ACCESS

Winter 2021

Syndicated Equities

News of Interest for
Investors and Industry Professionals

Syndicated Equities Team

Richard Kaplan
CEO & FOUNDER

Matt McCulloch
MANAGING PARTNER

Jason Schwartz
CHIEF OPERATING OFFICER

René Ristau
PRINCIPAL & DIRECTOR OF ASSET MANAGEMENT

Robert Handler
PRINCIPAL & CONTROLLER

Terri Leslie
CHIEF OF STAFF

Tracy Treger
PRINCIPAL

Ashley Szatkowski
DIRECTOR OF FINANCE & ACQUISITIONS

Jessica Healy
DIRECTOR OF BUSINESS DEVELOPMENT

Miranda Parker
DIRECTOR OF ACQUISITIONS

Bibi Barrera
LEGAL & FINANCIAL MANAGER

Taylor Ligenza
ASSET MANAGEMENT ASSOCIATE

Jenna Rivera
INVESTOR OUTREACH ASSOCIATE

Joshua York
INVESTMENT ASSOCIATE

LETTER FROM THE PRESIDENT

Richard Kaplan

It is no surprise to any of us that our world and, individually, our lives have been flipped over and upended. It's very hard to stay on key when there are so many distractions and outside noises swirling about. We are out of balance, and the feeling of being at ease and in tune is fleeting and elusive. I thought we were seeing a path toward normalcy, but like a roundabout, I missed my turnoff and I seem to be right back where I started. Many believed that people would be back to work by Labor Day, traditional business activities would resume, and being together would be free of anxiety. Now, with timid optimism, the reset timing is being pushed back 6 to 9 months and even then, to what degree is anyone's guess.

Today, when asked how it's going at Syndicated, I tell people it's like being on a teeter totter. We are closing sales of existing assets at historically strong pricing, we have tenants renewing leases, and yet we have hospitality investments that remain in significant distress as business travel has yet to recover. Navigating through all of this, we continually consider what is in our investors' best interest and guide our hand accordingly. We are faced daily with investors who share our disappointment in unproductive investments and those who are thoroughly pleased with the profitable outcomes we are able to achieve for them. The highs and lows can be unsettling, but we know this is the up and down result of living with a worldwide crisis. We do believe for our portfolio (65 assets under the Syndicated flag) that we have identified the problem areas and have dealt with the issues prudently and with investor concerns in mind. As with any real estate investment, there are no guarantees, but I would offer that the vast majority of our investments have weathered the storm and we are optimistic that, barring major surprises, our portfolio will perform profitably.

One side benefit for the Syndicated team is that working remotely has proven to be more efficient than I think we ever expected. Our team members with young children are more capable of stabilizing their home/work time, and have found ways to be more productive and satisfied with their balance than ever before. Those with long commutes have found extra hours in their days to better align their responsibilities and obligations. Plus, despite recent surveys predicting that a majority of the country's work force have or will change jobs, I'm pleased to report that we have maintained every member of our full staff. Going forward, like most companies I speak with, I foresee that a hybrid of remote and on-site workers will be the norm at Syndicated.

For the past 20 years, America has truly lived, "Things ain't what they used to be," and we've wondered time and time again, "Where have all the blue skies gone?" We've become so much more aware and wary, and the teeter totter is in full motion.

Each morning, we all wake up wondering what the day will bring. We have so much to be grateful for, and I remind my family and the Syndicated team to be hopeful, resilient, hardworking, resourceful, kind to one another and happy.

"Mercy, mercy me ... things ain't what they used to be." Right on, Marvin!

Apartments are perhaps the most “crowded” investment area currently, and for good reason: they performed remarkably well throughout the pandemic.

A NOTE FROM OUR MANAGING PARTNER

MATT McCULLOCH

A fundamental question we face as investors is whether to “follow the crowd” or stake out contrarian positions. Following the crowd can often produce stable and predictable results that serve investors well — safety in numbers, a path well travelled. The risk is joining “the crowd” too late, when it has swelled to the point of inflating values beyond reason ... right before they fall back to earth. Contrarian positions can produce outsized returns — but only if they’re proven right over time and “the crowd” joins in. If those contrarian positions remain contrarian, even the best laid plans may not result in any meaningful upside.

