Discussing All Things REITs with Chris Volk, former CEO of Store Capital

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Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we have a very, very special guest with us. We have Chris Volk, who is an educator. He's a former CEO and founding CEO of two public REITs, three public REITs, and two public. So Chris will definitely lead us down the path of REITs. He used to run store capital, and he was a very, very smart guy and really enjoyed listening to his article, reading his articles, as well as listening to his other interviews. So this is gonna be a lot of fun. We're going to talk about REITs. And anything else that kind of comes across our path.

So Chris, thank you very much for joining us today; we really do appreciate you taking the time out of your day to come to talk to us. It's a pleasure to have you on the show. And maybe you could kind of fill everybody in on a little bit of your background and kind of how you got started in REITs. Maybe,

Chris

0:47

Oh, sure. I mean, you know, Andrew David, a pleasure to be here. So I got started in REITs. Because I well, I got started in commercial banking. So I spent six years in commercial banking. And I was immersed in reading financial statements and understanding how businesses could pay back loans and that kind of thing and why some businesses, some, is better than other businesses. And one of my customers was the gentleman in Arizona; I was in Atlanta at the time. And he had a company that was in the business of owning chain restaurant properties and renting them to the operator on long-term lease bases. And, and at the time, by the way, this is in the early 80s, there were no REITs to speak of; the REIT wave didn't really start happening till 1992 93.

And so I moved to Arizona, and we would be buying real estate or building real estate and then leasing it to chamber restaurant operators. And as an ex-banker, it was really like financing as a capital stack alternative; somebody's choosing to have a landlord instead of a banker. And having a landlord also alters the capital stack because you're not having to put so much equity into the real estate you're operating out of. So we ultimately ended up taking that company public. So I led the public issuance of stock of franchise finance, and that was 1994, and then became President, that company and then ultimately, we sold it to GE, so I became a GE employee for a little bit. But later on, mordenite works together. And we started a company called Spirit finance, which still exists as a public company today. But it's changed the name, it's spirit Realty capital, but it's a REIT.

And it's on the New York Stock Exchange. And so we created that. And we sold that at the time in 2007 to some investors out of Australia and a consortium that also was in the business of owning real estate and running it back to people. And then ultimately, I started store capital with a group of people founding CEO of that in 2011. And we took that public in 14. And today, it's a vibrant company with good staff, and it's growing in its investment in profit-center real estate, so we just narrowed the sector down to just anything that makes money for people. So it has to have a p&l to it.

So it could be a chain restaurant, it could be a veterinary clinic, could be really child education. It could be a manufacturing facility, could be a retailer, but it has to have an unlevel profit and loss statement to it. So we did that. And over the last ten years, next door is bought somewhere in the neighborhood of 11 $12 billion with real estate sold some of that, but it's been busy.

A

Andrew

3:08

It has been busy. It's cool. The first time I came across you was online [on Seeking Alpha](). And I think you're a really great educator, and you've done some great work in really explaining a lot of the jargon around REITs. And just giving like good higher-level concepts, I've been a shareholder of store capital and have recommended it to paid subscribers of my newsletter. And, you know, something that I kind of like about that company, in particular, is it seems like that company goes were kind of like where the fish aren't almost like serving a particular niche of business that might be overlooked by traditional finance in a way.

C

Chris

3:48

Well, that's true. I mean, Thor is focusing on the middle market and larger customers who are what I would call bank dependence. So the company is not focused on dealing with Walmart or Walgreens or Home Depot, Lowe's, or investment-grade companies are probably the 30 favorite investment-grade companies that use a lot of real estates out there. And those companies are highly sought after in the brokered marketplace, mostly by developer transactions. Store would focus on just simply profit centers to companies directly, not through developers. And we became part of their capital stack. And so, we were an integral part of the financing that they needed.

And the other thing about Store was that our average transaction size was and continues to be somewhere in the neighborhood of $10 million transactions, which in the real estate world is a small number. So that $10 million, by the way, could be three properties for properties, but it was $10 million. And so, as you're doing granular transactions, that's not really in the mainstream because people like to do larger transactions of the can. And you're dealing with middle-market, less known companies, but they're in sectors that are really fundamental. So, for example, there are no investment groups. Veterinary clinic operators just don't exist. There are no investment-grade really child education operators, they don't exist, or fitness club operators don't exist. So these are really broad-based essential businesses that we need every single day. And so part of the risk is not just the credit itself, but the viability of the industry is so important. So Store is directly focused on really strong broad-based Bible industries that have a pronounced need for capital.

