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[INTRODUCTION]

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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.

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Whitney Sewell (WS): This is your daily Real Estate Syndication show. I'm your host, Whitney Sewell. Today our guest is Ted Greene. Ted has 24 years experience as an investment advisor for firms like Merrill Lynch, six of which he was the Chief Compliance Officer while in production. After leaving the securities industry Ted cofounded WealthFlex, a Self-Directed IRA facilitation company. WealthFlex was sold to Yieldstreet in 2019. Shortly after that sale, Ted joined Spartan Investment Group as Investor Relations Manager. Ted has a wealth of knowledge about this industry and investing. Any shares, much of that today, just the state of real estate and different things that I think you're going to enjoy or you're gonna learn a lot, just from his experience and maybe even some thoughts around your risk appetite, even pulling assets off the table and what he means by that at different stages in your investing journey, depending on your risk level or tolerance. So, you're gonna learn a lot today. Enjoy the show.

[INTERVIEW]

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WS: Ted, welcome to the show, it's an honor to meet you, I know many of the group there in Spartan and think very highly of them, and so I look forward to this conversation. And just looking through your experience, I'm just looking to learn from you. I know the listeners are gonna learn a lot from your many years of experience in investing and just in this industry. But give us a little more of that, give us a little bit about who you were before you're part of this Spartan team. And maybe some years there that have helped grow you and teach you what you know now.

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Ted Greene (TG): Whitney, thanks so much for the opportunity. It's a pleasure to be on your show and the company that you keep is very impressive, so thanks for having me. A little bit about my background, I'm in my early 50s, grew up in Seattle, and in college, I did an internship at Merrill Lynch in Seattle and turned that into a 16-year run. For the last nine years or so, I was a discretionary portfolio manager in their PIA program, it's just an advisory service. I spent a total of 24 years as an investment advisor, six of those as a Chief Compliance Officer, and had the, in retrospect, the very wonderful experience of working with several regulatory bodies. Just routine in customary audits, but it's interesting. You learn a lot when a regulator asks questions about investors that you're providing a service to, and so you get to kinda see the regulatory body's perspective, so it was an interesting chapter of life. Beyond that, I was an owner of Wealthflex, a self-directed IRA facilitator, and we sold that to Yieldstreet in 2019 and that platform that we developed is now the backbone of the retirement accounts at Yieldstreet.

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TG: After that chapter of life, I joined Spartan Investment Group on the investor relations team, and every day is an adventure in this industry. But I'm pleased just so tickled, the people that I work next to are just genuine and sincere folks. They care deeply for the employees at Spartan, and they get that back from us, his employees.

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WS: No, that's awesome, I appreciate you sharing that. As I was telling you, I think most of them have been on the show, if you all have grown a lot lately, so there's many more, now that I need to meet. But I’m honored to have you on as well. But just with that much experience in real estate and investing over many years, I'd love to just jump into some things you've observed and maybe you can help shine some light on things you've learned, right? Just being in the industry that long and helping us with some maybe dos and don’ts you've seen other people do or things they've fallen into that maybe you see coming now, or you see other people making those same mistakes.

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TG: It's a very generous way you keep that up. So, I wanna, first of all, say I'm not the smartest guy in the room, and I do have some scar tissue. I had the pleasure of working with hundreds of investors over the decades, and so I've seen some mistakes made, it's been my pleasure to work

very closely with a number of ultra-high-net-worth families, hundreds of millions of dollars, and many, many high-net-worth folks. Anyway, I think a trait that is paramount to develop is to identify within ourselves what our true risk appetite is, and I know for certain that younger folks, they really love to win more than they hate to lose. And there's a day that each of us wakes up and the world looks a little differently. And it's usually a life event, maybe it's the dot com bubble. Maybe it's 2008 through 2012, where it was a scorched earth mentality, almost. But there comes a day where every investor wakes up and they see the world a little differently and they begin to swing from, I love to win more than I hate to lose. And they begin to adopt the, I hate to lose more than I love to win. And so those life events that leave a scar tissue or whatever the circumstance, it develops an itch on the back of your neck, when you start to see what some may view as a bubble and others may view as, “This is the new normal.”

