Brad Thomas Joins Us to Discuss REITs

[This transcript was generated by artificial intelligence. Timestamps are not 100% accurate depending on the platform used for listening].

Andrew

0:00
Welcome to the Investing for Beginners Podcast. Today we have a very special guest; his name is Brad Thomas. If you don't know who he is, all you got to do is go to seeking alpha.com. His face is pretty much on there on the trending articles; he's probably one of the most popular, if not the most popular, writers for Seeking Alpha. So Brad, thanks for joining us.

Can you give us a little bit about your background? You're kind of the REIT expert on Seeking Alpha; what is a REIT? And how did you get into it?

Brad

0:27
Sure. And I'll try to keep it pretty short. So my background is about over 30 years of real estate investing; for 20 years, I was a developer who actually started out as a leasing agent, to be clear, right out of college. And then a couple of years into that, when I saw the money going to become a landlord was how you actually create wealth, not just being a leasing agent or a broker. So I gravitated into the development world and started out small with some companies like Advanced Auto Parts, which are freestanding Net Lease properties, and Dollar General, again, freestanding net leased properties. And then, I gravitated into shopping centers, putting together two tenants or three tenants.

Obviously, there are economies of scale with having parking lot and common walls and better returns to build shopping centers then at least, so I moved into some grocery anchored products and, as well as to Walmart and some big mixed-use projects. So I've touched about every property sector; I built warehouses, had some good year tire warehouses, and a bunch of duplexes. So single-family rentals. So I've done a lot over the years. And then basically, everything kind of moved up, I was growing, and I had five kids. So along the way, I managed to have four girls and a boy; this thing happened called the Great Recession. 2008 really allowed me to change my life.

And I really never imagined and never really thought about or anticipated becoming a writer or an analyst. I did take some writing, college courses in college, creative writing, and business writing courses, but I never really majored in that subject. I did write a rap review in high school. So it tells you a little bit about me; I'm a few rappers, well, I'm not going to do any on that show, don't worry. Anyway, so when the recession hit, you know, I just went to Seeking Alpha, I thought, well, there's a cool side, I start writing, maybe they'll take one of my articles, who knows that they'll let me publish something. And they let me publish one article. And that turned into two; two turned into, you know, 200 and 2000. And I think I'm over the 4000 mark.

Now, I don't know; it's something like that 12 years of writing almost an article every day for 12 years; I did take maybe a couple of days off, but not many. And so obviously, I love what I do. I mean, I wouldn't be writing an article a day of it. I didn't like writing. But what really drives me is not just writing. And really, it's not about making money. It's about educating investors, you know, I've got a lot of experience in real estate. That means I've gone through some really good times, I've gone through some really bad times, and especially in the Great Recession, when I just about lost everything. And that was not just because the recession, by the way, was through some bad partnerships and high leverage.

It was through lack of transparency and a number of other things. So that got me into writing on Seeking Alpha. I've always liked real estate. And I felt like there was really a void at that time in helping individual investors learn how to make money in real estate, specifically real estate investment trusts. So that's really when the light went off. And I decided there was a great market, at that time, a niche market to really try to focus on, and so that's what I've done for the last 12 years. And I do have over 100,000 followers on Seeking Alpha. And I appreciate all of my followers, and it's been a great ride. That's pretty much it.

Andrew

3:42

That's really cool and inspiring, and we love that focus on education. So you know, you talk a little bit about building up some of these projects. You said you were a leasing agent at the time. Are you talking about like a hammer and nail, or you are an investor in these projects, whether you're talking about here, and how did that kind of shape how you think about REITs today?

Brad

4:00

Yeah, so I actually got my real estate license. When I was in college, the school I went to actually had a real estate course. So I took the course, and I became a licensed agent. I still am a licensed agent in the state of South Carolina, where I'm located now. And so I went to work as a developer. I decided the best thing for me is to kind of go boots on the ground, go work for a developer. And so I moved to Spartanburg, South Carolina, where I'm sitting right here today; my business partner at the time, actually, my boss at the time, was in the process of building a brand new power center. But at the time, I didn't know what a power center was. Nobody knew what a power center was.

And for those of you who don't know, a power center is a large shopping center, not a grocery Center, which is typically 75,000 feet. I'm talking, you know, the center was maybe 400,000 square feet at multiple large discount anchors. So there was a Home Depot TJ Maxx Michaels Crafts, and so I did all the small shop leasing, so I was a leasing agent, I got paid as a broker, and you know, made some good fees for leasing space. But after, you know, two or three years into that, I thought, well you No, I'm making good money, but you're making great money; you need to be collecting those rent checks and the guys that I was working for who helped them negotiate these leases were the ones making money. So I saw that very quickly, early on. And that's when I decided I wanted to be a real estate developer or a real estate landlord. And so again, I started with the smaller net leased properties.