A

Andrew

5:26

It makes a lot of sense. I mean, the far the break it down for non-finance types from the way I understand it, to be investment grade, you have to be a certain big size. And so when you talk about veterinary or child care, they're not big enough from a scale perspective to kind of qualify for that. So I guess you look like you want to add something, maybe? Well, yeah.

C

Chris

5:46

I would say that the way the markets work today, very few companies elect to be investment grade; they don't want to, do you think about companies like Dunkin Donuts or dine equities Applebee's I mean, these are very large companies, but they're not investment grade. I mean, in the restaurant space, they're only two or three investment-grade companies, period. But it's one of the broadest based industries out there.

And there are, indeed, large companies, but some of the companies that are not that big still can issue single a or double A-rated debt, and they can do it through structured finance vehicles without having the corporation itself being an investment-grade company. So I think that the vast majority of businesses globally, not just in the United States, elect not to be investment grade because it's it actually helps them lower their cost of capital.

A

Andrew

6:36

That makes sense, from a broad picture, looking at a kind of commercial real estate as a whole. And maybe why investors should take a look at it from a long-term perspective, you know, are there certain trends that investors should pay attention to that look really attractive, make commercial real estate look really attractive? Is it something that could outgrow the economy? Do you think it will just grow generally aligned with the economy? Or do you think there's a chance that could mature in the next, say, 10 or 20 years?

C

Chris

7:06

Well, I think that one thing that I've written about, and I have a book coming out about this corporate business models, business model geek, and I always find that when analysts look at REITs, oftentimes, they leave their brains at the door a little bit. It is because real estate is this visceral thing; you have a reaction to it. Do I like this building? Do I like this tenant? I mean, you're making all kinds of qualitative decisions. And you're thinking about the asset in maybe a different way than you would be thinking about buying Procter and Gamble stock because you do not really know what the break-up value of Procter and Gamble is, or Coca Cola or something like that. But in REITs, you kind of do that. And so so, with real estate, it's very hard for people to get over the physicality of the assets sometimes. And I think it's very important, as you're thinking about can you outgrow the economy and whatnot, it gets really down in my mind to business models, corporate business model, a lot of times analysts spend less time on corporate business models, and focus and said on, you know, whether they have secured debt or unsecured debt or things like that, which should have almost no impact on corporate business models.

And as I was constructing store capital with our team, you know, we focused on several elements of the business model. And then one was that you wanted to have built-in least escalators that were decent enough, you know, I mean, and you can't recreate that over time. So you can't decide five years from now, let's change our lease escalators because, by that time, your portfolio is so big, you just can't do it. The other thing is trying to maintain a low dividend payout ratio; you all write a lot in your material about the importance of compounding. REITs have a difficult time with compounding because they have to pay 90% of their income in the form of dividends. But they have this shield from depreciation which, which basically captures a fair amount of cash. And so when you're looking at dividend payout ratios, you're incorporating that shield, and REITs can actually pay out far less than 90% of tax, or they could pay at 90% taxable income for less than 90% of cash flow to investors. And so in the case of Store, our payout ratio was around 70%, able to then-world that other 30% and get that compounding of interest, it's so important.

So if you take into account the compounding that you can get plus the rent growth, and you throw those two together, you know, Store was constructed to generate something like 5% internal growth a year, maybe more than that, right? Not too bad, because it returns 5% or less; I mean, you're saying even or the economy is not growing 5%, And then if you can, on top of that, if you're trading for a premium to what the cost of the asset, which a good Net Lease company should, then you're able to buy more assets and benefit existing shareholders by doing that, because the new shareholders are buying in at a different share price, and you're getting a spread on that. And so that's probably gonna add, let's say, another two to three points in growth potential for Store. So you're talking about maybe six to 7%, let's say, and growth, and that's going to be better than the overall economy. A lot of times, people think Net Lease resorts are sort of a bond; what's the net lease rate? So it's not a bond. I mean, it's far different from that. And it's not really real estate; it's an operating company. And it's generating, you know, the cash flow, it's reinvesting the money, it's getting the rent growth is getting some drive, because some, some tenants don't pay.

