EPISODE 1261

[INTRODUCTION]

0:00:00.0 Rob Finlay You really have to do your own homework and your own research, and almost become an expert in real estate yourself. And, the expert really is you need to become an expert underwriter. Even if you've been investing with people in the past, you've invested with sponsors and they've shown good returns, you know what the private equity model for commercial real estate is one that you've got to do deals in order to make money. And so, as an investor, you have to look at your latest deal the same way that you looked at your first.

[INTERVIEW]

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Whitney Sewell: This is your real estate syndication show. I'm your host, Whitney Sewell. Today, our guest... he started from cleaning toilets to managing properties to everything in between, now he has built numerous successful businesses that helped us in the commercial real estate business. His name is Rob Finlay.

He's CEO and founder of Thirty Capital. He spent more than two decades bridging the gap between innovation and technology to push the boundaries of commercial real estate. He's built a portfolio of commercial real estate assets, a financial advisory and services firm, and 10 technology platforms that open up access to data management and insight generation tools previously available only to institutional and enterprise operators. He actively invests in his communities and mentors emerging leaders.

I enjoyed this conversation with Rob, it's interesting. He and I have numerous things in common, even living on a farm in Virginia. But, you know, he goes through numerous things that you're going to learn today about passive investing and some risks that he tries to assess the best that he can. He goes through numerous things that you want to know as you're talking to an operator considering them for an investment, but we also get into some new technology that is becoming very popular, which is blockchain. He talks about that, with what time we have left he's becoming an expert in that space and, you know, it's just interesting that

technology that's coming, and I want to keep you, the listener informed as much as possible when we have somebody on like that. So hopefully, maybe we can even have him back and talk about that specifically, but I hope if nothing else, you've learned a lot today listening to Rob and me talking about passive investing risks.

Rob, welcome to the show. I enjoyed our conversation just before, you know, we've started recording, so I'm looking forward to learning more about you. I know the listeners are going to learn a lot from you, just hearing about your background, wow! And so, give them a little more about who you are, and there are many things that you have done that you're so experienced in that affect our industry in a big way. Give them a little bit about that and let's jump into a couple of main topics today.

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Rob Finlay: Yeah, sure. Well, first of all, Whitney, thank you so much for having me on the show. It's a real honor to be on this, so thank you very much for having me. Yeah, so as we were talking about before, my background is you know first and foremost, I'm a real estate person, grew up in the real estate. As much as I tried to separate myself, I went to Wall Street, tried to do something other than that, was right into real estate, structuring CMBS and CLOs, and things like that. Then started my career by starting a company called DefeaseWithEase or Commercial Defeasance, and really started, that was about 20, some odd years ago, and so, if you look at my life today, I am really focused on three, three, and a half main topics.

One is real estate. I own and operate real estate throughout the United States. Also very active investor and joint venture partner deals throughout the country. We are focused on technology and innovation through our holding company Thrity Capital. We provide software solutions like Lobby CRE, which is a data management and asset management platform; Entity Keeper, which helps you manage your entities; and other software solutions. As well as our capital market side, which is DefeaseWithEase, Commercial Defeasance, and our hedging advisory, so we're helping borrowers on things like swaps and caps, and then the real estate. And then, obviously, we do a little bit of, through our Villana Capital, which is our fund in blockchain, cryptocurrency, decentralized finance. So, really trying to keep busy on all things, but really focused on the topic of commercial real estate.

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WS: That's awesome. I love your focus on, "If there's a problem I'm gonna create a solution" and it looks like, you know, you've just done that time and time again, and successfully. And I'm gonna look up a couple of those things that you mentioned, like the Entity Keeper, that point. Oh, my goodness, all the entities, how do we track all this stuff. But you created a solution, I love just the mindset of that, right? "Hey, there's a problem and maybe that could be a way to create a business, right?" You've done that time and time again. Just with your background channel, you and I talked about this ahead of time but what we're going to focus on, you know, you have so much experience in real estate and investing and whatnot.

