Ben Miller:

My name is Ben Miller. I'm CEO and co-founder of Fundrise, and we've been at this now for more than a decade, trying to disrupt the real estate industry.

Matt Slepin:

And when you say that your goal is to disrupt the real estate industry, there's different ways to disrupt. So what is the meaning or the original purpose? To disrupt for disruption's sake is meaningless, but disrupt for a purpose, and there's a thesis. What was the original thesis?

Ben Miller:

Well, the core thesis was that real estate's a great asset class, and normal people couldn't invest in it. You had to be a high net worth institutional investor, and I wanted to open it up, democratize it to normal investors. And that is something we've pretty successfully done at this point.

Matt Slepin:

Hi, this is Matt Slepin, and welcome to Leading Voices in Real Estate. Today's episode, recorded live at his office on Dupont Circle in Washington, DC, on April 23rd, is with the CEO and co-founder of Fundrise, Ben Miller. Fundrise has about three billion AUM of investor equity, with a total of about six to seven billion AUM of assets under management. Fundrise is a very different business than anything we've explored on Leading Voices, and Ben comes to the conversation with a very different perspective than any of our guests, with the headline of, "I started Fundrise to disrupt the real estate business." And he's largely doing that, first, by creating an online, direct-to-consumer, no-fee investment portal. They have two million users, with half a million active investors. And if you do the math, that means an average investment of about $8,000. And the second disruption is that Fundrise now owns and manages most of their real estate directly versus through operating partners. We spent a lot of the conversation talking about their operating platform and how they compare operationally to the market. I'd wish we'd had more time to discuss that.

Ben's disruptive thesis and approach reminds me of John Bogle, who, some 30 years ago, was both a pioneer and evangelist, that caused the movement in mutual funds from actively managed funds to index funds. I remember those days, back in the '80s and '90s, where I started my savings journey with mutual funds, and I spent many hours picking what I thought were the best managers. John Bogle then came in and disrupted that whole business, and moved it from active managers with meaningful fee load structures to index funds with de minimis fees. Ben believes strongly, not just in letting small fee investors into the real estate food chain, but also, in parallel to that low-fee index approach, in how we invest in real estate.

This runs counter to so much of what we talk about on Leading Voices. Our guests, through the 180 episodes in the series, are conversations with what we'd call the best of the best. And in the series, we've explored what differentiates those companies from their competitors in the market. Ben argues the opposite, which is that, at least in the major real estate food groups, that the low-fee index approach will lead the pack versus the kind of bespoke managers who we, to be honest, celebrate in our industry on Leading Voices.

So this conversation is actually a challenge to our business and an orthodoxy in our way of thinking. I'll be very curious to watch how this evolves in the coming years. Will firms like Fundrise disintermediate the allocators? Will smaller owner-operators find their own access to Main Street Capital, as Fundrise has done, outside of the expensive broker-dealer networks? How will Fundrise perform over 3, 5, 10 years as against the ODCE index, the REITs, and Blackstones of the world? These trends are happening and will be really interesting to watch over time.

Definitely take a listen to this episode and feel free to email me with comments on this conversation. As always, if you're enjoying the series, please share an episode with a friend, visit the archive on your podcast app or in the ZRG website, and check out past episodes, and feel free to get in touch with guest ideas or, importantly, if ZRG could be helpful in your business, in recruiting, talent management, or consulting on the people side of your company, please get in touch. My email is mslepin@zrgpartners.com. I hope that you enjoy this conversation with Ben Miller.

So, Ben Miller, welcome to Leading Voices in Real Estate. Thank you for hosting me at your offices on Dupont Circle here in DC. I love DC. In my first iteration, I lived in Northwest and in Bethesda. In my first iteration, as I was entering the real estate business, your father was one of the big real estate guys in the DC area, and he was then a disruptor and an innovator, doing interesting kinds of retail, is what I remember the headline being. So we're going to talk about that. And now, in my second iteration here, you're the second generation Miller. You're also doing innovative and disruptive things in the real estate business, and that's what we're going to talk about a lot today.

Ben Miller:

Fun.

Matt Slepin:

So welcome. Thank you, and introduce yourself real briefly, if you can, and then we'll jump into everything.

Ben Miller:

Great. Okay. My name is Ben Miller. I'm CEO and co-founder of Fundrise, and we've been at this now for more than a decade, trying to disrupt the real estate industry.