So you're gonna have that, and then you're buying new assets as well. And you put all that together, and you're trying to generate six to 7% growth. And my goal was always to be able to have double-digit rates of return every single year, I mean, and which is actually a terrific deal if you can have that kind of a dividend yield, and that kind of growth, and that's going to generally outpace the economy over time. So having led three Net Lease companies, over time, just give you an idea, I mean, the first company was public from 94 to 2001, the return on that annually was about 12.2%, the ten year Treasury average 650 during that period of time, so you're getting treasuries, times two, or whatever. So that's not a bad deal. I mean, the second company was public for a much shorter period of time. So we started at no three, took it public, and sold it and seven, but the investors got an 18.2% or something 90% Return on the 10-year treasury; it was time for change to happen. And then Store today, I think, is still kind of in the 12 13% total return since going public range.

And that's, you know, including and 2020, which was a very difficult year for Store. So Store recovered through that and should be, you know, positioned to deliver consistent double-digit rates of return. And throughout all this, by the way, Store, generally, our Store and prior to at least research that I've led generally outperformed the broader REIT market being offices and apartments and that kind of stuff, the things that people think of as traditional real estate. And so that was exciting to me.

A

Andrew

11:41

I mean, they sound like pretty good risk-adjusted returns, especially because the Yeah, it goes. You know, businesses are pretty incentivized to pay their rent payments; I would think when you know, do you think some of the analysts leaving their minds at the door? Do you think some of that has to do with the fact that REITs are kind of a newer business structure and maybe just haven't reached the size and scale of some of the other more popular businesses? And so maybe that's why it's something that gets misunderstood or undervalued or anything like that?

C

Chris

12:16

No, I think it's partly because of where real estate comes from. It's the legacy of real estate. So when REITs were first introduced, and when the legislation was first passed in the Eisenhower administration, it was really designed to be sort of the way your average American could buy into institutional real estate, some big office building, you know, how can you buy a piece of the Empire State Building, you know, and then you say, Well, that sounds terrific. And so what's the Empire State Building worth? Well, you know, you just give it a price, you find an appraiser, and you get it appraised.

And you get an idea of what the building's worth, and then you borrow some money on it. So let's say you put some debt on it, and then the rest of it's all equity. When you divide that by the share count, you get the value per share. I mean, it was all based upon nav was, the was the starting point for the valuation. And that mindset has been very difficult to shake people from, and in fact, even today, in private institutional money, a lot is based upon appraising the values because they have no other way to do it. So you're valuing the real estate. So any v becomes even private today and important today in the private market, but for public investors, their mindsets are way different. You know, for example, real estate is always subject to some bizarre things that can happen.

You could have people from foreign countries buying buildings just to get money out of that country or just to preserve capital; they're not even trying to make a return, right. And so do I want do I really care? Is that my value? I mean, I mean, the s&p 500 has done something like a ten over a long period of time, from a rate of return perspective, I think your investors don't want to make zero, you know, I mean, they want, they have a different mindset. And so if nav is going to guide them to a zero, they shouldn't really be that uninterested in it. So what you have in real estate is kind of friction between sort of the nav look in terms of what the appraisal number is, and the business model look that, you know, what does what return it can deliver? And I think for you and your investors, you're much more interested in the latter than the former,

A

Andrew

14:14

I would say that's fair; I guess it kind of goes to that compounding idea you were talking about earlier. And you know, part of compounding, obviously, is a business earning a return on capital that's invested. So you know, there's a formula I've seen you speak about before called Return on equity. And I believe you mentioned it in your book, so can you explain what return on equity is and why investors should care about return on equity?

C

Chris

14:37

Okay, so I have a book that's coming out; it'll be out on May 10. And it's called the value equation, and it's a business guide to wealth creation for entrepreneurs, leaders, and investors. And I wrote this because, first of all, it's an extension of things I've written way over the years, and it focuses on business models. Three obsessed with business models, untold numbers of books on how to get wealthy, the richest people in the world have shortly have made their money in business. And there are very few business books that talk about how businesses create wealth.

And so this is that kind of minute focusing on business models, and business models can be whittled down over the years; I did some very complicated business models but ultimately found that you could take any business and just aggregate it down to six variables. And the variables, when you string them together, will give you what's called a current pre-tax return on equity. So what are you making as an investor today? What's the cash flow available to you today on your equity investment, and this is if you're running the business at cost. So from the standpoint of the operator of any business and in the world, you're focusing on financial fundamentals because finance is like music; it's the universal language, versus accounting is not universal. And it's not much of a language either.