I want to, even passive investing, joint mentoring, I wanted to get your take on some of the just passive investing risks and things that you see, maybe passive investors mistakes they're making possible, things that maybe, you know, a lot of passive investors and our listeners to this show, and so let's help them a little bit with some of the risks, some of the things that you know that, hey they need to be looking out for, and especially if there's anything that's like market-specific for today that would be great.

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RF: Sure. Well, I think you know one of the biggest things when I'm asked from an investor or when we're looking at deals ourselves, is this concept of risk-adjusted returns. I think we talked about before where you could see some of these crowdfunding sites and, and the ones that seem to be oversubscribed, or the ones with these outlandish returns, and yet some of the best real estates, are the ones that maybe are struggling to find investors, and that to me is really the pitfall of investor.

One of the, I shouldn't say pitfall, one of the difficulties in being a passive investor in commercial real estate. You're looking as an investor, you're looking for allocation, you're looking for diversification, you're looking for all of the benefits that real estate, income, appreciation, all the things that, that commercial real estate provides. But there's no open book like there is in the stock market, right? I can look at betas, I can look at earnings per share, I can benchmark, and all that.

So in commercial real estate, you really don't know and so, you really have to do your own homework and your own research, and almost become an expert in real estate yourself, and

the expert really is you need to become an expert underwriter. Even if you've been investing with people in the past, you've invested with sponsors and they've shown good returns, you know what? The private equity model for commercial real estate is one where you've got to do deals in order to make money and so, as an investor you have to look at your latest deal the same way that you looked at your first deal and that's understanding the location risk, the underwriting risk, especially now as deals become very competitive. The multifamily space, industrial space, every space quite frankly in real estate has become so competitive that the underwriting that investor, or that a sponsor does become a little bit tighter, and you as an investor have to understand the checks that you're writing today there is some risk, inherent risk to doing deals today.

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WS: No doubt about it. I love your thoughts around that and how you need to do your own research and homework, and you need to become an expert in... at least you've got to understand quite a bit of it. You may not become the expert that, you know, the underwriter on that team is just because you're not doing it as much, right, and seeing this many deals. However, what's your thoughts on, you know, the listener right now is thinking, "Well, how do I become an expert in underwriting," or "I just don't have time to, you know, to go become an expert in that," however, they still want to make sure they're making proper investments, right? Or you know, doing that research. What are some of your thoughts on how do they learn enough to be confident and ensure the best they can that they're making a good decision?

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RF: Sure. So, from that standpoint, and you're right you need to have some expertise but in reality, your expertise first and foremost has to be how well can you underwrite this sponsor, right? And that's really what it comes down to. You're investing with somebody and you're expecting them to understand and know what they're doing in order to produce those results for you. So I think it comes down to when you look at the company that you're investing with, what's their background? What are the systems that they have in place? What are the risk mitigation things that they have for themselves in order to sort of ensuring that you're making the right decision, right? So it's one thing if it... if the shop has nobody around, they are not

using these systems, they're not looking at market data, they're not looking at other things, those would be triggers to me. So I think it would be really helpful for investors to have sort of a set list of questions about what they would think, and this is... these are probably very similar questions that somebody would ask a private equity firm or a hedge fund. "Hey? Give me your past results. What do you do about this? How do you do this? How do you steward of my money?"

The second thing I look at is leverage. Every deal. So I first underwrite the sponsor, it's somebody that I'm gonna do business with. Okay, you've met those requirements, now let's look at leverage. A low leverage deal usually can work, right? In high leverage deals, the risk becomes great. So the amount of leverage, so anything over 70, 75% of this also depends on property types and stuff, but when you start looking at a high level of leverage, that's when I start to get a little nervous as well.