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TG: Low-interest rates do a lot of things, especially when it's gone on for 10 years or 11 years. So, in retrospect to cap rates in the high sevens, here we are in the mid-fives, at least with regard to self-storage. And will interest rates rise? Yeah, probably. When? Who knows? I've been dead wrong for seven years, and my wife is tired of me pontificating on what might be an interest rate world. So, I think a trait that investors should really develop is understanding themselves – what is their risk appetite, how do you defend that risk appetite and how do you live into that risk appetite. And that's today's $20 buzzword - living into something. I think I know what that means. I think that means maintaining a true representation in your portfolio of what you would tell somebody your risk appetite is. So, if the Feds starts to wiggle, if interest rates repeat what we did in the spring of this year, 10-year, moving from a buck, 20 to a buck, 75, or maybe it's 1.70 for the yield on the tenure, if that happens again and continues, what will cap rates do? What will market values do? And so, investors need to really understand how to defend the risk posture and how to re-allocate and reduce risk by including, and here's a crazy concept, by including asset classes that are not the best performers. As investors, we all want: How much can I make on this investment? Okay, I get that, I totally get that because I do that myself. But, allocating to investments that are maybe closer to the dollar that maybe have a shorter timeline, those are key trades. So anyway, back to the question. I think understanding ourselves and being true to ourselves, and managing and monitoring the risk profile that you're trying to marry, that's key, it's huge, and everybody lost track of that in the late 90s with the dot com bubble, and again in 2007 through 2012.

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WS: Awesome, there's a couple of things I wanna talk about or bring out. So, yeah, some great points. You mentioned knowing what your risk appetite is and knowing how to define it, how would you help somebody figure that out a little bit, I know that everybody's situation is different, and everybody's portfolio is different, or how much time they have before retirement or investing, all these things that are unique to each individual investor, but just any questions, any things that may help somebody think about to think through, “What is my risk appetite? How much risk am I open to?”

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TG: So, in the world of stocks and bonds, it's much easier to speak to that, it's a little bit more difficult in real estate as these are assets that are not readily liquid unless you're working with a broker-dealer. And even if you are working with a broker-dealer and you can find a marketplace to sell into, that may not be in your best interest, candidly. By way of stocks and bonds, it's the drawdown. And there's a famous saying in the world of portfolio management that your biggest drawdown is still in front of you, which, if you really think about that, that's very scary. You know, for myself, my peer group in their early 50s, my friends are beginning to retire, which scares me to death because I've seen dozens and dozens of investors truly go through the accumulation, start to move into the distribution phase of life and then because they're not doing anything, their personalities change and it's not awesome from my perspective. But by way of drawdowns, the way to protect against that is to pull assets that you've made off the table.

And if we all think about it, truly, when's the last time we intentionally sold into this massive run that we've experienced in the stock market the last 10 years? I mean, if you take the gains that you've made in the last year or two years, if you take that off the table and move it into a bond fund, you might get one and a half percent rate of return, which is so unattractive and it takes so much intentional discipline to do, but it's very appropriate.

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WS: So, that's what you mean when you say, including asset classes that are not “best performing,” right?

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TG: Precisely, or even those asset classes, and I'm not providing advice here, I'm just speaking

about myself, even asset classes that are really boring, like life settlements, that's an asset class that I'm personally looking into and I find a lot of attractiveness there. Bill Gates put half a billion dollars into life settlements in 2020, which really keyed me in on the idea, you know, maybe let's not use car salesmen, and by the way, I don't mean to throw shade on car sales people, they're more important now than ever before. But I think we catch the inference there that insurance is not a bad asset class, there's a lot of attractiveness from somebody in my age category. But, you're correct, Whitney. The under-performing assets of today can be tomorrow's absolute darling. Much the way bonds were a darling asset in 2008 through 2012, they just didn't lose value, well, some of them did, and they were lower credit quality, but for corporates and govies that were high quality, they held up good.