A

Andrew

15:50

Not a romantic one.

C

Chris

15:54

No, so anyway, it seeks to focus on current returns on equity. And when once you get to that, you can build off of that to get into corporate valuations, you can start to estimate corporate returns; I mean, you could build a lot of things just off of a simple formula to make things simple for people. And so the book is 16 chapters long, and they're bookended by four chapters that are pretty easy to read, it's for the middle eight, that has some math in it because valuation is math, there is a value equation, but it's all middle school math. So you have to sort of be patient with it; you can't be running a business or, by the way, making investments without understanding a modicum of math. So it's trying to keep things simple, and you can't get more basic than six variables.

And then, with that, you can transport yourself to the idea of what it is like to be an investor. So if you're buying a company, you're Warren Buffett, who is a store shareholder; today, if you're buying a company, Warren likes to think of buying companies or buying stocks as like buying a piece of a company. So he's analyzing the business and focusing on being able to buy the company. But oftentimes, when you're buying a company, and he's a large shareholder, of let's say, Apple is he's one of their biggest shareholders, their biggest shareholder when he buys Apple, he's not buying a cost. So he's not getting it; Steve Jobs is watching this cost, he's getting in at a substantial market value, which basically means that one of the key variables for the evaluation is something called business investment, which is sort of a defined term that's in the book, but it's basically what has to be funded with OPM, other people's money and equity. And, and but if you're an investor, and you're buying into a company like Apple, your business investment is higher than theirs because you're buying at a different price, you know, and so your return on equity is different from that.

And so that's, you know, as you're looking at it from a financial perspective and a value-based perspective, that's what you have to come into, factor into it. So you can take a simple equation, you can start at it from an entrepreneurial level running a business, but then you can also take that and just whittle it all the way through to what's it like to be an investor in the same business at a different price?

D

Dave

17:48

Yeah, that's fascinating. So I guess let's take that apart a little bit in that how do you value REITs? It's, you are talking about the NAV value, and that's what a lot of analysts use. And I think you've established that that's probably wrong. So how do we value a REIT?

C

Chris

18:05

Sure, well, NAV is useful in the sense that, you know, REITs are unique and that their asset base, so when you buy a REIT stock, if you know, the nav, that's almost your downside, right? I mean, it's like, you know, the breakup value of a company, it can be broken up into assets, where, whereas you wouldn't know that with almost any other business, which is what makes REITs it's one of the many things that makes REITs a very safe investment. But when you're buying into a real estate investment trust, I tend to look at, you know, when I, when I'm stacking REITs up against one another, I tend to sort of taking the approach that I would do in the book. And there's an analysis of store capital, in fact, from 2014 to 2019, and just walks you through the financial model of Store and how it worked. And ultimately, it comes down to all great businesses. And the idea of wealth creation is to make the company worth more than the cost of creation. And there are you guys are probably familiar with the notion of economic value-added, which construct and by string, steward and company, but I tend to focus really not on eta, but on what I would call an EMVA equity market value-added, so I don't really care as a leader or even as an investor,

I don't really care about the cost of capital; I care about, you know, the ability to make the equity worth more than a cost. And by the way, very few businesses in the world rise to this level. I mean, the people that are in the Forbes 400 all created businesses that are worth substantially more than they cost to create. So when I'm looking at a real estate investment trust, I'm stringing together typically three numbers one is the dividend yield, you know, every dividend yield is the second is what is the internal growth rate. So, the internal growth is sort of the number of Rican generated without raising a nickel worth of new equity. So it's, it comes from rent growth, and it comes from reinvesting the free cash flow, so rolling that getting that compound, and then the third component is external growth, which is the amount of the Rika generate by raising new stock and So I'm stringing together those three numbers. So if you have dividend plus internal growth plus external growth, then you get to expect a total rate of return.

And when you get the expected total rate of return, then you're looking at all the reasons you're lining them up, and you're going for the ones that have the most, the best expected total rate of return. And I would say that leverage matters. And there are some risks to enterprise some qualitative issues to it. But, you know, stores only 40%, levered on costs, so there's no risk in the sense of before 2% leverage on real estate is pretty low,

D

Dave

20:28

it's very low.

