

EPISODE 918

[INTRODUCTION]

0:00:00.0 ANNOUNCER Welcome to the Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

0:00:24.4 Whitney Sewell: This is your daily Real Estate Syndication Show. I'm your host to Whitney Sewell. Today, our guests, our Jackson Stith and Simen Ruge. Thanks for being on the show, guys.

0:00:24.4 Jackson Smith: Thanks for having us. It's good to be here.

0:00:35.0 WS: Prior to co-founding SyndiGate, Simen was an investment banker in London, responsible for selling and executing securities and transactions totaling billions of dollars. On the other hand, Jackson had a successful career in real estate acquisitions and development, working with several highly regarded real estate development firms throughout the United States and Dubai.

At SyndiGate, they focus on re-capitalizing, LP and GP equity positions in real estate investments and specializing in secondary, middle market commercial real estate equity. Guys are welcome to the show, I look forward to just hearing a little more about what you all do, right? I think there's gonna be listeners that are intrigued by your business model. Give us a little more about your focus and maybe you can provide an example or two of your business model...

0:01:22.4 Simen Ruge: Absolutely, look... Maybe we just give it a little bit of context. So we came at this from different angles, so I'd... I come from the securities industry, I'm not a real estate guy by background, work in London for 10 years, moved to the US because that's... My wife's American, decided to settle down here in Miami where we both based, and that's when I met Jackson, who comes to a different background than me, but he described to me a problem, but he come on across an industry and I kinda set herself down a path of first exploring the problem and then trying to find out a solution for it. Maybe Jackson, you wanna give a little bit of background and where I came from.

0:01:55.0 JS: Sure, so my background is all real estate acquisitions and heavy development experience. Over the course of my career, I put up about 9 million square feet across all sorts of markets in United States, Las Vegas, Miami, New York, and then did some work in Dubai as well, and from my own book, I did a two syndications value add opportunities, multi-family and I attracted partners that put it in the vast majority of the money and had a stronger balance sheets, and when it came time where I thought it was time to sell because cap rates, he compressed and we had made a lot of money on paper.

I wanted to get some liquidity for that, they wanted to hold on to the projects, they want I hold on to the assets for an indefinite period of time, and they said, You're welcome to sell your positions and these projects, we won't stop him from doing that as long as whoever is stepping in for you is a good person and least map on checks and so on and so forth, but I went out and I scoured the world looking for that service, and I couldn't find it and discover that one of the biggest problems in real estate syndication is that there is no secondary liquidity for these very big financial positions and in a lot of ways, it's an on-tap market.

So I started this business with Simen in order to try to solve that problem, right? So it's something I experience directly in something after further research, especially by assignment, we discovered was a pretty big problem in the real estate industry in the United States.

0:03:24.1 WS: Nice, before we dive into that, would you elaborate on that problem a little bit,

maybe give an example, a little more in depth there, and then let's talk about how you are solving it obviously...

0:03:34.0 SR: Absolutely. Look, maybe I'll take this one, Jackson. See, you put together real estate syndication, you put a life span on the deal, say seven years. In a span of seven years, a lot of things you can happen, so it's... Let's take a classic example, multi-family deal, a couple of different LPs are in the deal, let's say that one of the LPs as a life event, like the death or divorce or something like that, very simple, come across the man, example like that in California recently.

The investor passed away and his heirs inherited a couple of... These kids basically, they don't wanna hang on to it, on the flip side, they're a minority interest in a deal, they hardly go to the GP and say, hey, we'd like you to sell the building now. Still they don't wanna wait around for the next five years. So that's where you can come in and you can say, Okay, look, can we find an investor? Can we do a bit of matchmaking, find an investor that's appealing to the GP, they can say, take up that position, and I step in in the deal and settle them, 'cause that's your most basic example, and they kind of broaden this out to...

I think what we found is that there's a lot of problems in equity part of the capital stack, both LP-driven and also GP-driven. The other example is, it's difficult for GPs to find enough capital to work through their pipeline, so you get to these problems where they have a whole bunch of projects they wanna get going with, but a lot of the capital is tied up in legacy projects. So one of the ways you could free up us to get new investors in and sell off some of that additional equity lying around, so that's kind of like the two sides of what will be fine, and that's kind of a neat example for explaining it, but there are just so many different flavors.