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WS: So, knowing your risk appetite, and maybe you're in your 50s or closer to 60, you're looking towards retirement and you have less appetite for risk, right? At that point. And instead of being in something that you feel is best performing, right? Maybe in our case, we're gonna talk about real estate of some kind of commercial real estate, but then again, at that point in life, maybe a risk appetite would say, like you said, pulling assets off the table, so let's move those funds from that asset, sell and exit and then put it in something like you're talking about now, that's, you would consider very stable asset.

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TG: Exactly. If we just drill down on that, just to touch, if I could. The Department of Labor, August of 2020, made what I would refer to as a significant change. So, the Department of Labor oversees ERISA plans, 401(k)s, 403(b)s, 457s, and the Department of Labor stated, Okay, gang, administrators of these plans, you can now include commercial real estate as part of the life cycle fund. So, these are the funds that have a target retirement date. So, for the employee at a company who doesn't thrive on looking at their 401(k) mutual fund options, they can say, I'm gonna retire in 2040, I'm putting all my full balance and future contributions into the 2040 Target Date Retirement Fund. So, that's the type of mutual fund that can own commercial real estate. And if we think about the stock market and the bond market, 1982, when Paul Volcker had raised interest rates to break inflations back, the proverbial breaking the back of inflation, PE ratios were less than seven.

I'm talking real, macro secular trends here. PE ratios were under seven. Right now, the PE ratio on

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the S&P 500 is upper 30s. Interest rates are artificially low because of the Feds, so when rates go up, bonds go down. When rates go up, stock PE ratios compress. So, I think there is a massive move for administrators of retirement plans to begin to shift assets into portfolios of cash-flowing, stabilized properties. It's an absolute thing. I think this is the equivalent of a series, a seven-game, I'm gonna go to baseball for an analogy, it's a seven-game series, and right now we're in inning number one of a seven-game series. I think, because when rates rise, bonds go down, well, administrators don't like to see huge asset losses and their plan balances. And when rates rise, stock PE ratios compress. So where do you go? Well, you go to where you've got expanding net operating income in buoyant property values. Commercial real estate, it's a new thing. And I don't think investors really understand how the appetite has developed for institutions, and they're looking in the low fours, the high threes for a cap rate on these class A properties that are stabilized, and there's a huge opportunity for investors, I think, to defend 20-25% of their net worth by exposure to the core four, self-storage, the whole Mary Ann I think it's all on the table. And depending on how close you are to that dollar, was it a two-year-old, is it a five-year-old, is this a seven-year-old? Investors need to know the answers to those questions. But I think it's a substantial opportunity.

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WS: Before I forget, I wanted to ask you, where do you go to track trends like that, or current news and things that you trust, or anything you can share? Is there something to, say, every morning you have to read or that you look forward to seeing, you know, 'This is where I get this information.'

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TG: So, when I was a Chief Compliance Officer of an IRA in the State of Washington, I got turned on to a distribution of a document called investment advisor, and investment advisor is a fiduciary posture. So, broker-dealers, Merrill Lynch, the big broker-dealers, they're not fiduciaries, they do have a new best interest obligation that came about within the last two years, but they're not fiduciaries, so the Investment Advisor Magazine is a document that is consumed by registered investment advisors. It gives a lot of updates to the nitty-gritty, off in the left field, into the weeds type of information. And it's a low-cost basis, that's not a big lift to take that publication, but I get a lot from it and it speaks to the advisory world and it's in the weeds, but I'm a nerd, I kinda like that. So, I'll take it.

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WS: What are a couple of things that you are focused on right now in our current market that you're watching. I know we've discussed a few things, but maybe we could dig in there a little bit.