A

Andrew

20:30

That's very low. Would you say, within the different commercial real estate types? Is there? I mean, you're talking about the price you pay obviously matters a lot. But do you think there's a type of commercial real estate that might be economically more advantageous than others? Or does it just really depend?

C

Chris

20:47

No, you know, I think so people would ask me every now and then, well, how's the REIT industry doing? You know, which sort of like asking you how the C Corp industry is doing? I mean, it's a tax election, right. And so you got REITs that are doing everything from cell towers to billboards to apartments. I mean, they're in fundamentally different businesses. I mean, and you're analyzing these companies, you can get a lot of diversity in a REIT portfolio, of course, because even though it's their dividend stocks, it's not, you know, an industry per se, it is, these are all parts of lots of different industries and lots of different business models. In the case of the net lease sector, which I was familiar with, it has different characteristics from others. So you start off with the sales to business investment ratio, which in REIT parlance is pretty simple because it's like cap rate, you know, so in the case of Store or yield was 8%, I mean, and then the value equation, then what you do is you take your 8%, and you multiply that by an operating profit margin, which is a cash flow margin. So what you got to do is back away all your non-cash Depreciation Amortization, and you got to ignore all the stock-based compensation too.

And so you're just getting down to a cash operating margin. And in the case of Net Lease companies, what's amazing is the cash operating margins, huge, I think it's short, on average, around 94%, something like that. So that sales to vest ratio, it's not that exciting, you know, it's not going to let you on fire compared to a Google or something like that. But the operating profit margin looks pretty sweet, you know, and then, and when you factor into it, the percentage you're funded with OPM, Doris, basically 40% funded with debt 60% with equity, and the cost of that OPM. So I think Stores cost of OPM today is probably kind of in the high threes or something like that, maybe 4%. And then, you subtract out the maintenance capex, and you include that as the last variable.

And at least companies have almost no maintenance capex, right. And then if I'm looking at multifamily, or let's say I'm looking at offices or shopping malls, they have far more people, far more costs. So their operating profit margins are going to be less; they're gonna have more capex associated with them because they have a lot more maintenance capex. And so, the business models are just going to be different. So you have to stack up the business models against each other and focus on if you're a value investor. And to be a value investor, you focus on those REITs that are going to be delivering you the highest rates of return.

A

Andrew

22:55

The thing I can't figure out, too, is some of those categories you talked about with the higher capex that are cap rates were lower, too. And I'm kind of scratching my head, like, why are the cap rates so low, and people are buying into those when there are other alternatives with higher cap rates and higher margins.

C

Chris

23:10

And it's because people don't focus on business models; they oftentimes just focus on nav you get down to me. So office buildings traded a certain NAV; one of the things I remember is we went public in Store in November of 2014. And the day after that, there was a store equity IPO that was something like $560 million, the day after that, the largest street IPO of the year happened and was over $2 billion. And it was an office REIT out in New York. And it dealt with Class A offices. And so when we were going chicken stores and veterinary clinics, or whatever, and they own class A offices. So from a cap rate perspective, they traded differently than we did much higher multiple because of the perceived quality of the real estate, the institutional quality of the real estate, they, you know when REITs go public, they have to what's called do the filing. And they have to do what's called a magic page. And people spend forever calculating these magic pages, but basically magic pages, giving you a sort of an annualized free cash flow for this distributable to investors. And so, in this case, when you look at their magic page, you saw how much and CAPEX they had to make just to kind of keep up their buildings, which typically you wouldn't see in a public disclosure anywhere. And when you did that, you realize that even though they were a much more highly valued company than we were in a bigger company than we were, their free cash flow was about the same as ours.

And so then, when you looked at, you know, a ratio like funded debt to EBIT, da which people will look at as a risk ratio for debt, think about leverage or ratios there were similar but what if you said funded that the free cash flow, then we looked like we had half leverage they did you know because people didn't focus on the free cash flow piece of it because back so people miss some of that and that's important.

D

Dave

24:47

The cap rate idea, I think, is really interesting. And something that I noticed when I've been reading through annual reports for different REITs is sometimes I'm not going to name any names, but sometimes companies will not make it super obvious what their cap rates are? And is that something? How do investors get past that? Like, how do you if it's not in there? Is it just mean that it's you got to guesstimate? Or how do you get around that kind of idea?

