Bryan Thornton:

While we do today what we started out doing 27 years ago, the flexibility to move and pivot, change capital partners, work with our partners in ways that you have to listen to the capital. If you listen to the capital and move and pivot, your business can stay flexible, you can build resilience.

Matt Slepin:

Hi, this is Matt Slepin, and welcome to Leading Voices in Real Estate. Today's episode, recorded on February 10th at their offices in Downtown San Francisco, is a conversation with Don Kuemmeler and Bryan Thornton, managing partners of PCCP, a real estate investment manager currently with about $25 billion of AUM. Don is one of the four original founders of the firm. He and Bill Lindsay are still leading the firm now alongside Bryan, who although he's been with a firm for 26 of his 27 years, is one of the next generation leaders for the company. PCCP has long been a combined debt and equity shop, bringing flexibility of capital structure to their local partners.

There's a lot of questions I cannot ask directly on the show, but might love to. I had a guest on the show a few months ago whose business model is challenged due to the long-term confines of their platform. We gingerly touched upon it in the discussion, but they can't use these shows to expose guests or dwell too deeply on their challenges. In the StepStone episode a few weeks ago, Jeff Giller talked about the vortex of the giant investment managers and the way in which they've redefined everyone else's roles in the business. I asked Don and Bryan about the Vortex thing in this episode, which they parried to a different metaphor, but what they were really saying throughout the conversation is their business model, unlike the giant firms, is really a back-to-the-past of real estate fundamentals and in the major traditional real estate classes, not much in the newer niche property types. And as is a theme throughout Leading Voices, it is largely about building long-term relationships and then being a long-term, flexible, creative capital provider to long-term partners. I love that.

We talk always about real estates being a relationship business, but people do not often enough emphasize that alongside the relationships, you got to bring strong value, or else the relationship is flat. No one has the time unless the value and partnership is there. That's a theme I heard throughout this conversation with Don and Bryan, which I loved. We only touched on it in this episode, but one of the great ways in which ZRG can add value to our long-term clients is to bring a different broader perspective to the people equation. You've heard me talk about this all the time. I believe that there's great value in the business platform of a real estate company, and that the business platform is the great differentiator. We'll keep talking about that.

Last year we completed a search to help PCCP bring in a new chief technology officer, something that we've done over the past two years now for four major REITs and investment managers. Technology, and how it integrates in with how the people in the firm work together and with their clients and investors, is a critical part of a company's business platform. Technology, people succession, culture, business practice, and the level of skill, sophistication, integration at all levels is what differentiates firms, and each are areas in which ZRG can help our clients. We too, like PCCP, are in a relationship business, but it's tying the relationships in the consultative value add that makes the world go round.

I hope that you enjoy this conversation with Don and Bryan. It's easy to share episodes through your podcast app, and I hope that you'll share this and the Leading Voices series with your friends and colleagues in the business. If you have comments in the show, thoughts for guests, or importantly, if you have questions on how ZRG can help your firm through recruiting strong talent for your team or in advisory work relating to the human capital and business platform of your company, please email me at mslepin@zrgpartners.com. I hope that you enjoy this conversation with Don and Bryan from PCCP.

Don and Bryan, welcome to Leading Voices in Real Estate. I am here in your offices in 100 Pine. I got my first search firm, Terra Search Partners, started in this building, so I love this building. I'm looking over the skyline in San Francisco. This is two in a row, the other was in Embarcadero Center with StepStone a couple of weeks ago, right over there, and here we are. So I'm thrilled to have you guys on the show. Maybe introduce yourself so we know your voices. Don?

Don Kuemmeler:

Hello, Matt. Happy to be here. Don Kuemmeler, San Francisco native, now in real estate, I don't know, 36th year or so, and happy to be talking to you about PCCP today.

Matt Slepin:

Cool. We're going to drill into San Francisco natives. I'm curious about that one, because a few of us are. Bryan?

Bryan Thornton:

Matt, thank you for having us here today. Long-time listener and first-time guest. It's been an exciting journey working with Don for the last 26 years. He and Bill Lindsay, Aaron Giovara, and Nick Colonna founded PCCP in 1998. I joined shortly thereafter and have worked through many various positions at PCCP. Today I oversee the equity platform, and am lucky enough to be a co-managing partner along with Don and Bill. The outlook for PCCP and our strategic leadership, very exciting as we sit here today.

Matt Slepin:

Yeah. And you're not a San Francisco native?

Bryan Thornton:

No, from Atlanta originally, but after a journey up the East Coast to New York, decided to move out to San Francisco and found my calling.

Matt Slepin:

Cool. So tell us about PCCP, what you do in different parts of the business, size and scale, how you see yourself within the competitive marketplace, but talk about the company and set the stage for us, Don.

Don Kuemmeler:

Well, I actually going to throw that on over to Bryan to get a sense of size and scope that we are today.

Matt Slepin:

Okay.

Don Kuemmeler:

And then I'll give you a sense of how we approach the market on the investing side.

Matt Slepin:

Fair deal.

Don Kuemmeler:

PCCP today is a 25 billion AUM investor, and for the last 27 years we've been doing one thing, and that's investing in either debt or equity in the real estate space. We're just real estate investors, and we're looking to catalyze change with local operators who have a local market and product type expertise, and we can choose if we want to invest debt or equity with them.

Matt Slepin:

Mm-hmm. And you've always done debt and equity because most players have come recently to the equity side of the business, but you really came out of the debt side of the business yourselves.

Bryan Thornton:

The competitive landscape for the private debt fund business was very different when PCCP got started. I don't know that we were the only one in it, but today with so many competitors, the landscape is very crowded, but we've kept a good niche in the middle market and have been able to find clients who we can build trust with and repetitive business and a good space here in this credit space.

Matt Slepin:

Yeah.

Don Kuemmeler:

Yeah. We started PCCP in 1998. I came at the business as an ex-banker with Wells Fargo for 12 years, and done workouts, capital markets, and a lot of different things, but there we were a value-add lender look, construction turnarounds, and there's a lot of themes that learned from there that we brought when we started PCCP, which was putting capital where it could add the most value, whether it was debt or equity. Really coming at both sides of the equation, our view is we're just financing business plans, whether that's on the debt side at appropriate spread for the risk or at the equity side where we take ownership at an LLC position.

But in all cases, we're really just handicapping people's ability to execute business plans. And that's why we've always done both. It's just a different cost of capital. So we engage the market with a series of sponsors and partners all around the country, and we just look where are people making money, which changes from cycle to cycle, and then how do we price that capital? Sometimes they just need a loan, sometimes they want us as a JV partner, and we can put together a transaction to execute that business plan. So that's how we came at the market in both sides. Obviously couldn't do that in banking, so we needed to start a firm where we could have both product types and vend it to value-add clients.

Matt Slepin:

Right. Value-add clients means those doing value-add transactions are the largest part of your business or clients where you're value-adding to their capital stack to make them able to do business, or both?