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TG: The closeness to the dollar is a term that we throw around here in Spartan. I definitely think the industry uses it to some degree, but not every syndicated asset is the same. The institutional portfolios, it's a real opportunity that in some of those transactions that investor is really close to the dollar which means it follows. So, if you take a class A property that, I kind of choked on my words here, but a lower-priced asset, $15 or $20 million, which, make no mistake, even a $50,000 investment, that's a lot of dough. It just is, it takes a lot of time to save 50,000 bucks, but your lower-priced assets that are transacted individually and not part of a larger transaction, they're at a five and a half cap, maybe five in a quarter cap. By way of an investor, if it's a core plus opportunity, which means there's no expansion, and mind you, most of what Spartan does is value add, which is construction lease-up of newly constructed units, and that's where the jump in cash flow comes from, and of course, the net operating income divided by the cap rate, that's your increase in your market value, so that's what goes in storage and other industries as well.

But for the investor who's placing money in a core plus opportunity, which, maybe it's just class A – it's a $15 million transaction – maybe, the lease rates are 15 or 20% under market. If that sponsor, and this is huge, really huge, if that sponsor is active with the institutions – Blackstone, take it, for example, if that sponsor's accumulating class A assets, there's likely to be within the next year or two, a transaction done of what may be a total of $200 or $250 million. It's kind of the low end of where those institutional transactions happen as far as I know. And who am I? I mean, I'm not the smartest guy in the room, I wanna make sure I say that a couple of times.

But if the investor is in core plus, it's a two or a three-year transaction, you can pick up cash-on-cash, 7-9%, and then pick up a 25% or 30% capital gain, that is an astounding rate of return on your dollar. And if you think about that, growth stocks, when you're buying a PEG stock, PE divided by growth in growth stock world, paying a PEG ratio of one to two, that's about how you buy those stocks. So, the PE ratio may be 25. The growth rate, may be 15 or 20. Well, you've got a 1.3 PEG ratio there, so you can do that. If you're paying a PEG of four or five, you're gonna get a haircut next time the Feds does something interesting and the market gets excited and had some heartburn. The risk there in those stocks, it's high. Because if you drop by 30% in value,

you've gotta go up like, I forget what the number is, but maybe it's 42 or 45% to get back to break even.

Well, by way of these core plus opportunities where there's a bit of operational improvements, some technology that can be added, it gets bundled into a foreign a quarter cap rate portfolio. As opposed to maybe paid five-in-a-quarter, it’s substantial returns for what is very likely, very limited downside potential, in my opinion. That, (speaking in arbitrary terms here, and I hate to generalize because maybe something changes tomorrow and I look like I've got egg on my face and maybe I will have egg on my face.) but, you get my point. For just a couple of years work for core plus, where the sponsors selling into institutions with 200-300-million-dollar portfolio, that should be one of the top three questions I think, a retail investor should ask of their sponsor. Are you involved in institutional transactions? What's your game plan for the exit? And the sponsor, will very likely say, if it's a portfolio acquisition of 10 properties, (We recently did a larger transaction. For us, it was 18 properties.) that'll be a fragmented exit.

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TG: And no bones about it, some of those properties will go early. Unlikely, I think. Some will go to full five years with the value-add component. But being close to the dollar, being just two to three years out from that game, that's a whole different risk profile than the full disclosure. (I'm trying to build a position on Facebook, so I like the challenges they're dealing with currently because it gives me the opportunity to add a little bit more.) But anyway, close to the dollar. That's one of the things that I'm watching very closely. I think it's a huge opportunity and it's gotta be one of the top three questions that I would suggest a retail investor ask them to sponsor. And by the way, don't work with just one sponsor. Have four. My suggestion is position sizes of 2% to 7% of your net worth. At least that's what I do, and I like it that way, 'cause I've got scar tissues.

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WS: I appreciate you just you elaborating on that. I don't believe I've heard that on the show before or somebody breaking that down like that, and some things to look at, so important. Unfortunately, we are running low on time, and I wanna get to a few other questions as well. Ted, great information, but with your experience and even with the conversation we're having as you all are looking at new projects now, or even as you're talking to that operator about new projects to invest in, how do you like to be prepared for a downturn?