0:05:10.7 WS: Now that's very interesting. How do people find you if they're in their predicament, how do they reach out to know of you all to say, hey, they could help me with this.

0:05:10.7 JS: So I'll handle this one Simen, we're using to find or on LinkedIn or we have a

website, is important also to state that we are registered reps of a broker dealer in out of New York City, so SEC and FINRA compliance, so on and so forth. So this is all about board, because they are technically securities, these positions are technically securities and we wanna do this the right way, so we went through the things we had to do to get those licenses but, you know, I think kind of...

I don't know, philosophically or historically is a better word, it's always been in the mindset of passive LP investors that once you're in a deal, you're on a deal until the GP decides that that deal is gonna be sold or refinanced and they're capped out in that way, or whatever the case may be, or historically, you go back to the GP, if you have a life a bit or just want out of the deal for whatever reason, and the GP really has the 99% of the cases, the GP has the right to say no. You're hearing that's what it is.

Now, sometimes the GP may offer the other partners and there's in these documentations, sometimes refusal, refusal by the GP, right at first refusal by the other LP partners, and the deal about when you're gonna sell this position, who it goes to first, and there's sorta waterfall of that order of operations. So traditionally and historically, these have been sold back to the GPs or the other LPs in the deal, but historically also at discounts, so for over 100 years, because the first syndication was really the 1930s-ish, almost 100 years now, it's just been in the mindset that either sell back to your partners, you just say into your stuff in the deal.

So there's a real sort of educational process that we're going through right now, just in the industry in general, saying actually there's a third form, and that is to sell to an outside investor, but you need someone who knows those outside investors, and we arrange those conversations and package the deal that... Because most of the time, it's just piles of historical data, the P and Ls from the last, however, New Years, the K1, so and so forth, and you kinda need to package that information up in a, in a marketable package. And so that investors have a very quick, easy way to understand what they're looking at right?

So we do that work and to go back to what I was saying, really right now we're in kind of this period where we're trying to educate the market and the people, and this is why it's great talk

on your show, say actually, there's a third way to do this, you don't have to necessarily send a deal you wanna be in anymore, you don't have to necessarily sell back to your GPs and other LP partners in the deal, if it probably at a discount, you can go out and try to find someone to replace you in the capital stack, so we're a fairly new company, we've been out of the gates maybe almost a year now, and we're in the process of kind of putting ourselves out there for people to understand that. They should have a conversation with us.

0:08:27.1 WS: No, that's awesome. It's neat to hear that. I mean, like somebody is helping investors through that process, or if they do have a life of it, or whether they just want some liquid cash back for whatever reason, you can help them kinda exit that deal and walk through that process. And what are some steps in that process or hurdles that are difficult for people to jump to? You mentioned that obviously it depends on how the contract operating agreement, the PPM, those things were set up. That's probably one of the first things you're gonna ask for, right? To see how that was set up in the beginning, but what are some of the common things you see that maybe the investor needs to know or to ask for? Yeah, let's talk about that. What should they be asking before they go into a syndication from your standpoint, so they know they're able to get out or use somebody like yourself, your services, so that's either an option in the future?

0:09:15.3 JS: Simen, you wanna start up on that? I think there's something else.

0:09:18.0 SR: Yeah, sure, absolutely. I think it's important to understand your rights and they're... Every set of syndication documents are slightly different, There's every flavor out there, and understanding where you write ... is key 'cause their GP will write then obviously the terms that they prefer, most of the time, some VPs are very reasonable, some are not, so it really depends on understanding what is all spell out in the documents what your rights are.

They can be right first refusal for the GP to buy position, that could be limitations to transfer. Almost always a GP 1. As in the process, I think a good starting point is on ... conversation with the GP, I think that's where we start as well, it's hard to do anything without having had a conversation with a GP and understand what their motivations are. You don't really know the

deal until you spoke to that.

0:10:10.2 WS: So what about the relationship there with the... Let's say the operator, somebody wants to exit deal, they come to you all and say, You know what, I think you all could help me to gain some liquidity here or whatever life events happened, how do you all work with the operator just to help make this transaction as smooth as possible?