That was a way that I didn't have a huge financial statement back then; actually, I started out buying some housing; first, my first house paid $50,000 for it, I had a guy living up front, a second floor, and I had a roommate, and they were both paying me $200 A month each, so I had 400 coming in, I had the owner this is my first house the lady sold me the house owner financing because I had no credit I had a student loan, no assets that car and so she loaned me the money to buy the house and had 400 coming in so I was like living right out of college and then the house that I own and somebody else was paying for it. And by the way, I was the house beside a college female college, you know, all women college, so perfect real estate, it's all about real estate, location, location location. And so anyway, we did that for a couple of years, and you know, built up some equity, and then, of course, I found my wife, and she found me and got married, so naturally moved on to the next house, and I started buying up some duplexes understanding, you know, other people's money, you know, how can buy real estate without hardly any money at all. And that's how I started, and then when I got into commercial real estate, it was with again, my first customer was Advanced Autoparts headquartered at the time they're headquartered in Roanoke, Virginia; now they're in Raleigh, North Carolina, right there was Andrew, but I remember they were a private company. At the time, they weren't publicly listed. They had about 100 locations.

And I remember my first location in Union, South Carolina, and then I expanded beyond that. I went to Lauren, South Carolina, Malden, South Carolina, Walterboro, South Carolina in Boone, North Carolina, at Coleman, Alabama all over Georgia, ended up building about 50 stores for advanced auto, and then I moved into some other tenants trying to diversify. At the time, Blockbuster video was a growth company. One of my good friends here in Spartanburg was a large franchisee or actually a small franchisee back then. So we built some stores and helped him become a large franchisee; he eventually sold those stores back to Blockbuster. And so that's where it all started. So I've always had a passion for real estate tremendous amount of wealth that can be made in real estate. But you know, REITs are terrific because individual investors don't take on that risk. I mean, a lot of things I just told you about, I mean, leverage tenant concentration, you own rental houses, you have what I call the three T's, and you want to avoid these three T's, that's the toilets, the trash, and the taxes, you want to avoid those things because they, you know, it's not as easy as it seems when you go on these channels, these TVs programs, they'll make it look so simple. Just buy a rental house, fix and flip or whatever you're going to do.

But it is so hard being a landlord is really challenging. And you know, I've had to fix plenty of toilets in my life. And obviously, paying all the taxes and tenants dealing with tenants is very, you know, aggravating. You know, REITs offer this very compelling business opportunity where you just don't; you can own the real estate and have all the benefits of the real estate, the wealth creation, but not deal with all of the stress. So that's really, after going through this for 20 years and building up my wealth, you know, traditional private real estate, I can tell you own REITs is the way to go. It's much less stressful than having to own private real estate.

Dave
8:32
Yeah, That's awesome. Those are all great insights. So how does an investor start investing in REITs? What are some areas that they should look for? What are some things they should look for positively and, I guess, negatively?

Brad
8:42

Sure. So I think to start, first of all, I mean, a REIT is a real estate investment trust. And of course, I will say I wrote a book written two books, actually. But my latest book is called The intelligent read investor guide. It just went out Wiley's my publisher, and I talked about the basic, you know, how do you get started in that, of course, read as stock so you can own, you know, literally what you can own a half a share whatever one share of stock is really all it takes. So it's not unlike real estate; traditional real estate doesn't cost a whole lot of money to get in the game. There are in the US specifically, and we'll just talk about us here on this show. There are about 150 US equity REITs, and equity is different from mortgage REITs; equity REITs own the real estate and the physical real estate; mortgage REITs are lenders, so they actually don't have the title or the to the real estate. So roughly about 150 equity REITs, and then there are the mortgage REITs as well.

So we cover, but you can see the investable universe I call it is roughly around 200 us REITs are securities. And so the great thing is, and this actually has really been transformational over the last ten years while I've been writing, is the number of sectors that you can now property sectors that are that you can invest in today. You knew back even go back 1520 years ago, you really had just the basic what I call a food group of real estate you had maybe a part At minutes, you had retail, and maybe you had office buildings. Now the universe again has expanded into healthcare, and now different sub-sectors of healthcare where you could get skilled nursing, senior housing, medical office buildings, hospitals, and even life science, which has really been a fantastic place to invest. We also have what I call the technology trifecta. And this is all really been over the last decade where you have cell tower REITs; you have a data center, REITs. And then you have logistics warehouses, and they're all connected to technology. We call them the three stools to technology investments that you think about; they're all correlated because the cell tower generates the signal that for the purchase, online purchase into the data center is fulfilled.