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TG: Be prepared for a downturn?

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WS: Right. What do you like to see either in a project you are buying or when you're gonna invest in and did know, hey, when a downturn happens, we're prepared for it.

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TG: So, I think one piece to that is just carrying a lot of cash in the operating account. We had a scary chapter about probably 14 months ago in Texas at a 300% property tax increase. Spartan has never done a capital call unannounced, didn't want to do that. Reached into the pocket and pulled out enough cash to write, I think it was two checks. I think I'm within two or three thousand dollars in saying that some of the checks that we had to write was $297,000. So being prepared for that, it's critical. So, don't maximize that proforma, optimize that proforma so that it's defendable, and you can get to the finish line without any surprises to the investors. A huge piece is making sure you understand the current market, we don't want to be in a fistfight with a publicly-traded REIT that has a really low cost of capital, so we avoid major Metropole and markets. We like tertiary markets. We like to really understand the drive time. Not as the crow flies, not the miles, but actual drive times. And taking into account bodies of water and mountains and things of that nature. But also, the saturation – Who's there? What's their cost of capital? Are they a REIT? Do you turn immediately if they are and go find a different market? – Because that's gonna be a painful couple of years. Just keep your horse's sense about you and don't get married to an idea.

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WS: Don't get married to an idea or get emotional about a specific project, right?

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TG: Yeah, the wisdom there, it's astounding, Whitney. It really is.

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WS: Yeah, I appreciate you saying that, but I hope we don't get emotional about specific projects and keep those things in mind. You just mentioned cash on hand. I completely agree. Do you all have any kind of metric that says, "You know what, this type of project is based on these

expenses." How do we know how much cash on hand we feel comfortable with?

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TG: I think that comes with experience. I think it also comes with understanding what the saturation level is, what's the marketplace for oversized and undersized units in the 5, 7, and 10-minute drive times. So, knowing what your competition has or does not have, lends itself to what you're gonna be into this project for construction and how quickly you'll be able to refinance if you need to. Just that experience. That's really the metric. There's a book called Self-Storage Domination, that if an investor is going to be in this space, (That's your first and best read, candidly, it's a big lift.) and understanding of the asset, but then just having some horse sense and experience in being able to piece these things together. We now have 40 properties so we know what we're doing. At least in our space, I'm comfortable.

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WS: Do you have any projections, Ted, just for our real estate market for the next six to twelve months? Anything you foresee happening? Coming? Anything you all are preparing for?

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TG: I think in a macro sense for the next five to seven years, what we're really gonna be dealing with are the institutional sales. This kind of like the banking industry in the 80s and 90s, where the small market banks were snapped up by the huge money centers – the Bank of America, the Wells Fargo, etcetera. So, I think the smaller players are gonna be, not sure how to say this Whitney, they're going to be Fed-honored, there will be a feeding frenzy on the larger institutional transactions. And the retirement, risk of money, the 401(k)s, etcetera, the appetite that is coming into the space I think, 10 years from now, we're gonna look back and think, "Wow, that was a lot bigger than I anticipated." And we are likely shocked by low fort cap rate portfolio transactions. I think it's here to stay for a while. I don't think our country can afford, with the deficit that we had, we just simply can't afford a 6% Federal Funds rate, and to be issuing new debt at seven and a half, I mean, we would break.

So, the Feds, likely to not let that happen, would likely drift hire back to where we were pre-March of 2020, but I think the institutional transactions are gonna be shocking five and ten years from now, and how strong that appetite turns out to be.

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WS: Alright, changing gears just a little bit. What is your best source for meeting new investors right now?

