PURPOSE

Commercial Real Estate – Finally Something New

An Interview with Robert J. Finlay, Chief Executive Officer, QuietStream Financial

EDITORS' NOTE *Robert J. Finlay is the enterprising leader of QuietStream Financial, which provides investors with a new way of looking at real estate investment. Finlay has created a company that helps commercial real estate professionals solve the most complex challenges in investor management and communications, crowdfunding, CMBS research and advice, commercial loan defeasance, affordable housing tax credit management and solar asset management. His Investor Management Services website is now opening this market to thousands more investors around the world. He has spent more than 25 years as a leader in commercial real estate and finance, starting on Wall Street in the 1990s, specializing in commercial mortgage-backed securities (CMBS) with Credit Suisse First Boston, Lehman Brothers, and Deutsche Bank. In 2000, Finlay pioneered the CMBS defeasance industry as the founder of Commercial Defeasance LLC, where he closed some of the first CMBS defeasance transactions in the United States and Canada. After selling a significant portion of the defeasance business in 2006, Finlay amassed a large portfolio of office and multifamily properties across the U.S. He reinvested in the defeasance business in 2011 and now, as the CEO of QuietStream Financial, he is leading change in the commercial real estate sector. He is an alumnus of New Hampshire College.*


Robert J. Finlay

COMPANY BRIEF *QuietStream Financial (quietstreamfinancial.com) serves commercial real estate owners, investors, borrowers and related professionals with a portfolio of innovative businesses, including investor management, online investor portals, crowdfunding platforms, CMBS underwriting, defeasance, marketing and other alternative asset management services. The company, with $15 billion of assets under management, operates in North America, with headquarters in Charlotte, North Carolina and offices in New York, Boston, Los Angeles, and San Francisco.*

Where is the commercial real estate market today? Where is it going?

Commercial real estate – a $15-trillion market – is one of the hottest investment opportunities now, because it provides current income and asset appreciation. The key is knowing where the deals are, a direct relationship with sponsors, and appropriate leverage. With the combination of technology and deregulation right now, we're opening it to thousands of additional investors. I've never been more excited.

What has led to this?

I've been in commercial real estate all my life – I'm approaching about three decades of actually working within the industry – and over those decades I've seen four major disruptions or changes in the market that have been so profound that I will always remember them.

What were those disruptions?

In the late '80s, we saw that personal recourse loans and cross-collateralized loans wiped out thousands of commercial real estate borrowers. These borrowers were losing not only their bad assets to foreclosure but also losing their good assets.

During the '80s, I personally witnessed a vast transfer of wealth. I don't think the commercial real estate market had ever seen this before. People could buy commercial real estate for pennies on the dollar after it was foreclosed on by the RTC and the FDIC.

In the '90s, the creation of the securitized debt market created long-term, non-recourse, low-rate, and high-leveraged debt. These were loans that would be packaged up and sold off as bonds in the securitized market.

The creation of all this securitized debt created so much liquidity in the market, and such a vast appreciation of commercial real estate values, because we now were able to put cheap leverage on it. This was actually what got me into changing my career direction and focusing on securitization.

In 2000, the defeasance provision halted the sale and refinancing of securitized loans. At that time, the market volume was about $269 billion. So in 2000 I created a company called Commercial Defeasance, better known as Defease with Ease, which added liquidity back into the market. The commercial mortgage backed securities market is now about a $2-trillion market.

In 2009, there was an unbelievable opportunity in commercial real estate. That year, the economy was bad – and it was really, really bad. No one knew where the bottom was. But looking at commercial real estate, it became clear the demographics were changing, asset prices were mismatched, and that this was the best buying opportunity ever. And it proved to be, since most of the assets we purchased in 2009 and 2010 have appreciated anywhere between two and three times since then.

These have been major impacts in my life, but there is nothing that I have ever seen like what we are witnessing right now.

What do you mean?

The commercial real estate market is changing very quickly. Due to changes in regulation and implementation of technology, the market is undergoing one of the biggest disruptions that I will ever witness.

These two factors are demolishing the barriers to entry for investors. In the past, investment opportunities were generally limited to millionaires – big family offices that had the insight and knew the right people to make an investment.

In 2012, the federal government passed the JOBS Act, which opened up general solicitation so that sponsors, people who need investors, could now market their offerings to the general public.

This means they can use TV, radio, and newspaper ads in order to get investors. This has broken down the barriers so much that investors can be anywhere and still have access to deal flow.

What resulted, and has been evolving all along, provides investors not only the opportunity to find investments, but allows sponsors to raise capital. It also raises the total capital available, thereby creating new projects, and fueling a continuing commercial real estate boom.

The biggest and one of the most powerful, ways to reach out comes back to the new technology. How do we reach a lot of people? Newspaper ads are good but don't create a big enough market. Nor do radio and TV.