Don Kuemmeler:

Yeah, I'd like to say we drive the real estate more. I think we're financing their value-add activities.

Matt Slepin:

Got it, okay.

Don Kuemmeler:

If you look over time, the market really has moved. There's some times when aggregating, when the reach are getting formed, just getting to scale that was creating a bulk buy, and then a sale on a public or a bigger exit. There's times when it's growth and it's about development. There's value markets, there's workout markets, those move over time. And I really think we've approached the market where we're risk managers. Which risks do we think are best priced or best suited for the times? And that has moved around over our 27 years both in debt and in equity. So we find people who can add value. Sometimes it's fixing a real estate problem, leasing a vacant space or rehabbing, sometimes it's ground-up construction. Today we are hoping it's more of the "let's fix broken balance sheets." And that's also what we do from workout perspective, but that's always a little different.

Matt Slepin:

If I think of both sides of it on your side, you're dealing with your own risk; on their side, you're able to offer solutions. It doesn't have to be called debt or called equity or called MEZZ. You figure out where in the capital stack you can help them the most, which is a wonderful range of tools to have versus one tool.

Bryan Thornton:

Well, let's start with the clients. First and foremost, it's about building relationships in the markets that we cover. Our team is out there meeting market operators who are either borrowers or are joint venture partners who have a market expertise and a product expertise with a proven track record. And it's about us helping them understand where the capital market flows can fit with their real estate specific business. From the capital perspective, we bring to the table capital we've raised internationally. We have both domestic and international capital, and we raised both debt capital to provide senior mortgages as well as equity capital that we invest in joint ventures, not in the same transaction. But we do have one team building relationships and providing both products to the marketplace.

Matt Slepin:

Mm-hmm. So when you sit down with a local partner to do business and they have a deal they're looking at, how do you kind of approach them to help them think about the range of places in the capital stack that you can help make that deal work?

Bryan Thornton:

Well, I think it's most important to understand that not every transaction is a good fit, but we're still looking to build relationships and have interactions with our clients that are meaningful and help them understand how we think. Our approaches to find places where our capital can catalyze change, it could be repairing a balance sheet, it could be building something ground up, or simply repositioning it in the market. And our goal is to do that with a lens of both debt and equity, and find what place fits best for us to invest in that specific transaction.

Matt Slepin:

Mm-hmm. When you talk about that, one of the solutions that you didn't talk about is you take a stabilized easy core asset, and we'll do a deal with that.

Bryan Thornton:

Well, actually no. Our capital is focused more on the value-add spectrum. We do not have the Odyssey fund cost of capital and compete in that space in the equity business, and on the debt side, we are not fixed rate long-term lenders. Our capitals bridge capital, looking to solve problems that are shorter in term.

Matt Slepin:

Makes sense. Cool. In the last podcast, we talked a lot with StepStone, we talked about the vortex of Blackstone as the example, but Blackstone equals five different companies that are all humongous, and you're in the middle market both with your clients and in terms of the size and scale of your AUM. How do you compete in that world in that way? Sitting alongside the vortex, what does that mean for you?

Don Kuemmeler:

I don't know how to think of it as a vortex, I'll change analogies on you. Maybe Blackstone and some of the larger firms can be thought of as big department stores with lots of different divisions, and we can be more of a category killer. We're just in real estate. If you think about how we've organized ourselves, it's just real estate solutions in that middle market, which is underlying real estate between 75 and 250 million is kind of what we touch most of the time, which is actually where the majority of assets sit in the United States.

So I like to think we compete in the middle of the bell curve where most of the assets sit. And within that, I think we always like to be in the middle of the bell curve where the demand is by price point, size, execution, and investor demand. What's different is we're not buying 30 buildings together. We do the same thing at Blackstone, but we're not doing the bulk purchasing. It's one-off discrete investing, and as Bryan said, we don't have the core capital. So we generally try to be involved with that middle market real estate during transition periods where the spreads and returns are wider, and when they get very efficient, we turn them over to the efficient long-term capital markets for debt and equity, which is our takeout. Basically solve the problem, turn it over to the core cheaper capital, and then do it all over again.

Matt Slepin:

Uh-huh.

Bryan Thornton:

Matt, it's our role to help solve problems in real estate, but as an allocator of capital, it's not our role to be pioneers to do on-the-edge newest product types in a market or to take the biggest risks. We might be called a little boring, and that's okay because we're allocating capital to those who can execute the business plans the best. In our role, we want to be the most interested people in the room, not necessarily the most interesting.

Matt Slepin:

The most interested, not necessarily the most exciting. I love it.

Bryan Thornton:

You might say that, but we certainly like to be interested and inquisitive about everything.

Matt Slepin:

Mm-hmm. You're talking a lot about the markets that you're in. So how do you choose what markets? And I assume we're not talking geography because it's all the states. But what segments of the market have you historically looked at? What segments of the market are interesting at this second, but this second is less interesting than over time?

Don Kuemmeler:

Boy, it really depends what year we did this podcast. I mean, in 27 years, that's moved a lot, and that is really the art of the business as we look at it. There are times, coming out of this in '11 and '12, I think we saw, when we started doing a lot more industrial, that that was coming back and industrial land prices hadn't moved. So we had a big view on that as a coming attraction even before near-shoring and on-shoring took off and e-commerce, its hypergrowth, started to kick in. We've had views in the same on apartments and construction, but we've also had views by region with growth.

So where were the most conviction? Sometimes there were states and areas that were growing and overlooked. Other times there were asset classes that overlooked, and then you lay on price, and it moves around. Over the years we have shift that focus. I earlier gave you sort of a teaser on the mix of ways you can make money, and I think all those, growth, value-add and restructuring, are all taking place now that's different by asset class and that's different by region. So I'd say now it's even multifaceted. So what we really try to do is get a huge amount of deal flow from our underlying clients, both in debt and equity, and you start comparing risks and you start seeing patterns. Where is the action taking place and where might there be arbitrage opportunities?

Matt Slepin:

So talk about... You said 27 years, I want to think about this for a sec. I hear so many panels about what to do today, and as we're talking about here, what to do over time makes more sense. But since you have 27-year history, we see the ebbs and flows of what those things have been. So talk a bit about that historically to get the trend now, again, with a wider lens.

Bryan Thornton:

For 27 years, you could have had a theme that developed each year where capital was asking you, "Are you going into this new and cool part of the industry?" And right now it's all about the alternatives to the core real estate food groups of office, industrial, residential, and retail. I think we, as we've grown, have looked to new markets to expand out of our starting base here in California to the West Coast and now national. Our investment is just domestic in the US, but the evolution of what we invest in, we've changed partners, we've changed investment focuses into and out of different product types, but for 27 years, has been residential, industrial, office and retail, with the addition of hospitality in our debt business. And that's 85% of the US investable institutional real estate market. So we feel like if we're middle market investors, we're covering most of the market with those product types.