We’re confronted daily with investment decisions that require us to pick a side in this dichotomy, and never has the split between the two seemed more apparent than in the current market. Driving this schism are the ways in which the pandemic has changed how we use space in our everyday lives. For example, we are spending significantly less time in offices, but we’re working more hours than ever from our homes and apartments. The forced shift to online ordering has fewer people in retail stores and restaurants, but warehouse and industrial production facilities are at full tilt keeping up with consumer demand. Travelers are booking vacations and hotels, but business and group travel have yet to truly rebound. Medical offices are busy again with routine visits, self-storage units continue to fill, parking garages are seeing an uptick, and college students are back on campus and leasing apartments.

In evaluating new investment opportunities, we have to take a position on which of these trends will endure, whether certain out-of-favor asset classes will bounce back (and create upside), and whether the crowd has gotten too big in others. Apartments are perhaps the most “crowded” investment area currently, and for good reason: they performed remarkably well throughout the pandemic, and many believe a “generational shift” is underway that will keep well-located units occupied at healthy rents for the foreseeable future. We tend to agree with this thesis, and our recent acquisition of the McGovern House apartments in Highland Park, IL met all of our criteria for location and growth potential. Nevertheless, we’ve reviewed many apartment opportunities in markets that appear overvalued on account of having become overcrowded with investors.

Taking strong contrarian positions requires enormous fortitude currently. For example, we have yet to find a traditional multi-tenant retail or shopping center investment who’s future is sufficiently predictable given the ongoing shake-out among tenants. Similarly, the continued volatility in the hotel market has kept us away from new lodging investments, even as we see certain luxury hotels experiencing strong growth. In time, both of these asset classes will produce intriguing opportunities, and we are open to pursuing them when we believe the time is right.

Despite the work from home trend, we do not think that traditional offices are obsolete. Instead, our experience with dozens of office tenants over the past 20 months has shown us that companies still need central office hubs. Most importantly, that hub should be specific to their mission, perhaps as a headquarters location or because it has been built-out to a tenant’s specific needs. Differentiating correctly between “vanilla” office and “custom fit” office is creating some appealing opportunities currently that we hope to share.

The changes brought about by the pandemic are far from over, and many may only just be beginning. As we spend our days monitoring these changes, both within our portfolio and throughout the broader market, we strive to gain insights that will allow us to choose rewarding investments for our clients.

NET LEASE

BY JASON SCHWARTZ

As we enter the fourth quarter of 2021, the net lease market shows no signs of slowing down.

While 2020 had its fair share of speed bumps, the year finished strong as investors slowly reentered the market. By early 2021, national sales volume had reached $14.3 billion, which represented a 10% increase to pre-pandemic numbers (1Q19).

With so much uncertainty surrounding other asset classes such as hotels, multitenant office, multitenant retail, and parking garages, investors flocked to secure net lease assets, especially in the industrial and essential retail spaces. This influx of new capital, coupled with interest rates that remain at historic lows (5% - 3.5%), drove cap rates down to new records in the 2^{nd} and 3^{rd} quarter, a trend that will most likely continue through yearend.

In the early half of the year, this strong demand for net lease properties was primarily centered on industrial, medical, and essential retailers such as convenience stores, drugstores, grocery stores, and dollar stores. Over the summer and into fall, a significant amount of capital has begun to pursue single tenant office buildings that are leased to credit tenants with at least seven years of term remaining. According to the Boulder Group, net lease office cap rates decreased 15 basis points from the 2^{nd} to the 3^{rd} quarter. That compression lagged only slightly behind industrial (19bps) and retail (22bps) assets.

With the continued uncertainty caused by the delta variant, investors remain hyper focused on locking in secure cash flow for as long as possible, and are becoming more open to a variety of asset classes. Looked ahead through yearend, net lease properties will remain in high demand since they offer investors a safe place to park capital and lock in low interest rates.

