh my God, I got to get in on this next 1." And then I'm able to immediately check myself because I've done enough homework and I know where we're at in the market, where we're at in the cycle that I shouldn't expect this 30, 40, 50% return that the last deal got.

It's good. There was a great exit. The team effectively got out of that probably too soon, right? 50% is great, but for me part of it is there's tax advantages. I kind of want my sponsor to like run the deal long term, and let's sell that thing in 5 to 7 years anyway, because like, I didn't hand off the money because I needed it right back with this giant profit the next year and now I got all this tax consequences, I got to find a new home for it and probably not so great of a cycle, so I'm okay with a reasonable expected return and over a long time horizon, and that's just where I'm at in my investing right now, so in terms of expectations, like what should I consider if I'm participating in an inequity syndication to be like realistic returns?

Maybe a better question is like, what would be the expected returns on your most recent or even an open offering that you would have right now at Tom, for 1 of your deals?

**Tom:** Sure. Yeah, so it's a great question. We, as a financial guy my whole career, I'm the spreadsheet nerd, right? I'm crunching the numbers and doing the projections and I learned a long time ago, it's best to under-promise and over-deliver, so the projections that we put together are we put numbers out there that we have a high degree of confidence that we can not only meet, but that we can beat them, and when we're putting our models together, we're gearing those investor returns to the high teens, so we structure our deals with a preferred return that's paid monthly, so that's depends on the deal, but typically it's 8% give or take, and then on the back end, once the property's sold and the profits are split up, we gear those returns so that the investor gets a high teens return.

17, 18, 19% is what we're targeting for value add deal, or a deal that has a construction or a conversion or some kind of longer-term component, so a little more risk, right? You need to be compensated for that risk, so for that, we're looking at about a 20% overall return.

**Dan:** Where would I go to get more information may be to get the safe investing checklist E-book? What would be the best place for listeners to go find?

**Tom:** Sure. You can go to belrosestoragegroup.com and the E-book is there, available download right on the homepage there, and then you can also direct through belrosestoragegroup.com. You can direct yourself to our investor portal, and so that's where you can register as an investor with us, and that's where we share our deals and that's also where we share some more value add information. I like to share things with our investor community just to help them learn more, add more value, so because we're not doing deals all the time, right?

We're pretty selective about the facilities we acquire, so we might go a bit of time without a deal, but so we like to share articles that we find that are interesting or data that's coming out about what's going on in the economy, where are interest rates going, how our housing starts doing kind of just those kinds of economic kinds of data, and then also industry kind of data related to self-storage. What are the technology trends or what are the hot markets for storage? Those kinds of things.

**Dan:** I have 2 final questions here as we wrap up that we're going to discuss here. The first...

**Tom:** Sure.

**Dan:** I kind of alluded to mentioning to my own self when I was younger that I would prefer had he begun looking at the scale in deals earlier, that might have been a good thing thing for me 5 or 6 or 8 or 10 years later. What would be the crown jewel of wisdom that you would share with yourself? Let's say 2006, 2008, somewhere in that range, Tom?

**Tom:** Sure, I would share that you can't do it alone. You got to find the right team. You got to surround yourself with the right people with complimentary skills and complimentary kind of ways of to because when I came out of corporate America, right? I mean, I had a business degree from a great school. I had this background in corporate America. I was working with Harvard people and Wharton people and all these amazing people. When I went into my own entrepreneurial venture in 2006, I thought I knew it all right? And I was like, "Ah, I don't need any help. I can do this. I'll bring in a couple people just to help with this or that, but I'm going to be running this thing. No problem."

Well that changed a lot over those next few years, and so you can probably see the book over my shoulder here, Who Not How, but that's sort of our company mantra right now, is when we run into a problem, it's like, who can we find in our network to help us overcome this problem?

**Dan:** Nice, and the final question I have, what is the kindest thing anyone has ever done for you?

**Tom:** Wow. What's the kindest thing anyone's ever done for me? Well, because I've been surrounded by some amazing people, especially in the last several years. There's just maybe too many things that I can think of, but I would say just since it's so recent, I'll share it with you. I was a speaker at a national event over in Louisville and so it is a Louisville Slugger, right? So it has my name on it.

**Dan:** Nice.

**Tom:** Thanking me for being a speaker at Ray's Fest in 2023. I thought that was such a thoughtful really nice gift for me, for putting on a forty minute presentation at this event, but I know that's probably not exactly what you were looking for, but it is the first thing that that came to mind, but I've been blessed to be around just some really great people and I feel like every day got something, something good going on from our team or my personal life or what have you, so it's a tough question to answer.

**Dan:** Yeah, that's good. I mean there's so many things I think a lot of us have experienced kindness is along the way, probably tough to stack rank them if you will, here without having any warning the question was coming.

**Tom:** Great.

**Dan:** Well, cool, Tom, so it's belrosestoragegroup.com

**Tom:** Yep.

**Dan:** If anyone wants to go ahead and check you out and get some more information there, and I appreciate you coming on the show. I have a couple pages of notes here. It's been a blast catching up and we'll have to get together soon.

**Tom:** Sounds great, Dan. It was a great, great interview. Thanks so much. Appreciate it.

**Dan:** Thank you for tuning in to the REI Diamond Show. Remember, to review and subscribe on your podcasting app, just search REI Diamonds and click subscribe. If you're interested in receiving the weekly big idea email where I provide the most valuable jewel of wisdom I discovered during the recording in the most recent episode, you can sign up at reidiamonds.com. At that site, you can also access the two hundred fourteen episode archive. Again, that's reidimonds.com. In 2022, my house flipping well, real estate buy and sell company Diamond Equity Investments, bought and sold three hundred twenty seven deals and we've done thirty six so far this year.

We currently have another one hundred and seventy seven more in our inventory, either under construction, or under contract and awaiting close, so here are 3 ways that you and I could do business. Number 1, if you are interested in having access to real estate deals that you can buy, fix, and flip for profit, go to accessrealestatedeals.com. Number 2, if you are an accredited investor who is seeking double-digit returns, you can sign up to receive my private mortgage investment opportunity emails @fundrehabdeals.com.

That is how you join my network of private lenders to potentially fund my projects, @fundrehabdeals.com. Number 3, I love off-market deals. Do you happen to have any working? Here's what I am personally buying right now. I am looking for ten thousand to one hundred thousand square foot commercial retail or industrial properties with a value add component. I am looking for those in the Greater Chicago land area, including Milwaukee and Indiana, the Northeast, so New York City, New York State, north Jersey, south Jersey, Pennsylvania, Maryland, Delaware, and Virginia, and I am also buying large vacant parcels, ideally ten acres or more in the Sunbelt States, which are suitable for development, ideally of one hundred lots or more.

If you have something like that, shoot me an email with the details using subject line "deal for Dan." We are at the conclusion, my friend. Next up we have Dave Walcott joining us to discuss Tax Advantage Investing, including infinite banking and oil and gas investing. I'll catch you and Dave next time.

**Narrator:** Thank you for listening to this episode of the REI Diamonds Show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at www.reidiamonds.com.

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