Matt Slepin:

Uh-huh. You said a bad word in the middle of that explanation, because you talked about office. So are you investing in office? Let's talk about that for a few minutes and then go back to the other investment types. But let's go down the rabbit hole of office for a sec.

Bryan Thornton:

There's been an industry timeout on office or a PCCP timeout on office that is continuing today. But we think that the time to invest in office is coming, and it's coming very soon for us. But to stay relevant, we've continued to underwrite, look at, and evaluate office transactions. We have to keep that muscle memory fresh.

Matt Slepin:

Right.

Bryan Thornton:

And I think any product type that falls out of favor. I mean, we could have been here seven, eight years ago and talking about retail the same way that we're talking about office, but we have to stay relevant and fresh and understand what's going on in the market at all times. You can't just discard it and say no, not ever. It might just be not now.

Matt Slepin:

If it's not now in office, when you start to do it, you can start in debt, which is an easier place to start. And is it all about price per pound? Or how do you evaluate something that at any price per pound makes sense?

Don Kuemmeler:

Well, let me first argue I don't think anything's easier in debt. Everybody likes to think that debt's easier, but I'm going to correct you there. I think to be good at debt, you got to be right 99% of the time. You can't have more than a point losses. In equity, as a capital player, maybe it's 85%. As a sponsor, you only have to be right 65% because they get the special extra promote. But I think those handicappings change. I think office, where you said where are we in over 27 years, these cycles, every cycle's slightly different. Some have supply cycle caused by too much supply. I think in the GFC, we had illiquidity among the banks. Other cycles are driven by other things, and each asset class has its own cyclical change. You know what retail did through the malls, and slowing down and breaking that up, and now office is having its own cycle. At the moment, there's a question on demand for the asset and the demand for the investment, and they're both being challenged. So it's gotten obviously very wide.

For us to do debt, back to your question, I think we'd want to have really good... I think there, you can get paid just for putting liquidity back when others have been backing off. Now that's already changing quickly here in the last three months as office, when both the asset looks like it has really good demand, good weighted average lease terms, and underwritable cash flow, there's capital willing to come in that. I think it has as much to do actually about the other asset types, tightening on spread, and so on a relative basis, it's gaining a little more traction.

So again, that's just another example of moving cyclically with it when you saw more demand come back and affirming that you can come back at a wider spread and play that in debt. On the equity side, you'd have to have more conviction around not just the lease up, obviously it's not by the pound to me at all. It's about the real need for the product and then the ability to sell it to somebody. I mean, a really callous view I've used a lot when we have underwriting discussions, that if the building burned down, would anybody care? And if that's your litmus test for some of these buildings, I think it's just a no if you wouldn't rebuild it, if it wouldn't come back. You want assets that are wanted by the marketplace. So I'm skeptical, but price changes a lot of things, and that's what the capital markets do. They spread that out.

Matt Slepin:

Right. I love Don's comment here, which is, if the building burned down, would anyone care? We're thinking about that as we're reinventing our downtown. San Francisco was the hottest market in the country six years ago, four years ago, and now it's one of the most challenged markets. You guys are downtown office in San Francisco. How do you think about the arc of change and what's going on here?

Bryan Thornton:

Great question. Every one of our global investors asks, what's it like in San Francisco? And we're not going to get political on this show today, but let's just say that the politics of the city is a pendulum and it's swinging, and we think it's coming back to a more investable position in the market. Everything is changing across the country in terms of that pendulum swinging, but San Francisco does seem to have real change afoot.

Matt Slepin:

It's interesting. We had Mike Covarrubias and Cyrus Sanandaji, God, Cyrus, I'm sorry, I'm saying your name wrong, on the podcast about a year ago talking about San Francisco, and the comment was that the political pendulum had to swing for this market to repair itself because it was such a business-unfriendly environment. While we were in such heights, we could afford it, but when we were out of the heights, it messed up.

Bryan Thornton:

It's a very volatile market, but you should never write it off.

Matt Slepin:

Absolutely. Let's stick with office for a minute because I'm curious about this. How much does the operator matter in different sectors of real estate investing? And your partner matter, and the behavior of your partner as a investment partner means one thing, but their behavior of the partner at the property level means another thing. And I'm thinking in office, it matters less given the tenancy and the cyclical nature in the building that the operator matters less than it might in the apartment business or maybe even industrial. So any comments on that?

Bryan Thornton:

I think we could have set back in the 1990s and thought, "Oh, one asset class is easier than another." But I think the approach the market has taken appropriately to focus on the tenants and to turn it into a hospitality approach to multifamily office, retail, not necessarily industrial, but your approach to the tenants is what matters, and I do think operators make a difference in every asset class, and we as an industry have really embraced that view that operators matter and how you relate to your tenants does matter.

Matt Slepin:

Mm-hmm. So how do you underwrite those? It was a question on StepStone as well. So how would you pick an operating partner? Because you're going to do repeat business with him. I assume repeat business is a purpose of picking someone. But how do you underwrite their platform and their business model with relationship to the kinds of assets that you're going to invest with them with?

Bryan Thornton:

Building relationships takes a long time. It doesn't mean the first investment opportunity you see with someone is the lead-in to a long relationship, but understanding their focus, understanding that they have a track record in that asset class and in that market is really key. But our debt business has taught us that background checks are okay. Calling banks and calling other partners and understanding how our partners have operated in times of duress and stress in the market and treated their relationships really does matter.

Matt Slepin:

Yeah. So everything you just said looks up at their behavior as investors, not down as their behavior as operators. So are you able to-

Bryan Thornton:

It is a combination of both, but you have to have the right teams in place. A good team can turn a tough transaction and a tougher piece of real estate into something that can still perform. It doesn't work the other way.

Matt Slepin:

Yep.

Don Kuemmeler:

Yeah, I think managers are critical. I mean a bad manager can hurt you in any asset class. A good one can have alpha, they can't really save you from a tsunami change in the asset category. I mean there are a lot of good office operators out there right now when the tide goes out the way it has recently. It's tough. Back to the other cycles, I think knowledge is getting good operator. When systems get out of alignment, I think in the cycle '07, '08, it took almost three years to get the system aligned again, almost like the car doesn't run well when the wheels are out of alignment. It's the same thing with capital stacks. You want your sponsors aligned, they have upside to protect, they can make money they're excited about. It takes a while for things to get realigned.

Matt Slepin:

Right.

Don Kuemmeler:

So while you're looking for good sponsors, sponsor with alignment, to me, and then that takes getting the basis back. Right now people are working on supporting their relationships, not quitting, grinding it out, but it really starts moving when you get the alignment back in focus. To your point about how you underwrite them, I mean if we're doing ground-up development, you want people who've done that before obviously, showing a good sense of design, build on time, on budget, if it's a leasing exercise. I mean, the beauty about real estate, it really is a blocking and tackling and hustle business and you can observe that over time. And when we've been in the market for a while, you kind of know who the A-players are, and it's our goal to convince them that when they partner or we lend to them with PCCP, they're picking somebody who can make them their business better and we're finding someone who can execute.