0:10:28.1 JS: I Mean, it all becomes with the conversation, right? If an LP comes to us and says, I'm in a big fight with my GP and things are contentious and so on and so forth, it's definitely not necessarily a red flag, but it means what we have to talk to the operator... And that's probably the first step in a situation where we know things are contentious, most of the time things are not contentious, so the first step is just to kinda get our minds on the deal, so we'll send an NDA with the LP, get some documentation, kind of put our minds around it.

See if it's even sellable, not all deals are sellable, and if we think we can help you say, well, the next thing we need to do is have a conversation with a GP. We need, you know... I haven't seen one operating agreement yet that doesn't give the GP the right to deny a sale to me, there's always approval rights for the GP and every documentation has ever seen. So we go back to the GP and we just say, look, we're not here to cause problems or not here to bring in an acquisition investor, you don't an LP, and this is true, from their point of view as well, you don't want an LP in your deals, that's unhappy, they can make your life miserable.

They call you every five minutes about why you're not selling the building or what you're doing to market the building is... So on and so forth. The other thing is, the vast, the network of investors that we deal with are really institutional money, and we don't mean institutional like BlackRock or PGIM, these giant institutions, 'cause those guys only write 30 million checks and above, right? And that's... so we mean institutional opportunity funds, endowments, family offices and so forth, that still qualifies institutional money, from the sponsors point of view, they're actually being introduced to a whole new source of capital that if they have ambitions to climb the value ladder and do bigger, more profitable, more complicated deals or just to expand their current platform and do more deals.

It's actually a new source of capital they're being introduced to, so instead of their wealthy lawyer friend Bob, they're being introduced to X, Y, Z opportunity fund that has infinitely more money than than Bob does. So it's actually a really good proposition for the GP in most cases, and most of them see that value proposition, 'cause most GPs that we've ever dealt with are professional and have some ambition.

0:12:56.2 WS: Is there an amount that you're typically gonna work with, or do you find... Is... The investor that just invested 50,000 that you're going to help or is it gonna be somebody that's... I don't know, is there a limit?

0:13:09.3 JS: I mean, from an economical, economic standpoint, there is a limit, right? We live off, we charge you commission on doing a transaction, and we need to cover certain costs, like we have costs in terms of onboarding KYC, all these kind of things, right? So there's a base amount that we need to charge and because that is a certain amount of money, we don't tend to go below a certain limit, so for us, really half a million to a million is kinda like the bottom line there, it depends a bit on the complexity of the deal and what's involved.

That said, there are solutions for the, you know... their funds out there looking for your 50K 100K position, so it could be obviously, but we can certainly point people in the right direction, even though it might not be something... We can put a hands-on service too and help expand demand for... There are sources out there, but it's not for us to get actively involved and do the whole process and... And create demand for it. It needs to be a certain minimum threshold, otherwise it just... It costs too much. Really?

0:14:12.8 WS: Sure, no, I can completely relate to that. Or agree. And what about just some pros and cons, I know there's pros to being able to... For somebody to get their liquidity or get their money back, if they need it, like you said, for some life event, what not... Any cons to this that maybe people aren't aware of, of coming out of a deal earlier like that, I know you mentioned selling it at a lower rate depending on what the shares are, but... Anything else that we should be aware of? A lot of times it won't matter if there's a life event, you have to have

the liquidity, but anything that they should be aware of?

0:14:42.1 SR: Yeah, I just... So say, Look, with every type of transaction and every type of, these types of transaction generally, you wanna consult your tax lawyer, you wanna consult your accountant, maybe your wealth manager to understand the implications of what you're doing, you might crystallize some capital gains. You might do other things. So I think it's important to understand and consult the network around you that you look for advice on, we're not tax lawyers, we're not accountants, we do a very simple part of the small part of the process like understanding, understanding the implications for something.

I think it's very, very important for someone to sit down with their advisors and talk it through and understand what this does. So that's what I would say is important.

0:15:58.5 JS: Yeah, I have a couple more things to add to this, well, I think most people need to realize that these positions are e-liquid, and so there's always some sort of discount that people are... The investors are gonna place on them. Now, it's a discount to what, right? If they bought this deal 10 years ago, they probably re-capitalize their position already one or two times with refinancing, so on and so forth, they might have effectively a zero basis or very low basis and the deal...