Current Cap Rate Snapshot

5.00% - 5.50%
WALGREENS

4.75% - 5.25%
CVS

3.75% - 4.25%
MCDONALD'S

5.50% - 6.00%
TRACTOR SUPPLY COMPANY

4.25% - 4.75%
ALDI

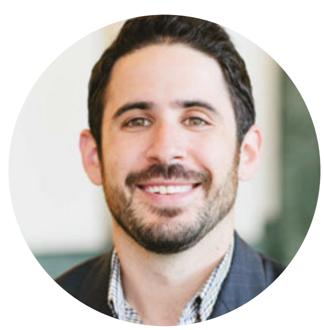
4.50% - 5.00%
STARBUCKS

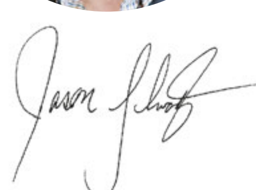
5.25% - 5.75%
DOLLAR GENERAL

4.25% - 4.75%
7-ELEVEN

5.00% - 5.50%
NATIONAL TIRE & BATTERY

If you are interested in acquiring or selling a net lease property please contact our brokerage team.





BY TRACY TREGER

The Syndicated team works hard daily to take care of our existing assets, making sure we are managing the properties, tenants, and investments prudently, and that we are thoroughly analyzing new opportunities.

When I was in high school, I remember my math teacher telling the class that we had to show all of the steps we went through to arrive at our answers to get full credit for solving a problem. I asked her why it was necessary to provide so much detail — I could do the intermediate calculations in my head — if I ended up with the correct result. The teacher patiently explained that if we didn't show all of our work, she wouldn't know if we really understood what we were doing and why, and where we were making mistakes if we arrived at an incorrect answer.

I sometimes think of that lesson when I am speaking to investors about our communications. The Syndicated team works hard daily to take care of our existing assets, making sure we are managing the properties, tenants, and investments prudently, and that we are thoroughly analyzing new opportunities. We have a lot of information in our heads, derived from daily discussions about the portfolio and potential acquisitions. Our updates describe situations with our properties and our proposed solutions, and we attempt to be as concise as possible, sharing our basic reasoning and conclusions at a strategic level. If we were to show our entire analysis, our reports might be too voluminous and detailed for even our most dedicated readers. We encourage investors to contact us directly to learn more about the topics that interest them.

We have also received questions from investors about the relatively low number of new investment opportunities we have offered this year, and to explain our thinking about the current market.

Historically, we review and analyze nearly 100 prospective investments for every new opportunity we send to investors. This past year found us evaluating more than double that number of projects. The most significant challenge we have encountered this year has been rising prices created by the billions of dollars in investment capital that sat on the sidelines in 2020 and are now looking for a home. This money includes real estate funds that have pressure to reach their spending quotas, as well as individuals who held off on investing last year due to uncertainty surrounding the outcome of the 2020 elections and the impact of COVID-19. Further, capital has been concentrated on asset classes that provide stability, which is where we have traditionally focused the bulk of our investing. Low interest rates have also contributed to high prices, as it is still relatively easy to borrow inexpensively.

Additionally, many owners of core assets are taking advantage of record prices, as we did with the Southfield and Pearland properties, our Walgreens in Del City, and the US Customs building in Atlanta. This expanded universe of sellers has also impacted the market as it looks to redeploy capital, often on short time frames to use 1031 exchange tax-deferrals. Simply put, there are a lot of prospective buyers competing for a similar pool of assets. Consequently, we have been outbid on multiple attractive projects. We are unwilling to abandon our discipline to chase a deal that may prove difficult to exit in 5-10 years if market pricing normalizes or if interest rates increase substantially.

We have finally begun to see opportunities that "make sense" to us based on strong underlying fundamentals and conservative underwriting. In the coming months, we will have several new opportunities that should provide stability and growth over the long-term as a result of strong locations and tenancy.

Our intention is always to provide you with the information you need to understand the investments and our portfolio strategy. We always welcome you to contact us with questions about new or existing investments. This personal touch and direct access to our entire team is something we believe sets us apart from other real estate companies. In the meantime, we will endeavor to continue showing you our underlying work.

The Reinvestment Dilemma

BY JESSICA HEALY

Over the past year, stabilized real estate, especially in the industrial and multifamily asset classes, have seen significant value appreciation. Even well-located and fully tenanted office (yes, office!), has roared upward in value over the last 12 months.

As investment in multi-tenant retail and hospitality has dwindled, these other asset classes have seen equity positions mushroom as institutional capital, pension funds and foreign investment platforms crowd into real estate they perceive as safe. Further, many private and public tenants have refinanced long term debt and are looking to leverage inexpensive capital by buying their real estate buildings, further increasing competition.