Matt Slepin:

Let's stick with the middle. So how do you find the middle market? And picking the A-players in the middle market in different segments of real estate is different than working with the largest companies. It doesn't mean a middle market player is not an A-player at all whatsoever, but how do you judge that?

Bryan Thornton:

Building relationships is about asking questions and sharing. Don mentioned that it's more than just providing the capital. Adding an alpha in relationships is about asking our partners who do they trust? Who would they do business with? Who do they trust in that local market? In markets that we operate in, the cream rises to the top, and everyone will point out who they think their peers are in other asset classes. So you have to ask and share. We share the expertise we've learned from the capital markets perspective with our clients, and we hope that they can share with us who they think are the outperformers in the markets, just like they are in their local market.

Matt Slepin:

Fair deal. So you've talked about the different sectors that you're doing business in, and everyone else in the marketplace talks about the vintage of '25 and '26 will be great vintages. I don't know that '25 has yet started. I think we're still waiting a little bit. But what does that mean? Because you will probably invest a lot in these few years. How will you distinguish yourself in where will you invest? And are there themes to that?

Don Kuemmeler:

I think it is different, again, by region and by product type on the vintage year. Some are, maybe at the end of their vintage year, I'm not calling that for industrial or multi, but it's been so good for so long and they've been resilient here. But they could get overbuilt and rates could go up. Not making that the case. Could be a great vintage year for retail if it's widely big spreads and then stability, and you start out ahead, and office could be coming back. I think each of those has their own cadence to look at.

But I think competition is what drives out most of yield. I'd like to think we have less competition and we're better positioned, but that's not entirely true. There's lots of capital out there, it's a competitive capital markets, and we're kind of in the same hustle business that the sponsors are. Getting there first, seeing it and executing with some certainty around that. And that comes in having a conviction. I'm thinking more about what you said about picking partners. If I ask my 35-year-old self what that was like, it was a very different lens, and 25 years later, having watched the market, seeing what makes good operating teams and sponsors.

But really for us now, it's just having been in the market that long. As Bryan said earlier, we're plugged in regionally and with clients. We have hundreds of firms we've done business with. We get a lot of repeat direct business. Hey, let's do another phase industrial development, buy another office building together, and rehab it or reposition an apartment. So it comes to us directly, and we know what we're looking for in those firms. We've watched over time when people spun off big firms, created entrepreneurial spinoffs, what their challenges were. I like to think I probably spent the first five, 10 years of PCCP having people learn to shave on our face. It's a little difficult and now we have a lot more gray hair and judgment around that issue. But I think now, picking the sponsors is probably among the easier things that we're looking at and it's really where to dive in with conviction.

So again, on the recap side, I think where you were going, Matt, about vintage years, '25, '26 should be pretty good because we're coming off kind of two very flat years in '23 and '24. Leaving aside what rates might do to add to or take away from return, I think we still have lots of zombie balance sheets out there where people went in at 60% LTV and they're at 80, 85 plus, they need to be deleveraged, they need to double down in an investment that they've probably lost money on, and that's not often easy psychologically.

So that's where that asset may need to trade, to have somebody else's, let's say one person's trash is someone else's treasure, or it comes back out of the new basis. Capital gets tired and likes to recycle itself and move around, those will all give opportunities. So I do think the theme, if I had to pick just one that this would be a vintage year, is just coming out of that recycling of strong losers, modest losers back into repositioning with new alignment. And then you still have a mix of... You touched on BTR where there's some fundamental things that work for build-to-rent that we have a conviction on, still more industrial needed. We're under supplied on housing themes that at the right price in the right location continue to make sense. There, they might be good vintage years simply because you didn't have to pay as much for the land as you did in '21, '22 and the costs have come down. So there's the ones that have a technical improvement and then there are always also kind of structural rebounds.

Matt Slepin:

Mm-hmm. Do you think people use the word capitulation? Is that what happens this year and next? Because the banks, if they're the ultimate holder of that, just have to do it, so finally they're going to give up on those deals that are zombies.

Bryan Thornton:

The capital flows into the banking market and the desire of the banks to lend has changed dramatically as we flip the calendar into 2025. So we think that there's a renewed optimism in the market, especially with banking capital. As we know, the debt markets drive all of what's happening in the real estate market. So there will be some problems, but we think the desire to lend is back.

Matt Slepin:

But is the desire to lend back, are they going to dump the stuff that is still underwater? There is still underwater stuff. You called it zombies, so...

Don Kuemmeler:

Oh, I think it depends on your ability to handle your issues. I think among the larger banks, which don't have as high a concentration in real estate, once they get the marks correct and the reserves set, it's like selling sweaters in July. They can mark down the inventory and move product and clean out inventory. And that's what problem loans are for a lot of folks. If you're stuck, if you're an over-leveraged REIT, or a regional bank that might have just to, it's harder to take those losses as quickly. And I think it's so situational. You have foreign owners who maybe they want to take the hit. It's so situational right now. I don't think it's just simply the year makes them do that. Your ability to do that and your willingness to determine a lot of that. The stronger or financially you see that, I think they want to get it over with and move on and not have the drag. And if you don't have that same flexibility because you're over-leveraged, it grinds a little more.

I'm always sort of disappointed in how long it takes, when you look at something, they need more capital, they need to inject, they need to pay down the loan, they need to sell it, and it's just so painful. So we came off the last cycle with low rates. We're paying, you got four years for the price of one, and now it's a little more expensive. The caps roll off, and the higher burden is getting there.

Matt Slepin:

Right.

Don Kuemmeler:

But a lot of folks are resilient. They find ways to plug the gap. We see people doing a lot of MEZZ and PREF equity to give people injection of blood plasma, keep them going a little longer. So I think I'm always shocked that it can go a little longer. But, everything else staying the same, there's those breakpoints and they happen. So you just got to stand ready.

Bryan Thornton:

You know six months into a reset in the market what is going to happen and what should happen. It never seems to play out on the... I know what should happen timeline. Three, four, five years later, we'll still be seeing assets finally capitulating and coming to market. This is not like the GFC where everything took a freeze in the market, and it was a complete reset, and there was fear about the banking system and fear about the availability of capital. There is capital available to invest in real estate today. It is deep, and as we've seen in the corporate credit markets, there was a lot of capital looking to get to work. Real estate is always an alternative to the other markets, and it will attract its capital relative to how those markets perform.

Don Kuemmeler:

I would just add, the other thing accelerating that, those patches taking place relatively quickly. The other parts of our capital market, the stock market is high, bond yields have come in, Bitcoins up. I mean, every other financial asset, maybe real estate is the least overpriced asset class right now.

Matt Slepin:

It feels like when you started your career 27 years ago when you started this firm, you probably didn't see real estate as a permanent asset class or your company as a permanent company. Now it is both is, right? Because real estate is a permanent asset class. Everybody is going to invest. This could be 8%, whatever the percentage of allocations for large investors will be in real estate. They just have to time how and when they do it, but it's not going away, and even your business is probably not going away either. So there's a sense that you might have looking back on your career and then looking forward to that, really different than when you started in this.