Matt Slepin:

And when you say that your goal is to disrupt the real estate industry, there's different ways to disrupt. So what is the meaning or the original purpose? To disrupt for disruption's sake is meaningless, but disrupt for a purpose, and there's a thesis. What was the original thesis?

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Well, the core thesis was that real estate's a great asset class and normal people couldn't invest in it. You had to be a high net worth institutional investor, and I wanted to open it up, democratize it to normal investors, and that is something we've pretty successfully done at this point.

Matt Slepin:

Mm-hmm. Okay. So we're going to come back to what all that means and that original disruption, but I think you have more disruptions past that one. But talk about what Fundrise is today. What's the AUM? What do you manage?

Ben Miller:

Yeah. Well, I mean, like any business, it evolves as you grow and change. And so, the business now has about... We have about 225 team members at Fundrise. We have a real estate department, and we own and manage real estate. We're vertically integrated. That's a big addition, change to our business. We manage real estate funds, so a lot of times, people will say, "So you can invest in a deal?" And we say, "No, we have fund. We're a fund manager. We're more like Blackstone's BREIT or Starwood's SREIT." We have funds that are publicly registered, and we have a real estate fund of a billion dollar, $1.3 billion. We have a private credit fixed income fund, focuses on lending, that's about 600 million.

And we launched recently a new division that does venture capital. We have a venture capital fund that invests in high-tech companies. So our combination of tech and real estate is what makes us different. So we have about 100 software engineers and tech people, we have about 50 real estate people, and we have 50 accounting executive types G&A. So we're a different DNA than most real estate companies, who don't have tech and software engineers on the team. Integration with tech has made us think about real estate very differently, and we're now working on an AI product that I think is going to be very disruptive, or at least interesting, for the real estate folks.

Matt Slepin:

Okay. We'll come back to each of those parts. What's the total AUM? We think of AUM in real estate, including the VC stuff, the tech stuff.

Ben Miller:

So we've got three billion of equity and about six or $7 billion of real estate.

Matt Slepin:

Okay. And the real estate that you have, is that in product type? So what's the range of product types generally?

Ben Miller:

Largely multifamily. In the Sun Belt, we have about 20,000 units we're invested in or own. We have about three or four million square feet of industrial, and we have a fair amount of lending into the multifamily industry.

Matt Slepin:

Okay. And then you said you own or you invest in. So maybe when you started, you weren't vertically integrated. So you were investing in pieces of deals, or were you the joint venture partner for someone, or were you investing into funds, or each and every?

Ben Miller:

Yeah. I mean, we started so small. We were invest raising a couple hundred grand in the beginning, so that would be a piece of a deal. We'd come in and we'd work our relationships and our network to get a small slice of a deal. That's back in 2012 and '13.

Matt Slepin:

And when were you founded?

Ben Miller:

2012.

Matt Slepin:

Okay.

Ben Miller:

And we evolved to wanting to focus on being a preferred equity or mezzanine lender to mostly multifamily. But back then, we did a lot of product types. And so we did about 50 real estate loans back from around 2014, '15, '16, into single deals that people could invest in. And then we stopped doing that. We evolved and moved to a fund management business. And when we did that, actually, 50% of our customers abandoned us. They didn't want to do funds. They wanted to do real estate deals. So it was one of those things that you hear about where you have to be willing to abandon your old customer to get a new customer.

Matt Slepin:

Right. Because when people were investing into the debt in a deal, they were investing in that deal, not investing in your fund business at that point in time.

Ben Miller:

Yeah. We didn't have fund business until at the end of 2015, so a lot of customers back then liked picking deals.

Matt Slepin:

That's the fun part, in some ways, that people look at real estate. And when you see, you're democratizing real estate investment, you're democratizing someone's ability to go do a thing.

Ben Miller:

Yeah. I mean, we started with that concept. I was a real estate guy. And real estate people are really confused by the change, and they thought we were crazy, but our business is 100 times bigger as a result. And I always tell people, I'm like, "Well, would you rather be Blackstone and have a fund management business, or would you rather be a syndicator?" Everybody says, "Well, I'd rather be Blackstone than a real estate syndicator."

Matt Slepin:

Right. And at the time that you made that shift, what year was that, the shift?

Ben Miller:

End of 2015.

