Trey Addison of Nascent Group Holdings

Hall T Martin: [00:00:04] This is the Investor Connect Podcast Program, I'm Hall T Martin. I'm the host of the show in which we interview angel investors, venture capital, family offices, private equity, and many other investors for early-stage and growth companies. I hope you enjoy this episode.

Hall T Martin: [00:00:24] Well hello, this is Hall Martin with Investor Connect. Joining us today is Trey Addison, Co-founder and Managing Partner at Nascent Group Holdings a Columbus, Ohio-based hybrid private equity and venture capital firm that invests in promising startups and companies throughout the Rust Belt with the potential for significant growth and societal impact. Trey, thank you for joining us.

Trey Addison: [00:00:43] Thank you so much, Hall, I appreciate it. I look forward to the conversation.

Hall T Martin: [00:00:46] Great. So, recently, COVID's come through and changed our lives in many different ways in what we do as far as investment as well, and so I want to talk about the impact of COVID on real estate, and what happened in that sector, and what your take is on it.

Trey Addison: [00:01:04] Yeah, no, it's been an interesting time in real estate and I think that's sort of the backbone or core of our business. We rely on real estate heavily, obviously from a cash-flow standpoint, but also it provides a great level of really just a really good level from an investment standpoint, great returns, longer IRRs, just different things of that nature. And, one of the things that we noticed when COVID hit, we ended up doing an audit really of where our tenants would be at, asking them, working with them to try to see how COVID was impacting them, and honestly, that was probably one of the best things to do just overall from a market standpoint. I heard from other owners from across the country when I told them that they said, "Well, shucks. We need to make sure our property managers are doing the same thing". So, really trying to get ahead of it. But the impact was huge. I mean, if you think about the coasts, for example, we've watched and had individuals move into some of our units from California, from New York, leaving New York, leaving California, moving to the Midwest, which was amazing honestly. It's driving, I believe it will continue that way, I think that's a heck of a trend and I think it'll continue doing that over the course of, really over the next couple of years. I think whether it's the pandemic and everything that was going on in New York and California, whether it's environmental issues and things of that nature, I think a lot of individuals, whether you're renting or buying, said, you know what, "Let's move to the middle of the country. There's a lot of opportunity there". And my last point on it, I think one of the other things that we notice too is, being in the Midwest, you kind of get the opportunity to see what's going on in the market in real-time from a very, I would say micro standpoint. You're in the middle of the country, you're working with and you're dealing with consumers in middle America every day and that gives, I think, gives any investor a baseline of where the country is headed. One of the things that we did start to notice even on the investment side in real estate, is that individuals and firms from New York, from California, from Texas, were converging on Columbus, for example, as a market, converging on Toledo, converging on these really secondary tertiary markets to chase yield. Rates are relatively low, so you can buy an asset with low rates. Your yield on a bond or your yield on other investment vehicles is relatively low outside of sort of the core stocks and things of that nature, but when you look at that, and you say, "Look, I'm in New York and I'm not getting the same type of yield or rate of return as I would on a property here, but I can clip a great coupon in Columbus, Ohio, or in Toledo, Ohio", I think we've noticed that as well. And there's a tremendous amount of, I would say, firms moving to these markets and really driving prices, frankly and it's a really interesting dynamic in the middle of a pandemic.

Hall T Martin: [00:04:04] So, inside real estate, there's many sectors, there's residential, there's commercial, and there's many different types of each. Which sectors are being changed positively by COVID from that point of view?

Trey Addison: [00:04:16] Yeah, I think I would say multifamily. Multifamily is definitely changing from a positive standpoint and I think rates are driving that, and again, I think just the overall bonds are driving that. I think people are looking to put capital in the best place that it can go to create a rate of return. So, in my opinion, when you look at multifamily real estate and you say, "OK, I can get into a multifamily real-estate opportunity with low rates and get a clip of great cash-on cash-coupon on an annual basis that's higher than what I would yield if I was investing in a bond or investing in another vehicle", frankly, I think that's been stellar. Another area where I would say - and we're seeing it really in the Midwest - is single-family housing prices. It's really interesting, and again, I think it's rates-driven. When you're able to buy a single-family home for 3% or sub-3%, that is unbelievable and individuals who are in it to buy homes, or companies or entities that are in the position to acquire multifamily assets, I think are faring well right now because of rates, and I think that will likely continue. Obviously, the Fed's position on that that came out a couple of weeks ago is that rates will probably remain closer to zero over the next three years.