So if it's a discount to NAV, still making quite a capital gain in most instances. That being said, it's all very tied to the actual deal, if there's capital calls going on, all sorts of stuff, and these LP positions don't have voting rights, and there's capital calls going on, well then someone who's gonna step in and it's gonna be taking... Are gonna be taking on the risk that you're stepping out of, then there's gonna be a cost of that shift, you have risk, right?

So it's a negotiation, like everything in life and everything in real estate, I guess maybe the size was a Simen mentioned with the tax consequence, so on which we are not tax advisors, as he said, is you're also stepping out of a deal and there might be future upside to that deal, and maybe you're just hearing the position to advantage that upside, because you have a life with them or, you just need the louder... Whatever the case may be, but now we're looking at a deal

in New York and they had very low debt on the property, like a couple million bucks, and it was probably, I think a 50 million property, and at a certain point, people are...

The GP is gonna refinance that deal, take out a load more debt and everybody is gonna get a big pay day from that, and if you're stepping out now, you're gonna have to... You're giving that up, but you're also... That's why I feel like that is marketable because you're also selling that opportunity on to somebody else, so it's a negotiation process.

0:17:32.2 WS: Yeah, no, that's helpful, I appreciate you elaborating. And anything else about... And I wanted to go back to and say, I think it's a great service. And there's people that need out of a deal or for whatever happens, they need a way to do that to me, and they need somebody to help them and somebody that can provide that equity for that operator or take that position. But anything else about the process or this type of individual or anything like that, that you could provide or that you would like to share before we move to a few other questions, just about the business model and the types of investors that you're helping me...

0:18:04.7 SR: It's a really broad spectrum. I think that's what we come back to every time, I think when we started this business... With the cases were more kind of similar, but when we come to understand that every new thing we take on as a separate case, there are all these very differences why people want out or wanna re-capitalize to do something that. There's so many different flavors of that, and there's so many different flavors of masters, right? I think that's a key part of what we do is to understand the person you are dealing with, understand their motivations of what they wanna do and send who they are.

So I think it's such an important thing. This is partly why covid is making the world a little bit difficult because back in the day, you probably meet more people in person, you do get a better impression of people that way than over a sort of a zoom call, over a phone call. But key thing is, at the end of the day, it's people involved, you gotta understand the people understand their motivations, understand what you're trying to do. I think that's kind of what we do, it's hard to be very descriptive on one thing, but that's kind of what we try to do.

0:19:06.4 JS: I was just probably a good time to insert that because these are securities, if there is a process that's followed, and anybody who contacts those should be aware that that process will be followed, right. There's gonna be background checks and anti-money laundering checks and these sort of things that the SEC kind of requires to be done when there's a securities transaction involved. A lot of people don't... They think own a piece of real estate when they're in LP. They own a security, they own a position that is viewed by the SEC FINRA and even the Supreme Court of the United States as a security.

So a lot of people are surprised by this process that they have to go through with our broker dealer and so on and so forth, so it's just good to educate them upfront, and so I took the opportunity to do that now.

0:19:58.5 WS: How often is it the operator that's contacting you instead of the LP?

0:20:02.7 SR: I'd say. That's very often, right? I think even when it concerns an LP, we might get a call from the operator rather than the LP themselves, right. You know, if the operator is fielding calls from three different LPs, we all want out... It's probably better to have a macro solution where you kinda go like, okay, I'll be doing a full flex recap here. We're gonna take some people out and bring in one new investor, are we gonna recycle a lot of capital here, so yeah, there...

And honestly, it's an easier process because obviously they hold a lot of the power in the deal, so when they're driving it, it's just so much quicker that you would say it's like it's easier to deal. So yeah, I know it happens a lot, not just for everyone, money, as they say, but also for for their LP coming across the number makes an...

0:20:46.7 JS: I have it, so maybe it's helpful for me to share an example, there's an operator that has about three projects that they did, on that projects that they're value add opportunities that they did with a couple of LPs and those two LPs wanted to maximize their returns, so they're required for them to come in with this operator, that the operator also plays a piece of preferred equity in the capital stack, preferred equity is at best 12-13%.