Matt Slepin:

And what was the year of Blackstone starting into the BREIT?

Ben Miller:

2017.

Matt Slepin:

Okay. So you were in the same era of those things starting to happen and people looking at this in a different way?

Ben Miller:

Yeah. I mean, when we started the idea of democratizing real estate investing, people thought we were crazy. Actually, they thought the retail investor was unattractive. They didn't want him. They went from being crazy in 2012 to being novel in 2015 to being obvious by 2020.

Matt Slepin:

Right. And when you say democratizing this, I was going to hold history later, but we're into all this stuff now. So when you say democratizing it, and you also use the word syndication model a little while ago, the old syndication model, if that's the right word, is country club investors. So democratizing it is merely taking a syndicated thing, which has a bunch of folks in a deal that someone brought them in, into now they can do small-sized chunks, and democratizing the country club syndication is really where you started.

Ben Miller:

Yeah. I mean, there were a few different innovations, and one of the innovation is software. And if you have software, rather than having the necessity to go meet people and do it by old-fashioned arms and legs, you can do it at a much more scale, you can do it more efficiently. And so our minimum investment fell from... I think it started out $5,000 a deal, then it went to $1,000 a deal, it went to $500 a deal, now it's $10. So the more we scaled, the more software we built, the more the barrier fell. And then anybody, you could be anywhere, at any time. People invest at 1:00 in the morning. You can be 18. You can be 81 years old. I mean, it's the fact that software made it so efficient. And that's unintuitive because I think that the presumption is that it's expensive to get retail investors invested, because you have to do it the old-fashioned way with broker dealers and salespeople. But once you have a software platform, the more, the merrier.

Matt Slepin:

And the load on the intermediaries and the brokers is pretty heavy. Your overhead of putting the platform together is heavy at the beginning, but then marginalizes over time.

Ben Miller:

Yeah, the space... I mean, this is if you go way back. When the space of private or public non-traded REITs has evolved, it started out with very, very high loads. Way back in 2012, when we started, there was American Realty Capital, and they would be charging 15% load upfront. Once you charge a 15% load upfront, it was very hard to get out of the hole. And generally, it didn't work out for the investor. Blackstone innovated by lowering that to probably about 5%, and our upfront load is zero. Investor comes in, buying into the real estate at cost or at par. And that's the difference between software and manual processes.

Matt Slepin:

Right. And I became an investor last week on Amtrak.

Ben Miller:

Okay.

Matt Slepin:

And you know how bad the internet is on Amtrak.

Ben Miller:

Yeah.

Matt Slepin:

So I was still able to get through the process. I was at 100 bucks, sorry, or thank you, whatever the right word is for that. And it took me about 15 minutes to put my money in. It was amazing.

Ben Miller:

Okay. It should have taken a lot faster. So I'm disappointed with 15 minutes, but okay.

Matt Slepin:

Well, this was Amtrak, so you have to realize my internet was pretty bad. Okay. So let's keep on the general subject because I want to understand the broad picture here. And if you put that together, how many investors do you have, and what's the average investment across your whole business?

Ben Miller:

So we have a couple million users, and at any point in time, we have almost 500,000 active investors. So if you take our approximately 500,000 investors and you multiply it by an average assets under management per person of $8,000 per person, you end up around low three billion AUM. But the average is deceiving because the Pareto principle applies to everything. So 80% of the dollars come from 20% of the people. And so, the majority of our dollars is high net worth and small family offices, but the majority of people is much younger. So up-and-coming generational investors.

Matt Slepin:

Right. And so, let's go back to the original concept. The original concept is, A, to disrupt, and B, to disrupt in order to democratize the ability to invest in this business and with a low load. And if you put those-

Ben Miller:

No load. Right.

Matt Slepin:

No load. Okay, good. So if you put those thoughts together, I'm thinking of John Bogle, and our listeners might not all... The younger listeners won't remember this guy. But when I was a kid, living in DC, and I first started having savings, I put them into mutual funds. And I read Kiplinger's magazine and I picked the best mutual funds until John Bogle came along and said, "There is no best mutual fund. The best is the index with no load." And he revolutionized that business. And that's what you're describing doing here.