At Syndicated Equities, the current market is presenting some intriguing opportunities for our investors to capture attractive sale profits based on where pricing has escalated. In determining when to sell, we regard each asset individually, balancing future return potential and risk against the challenge of reinvesting sale profits in the current market.

Lately, we have decided to liquidate several investments where the sale profit would either equal or exceed the remaining returns projected from cash flow. In most instances, this sale profit has equated to a 25%-40% return on equity, which would require another 6-7 years of cash flow to achieve. By selling in the current market, we are capturing current valuations and foregoing potential future risk in re-tenanting or refinancing several years out.

Upon selling, our investors typically look to us for 1031 exchange replacement property or another investment for their after-tax proceeds. Of course, selling in a strong market means investing in the same, and we have limited our investing this year to only four new assets that “penciled-out” in underwriting. In re-investing, we are attempting to replace our clients’ cash flow while not putting their equity at greater risk by overpaying. As the year has gone on, we are finding more opportunities that we believe meet this criteria, especially now that some of the most aggressive equity in the market has been deployed. We look forward to sharing these opportunities with investors and are always pleased to talk through our buy/sell thinking.

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The current market is presenting some intriguing opportunities for our investors to capture attractive sale profits based on where pricing has escalated.

58.6%

OF THE TOTAL U.S WORKFORCE ARE REMOTE WORKERS

44%
Growth in remote work over the last 5 years

51%
Growth in remote work over the last 10 years

159%
Growth in remote work over the last 12 years

BY MIRANDA PARKER

Networking in a Pandemic

A hallmark of Syndicated Equities has always been its strong relationships with investors, partners, colleagues, and other industry personnel. Networking with our peers in the industry has always been an essential component in building these relationships and creating new business opportunities. Needless to say, the last year and a half has been a challenge for many of us who network regularly. Never has there been a time where we have had to maintain relationships without face-to-face interactions.

Networking in Chicago over the last year has mirrored real life in many ways. As everyone was adjusting during the first few weeks of lockdown, zoom networking groups emerged. A few of my industry colleagues creatively put together weekly virtual meetings, which allowed us to always connect with someone new. As Chicago began to lift mandates in early summer, one on one coffee meetings became the norm. It was not only refreshing to leave the confines of my house and office, but also to see others in person besides family or coworkers.

Spring 2021 welcomed the first in-person networking events. Albeit on the smaller side, I believe everyone was relieved to see old and new faces and even excited for the ever-present small talk. This summer, large conferences have returned. Although constantly changing mandates and best practices have evolved, a good number of conferences are still scheduled throughout the end of the year and they are becoming increasingly well attended.

As we look to end another bizarre and challenging year, we continue to seek ways to connect with all of you. The past two years have seen us enhance our investor reporting, both with an upgraded online portal and monthly portfolio reviews, and we are seeing more of you "in person" on Zoom than ever before. Our hope is that life will continue to return back to normal, and we are grateful and appreciative of all the minds that came together to turn a difficult time into an innovative journey.

MIRANDA PARKER
engaged to her partner, Xan.

BIBI BARRERA
engaged to her partner, Mark.

JOSH YORK
tied the knot with now wife, Haley.

JESSICA HEALY
engaged to her partner, Tom.

Tracy Treger

ELECTED AS SECRETARY TO CREW CHICAGO

TRACY TREGER was recently elected as Secretary to CREW Chicago, a professional organization with a mission to transform the commercial real estate industry by advancing the power and success of women. As Secretary, Tracy will be the board liaison to Chicago's CREW Network Outreach Committee, and she will represent CREW Chicago as a delegate to CREW Network, an international organization with 12,000+ members in over 75 markets globally. She will also continue her service on CREW Chicago's Equity & Inclusion Committee.

Jason Schwartz

PROMOTED TO COO

Syndicated Equities is proud to announce that **JASON SCHWARTZ** has been promoted to Chief Operating Officer. Jason is a Principal with Syndicated and joined the firm in 2010. He is focused on developing joint venture partnerships, sourcing new acquisitions, and raising capital from private and 1031 investors. In his expanded role, Jason will lead the company's growth strategy while continuing to support existing investor and partner relationships. "I'm excited to be in this role and continue building on the success that Syndicated has achieved over the past 35 years. We have an extraordinary team of talented individuals, and I look forward to expanding our growth and capabilities going forward."