Don Kuemmeler:

Yeah, it's a little bit more about how the capital is delivered. When I started in banking in the mid '80s, I think 85% of capital for real estate came out of the banks. Some life companies, but really banks were in. If you had a relationship with a bank and they gave you probably all the money, it was underpriced, they gave it to you secured and unsecured, and capital just got a little wiser over time. Banks were highly leveraged, they've got less leverage. Now we've had the introduction of CNBS, life companies got larger, of course the SNLs went away, but you have debt funds, mortgage rates, and now banks are in the 40s in terms of 40 percentiles in terms of delivering real estate credit. Private markets, it's not just the wealthiest big-name firms in the '70s, '80s that had relationships that could get capital. If you have a good product and a good idea, the capital will find you. So it's a much more wide open distribution market.

Matt Slepin:

Totally is. So let's use that as a segue to talk about the founding of the firm. You and several partners came from Wells Fargo's Merchant Bank, which at that time was you were creative financiers. It wasn't just construction lending or mini-perms in your group there. So you came I think with that perspective. So talk about the timing and when you did that. We're going to rush through this quickly, but I want the story to be told here. And also, then, Wells was one of the best and most conservative names in the real estate business.

Don Kuemmeler:

Yeah. When I joined, it was a bank of Carl Reichardt, and it was really known as a strong regional real estate bank. It's odd to think in the early '80s, or mid '80s even, doing A/B notes and structured stuff and splits and workouts and getting participate. I mean it was all relatively new, and now it's, all this note splitting and different financial structuring is a very commonplace. But I was fortunate to be there early in my career, and did a lot of that structured credit, ran the workout group, had a capital markets group.

But the biggest change was really when Warren Buffett bought a big stake in the firm in '91. We were probably over-reserved and we were told, "Don't sell your notes, go buy other people's notes and recapitalize other people's problems." So we used our workout skills to buy notes, restructure credit, and many of those same skills, that's what we brought to PCCP. So my partners there and Bill Lindsay, and my other founder was chief legal counsel, Gibson Dunn, and Crutcher was our chief legal mind and joined us. We said, "Let's do that kind of specialty lending in a private vehicle and then add equity to it." So it's that whole evolution of how... It's really people still vending capital, but rather than do it in a structured environment where the banks got larger and larger, it was more about formulaic and getting efficient and that we could take more of a boutique approach and solve bespoke problems in debt and equity.

Matt Slepin:

Mm-hmm. Put your head in the minute that you jumped out of the institution and a good place in the institution, and the guts and fear that it took to start this. So just riff on that for a bit.

Don Kuemmeler:

Yeah, no, it's great to have the right amount of ignorance. It's funny, we went out in May of '98, and by October we had that long-term credit bank structure, the Russia ruble crisis, and Lehman Brothers was one of our early backers. I thought, "God, this lasted all of six months," and you felt that first. I mean, the difference in success and failure is often so narrow, and we had that kind of correction.

Matt Slepin:

Right.

Don Kuemmeler:

And that was just, sort of remind you, just business risk, right? It takes a while to get up to speed and get momentum in the marketplace and get following. We were fortunate enough to have a really strong team internally, and Bryan joined us right away. It's been us 26 years and watched all the formation. You can speak to some of this, but I think it really just put your head down and grinding through it and young and not knowing all the risks. And I think that's probably one of the bigger driving forces behind it, is the right amount of ignorance to just go for it.

Matt Slepin:

Well, talk about ignorance, but also talk about, was there... In the Russian ruble crisis, you were a capital America or no more, I think. So the Russian ruble crisis really affected that business.

Bryan Thornton:

It was a complete shutdown of-

Matt Slepin:

It killed.

Bryan Thornton:

... an industry.

Matt Slepin:

Yes.

Bryan Thornton:

It killed that business and gave me the opportunity to change my path here in San Francisco and join PCCP. But I think the lesson that I've learned from before I came here and then watching our growth and evolution is that remaining flexible and not having just one mandate and one way to approach the market. While we do today what we started out doing 27 years ago, the flexibility to move and pivot, change capital partners, work with our partners in ways that you have to listen to the capital. If you listen to the capital and move and pivot your business and stay flexible, you can build resilience.

Matt Slepin:

What was the capital done when you went into that first crash? You had good people, you said that a minute ago, but did you have capital that stuck through that? And then was there opportunity coming out of a capital crisis for a newbie to start investing and take the place of what might have been there before?

Don Kuemmeler:

Yeah, you're talking about in '07 at the GFC at that time?

Matt Slepin:

Yeah.

Don Kuemmeler:

Yeah, we had-

Matt Slepin:

No, I'm talking about the Russian ruble crisis because that's when you first started, right?

Don Kuemmeler:

Yeah. There, I think we had at the time the great sponsor in our debt business and Lehman on the equity side. And those two were there doing business, but everybody had an immediate time out there to kind of regroup. But we were still relatively small at that time, and pivoting wasn't quite as dramatic as it might've been in '07.

Matt Slepin:

Because when you're tiny, it's easy to do. Also, Lehman, in that crisis, was still there.

Don Kuemmeler:

Yes.

Matt Slepin:

The next crisis, they won't be there, but they're more part of the story as you get into it.

Don Kuemmeler:

Yeah, I think for me, the more seminal, it was '07. Lehman had been a big backer. But in '07 when Lehman failed, we ended up buying... PCCP bought and recapitalized Lehman father's mezzanine fund business, which was really a great opportunity for us to add our New York team and really bought those two businesses, restructured those funds and the assets in them. Bryan here went up to New York to build our culture out there out east, and that was probably the biggest pivot for our company. We really went from West Coast focus to national at that time.

Matt Slepin:

Because you used to be Pacific Coast Capital Partners, I think. Is that when you switched the name just to the initials?

Don Kuemmeler:

Yeah, it was funny, being a West Coast firm, they thought you were regional, but once you have a New York office, you're national. So that just changed the perception. And then we went to PCCP.

Matt Slepin:

Bryan and I, we were friends when you went to New York for the year, but if you gobble the Lehman business, and as you just said, establish your culture, you're doing a reverse gobble of some strong personalities. So how did the reverse gobble not gobble you back up from a culture standpoint?

Bryan Thornton:

I think that's the key, is building culture and having it be consistent across our offices and across our team. And the culture really starts in all the communication that we do, the collaboration that we do, having an open pipeline process where everyone in the company can join. Same thing with our investment committee and really sharing how we think so that everyone in the company can become part of the culture that PCCP is.

Matt Slepin:

Mm-hmm.