Ben Miller:

Right. Because then the large idea I started to come upon as I got into the space is that the long arc of history is that technology democratizes all finance, and when it democratizes it, it lowers the cost of intermediation. So if you look at whether it's mutual funds or ETFs or online trading, the cost of that intermediation has fallen and fallen and fallen, where it's free. The number of people who work on the floor of the stock exchange used to be hundreds of people loudly yelling at each other. Now it's zero. It's all high-frequency traders. And so, you can see the same trend happening in real estate, where the more technology gets at the real estate industry, the more efficient it becomes, the lower the cost of intermediation, the lower the fees, unfortunately, for the real estate industry. And that's virtually inevitable in every sector. That's what technology does, and that's what's happened in real estate over the last 50 years.

Matt Slepin:

So let's pick on the second innovation that you're hinting at, or the second disruption that you're hinting at, which is that the best managers. So when I described this before, I described picking funds, and then I started doing index funds and ETFs, which is what everyone now does instead of picking funds. In real estate, we still believe that there's great funds. We have the ODCE index, so it describes them up and down the spectrum. And we have private investing into even smaller niche players. And I think your second disruption doesn't make sense, at least in the spaces in which you're investing, so now you're doing it yourself, cutting out the managers.

Ben Miller:

Yeah. There's a lot in what you just said. Let me simplify it, but then in the simplification, we'll lose some of the nuance, right?

Matt Slepin:

Sure.

Ben Miller:

So the value chain of real estate, if you look at it, if you pan way out, you have a real estate deal. That real estate deal probably has a real estate sponsor. They might get a bunch of real estate fees, and a 20 to 30% carried interest. The real estate fund invests in the real estate deal. Real estate fund has two and 20 some real estate fees, and probably 20% carried interest. There's probably some pension fund advisors and other kinds of intermediaries involved. So you look at the entire value chain, from the actual investor, which maybe is the pension fund, or maybe it's actually the pension fund holder, the actual individual underneath of institutional investment. If you look at the individual underneath the institutional investor, whether that's JP Morgan or California State Teachers, it's an individual, and there's a lot of people in the middle of that value chain.

Matt Slepin:

Right, including CalPERS itself, or STRS itself, and then the fund they put it in, and then the developer they have.

Ben Miller:

Right. And then all the advisors, who advise along that way. And so, how much of the returns lost in that value chain? Half?

Matt Slepin:

I don't know.

Ben Miller:

I mean, a lot, a lot.

Matt Slepin:

Okay.

Ben Miller:

And what's the value add of the value chain? And so, the reason that value chain exists is historical contingency. It got created probably about in the '80s, evolved over the course of a couple of decades, but it's a historical legacy of needing all those intermediaries because of the old-fashioned way of doing business. There was no internet. There certainly was no AI. And so, that intermediation is really not... I mean, it's under a lot of pressure these days. It's not news to everybody that the fee loads for private markets are very high. And I believe that technology will continue to put pressure on that. My hope and my job is to build a technology value chain that gets rid of all of that extra cost and gets the investor closer to the value.

Matt Slepin:

Mm-hmm. And if the investor is closer to the value, we cut out all those intermediaries, they invest in you. The second disruption or innovation of your model is you begin to vertically integrate, running and owning the real estate yourself.

Ben Miller:

Right.

Matt Slepin:

And so you're cutting out intermediaries. You actually, in your model, don't have to be the best operator because you've now cut out 20% fee loads from the world, or 30%, or whatever it is. So if you operate even at 30% as good as the best, you're going to still make more money, maybe.

Ben Miller:

Right. Okay. So let's put a finer point on that. So there's no carried interest fees at the fund level. There's no carried interest fees at the property or sponsor level. So there's zero carried interest from the property to the individual investor. There's only our flat asset management fee. It's close probably to

50% of the returns are lost in the value chain today. And then the question is, how good operations can you have compared to the status quo industry? And I think for some asset classes is a lot easier to operate well or competitively as any first-class sponsor because the reality is most real estate companies are three guys and a dog. It's not that much infrastructure needed to operate multifamily property. Certain asset classes are more commoditized, with more infrastructure, and they lend themselves to a certain efficient execution. And then there's some asset classes where you really have to be a local real estate development. If [inaudible 00:22:11] build new construction, that's one of those things that, certainly, there's huge value add in that kind of asset.

Matt Slepin:

Uh-huh. So you're focusing in your vertically integrated business on BTR, multifamily, and industrial, which is more democratizable, less expertise absolutely required. Is that the thesis?