Everything's held in the cloud. So Amazon, Facebook, Google, all the hyperscalers over there in the cloud. So you have these data center REITs. And then, of course, the last mile, which we talk about is where the product ships from that warehouse to your house, you have all these logistic facilities, which Amazon is a big tenant in some of those and FedEx and a lot of missed all these retailers. So technology has really been a sector we've really been interested in a lot of growth there just like in the technology stocks that you look at today, we're seeing some really strong and double-digit growth rates and technology and those names. The retail world really can be split up into two or three different baskets or even potentially four, or you have the mall's traditional malls, which have obviously been under a tremendous amount of pressure with COVID. We actually said I think we run into one of the first if not the only on Seeking Alpha that said before COVID

That there were way too many malls in the US. We should go underweight; if anything, avoid those names. Because of the oversupply of mall products in the US, there were, prior to COVID, over 1400 malls traditional malls, meaning malls that had four anchors, JCPenney Sears belts, Dillards, four anchors, and because of that oversupply, we felt like there was going to be some challenges. So we avoided some of these companies and called sucker yields. Some of those aren't in business anymore, by the way. So you have companies like Washington prime again, we I would say we caught we definitely call that when we say to avoid that when you know whether it's 12% yield 1520 30 Whatever that yield was, sir, sure. It was tempting for a lot of investors but not us because we looked at the fundamentals and knew that there was just way too much product, so malls, shopping centers, and you can divide that into grocery-anchored or community centers.

You've got a lot of different ways to play shopping the shopping center game. In the REIT space, you have some focused funds like are set Biddle primarily in the Northeast. And then you have Regency, which is one of the bigger names; they've got a lot of Publix and really all over the Sunbelt markets and over to the West Coast. Kimco is the largest, and then you got some other smaller names, so shopping center sector and then the net lease is the other category which is predominantly retail companies like Realty income, national retail property store capital spirit, there's been a growing list of Net Lease real estate in the US.

You know, when I told you I got started really in this business with Advanced Auto and Dollar General Insurance, Williams, this sector is really exploding, especially in the REIT space. Back when I started covering these names, there was nobody really cared about covering Realty income and some of these companies, but now they're extremely large companies; real estate comm has, I think, over think 11,000 rent checks, individual rent checks, so significant scale advantages there. Another sector that is tied in that lease, which we just started covering maybe three years ago, is the gaming sector; we have three gaming REITs at a time. Today, we have to thank you for a merger recently with Vici properties and MGM growth properties just merged, and of course, Vici is now an s&p 500 company. In fact, they are the most profitable s&p 500 years to date in terms of their total return performance.

And we picked that name early. We've always liked that sector; it has been extremely resilient, even through the pandemic, where you see a lot of these gaming REITs Vici specifically collected 100% of their rent during COVID, which is a pretty telling sign of the resiliency of the casino space, trying to think of other sectors one of the most interesting and I think most volatile, as well as cannabis. Now we have covered cannabis; I will always give you my disclaimer here on this show. It's an extremely volatile sector. It's tied to politics. It's tied to a lot of things that investors need to be aware of. We've written a lot on all of the names, innovative industrial IP, ours, the largest; they were the first mover advantage in the space, and we think that's important for them. They've sold off substantially down 50 or 60% year to date. They were one of the top performers over the last two years and now just totally getting beat up. A lot of that, again, has to do with just some of the headwinds.

There's obviously no federal legalization there and cannabis. So it's really created the opportunity set for REITs because There's not as much capital for these operators' cannabis operations. There are quite a few of those. But we think that at some point, it's not a matter of, you know, there will be, you know, federalization within cannabis, just when that does occur, you know, nobody really knows what's going to happen. And so, the market has subsequently priced a lot of these cannabis REITs at a very low discount. And so that's a very interesting sector. Their office is one that we write and talk about; I just did a pretty lengthy report. For Irene on Alpha members for the office sector, you can really bifurcate office into two different categories, urban office, which is basically in New York City, you know, San Francisco, those markets have certainly been impacted significantly, especially in New York City. It started with the tax, you know, all the taxes, people migrating to the south. And then now, with COVID, a lot of the companies began to migrate and continue to migrate to the Sunbelt market, so then you can play in those markets.