Bryan Thornton:

You mentioned the Russian ruble crisis and then the GFC, and there have been a dozen other crises in real estate credit and capital availability. I think when each one happens, we've found an opportunity to, you can call them separator events, but just times where we can take a leap into New York when it's, boy, it's really hard to do that, take a leap into new markets, take a leap into expanding our team, and we've found that having depth in our balance sheet, depth in our team, depth in our leadership has allowed us to do that.

Matt Slepin:

Mm-hmm. Talk more about when you did go national, and again, I want to pick on Lehman had a pretty cutthroat culture. They had been your partner, but then bringing either those people or that business model into your business model, what did you learn? Everyone talks about culture, and they use nice words, but I don't want to use harder words to kind of pick at what it really takes to make that work.

Bryan Thornton:

Workouts are hard, hard on the team, hard on the assets, hard on the infrastructure. But understand in that tough time, when we did not have to originate, when we were not out in the market marketing PCCP as a brand, how we all work together and how we create that common culture. So we had a unique window when the market was closed to work on ourselves as a new team and a new office and an East Coast expansion before we then in late 2011 and 2012 really entered the market in force.

Matt Slepin:

One thing you've both said, and it's interesting, this was a theme through my recruiting career, but it's become less of a theme, is that people who earned their stripes and workouts knew real estate in a different way than everyone who only knew real estate during upturns and lots of volume times. I think that workout skill was pretty big during the RTC days, kind of big during the GFC days, but not in the same way. But both of you had that. You had that at Wells, you had that starting here and before. So any comments on that skillset and how that has you look at the risk that you're taking when you're partners with people?

Don Kuemmeler:

Yeah, I think you always learn more in the down markets. Because everything's theoretical, what could go wrong and then when it goes wrong, you really learn how people respond to it and what you do and what your choices are. I think it's funny, this last cycle, I always wish cycles were shorter. This last one's been relatively long. It took almost 10 years for someone who's 32 years old in our firm to have seen a mistake in underwriting, and an outcome that they weren't counting on, and what to do and how to deal with disappointment, how to address your lenders and restructure and negotiate differently in times when there's stress versus just marketing. And that's why I think the workout skillset and just the balance of how to comport yourself and all kinds of stressful situations really helps out.

Matt Slepin:

And you just said you wish it was shorter.

Don Kuemmeler:

Oh, yeah, just so you could get more of a corrective behavior, right? Land prices run. I think sometimes one of the hardest things is, when the cycle goes too long, it just extends the problem.

Matt Slepin:

Yeah, yeah. I thought what you meant when you said shorter is you were wishing the recovery was shorter, not that the good times were shorter.

Don Kuemmeler:

I wish the good times were shorter.

Matt Slepin:

I've never heard this before, but it makes total sense because there's two real estate brains. Our listeners know this, and most of our listeners only know the "I'm a deal person" phase of life, and they haven't thought of it, that the pauses are equally important both in their careers and their perspective on the business. If you're a deal person, you're just kind of hanging out, but you're trying to form relationships, what do you do in those days is hugely important in the company.

Don Kuemmeler:

Staffing is a big deal. Yeah, you got to pivot because it takes a while to squeeze out the excesses, when prices or profit margins get too thin or risk gets too high. Exactly.

Matt Slepin:

When I had my prior firm, Terra Search Partners, the GFC was the most painful but also the best time because we had deal flow down to about zero, but it was really bad for eight months or a year, a year and a half. But the level of working relationships and learning for me was as big as a leader as I've ever had.

Don Kuemmeler:

Yeah, no one likes it when they're in it. They always look back on it very fondly.

Matt Slepin:

Yeah. Okay. So talk about there've been more cycles since the GFC because your company has grown at different plateaus of growth. So what happened after the GFC and you went national that caused the areas of growth? And then how did the company become big enough to handle the growth that it's had?

Bryan Thornton:

One of the opportunities that we provided to our team is, as we've grown, there's a lot of leadership opportunities that come up. Whether it's in debt or equity, asset management, all of the functions that it takes to run our business, we're 160 people today, and the duration that we've had, the low term that we've had has led us build multiple layers of leadership and resilience.

Don Kuemmeler:

You got me thinking, Matt, about back to the question earlier when you started. There were just deal people, and you had capital, and you made a few loans, and you booked it. You did the work on an Excel spreadsheet, you wrote up a summary. I mean, the business seemed a lot simpler. Now, to start a private equity shop and real estate, all these other disciplines. As Bryan mentioned, we built our team out over the last several years and you have people in obviously IT even more so today and compliance and risk management, insurance and investor relations and systems. It's much broader to do this on an institutional scale. Really, we were able to... Starting with the Lehman acquisition in '10, '11, get size and scale to allow ourselves to make those deeper investments, build out that foundation so that the compound growth rate never outran us both from a capital standpoint and a people standpoint.

Matt Slepin:

Yeah. So the great observation is a word I use in my business all the time, I call them deal guys. Most of the people that you think of in real estate are deal guys. Now, there's deal gals too. So there's a little bit on purpose in terms of gender, but the more important of the two words is deal. So it's the deal drivers that make the headlines of our business, but once you're a $25 billion company, then you have the breadth of platform that the deal guy, Don, becomes a quarter of you, and 75% of you is not that anymore. It's this other stuff managing an enterprise.

Don Kuemmeler:

Yeah. Well, we've trained and grew a lot of great deal guys and deal gals here at PCCP that we're very proud of, and they've been able to take that and run with it. They have those relationships. They know their markets, and they can execute. I've got to spend more time on the less sort of, I don't know, from a real estate standpoint, glamorous things of building the organization, but that's really about our team. It's really about having the depth of team to allow people to widen their horizons into more business matters in addition to the real estate.

Matt Slepin:

Uh-huh. How much of that... By slightly pejorative term of deal guy, I think of it, and we do this in the search business as well, it's like, "Okay, let's go sell, let's go sell." But what's more interesting than selling is relationships. So to me, I'm not doing business development, I'm doing relationship development. And you have a lot of repeat business. So then your deal guys are actually working clients to help them solve problems. That, to me, is what I've heard in this conversation. Any comments of this different in mindset, and as you grow, what different in mindset is required?

Bryan Thornton:

I think if you focus on the relationship and just focus on building enduring resilient relationships that our business as an allocator will work. The sophistication that we've seen develop in our operating partners in terms of communicating with tenants, how they use technology to drive their business, to have deeper relationships with the tenants that pay us rent is an amazing evolution in our business. Our operating partners today are more sophisticated than we could have ever imagined when business got started, and we've spent years looking at those bigger than us and wondering how we're going to get there one day. I don't want to discourage young people from starting their own business, but it is daunting to think about what is required to start an investment management company today from the legal and compliance and all of the work that it takes to just deal with a regulatory environment.

Matt Slepin:

Right. So you just talked about this, and that was a good segue, we did a search with you guys for a chief technology officer search a year ago, give or take. When you reach these different plateaus and the industry becomes more and more sophisticated, the demands particularly on that skillset are just humongous. So talk about when you got to a point where you said, "Hey, let's consolidate that role and get five years down the road instead of five years behind the road." Any comments on how that helps in the meaning of those different disciplines within your company?