Ben Miller:

Well, it's more commoditized. It actually lends itself to technology application at the property level, which is the next hill that we've been climbing. What does it take to have best-in-class execution in multifamily? I mean, the best people in multifamily are great operators. They probably have... I mean, it's not that hard to do, to hire great people who do... We have some phenomenal real estate operators. If you want to compare that, try to go hire the best AI researcher. Best AI researcher versus a really good real estate operator. I mean, you're talking about a thousand-time difference.

Matt Slepin:

It's interesting. I'm a recruiter. First of all, I disagree with everything we're talking about here. So [inaudible 00:23:28] important to know, or it goes against my life. So we'll talk about what that means. But I'm doing searches right now in multifamily operations, and the ability to find a great, fantastic person to run multifamily operations, that does differentiate one platform for another. It's a challenge. That's not easy. I've never looked for an AI professional to say, "Okay, there's one in a million versus one in 100,000." So both hard to do. Although, there is an ongoing debate. I sat at a dinner at a conference with a Green Street guy, and we had this exact same discussion on the subject of multifamily specifically, which is the sector I know the most about. And he says, "Commoditize. Look at the REITs. There's not that much separating their expertise."

Ben Miller:

Yeah. I mean, we have hired some really good operators. I mean, we have a couple that are just blow my mind. They're so good. And we've gone through a lot of people. I'm not saying it's easier to have good operations in multifamily. I'm just saying much more achievable, the ability for a real estate company to have great real estate operations versus a real estate company to have world-class AI operations.

Matt Slepin:

Uh-huh. Understood.

Ben Miller:

I mean, there's no way a real estate company could compete with OpenAI or Anthropic. Zero chance.

Matt Slepin:

Well, also, given what you're describing, if you're hitting close to average, which is maybe what John Bogle suggested, and maybe what you're suggesting, particularly in a commoditized business in multifamily is largely commoditizable, then if you take all of the fees out of that structure, or 90% of the fees out of that structure, then you can outperform easily, given what you've described, even if you're at 40% skillset of the other guys.

Ben Miller:

Yeah, let me... This strikes at the heart of the identity of a lot of real estate people, so they will-

Matt Slepin:

Yes.

Ben Miller:

... never believe it.

Matt Slepin:

Including me. So let's see.

Ben Miller:

So let me just try-

Matt Slepin:

And our listeners.

Ben Miller:

Let me try to convince you with a different approach.

Matt Slepin:

Okay.

Ben Miller:

So if I were to ask you to stack rank the most important decisions around a real estate, so let's just say, number one... I'll give you my order, and let me tell you... see if you would change it.

Matt Slepin:

Yep.

Ben Miller:

Number one, when you invest in the cycle, like investing in 2021 versus investing in 2009, right? So I think when you invest in cycle.

Matt Slepin:

Yep. Vintage.

Ben Miller:

Vintage. Okay, one. Two, where you invest. So that's city. You can be New York, or you can be Montgomery, Alabama. And what asset class, and that's apartment versus industrial versus retail. So I think of those three decisions as mostly an allocation decision, not an operations decision. And then you get to the last one, which is about operations of multifamily property or an office building. How would you stack rank those four decisions in terms of the returns, in terms of how they drive returns of a deal?

Matt Slepin:

Depends on the hold period, which might be the... and the capital that you have in the deal. So if your hold period is three years, expertise matters a lot because... But timing matters more. But your ability to execute on value-add, which is a three-year hold generally. So that's execution and timing because everyone's going to be there.

Ben Miller:

Yeah. So my experience is that it's actually... There are people who do have bad operations. I've seen plenty of bad operations. I've had deals that have bad operations, had to replace the on-site team. Happens all the time. You can't fix the vintage, you can't fix where you invest, and you can't fix the asset class. The easiest thing to fix in a deal that's going bad is the operations. And the way you do it is you hire. Because real estate people, who are in operations... It's funny how the operations people get paid less than the investment people, but the operations people and our culture are the most highly prized.

Matt Slepin:

I'm happy to hear that.

Ben Miller:

So I think that if you get the allocation right, that the operations, you can work your way through it. And I think to get to our average in multifamily is much easier than to raise the money, invest in 2009, or to not invest in 2021. And so, the key of owning the value chain, as we've built, is we get to decide the first three things. We have allocation discretion around where, what, and when. And that is the most important thing in real estate investing.