C

Chris

25:10

Well, you know, what the, you know what the undepreciated real estate is. So you take a look at their financial statements, and you can take their gross real estate off of the financial statements, so the real estate before depreciation, and then you can take their annualized rents, if you want to, off of the financial statements, sometimes I back out numbers of you can do it, which is a little bit trickier.

So, for example, in the net lease space, some of the landlords get reimbursed for property taxes; they get reimbursed for certain maintenance charges. And so what ends up happening is they'll show that reimbursement is revenue. But then they show an expense down below for the same amount they wash, right? If you're looking at the financials, you want to just kill them both, you know, because you want to get down to sort of what it really costs to run this business and what the true rent income is. And then you just divide the rent income into the gross assets and come up with it; it won't be exactly right. But it was gonna come up with a pretty close approximation of what the cap rate is. Now that makes a lot of sense.

A

Andrew

26:05

Yeah, that's a great way to break it down.

D

Dave

26:07

Yeah, I'm kind of fascinated by this idea, the business models, because I think that's something that has kind of intrigued me, as I've learned more about different companies is one of the things that I like about REITs and financials. And some of those things are their different business models, and they're kind of different languages. And it's kind of fascinating to learn how they operate.

C

Chris

26:25

Yes. So in the book, I'll take the FAANGs, for example, and take their business models and compare them side by side, right? Yeah, that's, that's one of the things I noticed. So years ago, when I devised the value equation, I went into an analyst on Wall Street, and I said, you know, you can take this business model, and you can rank restaurant companies as you can actually like literally rank, because they all have different business models. Like, for example, Outback Steakhouse isn't open for breakfast, you know, as he used to just be open for dinner.

So in our lunch business, so you had different, you know, all these restaurant chains had different models, you know, and for some of them sell alcohol, some don't and whatnot. I said you could just rank them all, you know, and you could say, who's got the best business model? And who's who, therefore, who can grow who can't grow, you know, you know, what kind of returns on equity they have. And the analysts didn't want to do it because they're ranking companies, right? And they don't want to rank the company because the, your sell-side analysts; they want to tell you, everything's good. You know,

D

Dave

27:20

I mean, everything's great. Everything's great. Everything's great. Okay.

C

Chris

27:24

So business models, I think, are really important. I think people focus on them way too seldom.

A

Andrew

27:29

Yeah, it's funny because it sounds so profound when you say it. And then it's such a simple concept. Like, as an investor, it should be something that should be near the top of the list and not near the bottom or something that's just kind of an afterthought.

C

Chris

27:44

And not even just as an investor, as you're an employee, you're working for a company, you have a choice of where you want to work. I mean, if you're working for companies that have better business models, you're apt to get a better raise your app to get, you know, more opportunity. I mean, it goes throughout; it's not just investors or entrepreneurs,

A

Andrew

28:01

Can we maybe tease out a different example of a business model that you would rank really high up, maybe outside of the REIT space?

C

Chris

28:12

I'd be happy to have you talking about FAANGs happy. In the book, there's an example of Walmart. And what it does is it takes Walmart from over the last two years. So it takes him from 20 years, so 2001 to 2020. In that period of time, Walmart had $437 billion in cash flow from operations, like a really big number. And they bought back $107 billion with the stock, they bought back about a third of their stock, they paid out $86 billion in dividends, okay, and so that left them with 243 billion to reinvest into the business. And so you would expect, okay, at the end of 2020, that their stock should be worth $243 billion more, right? I mean, because they put that in the business, but the stock was only worth 98 billion more.

So basically, they lit 144 billion on fire. And so this is where you get down to business models, where you're looking at, you know, what companies do, and you're focusing on how much are they worth more than they cost, and you can actually graph, and you can look at Walmart's loss of value during their prep time that by the way, the pandemic was good to them. So I did this through January 20. In fiscal year 21, their stock popped up. I think the other years are actually more instructive because I didn't get pandemic is kind of an isolated event. So you can't count on that.

A

Andrew

29:30

That's fascinating. Yeah, I like that kind of long-term outlook of let's see what really happened. Not, you know, there's such a focus on quarter. What happened this quarter, what happened last quarter, why don't we look at a longer-term basis and try to Oh, yeah.