Hall T Martin: [00:05:40] And so, which sectors are moving negatively in real estate? Not everything's going up, what's going down?

Trey Addison: [00:05:46] Yeah, I think some of the sectors that we've seen - and we don't have a whole lot of exposure to - is obviously the commercial sector. Commercial real estate right now is in a bit of a tough spot and that's because you have two things going on. Number one, everybody, most people, corporate America are working from home. Number two, you've got restaurants, bars, and so on and so forth that have been shut down, they had to ramp back up, they're never going to really get to full throttle right now in the midst of COVID. So, landlords that own these properties are having to cut deals with the tenants. Unlike in some instances, I think PPP may have been helpful and other things of that nature, but I think it was just such a broad impact the commercial real estate sector is in a tough spot. And one thing I will say Hall is this, it will be really interesting to see, especially from a commercial-office-space standpoint, what happens post-COVID, and that's one of the things that we're really watching. What's going to happen? Are more firms going to defer and move departments to a work-from-home model or a hybrid model which they don't need as much space, so they consolidate in space and things of that nature, they move to these sort of pseudo-virtual offices? We're kind of looking at all of these different spaces to see kind of, we don't have a whole lot of exposure in that, but is that a buying opportunity later on, or is it just a market that we wouldn't want to touch?

Hall T Martin: [00:07:17] So what do you think is going to happen with shopping malls? Apparently, we were over-retailed and now is right-sizing, but there's quite a few shopping malls out there. Where do you think those are going to end up?

Trey Addison: [00:07:28] Yeah, I think that's part of that commercial space function and I believe that over time, I mean, we've kind of watched the slow death of shopping malls and shopping centers. I think that the attraction malls will fare well, the outdoor malls that have a significant amount of attractions, it's almost a destination for where they're positioned at in the country. Columbus has one, Easton Town Center, it's the destination spot. So I think malls like that, the open-air malls that are destinations places for consumers will fare well. I think your standard brick and mortar mall, they're going to go away. I mean, I was driving through Dayton, Ohio recently, and it was one of those instances where there was a mall there and you could just see the remnants of it. One of the interesting pieces to that, though, is what happens to that space and that real estate? Do they convert it into warehousing? Do they convert it into multifamily and really an elaborate multifamily project? We've seen some of those projects across the country where they're converting these spaces into either warehouse spaces or really large-scale multifamily projects that are almost like many cities, but I don't think they come back as resilient. I think consumers have been frankly, conditioned now due to COVID, to do a whole heck of a lot of shopping online. So, if you look at it through that perspective, how likely are they to go back to sort of a standard brick-and-mortar-mall setting? I think it's unlikely. I think the destination malls that are positioned around the country, there's not as many of them, but I think they'll fare well just simply because they're a destination, I think, for a lot of places.

Hall T Martin: [00:09:11] I've heard of some stores converting into fulfillment centers, so they maintain their brand and they can provide that service of an online shopping experience, but how easy is it to convert a shopping mall facility into a fulfillment center? Is that easily done, or is it hard?

Trey Addison: [00:09:30] I think that it's one of those instances where it seems to be relatively easy from a standpoint of, you're moving space, you're moving, shuffling things around, the build out for that obviously, there's just a lot of open space. Build outs in that standpoint aren't overly complicated, but the big thing is how much space do you need for that particular fulfillment center? And I think that's the thing that'll be interesting to watch. If you look at sort of in that space of real estate, it's rapid growth. They can't build fulfillment centers and build warehouses fast enough right now just simply because of the demand and the demand for space. So, I think that would probably be a best-use conversion for some of these spaces that are likely going out of business. We're seeing that throughout the Midwest, simply by being in the middle of the country you see a significant amount of fulfillment centers as well as warehouse space, because you're positioned literally in the center. Columbus, Ohio, is probably one of the fastest-growing areas for that particular sector because it is in the intersection of east and west.

Hall T Martin: [00:10:37] And so, what's your investment thesis for the sector? How has it changed what you're looking for now than say a year ago?