Matt Slepin:

Well, also, capital structure, because a lot of people invested four years ago, and some were overleveraged and some were lightly leveraged, and the lightly leveraged are surviving, and the overleveraged are dead.

Ben Miller:

Yeah, yeah. But I think capital structure is downstream of incentive structure. If you have bad incentives, you'll get bad capital structure. You have good incentives... Like the public REITs. Their incentive structure, it doesn't incentivize them and take on extra leverage. Actually, quite the contrary. And so, the incentives drive behavior in real estate all day. That's why nobody who raises $100 billion fund or a $1 billion fund in January 2021 sits on that money for two years, even though they should, right?

Matt Slepin:

Right.

Ben Miller:

Because they have a closed-ended fund. All of our funds are permanent capital, evergreen funds. And so in 2020... I think it was 2021. The end of 2021, our investors in our private credit fund were not happy with me because we were sitting on 30 to 40% cash, and our yield had fallen to 4%. We said, "We're not going to deploy the money in this environment, zero rate environment. It just looked like it was going to go badly." I don't believe there's more than one in 100 real estate funds that could sit on 30, 40, 50% cash for one or two years. Their LPs, their institutional investors wouldn't let them.

Matt Slepin:

And that may be wrong. I know a lot of people who have sat on their cash because they couldn't deploy. They might have wanted badly to deploy.

Ben Miller:

They sat on the cash or the commitments.

Matt Slepin:

They sat on the... Well, I don't want to-

Ben Miller:

They sat on the cash.

Matt Slepin:

Okay, okay. That differential, I don't know who has the cash sitting there or versus the commitments. But people were not transacting in the last couple of years, so they had the dough. They were ready to... Lot of dry powder, different word for the same thing, because we know it's a dry powder issue. But you've raised two different subjects as you're describing this. One is you say, "We sat on the cash. We will not deploy." So one of these things is you're not just making a decision on when, where, and how. You're making some heavy decisions about the markets at a given moment in time. And the best real estate investors and the thing people would say is, number one, someone has the secret sauce of judgment and strategy. And it's not purely allocation stuff. It's back to those great funds that I invested in before John Bogle came along, because Mr. Gabelli, or whatever his name was, he knew where to invest. And you're just described you have that secret sauce to make those decisions.

Ben Miller:

I just don't think it's a secret sauce. I mean, we did the exact same thing when we launched venture capital. So let's go back to these key decisions, in the cycle of vintage, when, where, what. And then the last thing, which is operations, which is how. So I'm saying when, where, what are much more important than how. This is actually exactly the same thing that Jon Gray from Blackstone will say over and over again. He calls it thematic investing. And if you look at those decisions, it's actually, I think, not that hard. The problem is most real estate people are specialists. They start with how. I'm an office guy in New York. I'm going to recommend office in New York every day of the week.

Matt Slepin:

All the time. Yeah.

Ben Miller:

And so, they don't have the flexibility and discretion because they don't own the value chain. They're at the end of the chain, trying to convince people to invest in whatever they can do. So the biggest impacts to real estate over my career, over the last 25 years, has been the cycle, the real estate cycle, the 2008 financial crisis, COVID, and technology. And so, those are when, what, and where decisions because technology crushed retail for almost 20 years. So you don't want to invest in retail when the technological headwinds are against you. And then, industrial did great because the technological tailwinds were behind you. Multifamily, same thing. There's been huge drivers because of work from home.

And so, if you just start with first principles and say, "Okay," say, today, "what are great investments?" I would say the technology tailwinds are still there for residential and industrial. There's now a new one for data centers. And then, the headwinds, I think, on office are still material. And maybe you could sharp shoot it, but I don't think the risk is justified for the reward. And that's just not that hard of a decision. It just doesn't take a genius to see that the tailwinds around multifamily, industrial, and data centers are pretty good.

Matt Slepin:

So let's play those sectors as most real estate investors have done. Most funds have moved to those sectors.

Ben Miller:

Yeah. So there's not a secret sauce. It's the same thing. People say, "What's the secret sauce of Warren Buffett?" Well, literally, you could just copy his investment strategy. But people didn't do that because their ego didn't let them. I'm sure I have an ego, but my ego isn't tied up around thinking I'm the best real estate investor. If the institutional... I have logic around it. But you could essentially say, "I'm going to copy Blackstone, and do at least as good as everybody else, if not better."