Miranda Parker

PROMOTED TO DIRECTOR OF ACQUISITIONS

Syndicated Equities is proud to announce that **MIRANDA PARKER** has been promoted to Director of Acquisitions. Miranda has been with Syndicated for 5-years and began her career by working with the acquisitions team and raising capital from 1031 investors. In her new role, Miranda will focus on sourcing new acquisitions for Syndicated's cash and 1031 investors, including properties that can be structured as a DST, as well as working more closely with new and existing joint venture partnerships. "I'm proud to build upon Syndicated's portfolio, which already consists of more than 60 properties and 1,000+ investors. My goal is to continue increasing our presence nationwide and to provide investors with new opportunities to help diversify their portfolios."

US Fertility

GLENVIEW, ILLINOIS

An approximately 30,264 square foot medical office and corporate headquarters facility that is 100% leased to US Fertility in Glenview, Illinois. US Fertility is the largest physician owned and physician led fertility organization and management services organization for fertility clinics throughout the US. The property was built pursuant to the specifications of Fertility Centers of Illinois, which is the largest private fertility practice in Illinois and recently joined with US Fertility. Syndicated invested $6,855,000 and acquired the property outright in a structure that accommodated investors completing a tax-deferred 1031 exchange.

Vine Street Co-Living Development

WASHINGTON, DC

A ground-up development of a Class-A, co-living facility located in the Takoma Park neighborhood of Northwest Washington, DC. The property will be developed by Outlier Realty, a Washington, DC-based multifamily and co-living developer that has completed $150 million of multifamily projects throughout the Washington metropolitan area. Syndicated invested $4,125,000 into the development and this was Syndicated's second investment with Outlier Realty.

Walgreens

HUNTSVILLE, ALABAMA

An approximately 14,280 square foot, free-standing drugstore that is 100% leased to Walgreens (S&P: BBB) in Huntsville, Alabama. At closing, Walgreens entered into a new 12-year lease term with 5% rent increases in year 3 and 8. Syndicated invested $2,284,600 and acquired the property outright in a structure that accommodated investors completing a tax-deferred 1031 exchange.

McGovern House **HIGHLAND PARK, IL**

A luxury, Class A, 73-unit mid-rise apartment building located in Highland Park, IL. Originally built in 2017, the property is 98% occupied and Each unit features condo-quality finishes, above market unit sizes, and open living concepts Syndicated believes that the property will provide investors with attractive in-place yields for a stabilized multifamily asset in one of the most sought-after suburban submarkets in the Chicago MSA. Syndicated invested $13,000,000 and acquired the property outright in a structure that accommodated cash investors and investors completing a tax deferred 1031 exchange.

Henry Ford OptimEyes

SOUTHFIELD, MICHIGAN

Syndicated Equities sold a 20,514 square foot medical and retail facility that was 100% leased to Henry Ford Health System in Southfield, Michigan on August 19, 2021. Syndicated originally acquired the property in 2016 and structured its acquisition to accommodate investors completing a 1031 exchange. The investment provided investors with stable, cash flow distributions, and the sale produced an approximately 11.4% internal rate of return and 1.59 equity multiple for investors.

Merit Medical

PEARLAND, TEXAS

Syndicated Equities sold a 95,480 square foot medical manufacturing facility that was 100% leased to Merit Medical Systems in Pearland, Texas on August 24, 2021. Syndicated originally acquired the property in 2017 and structured its acquisition to accommodate investors completing a 1031 exchange. The property provided investors with stable cash flow distributions, and the sale produced an approximately 18.09% internal rate of return and a 1.96 equity multiple for investors.

Walgreens

DEL CITY, OKLAHOMA

Syndicated Equities sold a 13,905 square foot free-stranding Walgreens located in Del City, Oklahoma on June 9th, 2021. Syndicated originally acquired the asset through a tenant-in-common structure on February 24, 1997, with a fully amortizing loan that matured in 2016, which coincided with Walgreens original lease expiration. During its ownership, Syndicated Equities paid of the original loan and negotiated two long term lease renewals in 2014 and 2021. After 24 years of ownership the property was sold, resulting in an approximately 5.58 equity multiple.

Image shown here is a stock photo.

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Private Real Estate Investment

SYNDICATED EQUITIES

350 N LASALLE STREET
SUITE 800
CHICAGO IL 60654
(312) 640-9020

WWW.SYNEQ.COM