Bryan Thornton:

When we realized that talking about IT was not a hardware discussion, but folded into every aspect of the business to how you manage information and how you look to use that information to better your investments, it was very clear that... They all say that if Uber is a technology company, then we are too. I think everyone in this business today is reacting quickly to the rapidly changing environment on how information is gathered and used, and it is all technology-based. Not even to discuss the implications of AI and what that means for the business, which is rapidly changing before our very eyes.

Matt Slepin:

Yeah, let's come back to AI, but one of the things you think about is you think of technology as a silo within the business instead of across every single thing that you do. Your investors, your investments, your partners, your asset manager, in everything, you have to be using technology to make that work.

Bryan Thornton:

Yeah. From communicating with your LPs to communicating with your operating partners and then understanding how to talk to your LPs about what's happening at the asset level, it's all technology that's driving those answers.

Matt Slepin:

Mm-hmm. Any comments on what AI might mean for this business? What's the disruptive factor that if you're missing it, you're in trouble?

Bryan Thornton:

I think it's going to disrupt all businesses across the landscape, whether it's real estate or not, but we do know in real estate that you're still going to need a place to live, and you're still going to need a place to entertain and be entertained, and to work. Where you work and how you work might change the most. But we are still going to buy goods and services and want places that are engaging to live and to interact and be social, and that's not going to change with AI.

Don Kuemmeler:

We try to come up with a theme for the company, and sometimes there's a lot of ambiguity and we tell people like, "Be comfortable with ambiguity," or, "Have a resiliency mindset," or, "You learn to persevere when you're struggling." There's always sort of a theme. With AI, it's like become adaptable to change. Change isn't easy, right? You have your ways of doing things, and then it's disruptive, and often it's a couple steps back to take a bunch forward. And that's one of the key, I think, mindsets we have this year around AI, is be open-minded to change and embrace it, and let's learn the best practices out there and be on the forefront of being ready for it.

Matt Slepin:

One of my favorite topics is succession and planning for that. And you guys have done a pretty good job, and I may have some of that dynamic here in this room today. One of the things that was on the Jeff Giller and Margaret conversation a couple weeks ago was, people in real estate don't want to leave. They love it so much, so they're just not going to leave. That was the comment. Don, you and I are approximately the same age, I think, so somewhere in there. How do you think about that for yourself and your co-founder? What does that mean? What does passing the baton mean over time? I'm not pushing out at all, don't worry about that. But how do you hold that? What's that mean?

Don Kuemmeler:

Well, one of my favorite sayings is, you lead, follow, or get out of the way, and that keeps everything moving. For myself, either leading or now following others in our firm who have picked up the batons for change and things, getting out of the way part, it's in different facets. There's things we've been able to turn over to our younger partners, and many of which have been with us over 20 years. I think we have 15 or so that have been with us over 20 years already. We've made 15 other partners in the firm, and they have different areas of responsibility they can grow. So none of us is so critical.

We've handled this plan for succession for a while now and turned over big aspects of the firm to different people. And allowing them to grow, I think that's what's kept them here over time as well. It's a challenging place. We've given people authority and autonomy to make their parts of the business run, and their own image. When the culture's deep, the succession is much less of an issue. When the problem solving is distributed, when responsibility is distributed, we really believe a lot in the power of the group and the team in solving problems. So we already hadn't started off with a one person, one rule, or an overly dominant way of settling all the scores. So I feel very fortunate that I feel ahead of that curve.

Matt Slepin:

Uh-huh. This is a personal question. So in that curve, how do you feel... You can be proud the baton is being passed, but you want to do stuff yourself too. You want to be out of the way, but you want to be engaged because there's things in this business and relationships in this business that are delightful that you've accomplished. So how do you find that balance?

Don Kuemmeler:

Well, another analogy I've been using lately is we went from players, we used to be deal guys, players to player-coach, to just a coach. Now I feel like I'm coaching the coaches.

Matt Slepin:

Ha, fair deal.

Don Kuemmeler:

Okay. So that's my evolution. We're watching our senior leadership grow other young people and share what they've learned and their philosophies on both lending and investing and how they have to think about the world. I love baseball. I was a baseball coach when my kids were young. So now my mindset of coaching the coaches is a new challenge, and it can be just as rewarding when you watch people develop their skillset as leaders.

Matt Slepin:

Yeah, it's totally true. I am going through this transition myself. So coaching the coaches is a delightful way to look at it because you're still there as much as you want to be in the way that you want to be, but people do do their thing. So it's a delightful place to be in the business. One of the things we talked about, and we touched on it in the conversation, were spaces in the business and we talked a little bit about BTR. One of the things that the larger private equity funds have done is create operating platforms in different segments of their business. So they have to go deep in those segments because they'll be ongoing and consistent and persistent. So BTR is one of them for you, and hopefully you could talk about this, but what does that mean for you to start having areas of focus and specialization different than rent?

Bryan Thornton:

The build-for-rent space is something that we've been attracted to since 2018 and have built a platform around that. And you're correct, the industry is moving into what is your platform, what's your segment? A lot of vertical development in terms of operating and managing and running the real estate. And that is not our focus across the broader real estate class, but within the build-for-rent space, we believe we can have a differentiating advantage by building a platform to own and to operate that real estate.

Matt Slepin:

The expertise from your side of the table matters when you have a concentration of either risk or concentration of assets or operating partners where there's some special sauce you could bring to them to help them do their business better.

Bryan Thornton:

What's unique about built-to-rent is, it's such a new industry. There's been rental housing in the United States at scale for a very long time, but not institutionally. And we saw that develop after the GFC. But the purpose-built rental space for detached single-family housing is quite new. And we think we're all working together as an industry to figure out what the best approach is, but we believe that building it as a platform is the approach for us.

Don Kuemmeler:

Yeah, I think it's going through a lot of change. In the United States, more people rent homes than rent what you think of today as a typical apartment building, five units or more. It's been, of all the households, the homeownership and rental rate, we've watched it bounce between 69 and 62%, whatever the next coming decade looks like, high mortgage rates, et cetera. People want to be in a detached dwelling. They can't buy it the way they would like to. We watched the age of your first home move out. The ability to finance are difficult. But we were never in this scattered house market. We've been in a purpose-built, and that's relatively... You think about how many for-rent homes were added in the GFC post foreclosure. We had that. Generally they get added by a death in the family, someone inherits a house, and it goes in the rental market, or they move and they keep it and they rent it. But we hadn't added new purpose-

Matt Slepin:

Those are onesies.

Don Kuemmeler:

Onesies, right. But with amenities and designs, the addition of technology, what markets those should be in, what they should look like, that's pretty nascent still. And we were early on that in terms of where we picked our spots to build and develop and grow and getting the best practices of what we like to see in each community, the pros and cons of that. I think the other thing in this space, the users are deep and the institutional ownership is very small. So there's a big gap. Most products, when they become mainstream, the institutional ownership moves up, the efficiencies grow. And we're at the very beginning of that.