Matt Slepin:

Mm-hmm. So the back to the index fund concept is, you're finding the themes, thematic investing, in these sectors. You're making timing choices and market choices. Hopefully, you're getting the better deals in those markets and not overpaying. But that is back to the judgment question. But your low fees and the ability to deliver the dollars right in could cover up a lot of mistakes, if there is a mistake. If you're below average in your deal choice selection and you're below average in operations, you still have some room, I think.

Ben Miller:

Yeah, that's what the real estate industry wants to believe, that we're below average. I'm going to say we're at least average, because my experience of real estate is not... It's just I'm not bowled over by the average real estate investor. It's just one of the great things of being, they call it, a crossover investor is, by being in tech, by being in public markets, by being in asset-backed securities, by being in private real estate, by operating across the country, you just get to see a lot more. If you want to get impressed, go spend time with people in the AI industry.

Matt Slepin:

Oh, I bet.

Ben Miller:

Oh my God. I sit there and I'm like, "I have..." And I'll spend months reading about this stuff, and sit down with these people, and they're just geniuses, and that's just... Look, I'm a real estate guy. I love real estate. It's just not the same. You're just talking about people who have PhDs, the smartest person at Stanford.

Matt Slepin:

Uh-huh. They're not going in real estate.

Ben Miller:

They're not going in real estate. No.

Matt Slepin:

Entrepreneurial cowboys in the past, but entrepreneurs and the people I deal with in the business. Again, my job is to deal with the higher level and find... It's not stars. The great folks in our business, I guess, is the right word, and impressive. But I don't know AI guys. They're more [inaudible 00:35:25]. I mean, they're just pure intelligence.

Ben Miller:

Yeah. Well, I mean, I don't want to overindex intelligence. Success is not just about being high IQ.

Matt Slepin:

That's right.

Ben Miller:

But anyways, these decisions... Okay. We were big investors in the emerging cities in 2012, '13, '14, '15. That's Bushwick and H Street, DC, and LA Arts District. And then we shifted in 2016 to being heavily invested in Sun Belt. That's a where decision, and we shifted to... Almost all of our money went to the Sun Belt, and I think if you were Sun Belt rather than blue cities, that was a huge source of alpha.

Matt Slepin:

A good decision at that point. Yep.

Ben Miller:

Yeah. And so, I just don't... The real estate industry really has to believe, because their identity and their economics are tied up in the idea that they are generating alpha, and I think they're generating beta. The real estate industry produces beta, and that beta is highly valuable. The beta is about 80% of the returns. That is, when you vintage, when, where, and what, that's about 80% of the returns, maybe 90. And the alpha, which is the operations, maybe picking the deal on 14th and Q rather than 15th and R, that's about 10 to 20%. So the vast majority of the returns are beta, are allocation. And then, there is real value in operations, absolutely, but it's not the majority of the return.

Matt Slepin:

Okay. So let's talk about a couple of those things, and then we're going to move on and change the subject a little bit. One word you used as you were passing through all of this is you talked about REITs for a moment. You talked about REITs holding longer term. Maybe you hold longer term because we didn't discuss the whole period of the deals that you're doing. So let's come to that. Let's talk about how you then contrast your operating platform and capabilities internally with, let's say, apartment REITs that really know what they're doing.

Ben Miller:

Oh, yes.

Matt Slepin:

Although they have reverted more towards the mean as they've all gotten really good.

Ben Miller:

Mm-hmm. Okay. Well, so there's two different questions. Let me do the second one first. So we are a crossover investor, and so we do invest in the public REITs, especially in the same thematics that we like. So we invest in Prologis, we invest in MAA, Mid-America, and where the public REITs have a better price per pound, or where they have a better cap rate. I'd rather be public than private. You have to be in the private at a liquidity premium. This is one of the big things. Very, very few fund investors in real estate can say, "Oh, you know what? The public markets are going to give me a better return. I'll be in the public markets." And so, yeah, I think those public REITs have excellent operations, and I'm happy enough to take that investment over a private real estate deal when the markets tell me that's better.

Matt Slepin:

Mm-hmm. And sometimes they're often under NAV, so then that's probably a good time to do that.