So what's the answer?

The Internet.

The amount of usage of the Internet today by commercial real estate investors is now converging with that of the population. In fact, 88 percent of people between the ages of 50 and 64 use the Internet; 99 percent of people who are earning more than $75,000 use the Internet; and 97 percent of college graduates use the Internet. What is the demographic of a commercial real

They want something in commercial real estate that fits into their investment portfolio.

estate investor? They are middle-aged, wealthy, college educated, and they can be reached by what they're using every day.

It's no longer about who one knows. It's about having access to deals and opportunities that have never been seen before – it doesn't matter where someone is – and it's working.

Here are three deals we've done over the past 90 days or so: We have a Charlotte-based developer who raised money for a project they were building there – 38 percent of investors came from outside of Charlotte. On a San Francisco project, 46 percent of our investors came from outside of San Francisco. A Dallas-based real estate developer and investor bought a property in Dallas, and 91 percent of their investors live outside Dallas.

It's no longer who you know – it's all about finding deal flow.

Part of it is that commercial real estate guys like myself are sometimes slow to adapt to technology. We're typically slow to change.

Those who insist on still working this way are missing the fact that their investors, not only potential but current, want transparency. They want to be able to access their information at any time. They want timely reports. They want modern functionality. They want something in commercial real estate that fits into their investment portfolio. Why should they expect this? It's because that is how they manage all of their financial investments today.

Take Charles Schwab or TD Ameritrade. Imagine judging your stock portfolio by going to *The Wall Street Journal* the next day and looking at the tickers and summing them all up? No one would do that. People want to see how their portfolios are doing instantly.

In fairness to commercial real estate sponsors, there hasn't been a Schwab-type dashboard until now.

Is that what your platform offers?

Our platform basically allows investors from throughout the world to access and invest directly with a commercial real estate sponsor. It's as easy as finding a home deal on Zillow. Just as you type in a neighborhood and price range on Zillow, on our platform you can now do the same thing for commercial real estate.

A person can look at the opportunities and decide, for instance, to invest in a multifamily project in Texas or an office building in Florida Whatever it is, they have the opportunity to find it, click on it, get information about the sponsor – who they're investing with; what their background and strategy is; what deals they have done; and what their past performance has been.

All of that is available to anyone. More information can be found with the click of a button. Now anyone can get details about the project, demographics, financials, and market studies – anything one would need to make an educated decision on a real estate investment.

Then they just click another button to invest, and can sign all of the documents and fund the investment online. Most importantly, they can track that investment 24/7, with all the important information readily available – just like we're all used to doing with stocks and bank accounts. But this dashboard is providing detailed information specific to commercial real estate investments.

Is this catching on?

This kind of disruption starts slowly, but it quickly begins building momentum. We can already see that commercial real estate sponsors that adapt to this strategy are the ones who will survive. If there are two investors side by side, and I ask who wants minimal information on an investment that they've made and who wants fully transparent information, anyone would go with the one that is fully transparent.

Can you give an example of disruption?

My favorite case in point comparing companies that failed to adapt to a change in technology or a market trend to those that have is Blockbuster and Netflix.

Between 2002 and 2006, Netflix subscribers rose from one million to six million. During that same time, Blockbuster was still building stores – they still believed that people wanted to drive to the store, go through the aisle, hope their movie was there, and find something else to bring home if it wasn't.

I would have loved to be in the boardroom at Blockbuster, because I wonder if they even talked about Netflix or just about opening new stores.

In 2004, Blockbuster was at its peak. It knew about Netflix because, in 2000, Blockbuster had the opportunity to buy Netflix for $50 million, but it didn't want it.

Today, Netflix has a market capitalization of $39 billion and Blockbuster is no longer in business.

Any other examples?

They say history repeats itself, and that is true. Probably one of the closest analogies to what we're witnessing right now is that of Charles Schwab with schwab.com. In 1975, the SEC deregulated stockbrokers and allowed for a discount broker model, like Charles Schwab. At the end of 1995, Charles Schwab created one of the first online investment platforms. By 1998, over 60 percent of all trades that were done by Charles Schwab were done online.

Right now, Charles Schwab has something like $2 trillion of assets under management based on creating this disruption – seeing the necessity for change, and taking hold of that opportunity.

Is the same thing about to happen in commercial real estate?

The 2012 JOBS Act opened Internet solicitation, breaking down the barriers so that investors can come from all around the world to invest in commercial real estate projects.

We offer, at imscre.com, a technology platform that allows investors from any device to find opportunities, make investments, and track those investments directly with the sponsor with no middle man, as part of a well-balanced portfolio.

Are we looking at the new Charles Schwab? I think so. ●

Now anyone can get details about the project, demographics, financials, and market studies.