Then the third thing I look at is, is really sort of just common sense stuff, right? So common sense is really important because that's really what real estate is, right? You don't need to have any special degree or anything to go out and buy real estate. You can, yeah, we have enough money and you're the winning bid, you can buy anything. So you really have to apply your common sense. I think one of the things that we talk about quite a bit, and not to get hypertechnical but, if you start looking at, we're also on the capital market side as I said, and so you start looking at as treasure rates have moved up, now they're back down, but you know the volatility in the treasury market has been huge, and so when we start seeing people buying, especially where cap rates are so low, the sensitivity to cap rates, to interest rate changes is huge, right? So for example, you buy multifamily at a four cap, and treasury rates run up 20 basis points, well now, in order for you to cover that 20 basis point increase in a cap rate, you now have to expect to see a 30 or 40% revenue increase in the property. So as an investor, I look at this and say "Okay, are the risk that much lower than they are in the market?" So it's just common sense stuff and then, you know, less, right. Can people afford... models in order to make the numbers work have to show revenue increase, right? It's what people are doing, "I'm buying it. I'm gonna put some money into it. Now, I'm gonna get some... I'm going to create some extra value for it," is it too much?

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WS: I appreciate how you lay that out and I'm just thinking about, especially the last one, too, the common sense thing, and more and more lately I hear about, as far as raising rents and how, how much they're being raised in. Just because we can raise rents 15% in a year or 20% in some markets, should we, you know, can the people, or even if we can, can the tenants afford it? Right? And I love that point that you made there. I mean, can they afford it? That doesn't mean we can actually get it long-term, right? Or even that's the best option.
And also, I wanted to back up just a little bit, you know, numerous things about questions for a sponsor, and I get questions like that often as well. What should I ask the sponsor? What should... you know, what if I have 20 minutes or 15 minutes and there are some sponsors you get five minutes worth, you know, on the phone, you know, depending on their following all those things. But, if you had to pick just a couple of questions for that sponsor that helped you to say "You know what? This is somebody I want to work with," depending on how they answered those two or three questions, what would those be? And maybe it's still the leverage and the background and the common sense, but maybe specifically.

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RF: I look at sponsors in a very different light. I think of the sponsors. So the questions I ask are, one is, what are you doing differently? Two, show alpha, right? That's the biggest thing, right, because if you're looking for money from me and this isn't in a fund, this is on an individual asset basis, which means that you just paid more than anybody else for this property. So what do you do to show me alpha, that incremental increase? What are you doing? And that's, that's number one, and that can't be a soft PS answer like, "Oh, I know real estate better and all that stuff."
It is a real "What are you doing differently?" Are you using... are you a Cortland and you use data and analytics? Or, are you using advanced mapping? Are you using things that technology and innovation to make sure that you're showing incremental... an increase? And that, that would be the one. To one, how are you showing now? Two, so what are you doing to differentiate yourself from everybody else that's, that's asking for money? That's number one. Number two is, are you really a real estate organization or are you just an owner of real estate yourself? And by that, I mean, so often we look at real estate as in these real estate private equity firms are companies that are just made up of individual deals. I want to invest with a

company that actually business is real estate, and they look at their business like real estate, and the properties are just a function of it. In some cases we want... recently invested with, with a group, and they came out with this, this great line where it was like, "Look, we're not a real estate company. We are a technology company whose product is real estate," and that to me is proving, "Hey, you're doing things differently."

So that's the second thing, right, because I don't want to invest with somebody, and let's say they decide not to show up one day who's going to manage my money? Who's going to manage that asset? So make sure that things are in place to manage that asset, to manage that property. So those are really the two big things that I look at: Are you different or are you just like everybody else? And can you prove to me, alpha? And then, do you have any type of enterprise value?

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WS: Love that. That's such great advice. I appreciate just breaking it down so simply as well. I know the listeners appreciate that, and I want to spend a few minutes down talking about another thing that you're an expert in because I feel like it's become a very popular topic. I've been to conferences on this, and I'm trying to learn a little bit as we go. I can see that it's gonna be something we're gonna have to know about, you know, more and more, and that's just the blockchain technology and how you see that connecting to real estate.