C

Chris

29:46

I had stories on GE when they bought us; they praised the assets as low as possible. You know, and the reason was that they were a C Corp, not a REIT. They're graded on P E multiples, not AFL multiples, and they want the E to be as high as possible, which means they want as little depreciation as they can get. So they wanted the real estate to be appraised as low as possible. And then they wanted to build a slug of Goodwill because that Goodwill wasn't amortized. So when depreciating it. And so the other thing it allowed them to do was it allowed them to flip real estate in subsequent years and book enormous gains. So they ended up looking really smart. So the Goodwill's still sitting here on the sheet, and there's no way of knowing whether they're buying low and selling high or not. Because it's all obscure, it gets down to the fact that accounting is not a really useful language sometimes, and so people don't see it. And that's why you have to look at companies over multiple years; doing it just one year isn't enough, oftentimes.

A

Andrew

30:41

So the kind of talk about your version of return on equity? Is that does that something you recommend in the book to be applied over X number of years?

C

Chris

30:51

I think you should look at it every year. You know, and I think that when you're looking at companies over time, and you're seeing whether they've been adding value or losing value, important, I mean, all great businesses started off, by the way, I mean, Walmart started off creating scads of value. I mean, without question, it's just this in a different lifecycle today, you know, so it's in a much more competitive space. And it makes it much more challenging for it to do that. Whereas you know, the fangs are still, you know, we're able to do that. So if you're giving me, so we're going to talk about the fangs of the fangs, Google and Apple just stand out. And what you do in the evaluation, and you point out in your book and stuff about leverage being a risk, what you could do is you could set leverage to zero.

So you could just say, Okay, how would Apple and Google look if they had no debt, and of course, both of them have very little debt. Anyway, Google has firstly, not, you know, Amina, but if you're comparing it to Amazon, Amazon's got substantially, and you got to focus, you can't just focus on the balance sheet debt, you got to focus on operating lease the lease obligations. So Amazon is not as asset-light is all that they have to rent a lot of warehouse space; Walmart rents scads of stuff. So the amount of OPM they're using is much higher, or Netflix, for example, it has to pay for has to, you know, occur a lot more debt in their financial model than the other two, you know, so, so at the fangs, Google and Apple stand out, and it shouldn't be any surprise, because pretty much those guys are pervasive throughout the top of the Forbes 400.

And, and Amazon's there, but you know, you look at an Amazon or a Tesla. People don't know what those business models are yet. I mean, you want things about Elon Musk is I mean, he lost money for I mean, they had negative operating income for ten years as a public company, and yet the stock kept going up, right. So nobody knows what the business model is yet. I, I was saying, you know, water seeks its own level. So if you're a value investor, and you're trying to avoid getting hurt, focus on value companies, and focus on business models, you understand?

A

Andrew

32:45

Yeah, I think that's a concept we can all definitely agree on. It's very cool to talk about the book before it's been released. And it's obvious to me that there's a lot in there for everyday investors, not just investors that are focused on REITs. So the book title one more time, and how people can get access to it.

C

Chris

33:04

The value equation, a business guide to wealth creation for entrepreneurs, leaders, and investors,

A

Andrew

33:10

that's gonna be on Amazon and all the places you can

C

Chris

33:12

get on Amazon Wiley, and I'm sure it'll be elsewhere too.

A

Andrew

33:17

Well, Chris, we really want to thank you for your time felt like a sponge in this conversation. And I thought we hit on a lot of great, big topics. And is there any other place people should go to learn more about you, or should they just pick up the book and start there,

C

Chris

33:33

The book is a great, great place to start. But I would also have a website up, and it'll be called www the value equation.com. It will have on it some spreadsheets and some learning guides for how to use the value equation and how to use some of the concepts that are in the book. And we'll also be expanding on some of the concepts in the book. So you write these books, and then a year or two later, you're going; I should have included this. I'll be doing some of that, too.

D

Dave

33:59

Oh, that's awesome. Awesome. We really, really appreciate you taking the time out of your day; we know you're busy. And we do appreciate you taking the time to educate us on REITs. And like Andrew said, I, I feel like a sponge. And I'm lucky because I get to go back and edit this and listen to it again, and warrant even more from the thing you're talking to us about because, you know, as I said, the business model idea, I think is something that's really, really fascinating to me. So I really appreciate you taking the time to talk to us today, Chris.

C

Chris

34:24

David, Andrew, it's my pleasure. And I like your website. I like your material. And I think it's valuable, and I think you're providing a great service.

D

Dave

34:31

Thank you. Thank you very much. We appreciate it.

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