Again, Andrew, you're right there in Raleigh. So you've got Highwoods, headquarters, their ticker, HIW, they obviously have assets in Raleigh, but they're also throughout the south, Sunbelt and southeast. So you know, there's the office is definitely a place where there's a lot of value, but you've got to understand exactly, you know, what you want, and what your risk tolerance levels are for those types of property sectors. So I tried to give you a high-level kind of how to get into it; I would say, you know, I tell this to people a lot, you don't want to own just one stock, you want to be thinking about building your portfolio around multiple REITs, but also multiple property sectors.

So you try to balance that you can definitely derive some pretty attractive risk-adjusted returns if you play the game, right? When I was a kid, I loved playing Monopoly, and perhaps as part of my passion here, as well, because I always wanted to win. And I hate losing. And it's not fun when you lose. So you know, there are some lessons learned from Monopoly as well.

Andrew
16:52
I have a very similar background; I used to think I was the best of Monopoly. But looking back, I think I had some nice parents. Obviously, there's so much we could unpack, and we want to be respectful of your time; maybe we can focus on the retail side. You mentioned the power center idea before. So whether it's anchored by like a Lowe's or Home Depot, I'm assuming, or kind of like a bigger retailer name. What do you say, the bearish opinion of somebody like Amazon or maybe e-commerce in general, or even like Google Maps, where maybe 1520 years ago, location for retail might have been a lot more important, versus now? I mean, personally, I don't care if targets, you know, one mile to my left or one mile to my array, I'm not putting in Google Maps and driving over there. But you know, that could be a very superficial opinion of it. What is your take on the bearish opinions based on like location as an advantage?

Brad
17:53
Yeah. So it is interesting. I mean, especially coming from a real estate background and having built, you know, shopping centers, quite a few shopping centers, much like the malls. There's definitely a lot of overbuilding in the US. And so I can definitely be. I never built a mall, but I built new shopping centers. And you know, as I look out the window here in my office, I can see a shopping center that's still about 50% leased; it was built in 2009 or 10. It's spaces that have never been leased up. So definitely, I would say, you know, there's still an oversupply issue, but it really comes down to location and product mix. I think the grocery-anchored centers I really like, you know, especially if you have a grocery center with you, I used to say this when I was a developer, and I'll say this now is a real estate analyst. You want to own those shopping centers with the grocery-anchored centers with the number one player or the number two player in that market.

So you know, if you go to Atlanta, Georgia, you want to own a Kroger or Publix, nobody else you really don't on those others. If you go to my town here, you're probably going to want to own an; unfortunately, we don't have Whole Foods here. I would be shopping there every day. We do it close in the next town over, but the primary players are Publix in this market. So you know, if I was going to own a shopping center here, I'd want to own property at Publix. So I think what's interesting is not just that you got those credits that back those anchors, right? It's the tenants. It's the traffic that drives them. So if you look at a Publix, most of the public shopping centers that you will see whether I'm in Florida, we've got an office in Florida as well. And I drive around, I see these public centers are pretty well leased up, they draw all the traffic, and they come every week. So that's why you have the subways and the UPS stores because they'll bring in those types of customers every single week. If you move up to that next level, say that Power Center Community Center.

These are those centers that are 200,000 300,000 square feet or more. And those are REITs like Kymco. For example. They own quite a few of those or bricks more, as another example. You know, it's a little more challenging; you really have to have some really good demographics supporting those centers, again, because of the overbuilding, but also because you're seeing a number of retailers that are not doing well, for example, Bed Bath and Beyond have been in the news quite a bit. We all know the story about Toys R

Us, and we could just go on and on with retailers that aren't around or that are really struggling. And so, you know, you've got to really pick those locations where, you know, when those tenants fail, they know those spaces can be leased up. So like Kymco, for example.

You know, we noticed that prior to the recession, and this is one thing I'll give Kymco management team, a lot of credit for Connor Flynn, and his group their kind of as the CEO of Kymco, is the fact that they were really recycling their portfolio prior to COVID, they obviously didn't know nobody knew Kobe was going to hit. But when COVID did hit, they were in much better shape because they didn't have a lot of secondary and tertiary market exposure. They were primarily on the East Coast and West Coast; they weren't in these flyover markets, those might be good markets, but the demographics aren't as strong. So those are the locations you really want to focus on the demographic profile of those companies.

That all is all small shopping center, up in Connecticut, and that market outside of New York, Metro, but in Connecticut area, and they've got some of the best demographics you'll find in the US. And with the number one market share grocery anchors. So those have done really, really well. So it's really me boils down to getting traffic into those centers, making sure that those tenants are successful, there's really been interesting to see, especially since we saw the recovery playing out with COVID. You know, how these outdoor venues really perform well. And so, and now we're beyond the kind of normalized. In that space, we're still seeing now continued growth occurring in those; now, the other cloud on the horizon, of course, is recession and, of course, rising rates and inflation.