Maybe some things you're preparing for or already have prepared for in just seeing how that's going to work together. But maybe you could shed a little light on... we could do probably hours just on what blockchain is, right? But maybe you shed a little bit of light on blockchain and then let's talk about how that's going to be connected to real estate.

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RF: Sure. Well, I think there's, you know, unfortunately, it all sort of gets grouped up into sort of this web 3.0, or you know cryptocurrency like I hear so much stuff, right? There's a big difference between blockchain and cryptocurrency. There's a big difference between blockchain and decentralized finance somewhat and, and, and also into metaverse and all this stuff, right? And, and in typical fashion in this industry the market is, it goes and it starts and it's like there's a whole bunch of things going out, and a lot of, lot of stuff going and happening

and then, it gets to a part where now money gets into it and gets all press and stuff. So blockchain in itself, it's just a ledger system, it's just a way to digitally record one thing to another, and that's it. It's ownership, and that's why I think that blockchain, where blockchain for real estate is really being centered around, or things like a title. You own this piece of property where I think people are trying to get it to, which will happen at some point but it's more complex, is the transfer of equity positions, right?
So, "Hey, I have an equity position in this deal. I want to be able to get out. I want to be able to... I own it with this piece of... this ledger technology so, I own it and I understand it," and that's where, that's where I think we're looking at, we see the applications for commercial real estate. So I think when people look at this, you should definitely tell your listeners that blockchain is actually a real thing, like blockchain works and that's not crazy. That's not... that's not a cryptocurrency, that's not, you know, metaverse, that's not, you know, Bitcoin, it is just purely a technical ledger system that works and is very good.

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WS: This is a tracking system, right? I mean, it tracks all the transactions, right? And, is that something that's a way that there are transactions is verified, and those things as well? I mean, that's part of that same technology, right.

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RF: Yes, yes. And so, I mean blockchain to... I mean good IBM. I mean, IBM has... yeah, you can go get blockchain off of IMB, so it's like... it's a real thing. And so, think about this, you know, you go buy a piece of property, you've got to go to the title agent, you're gonna go back to the record and, you know, we were joking about being in Virginia and old farms and stuff. Well, you know, you have to... there's something scribbled down in, in the record book, down in Town Hall, and you know, at the city clerk's office, and you know, you have to go back and track all that stuff. Whereas blockchain provides the direct bypassing of all of that. You own it. You have it. Everything is recorded. So, that ledger technology is very powerful.

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WS: How do you see that applying to not only the ownership of, say, you know, a piece of

commercial real estate but also the investment piece as well? Or how does that effect, say passive investors?

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RF: As I said, there will be a potential where this technology could be used for the equity side, right? So, not just the physical asset, but also the equity and the ownership of the equity. And therefore, one of them, obviously, liquidity has always been an issue with commercial real estate, right? You invest and as a passive investor, you're there, right? You're there until the sponsor wants to sell.

So, from that standpoint, I think if you can add a way to transfer equity back and forth, there's some real opportunity for that. Clearly where we're going to get into some issues is, is our Federal government's not going to let you in and, you know, your customer, you know, and all that other stuff, there's going to be some... there'll be some requirements. But if you can simplify that, and that's, that's sort of logical that if you can simplify this, then you can and you can simplify equity ownership then that's a great thing.

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WS: Yeah, no doubt about it. So, what should the passive investor, or even the operator listening right now, be learning so they're prepared for this technology as it ramps up, as we start using it more and more?

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RF: The thing is, read. Don't listen to the hype, right, and as I said, there's... there are chunks that are taken away right now. You can't look at the news without seeing something about metaverse, right? Metaverse, metaverse, blockchain, and or cryptocurrency and bitcoin. It's understanding being able to differentiate the two, and then understanding. I think there's, there's a lot of good sources. Unfortunately, blockchain is very boring relative to the excitement of metaverse and cryptocurrencies and stuff. And so, it doesn't get a... blockchain it... as I said, blockchain is just a ledger system, right? So it's not, it's not as exciting. The business applications for blockchain are starting to become very exciting and as we start to see it in the adoption of it, I think you'll start to see it first and things like a recording of deeds and recording

of mortgages and recording of leases and recorded before it will really start to impact more of the recording of equity interests.