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TG: We've gotten to critical mass, I think we have about 500 to 55,000 investors on our email distribution list. We do everything. Google AdWords. We do meet-ups around the country. We do property tours at the various locations that we have. And we ask our investors that have invested in the property to bring a friend. And so we travel a lot and we see people, we press the flesh, but we're also using our Google AdWords and just started with HubSpot, and I think that's a pretty strong tool that I'm a little disappointed we didn't jump on earlier, but that's gonna be interesting to see how that plays out for us. Prospecting is difficult. Nothing works well, but everything works, and so lean into it and get after it and see what you can skip.

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WS: Yeah, if you could pick one of those things. I know you mentioned GoogleAds and lots of different things. If you had to say, "You know what, this has been our number one best source to gaining that many investors in a database." Most listeners would dream of having a database of investors that large. What's been that one thing?

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TG: Yeah, the face-to-face, personal meeting people. I've seen a lot of good salespeople over the years. My boss, Ryan, it's bananas. He's got an endless amount of energy. We're always hustling in-person meetings at properties. We've done a number of tours down at our property in Washington State called Black Diamond. It's amazing how fearful of the stock market people are and how interested they are when they're passive as opposed to active, and they can actually go see a property, look at the financials, talk to the sponsor, talk about a self-directed IRA that might go into the mix and be part of that. So, face-to-face is where we get most of our leads. Well, Ryan's got a background as an airline pilot and it's bananas how many fish he's pulled out at that pond.

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WS: Yeah, he's used to developing some checklists to that here, as most pilots are used to, right?

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I'm thankful for their checklists, too.

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TG: Exactly, it works.

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WS: So that's great. What about some daily habits, Ted, that you are disciplined about that have helped you achieve success?

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TG: That's really interesting. It's a very timely question. I think I've gotten good at a couple of things. The older I get, the more valuable time is. I've gotten good at saying no to opportunities. I've gotten good at going to see my parents and just sitting there and having no agenda, just visiting. In the last couple of years, I've started riding my bike more for exercise, to get 45 minutes where you're just peddling and it's kind of gross, but sweating your tail off. And that's been huge for me. I lost my brother to a heart attack six years ago, and so our diseases in the family, and I'd find it astounding. It's my favorite part of my day when I get to ride it, I try to do it three times a week, and it's 10 miles each way. So, for an old duffer like me, that's a big lift. And so being intentional about taking care of myself emotionally. Whitney, 20 years ago, if I had heard myself saying that, taking care of myself emotionally, I would've said, no, I'd never say that. I'm the first to say right now, with the stresses and the pressures of a busy family life, you've gotta be intentional about taking time to unplug. Go ride your bike, it's really fun.

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WS: I think that's just great advice. It's such sound advice, I think. It's not said enough. Like you said, 20 years ago, you'd have said, no, I'd never say that. But I think we need to hear those things, especially from guys like yourself and gals that are much more experienced, been in this business industry a long time. And, man, you need to unplug sometimes. And I love what you said, just like, go sit down with your parents and just have no agenda, just hang out and spend some quality time with the family. But how do you like to give back?

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TG: We do a number of charity events. Most of them are geared toward the armed forces, our CEO Scott is a retired Army Major, and so we've got a number of charities that we like to give to.

Personally, I'm no longer involved in leadership in my church, but that's a huge focus for my family, and as part of that emotional health, peace, it's also a part of well-being and being a good community member, I think.

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WS: Awesome, Ted, it's been a pleasure to meet you and hear about your background and even a little bit about what Spartan's been up to, but just your experience and you being able to shed some light on different things, you have learned, different things you want investors to know about different maybe concepts that they probably haven't thought about as well, that maybe they need to think about depending on their risk appetite. And so just grateful for that and just you being willing to share on the show. Tell the listeners how they can get in touch with you and learn more about you.

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TG: So, Spartan Investment Group is spartan-investors.com on the Internet. I'm a big fan of LinkedIn. I don't know how to use Snapchat, but I know how to use LinkedIn, so you can find me on LinkedIn and just search for Spartan or Ted Greene. Happy to hear from anybody.

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