Matt Slepin:

We need housing. So if you're enabling more housing choices, particularly for people to rent because that's people with less dollars, then that's a wonderful thing, but that's also been a challenge.

Bryan Thornton:

Hidden in the numbers of the supply that has hit the market just this year is that 25% of new residential rental supply was BFR, purpose built for rent housing.

Matt Slepin:

Wait, say that again? 25% of new residential rental?

Bryan Thornton:

Correct. So everyone wants to talk about multifamily as a standalone or single family as a standalone, and the lines are blurring.

Matt Slepin:

Totally true.

Bryan Thornton:

I think the dialogue needs to be around all housing and what are we providing because it's very clear we have not been building enough housing in the US, particularly here in California, for a long period of time.

Matt Slepin:

So Bryan, you're an avid podcast listener and you're one of the people who, from the beginning of the podcast, I was talking about who I should have as guest and how should I do this? So either what question would you want me to be asking you now that you're on the show, or what comments do you have for having listened to the show over time?

Bryan Thornton:

Great question, Matt. I think the evolution of the business and the length of time that I've been in, it gives me perspective that we've moved from a market where there was no information transparency. It was in fact hard to find information back in the '90s about specific transactions or even about markets. And here we are where there's so much information you can hardly keep up. What I would ask is, as the industry has changed so much over the last 25 years, is it still fun? And the answer that I'd give myself is, even though the industry's evolved, it's still about people. And as long as people are involved in this industry and the bots haven't taken over, I think that this will be a fun place to be. And the built environment is a tremendous place to work and engage with people while doing so.

Matt Slepin:

Totally agree. It's interesting, I think about the evolution of the industry all the time, and we talk about it on the show. Much of the evolution is consistent with the themes that we've talked about here, which is a business that started as the cowboys and now it's institutional. And what does each phase of institutionalization mean for this business? And I've gotten to watch it about 10 years longer than you have, but it's just been fascinating.

Bryan Thornton:

The end quotes that you get on making decisions are different, but understanding risk, understanding in an apprenticeship business how to take everything that you've learned over an entire career and bring that into making investment decisions, that's not going to change.

Matt Slepin:

Totally. It's interesting. I think of it as a library. This will come back to you guys. When I started the podcast with ULI, we did one, two, three, we did a bunch of them, and it didn't occur to me, and then ULI canceled it, so I had to buy it back. It was really... But we're only 20 episodes in. When I got to episode 75 or 80, all of a sudden I realized I had a library and a responsibility to upgrade the library every time, and to add in those sections of the library that didn't exist.

When you start to look at something as an institution versus deals, it changes your attitude towards it, and then you have to get better at doing what you're doing. You have a responsibility to listeners for each of them to add to the wisdom, the collective wisdom that's in there. I think, Don, we talked about this a couple of times, I kept pushing to the question because the same thing happens in your business. You think I'm leaving Wells, I'm leaving Wells with my buddies, but you're doing something really different 10 years later. It's an institution, it's a business.

Don Kuemmeler:

It does move around in unexpected ways, in good ways.

Matt Slepin:

Yeah. So the last question on Leading Voices is your advice for young people entering the real estate business. And Don, I'll let you go first.

Don Kuemmeler:

Yeah. Well, always, when I either talk with people coming here or kids of friends of mine, always like, "Do what you like where you want to do it, get in a happy place, and then you can thrive." You need to have sort of good balance and stability around you. I think that really helps you thrive. Obviously, find a way to have great mentorship. I was really fortunate in my formative years at Wells Fargo, I worked for some really good people. I think I learned kind of the right way to go... Not just good people in the company. We had great sponsors and borrowers and successful people, and you got to see what made them successful and the good habits from the bad habits, like you mentioned earlier in the workout discussion.

I was fortunate, my co-founders, Aaron Giovara, Bill Lindsay, Nick Colonna, three of us from Wells, and Bill, the legal side, all had that in common. So we had a really great foundation, and the mentorship was big in terms of having people that took a personal interest in you. That way your formative years are really about learning and seeing what you like. And if you're in a good spot, I think the success just follows.

Matt Slepin:

Mm-hmm. It's interesting, one of the themes of this conversation has been relationships. And I'm thinking, and it's a theme of the podcast, we talk about it all the time, real estate is a relationship business. I think you have to enter your relationships with a place where you also add value, which is the other theme of this. So the value that you added as a business to all of your relationships, that value became fine-tuned as their capital provider over the years. It's morphed and changed, but you're still playing in that space, helping all those relationships. So to me, that's a really interesting thing.

Bryan Thornton:

As a capital allocator, if all you're providing is capital, that's not enough.

Matt Slepin:

That's right.

Bryan Thornton:

You have to have something else, and that creates the resilient depth of relationship that you can give as much as you're taking.

Matt Slepin:

One thing people said to me over the years in recruiting is, I am not just providing bodies or heads, it's the journey and the wisdom between it that you're offering advice about business from your perspective. So no, you're not just providing money. You're consistent and you're there, but you're providing money with a value-added way to make the business work as you're their partner. It's a different thing than just the dough.

Bryan Thornton:

Right. And we're partners in everything. Whether it's making a loan or investing equity, treating it like a partnership is important.

Matt Slepin:

Yeah, yeah. So your advice to a young person entering real estate business?

Bryan Thornton:

This business is an apprenticeship. It's a long path and journey of learning, and there's so many points of entry into real estate, but when you find your passion, stick with it because the learning journey is really long and fruitful. Stay curious. We're still learning in our roles in this business, and that's exciting because it is constantly changing and evolving, but from a base level, it's an apprenticeship.

Matt Slepin:

Yeah. Also, interesting from my standpoint, because it took me years in the space to find the place where I could add value, which became recruiting. It's just weird because very, very, very few people should do that particular side of the business. But I felt in some way like a stranger in real estate until I found my place. But I think in the business, if you stick around long enough, there is a place for people with talent to make their difference and make their mark. So the apprenticeship fits, time fits, length of time fits. Got to be patient. It's hard. Guys, thank you very much. This was great.

Don Kuemmeler:

Really enjoyed it. Thank you, Matt. Thanks for having us.

Bryan Thornton:

Thank you, Matt.

Matt Slepin:

I hope that you enjoyed today's episode. Please remember, if you're enjoying Leading Voices, to share an episode with a friend or get them to subscribe. If they're podcast wary and not sure how to find and subscribe on their phone, go ahead and take their phone in your hand and subscribe for them and add another few of your favorite podcasts to their list to get them started. They'll thank you for it. You can also find episodes of the show on our website, which you can find at zrgpartners.com/leadingvoices. If you have comments or discussion about this episode or Leading Voices in general, or if you're seeking help in real estate human capital solutions, recruiting or consulting especially, please contact me at mslepin@zrgpartners.com. Thanks for being a listener to Leading Voices.