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WS: Okay. Well, I'd love to talk about that a little more, unfortunately, we've got to move to a few final questions, Rob. Do you have any predictions, you know, for the real estate market over the next six to 12 months? I mean, whether buying, selling, investing, anything that affects them.

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RF: Look, I think that the market is very hot right now, right? So, this is a time where there's a lot of volatility in the market, that in the capital markets, so you have a lot of volatility in capital markets. You have a lot of volatility in the... and real estate typically lags, right? So... So, CMBS, commercial mortgage back security spreads, and other fixed-income spreads have winded out. How long does that take for the market to the real estate market to adjust? So, I think there are some very costs. I think there's still opportunity, but I think the due diligence and the managing of the expectations for returns are probably the biggest. Right, and I think that's where everybody sort of needs to come to grips. You're not getting 10% preferred in 20% IRRs. It's just not, at least on something that you want to invest in, or, or that you feel confident that you're gonna get, you know.

I mean, sure there... there's some out there but for the most part, your expectation for returns have to be tempered and that's, that's a hard part, right? It's you know, you and I were talking before, you were buying properties in 2009, right? I was buying properties in '09 and '10, and you know, makes me look like a hero. Any place where you bought an apartment complex for 30,000 a door and it's now trading at $300,000 a door, and I did very little for that. So, that's where you, you have to understand but the people who are buying that 300 a door, it's all in the operations.

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WS: Yeah, no doubt. Great advice. What about when you're, say preparing for some type of downturn, you can answer this question as either an operator or a passive investor, maybe

how... what you like to see in an operator, but how do you prepare for a downturn? Say, that, you know, something happens in the economy, whatever that may be and two bowlers go out, how are you prepared for that? Or even like to see an operator prepared for that?

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RF: So I think the biggest thing I look at is, once again, I come back to this leverage. I've been a product where I've seen in the eighty's what happened in ninety's where, you know, over-leverage clock, cross-collateralization, and all that stuff and so I've really learned, and I've spent most of my life on the debit side so I understand that the requirements of debt and so I think appropriately levered properties are what I'm looking at. And that's also an opportunity, right? Because when we feel like we're in a situation now where we've been at historically low rates, making sure that you have you refinanced when you can, right? Because your time frame for refinancing is coming less and less.

So, are you appropriately levered to manage the long haul? That'd be number one. Number two, liquidity is always good. My dad taught me the golden rule. You as the gold make the rules and that's, what really comes out of it. If you have, and I also saw that when there were a lot of foreclosures in the ninety's, where people who had cash became very wealthy from real estate, so make sure there's liquidity, as well.

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WS: He who has the gold makes the rules. Writing that down That's a good quote right there. What's your best source for meeting new investors right now?

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RF: I think a lot of it is, is more of providing information, right, and providing the content. I think that's where... I think the days of going out and trying to "Yeah. Hey, I've got a deal and, and you know, come invest with me" doesn't work anymore, right? It's now about, "Hey, let me provide information to you." We find people, we look for sponsors when they can show that they do things differently.

And I think that's an easy way. I think there's a lot of money, right? There are a lot of investors out there, they just don't know where to go and it's, it's scary. There's no, you know, there's no

Charles Schwab. I mean, there's no place to look at stuff and so, they have to be able to find it but they're finding it through content and being able to say, "Hey, how is this person better or different than this other one?"

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WS: What about some daily habits you have Rob that you're disciplined about that have helped you achieve this level of success?