So the operator was never completely at comfort, that's not the kind of capital stack he likes to see a cleaner capital stack, lower leverage, not as much risk. And so this operator is looking for or a global solution for these three assets, which is here are these preferred, because I'm getting rid of this preferred, these other LPs have already said that it would take their chips off the table and leave the deal, and also, we've had these properties for a while now, so I've built up some equity, I wanna cap out some of my equity.

So it's kind of a lot of times it is in our business, the GP Drive and the bus, because it's not just about one senior life event. It's about reconfiguring the capital stack, pulling out some equity because they wanna put some money down on some land that they wanna develop over here, the solution is maybe a solution for many different problems that they have in different places than necessarily related to this deal.

0:22:14.5 WS: Yeah, no, it's just interesting. It can be very beneficial for the operator or the LP, you know, who's reaching out to you. Do you all have any predictions just for the real estate market over the next six to 12 months? Anything you expect or anything that... I don't know anything you're predicting?

0:22:28.0 SR: Do you wanna start off Jackson? Obviously, we could talk for hours on this, but what you think?

0:22:33.0 JS: I think, I think here's been a lot of money raised for just for us, and I think there's gonna be distressed in certain property types, I think it's obvious to anybody who's in the markets, I think that hotel and retail, depending on geography, is gonna see some distress, I think there's a lot of different deferred financial maintenance and the property markets, I think we're starting to see that distress, I also think that the distress is not gonna be nearly the levels that we saw in the last cycle in the 2008-2009 financial crisis, I don't think we're gonna see that amount of stress.

I think that lenders, so on and so forth, are far more willing to work things out if it's not CMBS

or some other structure that doesn't allow for that because it's just too rigid, but we're seeing some deals come along right now that have signs of distress, but I also think... I'm not naturally an optimist, but I'm optimistic that I think that the US economy is gonna snap back pretty quickly, and things such as hotel are going to see... And again, depending on geography, are going to see their businesses come back pretty quickly.

I think that you're gonna see some structural changes in office and in retail that... look, habits have changed it. So when you change people's habits, we change the kind of real estate that they use and how they use it, and habits have definitely changed around how they work and how they shop, and so you're gonna see some pain and some re-adjustments in those two property types. I don't think that habits have changed around the way people travel, I think that people... There's a lot of tens of demand for travel and people wanna get out and travel and therefore, hotel is gonna snap back pretty quickly.

0:24:31.0 SR: I look, I just have to add quickly, just at a macro level, as Jackson, look, there's a lot of money being raised for distress there, over the last 10 years, more and more money has been allocated into alternative assets and real estate is one categories that effected from that at the macro level, there is an incredible amount of money chasing yield, even though thresh yields are a little bit higher, we started a year, it's still not great, and there's a lot of investors looking for that.

So there does feel like there's a lot of money in the market. I just feel like there's a lot of lenders, they're interested to make loans, so in that kind of scenario, it's hard, we gonna fight the wall of money, if you will, so far kind of philosophies of speaking for both of us or anything, selectively, they'll be distressed, but with that amount of money chasing these types of opportunities, it's hard to see a huge amount... I would think it's just my thoughts.

0:25:22.7 WS: Yeah, no, it's just interesting just to get your all take on it and what you all expect, and I ask every guest that. I always just need to hear, but a few final questions, guys, what about just a couple of daily habits that you are disciplined about that have helped you achieve success...

0:25:37.3 SR: Yeah, see, I don't know, for like my entire... In my career, I do to-do lists. I have an entire notebooks filled cross that items, not because I necessarily have a bad memory, it is I can really enjoy the process of crossing something out, it's a bit of a nerdy habit, but there we go, it's what kind of keeps me on track and keeps me going. So you don't lose track of it. Jackson would, by you.

0:26:02.3 JS: Yeah, so I think a philosophy that we've embraced in this company is take every meeting, take every phone call, look, you wait some time with some people who aren't serious and that's fine, but then sometimes by taking every media and taking up your phone call, there are connections made even once down the road where you're like, Oh yeah, I remember talking to that guy about that thing, and just kind of saying this thing, maybe this... And then you start crafting the deal, out of this network that you have, right. So for us, taking every meeting, taking every phone call, talking to everybody is important for building a business.