Trey Addison: [00:10:44] Yeah, I think it's changed. To some degree, I think it's changed in a way from our standpoint is in certain markets, our belief is it's best to develop multifamily because the drive and the demand for overall real estate, mainly multifamily Class B. For example, if you're in a market that is extremely hot, so Nashville or something like that, and you're really looking for a great multifamily Class-B asset, you're likely going to be competing against forces that are coming in from the coast who are willing to take a lower yield than the local firms. So, one of the things that we said based off of COVID and sheer demand for some of the markets that we look at is this, if we can develop it, we know the players, we know the construction firms, we can build it, now we've put ourselves in a better position in those markets we'll be successful because we'll likely have - of course, the cash on cash will be lower, but our IRR long term will be higher because of the sheer demand. So, like in Nashville, or Columbus, or Pittsburgh, it's best for us right now to build and develop in really, and what we call tertiary markets like Toledo, Ohio, or a suburb of Detroit, places like that, that's where we will go after and buy a Class-B asset, just simply because we're buying the cash flow in that asset. And we're not likely competing against out-of-town buyers from a New York or bigger markets who are really chasing yield, so, we're buying at a better price point. But I would say from a thesis standpoint, we made that adjustment. I think it was trending that way anyway. COVID just said, you know what, we probably want to accelerate that. And we're seeing other firms make similar adjustments, especially if you're in the local area where the sheer demand is just driving prices. So, if you can build it, they're going to be there and nine times out of ten, they're going to buy it because they want to be in that market.

Hall T Martin: [00:12:45] So, in looking at the residential market, what kind of change do we think we'll see there? It used to be a house was where you live, but now it's where you work out in a gym, that's where your children go to classes, that's where you have in-home restaurant dining, it's where you have in-house entertainment. What changes do you think we'll see on the residential side based on COVID, where people don't want to get out as much anymore because everything can be brought in?

Trey Addison: [00:13:10] Right. I think it's really interesting and I'm curious to look at the data to see how many individuals ____new homes because of rates are buying bigger homes? Buying homes with more amenities? So on and so forth. Because you're literally living, working, and playing all in your home. And that, sometimes you say, you know what, you got your mom, dad, three kids, dog, we need more space, we need to expand, we need everything to be at home. We're working from home, mom's working in one room, or the kids are going to school in one room, dad's on the computer in the office, and it's just all of these things happening. And then you're saying, "OK, shucks. It's time to eat dinner". So you're doing all of those things in your single-family home. So I think that as long as rates remain low, I think single-family in good markets will continue to be strong. I think people will start to upsize, more so millennials, GenXers will start to upsize to some degree. I think that of course, I think boomers are starting to downsize, so you see the potential for inventory to be created. In some markets, inventory is not there, so it truly is a seller's market. But I believe, I think in the long term as long as rates remain low, I think single-family real estate does OK, especially when we're all stuck in our homes and having to do everything out of your home.

Hall T Martin: [00:14:30] Well, in the last few minutes that we have here, what else should we cover that we haven't?

Trey Addison: [00:14:34] Yeah, I think the only other area I would say is really just around sort of as people start to think about real estate investing, and I think it's one of those instances where, again, you see the markets kind of doing exceptionally well, you're saying, OK, where is another good place for alternative investment? I say it all the time. I think real estate is probably one of the best ways to build wealth in this country as long as you're looking at it through the vantage point of you know, I'm buying in a good area, I'm buying in a space that I understand. So, if you are a single family, you're looking for a rental property, make sure you understand what that really entails. If you want to be in multifamily and you're investing through a private equity firm, or you're investing through a platform online, make sure you understand what that means. And that's one of the biggest things that I tell any prospective investor is to educate yourself and then we'll help you kind of guide you through that process. But, real estate is a great market when you understand it and you understand where you're buying, but on the flip side of that, it is a market and you never know what's going to happen. We kind of watched what happened in '08 when everybody was in it and education wasn't at the forefront. So, educate yourselves as investors just to make sure you understand the market and understand really what you're investing in.

Hall T Martin: [00:15:48] Well, that's great advice. And so, how best for listeners to get back in touch with you?

Trey Addison: [00:15:53] Yeah, absolutely. Feel free to reach out to me on LinkedIn, Trey Addison, you can pull me up on LinkedIn, as well as really reach out through our website. We're always willing to discuss real estate and even other alternative investments we've had on a couple of different sectors, but, real estate is our bread and butter, and feel free to reach out through those methods.

Hall T Martin: [00:16:12] Great. We'll put those in the show notes. Want to thank you for joining us today and hope to have you back for a follow-up soon.

Trey Addison: [00:16:18] Absolutely. Thank you, Hall.

Hall T Martin: [00:16:20] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investorconnect.org.

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