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RF: I used to be a lot more disciplined when I was younger. Now, it's... I've learned that it's important. You know, I think there's, there's a couple of things. One is, I think it's really important to plan and be organized. I also think that, that the sources, the sources of information are so great now that it really is just like it is, you can be overwhelmed with the sources, but I spend every morning, I go through a sort of my handful of publications and I read, and what's great about is they're not, people would ask, "Oh, well, it's easier, you know, you're reading Bloomberg, and you're looking at yourself." Yes, I have a Bloomberg terminal that I look at, and yes, I have Wall Street Journal and CNBC, and all that's up but, there's a lot of information, there's a lot of really interesting content. Medium is, is a great place where you can find stuff from all over the place, and so getting information like that, I think is, is really good. Reddit, even though I'm outside their, their age demographic by a huge factor, I think Reddit is, is some good information. And so, you start to... yeah, so I spend. So that habit is, I like to spend 20 minutes every morning to 30 minutes really trying to gather information.

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WS: I love that. I love the examples, too. Thanks for just providing a couple of places there that you do go on, maybe on a daily basis to see current news, but it goes back to me to constant education, right? I mean, you're just daily in it and, you know, staying in it and educating yourself and reading, and I think there's a lot to be said for that. I've just seen that across so many entrepreneurs across so many businesses. If you could pick one thing that's contributed to your success what would that be?

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RF: Not listening to people, right? It's... you know, I've always said it's, you know, really smart people don't necessarily become entrepreneurs because anybody could talk yourself out of it, and I've been very fortunate that I didn't listen to people, right? And every time you start a business there's, you... you have enough of may say in yourself, and so it's never giving up has really been sort of what I've... what I've said it's just, it's just I believe in it, I have a conviction for it, I already see it and so, at that point, you know, granted I'm not building space shuttles here, I build consumable technology for commercial real estate owners, right? Or we provide financial services to commercial real estate owners. It's not like it's, you know, that, that's always been my big thing, and the software companies that I've built in the past have always been consumable immediately. Entity Keeper, right? You talked about it to manage entities. Okay, everybody needs to manage entities. I was doing it on a spreadsheet, and I would forget about it because this spreadsheet is just one way. Okay, but alerts and ticklers and be able to do nice work charts, okay, well done. Easy. So, consumable.

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WS: It's awesome. Tell us how you like to give back.

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RF: So, I do a lot through foundations. We've really been, and I think that's been a really important part of our life, is giving back. I've tried in the past, I've tried different things, I've taken this entrepreneurial approach to give back, so foundation-wise, we do a challenge, Grant. So, you want money from me, that's fine, but I'm challenging you. You have to do something in return, I'm not just writing blank checks. That's been a big thing. We've... we've sponsored and helped a lot of organizations here. The other way I've tried to do it is I've always felt like there's been so much negative news and negative press that it's really good and important to spotlight people who have done good in the community and that's and so we, we actively go after and seek people who have done good and help and support them in there, in their cause.

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WS: That's awesome. Rob, I appreciate you just giving back to us today, and being so open about, you know, your successes, even before we started recording you talked about, you know, your born into real estate but what I wanted to highlight there is that we didn't talk about during the recording was, you went from cleaning toilets and managing properties to everything in between, but now, you know, just numerous successful businesses. Congratulations to you, but thank you for just sharing those passive investing risks, some different questions that you want to ask of sponsors, you know, when you were getting to know them, thinking about investing great tips. I love that, and even thinking about blockchain. I want to continue to help the listeners to be more aware of that technology and it's coming into real estate and other aspects of our life. And just so continual education like like you talked about as well. Where can the listeners get in touch with you, or learn more about you and your businesses things like that?

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RF: Yeah, sure. So, you can look at... I mean, my biggest one is, is robfinlay@thirtycapital.com. And yeah, absolutely take a look at Thirty Capital, it's all of our brands and all of our information that we talked about. There's also a lot of knowledge information there as well. So, if you're looking at investing in real estate, you're looking at data and analytics, stuff like that, so yep, people can look there.

[END OF INTERVIEW]

[OUTRO]

0:28:12.0 WHITNEY SEWELL Thank you for being a loyal listener of the real estate syndication show. Please subscribe and like the show, share it with your friends so we can help them as well. Don't forget, to go to lifebridgecapital.com, where you can sign up and start investing in real estate today. Have a blessed day.

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