0:26:38.5 WS: What's your best source for meeting new investors right now?

0:26:42.3 SR: In this environment, I think everything has to be online. We're networking with people we know... Look, hands-down networking through people we know has been the most successful by mile, then obviously, we look around online, we try to be active and try to get our voice out there and get build our profile, and that results in some... But I think at the end of the day, personal relationships is a lot what it comes down to, 'cause someone thinks you're doing something good and they've built name from someone else, basically. Right?

0:27:15.3 WS: Now, I just always love to hear how people are networking now and as things have changed a lot, right, but what about the number one thing that contributed to your success?

0:27:23.3 SR: Do you wanna start Jackson? I'm not sure I know.

0:27:25.8 JS: Yeah, I'm not sure I know either. A tough question, and I'm also, as I said, not an

optimist by nature, I am optimistic... most of the property markets, I could have 100 million in the bank and I would still be biting my nails that maybe success isn't there yet. So look, we just work hard. We don't get discouraged. We talk to a lot of people, sometimes is a waste of time, oftentimes it's not, and we just don't get discouraged by the fact that what we're offering or the deals that we're pitching aren't like if one deal doesn't work out another one will, and we just keep going and grinding, grinding, grinding and grinding.

0:28:05.4 SR: Yeah, it's a roller coaster. At the end of the day, this business, it's lumpy, it's about dealing... Well, it was... Someone said it's about failing gracefully, to be able to pick yourself up again and keep going. I think that's kind of key in any kind of deal-making, and I think we've been good at that, kinda just keep going. We started the company during the middle of a pandemic that is ... to rely on a lot of in-person contact, so basically, we set ourselves up for a bit of a challenge, but I think that the one...

Our success, I think I attributes to our tenacity and kind of be our willingness to get back up again, so I'd say that that's for me where it sounds

0:28:43.0 WS: And how do you all like to give back?

0:28:45.0 SR: For me, giving back, I relocated confidence, and there were a lot of people that when I came over to United States to introduce me to people and to help me understand stuff, so whenever someone asks me about something like that, I'm very, very generous with my time. I'll sit down with people and try to help them make connections, 'cause a lot of the times that's our success, like people helping us make a connection, it's something I think more and more about it is I get on the line in my career is the importance of just helping people meet each other, and that's something I try to... I do.

0:29:23.3 JS: Yeah, also look, we try to help as many people with their situations in our business as we can, and sometimes we know that there's a slim chance of success because just the circumstances of the deal or the sponsor, because we also do primary equity raise as well, which means raising new equity for new projects, new developments, new investments,

so on and so forth.

We try to really leverage the connections and the network we have for the benefit of the people who are striving to do something in life, and even if a sponsor comes to us wasn't necessarily incredibly strong in terms of a balance sheet, we will try to find the right partners for them, we'll do everything we can to make our clients successful. I think that's the most important thing that we can do in terms of our business life, not volunteering and everything else, but in terms of our business life and giving back is not just taking the low-hanging fruit, not just helping the most successful, but helping those but you believe and become more successful and chase success.

0:30:30.2 WS: Awesome. Well, guys, it's been a pleasure to get to know you all a little bit and just hear about your business model. I don't think I've had anyone on the show that's created this type of business model where they can help LPs when they're in that situation, or even operators when they have LPs that need to liquidate one way or the other, so I think it's a really neat operation that you all have, you all have, and I just think that more people know about you, the more to be utilized. Not a doubt, and I love the name too, the SyndiGate, for what you all are doing, but tell the listeners though, how they can get in touch with you and learn more about you.

0:31:02.6 SR: So we have a website, syndigatecapital.com, has more information about us and our business, there's also contact forms and phone numbers. We're on LinkedIn to say get in touch with us, we're pretty easy to reach... Have a conversation.

0:31:17.0 JS: Yeah, so just to remind everybody, 'cause I'm not sure how it's gonna appear in the podcast, but SyndiGate is spell with a G, So makes syndication, but Gate for syndication and syndigatecapital.com.

[END OF INTERVIEW]

[OUTRO]

0:31:31.0 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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