And so all of those ties in as well, you know, it's not coast is clear, even though you know, everybody feels pretty good about COVID. In the rearview mirror, we have all these other clouds forming that we're trying to really navigate through. And it's interesting because each of these property sectors is going to present its own unique challenges as it relates to rising rates or inflation or even the supply chain. So you know, what we have to do as analysts look at each of those property sectors and evaluate, you know, what those risks are to those business models going forward. Because investing in REITs, just in general, it's really hard; you have to really understand the dynamics for each of those underlying property sectors.

Andrew
22:25
That's very well said, and it is very nuanced, like you said, depending on which area you're looking at, just to give us a parting idea. Obviously, there's no silver bullet or anything like that. But if you are an investor looking at retail real estate, for example, and you were trying to focus on an aspect of a company that would make it likely to be better than its peers, would you look more at the location, whether it be cost to capital and kind of just pure economies of scale, whether it be balance sheet, whether it be any of the above? What would you say?

Brad
23:04
Yeah, I would say it would be all of the above, Andrew. And, you know, I don't like looking at one metric. I mean, we do spend a lot of time, for example, interviewing management teams; I have a podcast later this afternoon with the CEO of one of the companies we cover. So we do like to speak with management. But I think that there are two things that I would say that we look at the hardest. If there were just two that I had to rely on, it would be you touched on both of them, the cost of capital, which, again, is a competitive advantage, especially in the real estate space. I never really understood that as much when I was developer access to capital that I didn't go compete for head-on with REITs; I bought a couple of shopping

centers from some REITs when they were looking to recycle them one by one in Chester, South Carolina and another one up in near you and Raleigh.

They were both owned by REITs; I got a pretty good deal, but they were ready to unload those, but I didn't understand the cost of capital. I mean, I've looked at these REITs. And they really have caused the gap. And so it's important to have that investment grade rating, you know, companies like federal Realty, which has an eight, you know, they're one of the few, I think rated REITs. And so their cost of capital is really attractive, certainly on the debt side, and obviously, the share price improves the equity side as well. So they can transact very creatively. So and I think, and that ties right into their scale advantage, as you pointed out as well, just being more efficient. And, you know, it creates your scale was great for a couple of reasons. One is it certainly diversifies the risk to the tenants. You don't want to have exposure to too many all your tenants at one time, all these rent checks coming in. So I think that also provides that geographic diversification as well. I mean, there are hurricanes there are events that cause risks to certain markets.

Certainly, the west coast and political environment we see on the West Coast is a risk some of these REITs are able to expand into Europe. And they have not only the diversification advantage of having some of their assets or properties in Europe, but they also have A cost capital advantage at the same time. This is one thing people don't recognize a lot when companies like Vici properties or, excuse me, Realty income. Vici is not in Europe yet. They're going to be probably at some point.

But look at Realty income, how they've expanded in Europe. And now they have a much lower cost of debt, they're able to obtain in Europe, and then they can play in the US, plus they're diversifying. So it's kind of a two-for-one kind of situation. So I think to scale advantage costs to capital advantage. Those are the more dominant names, the companies like Realty income, Simon properties, or Ventus. Or you look at b2b, another example that has this dominance and will continue to grow. They're only doing it because they have those two moats, they have that scale, they have that cost of capital, and they're able to continue to grow and grow. Now, I'll leave you with one more fact. Here is reach today on roughly 10% of all US institutionally held property.

And that's a very generalized number. But the reason I want to the point that out is there aren't many other asset classes, where there's so much opportunity to scale, you know, and the opposite, the opportunity set for REITs is substantial, where you have 90% off, so when you drive home today, are you driving out to the grocery store today, just think about every one out of 10 of these buildings, whether it's a warehouse or a fast food chain are owned by REITs. So there's a lot more potential for REITs to continue to absorb the privately owned real estate that is in the marketplace. And I think that's a really big important thing that people miss. This is not, you know, a mature business model. You know this is a there's a lot of runways left for REITs over the next several decades.

Andrew
26:37
That's a fantastic takeaway. And frankly, it's really exciting to So Brad; for people who want to learn more about you and what you're doing online, where can they go?

Brad
26:45
Sure. I'll take it to my new site. It's called Wide moat research.com WIDE MOAT wide moat research.com. That's the best place to find me, and thank you both for allowing me to be on the show today.

Dave
26:58
Yeah, we appreciate it, Brad. It was awesome.