Ben Miller:

Yeah. I mean, the public markets are just... Sometimes they're mispriced, and sometimes they're overpriced. And then, in terms of operations, so we went into build for rent in 2019, 2020. We were really early into it. I think we have probably the third-largest build-to-rent portfolio in the private markets. We have 5,000 units. We've been doing it now for five years. I think build-to-rent is going to be a decade-long tailwind for lots of reasons.

Matt Slepin:

It will grow into its market share, its appropriate market share, which hasn't yet.

Ben Miller:

It's a better... As a consumer, this is one of the things that... We have 2,000... Sorry, we have two million users. So I have a consumer business with lots of consumer expertise. And I always say to real estate people, "Real estate is a consumer product. The consumer consumes the house and the financial returns are a derivative of the consumer value. And so the consumer product of a house, at a comparable rent to an apartment building, is a better consumer asset."

Matt Slepin:

Mm-hmm.

Ben Miller:

And so, we went into that. I think we have as good operations as anybody. We have huge lines of credit from the JP Morgan, Goldman Sachs. We have a scaled business, and I think we have as good operations as anybody in that space. But when it comes to apartments, I think that the public REITs are better.

Matt Slepin:

Uh-huh. But they don't have to be that much better than... You don't have to be that much worse than them to be able to return well in your operating platform, given that their public REITs do have a cost structure. The cost structure is not like a fund. So private real estate that there's probably more load on that.

Ben Miller:

Yeah. And again, the value I can give our investors is that there's... The private markets sometimes have just better pricing than the public, and you can go back and forth. Same thing with venture capital. Sometimes the public markets are better. And being able to have a crossover fund structure is a form of alpha. And, ultimately, I think the most alpha is in flexibility and discretion and allocation, by making these bigger decisions and the operations. I mean, again, I'm in tech, and I'm in real estate. The amount of alpha in tech is 100 times. The amount of alpha that the founders of Google had compared to a normal real estate team of 10, 15 people, I mean, it's like night and day.

Matt Slepin:

Right, different business.

Ben Miller:

Yeah, different business. But that's why, when real estate people talking to me about alpha, I'm like, "I don't know what you're talking about."

Matt Slepin:

It's within a more defensive asset class. What does alpha mean?

Ben Miller:

Yeah. I mean, the problem is that the asset is CapEx-driven. Whatever. 99% of the asset is capital investment, or maybe at least 90% of it is a capital investment. And in OpenAI, or take a tech company, it's primarily the people. And so, it lends itself to a different type of value creation.

Matt Slepin:

Yep. And how much of your three billion is currently in REITs, and how often are you in and out depending upon the pricing differential as that market goes up and down differently than the private market?

Ben Miller:

Yeah. It really depends on... I don't know where we are today. We were really heavily invested in it right before Putin invaded Ukraine. And when Putin invaded Ukraine, we sold all our public REITs. And so, we generally got out near the top. And we went back into mortgage REITs and asset-backed securities six months later when the market had collapsed. And so, it really varies. The beautiful thing... And I'm not... It's so hard to make these types of allocation decisions.

Here's an example of one I got wrong, just so people think I'm somehow underestimated, how challenging this can be, is that when we raised our venture fund, the public markets had collapsed. We should have just put all the money into the public markets, but we sat on $50 million in cash rather than just being in the public markets because they went up 50%. Yeah, these allocation decisions are really challenging. I'm just arguing that structurally, there's a lot of value in having that flexibility, and there's a lot of disadvantages in being in a structure that... If you raised a fund that's supposed to buy class B in the Sun Belt, you're going to do that no matter what.

Matt Slepin:

Understood.

Ben Miller:

I think that's a problem.

Matt Slepin:

I would love to be an investor and to know how to invest between when... If I was doing multifamily, when I want to be in the REITs, and when I want to be in private, and if I could switch easily between them at all times. There's times that they're mispriced, up or down, and then that flexibility is, in and of itself, a great thing. So let me drill on that, and let's talk about your organization and you and your people, because one of the things you've... You've talked about your people. When I looked at your website to make my investment, I couldn't find people on there.

And as a headhunter, the way I look at websites, I first go, "Okay, what's the company? Let me quick see how they present themselves. Let me quickly look at the assets, what the allocation is, what asset class they're in." But then I go right to the people, and I go to their board. I just want to see who's there, who do I know, of course, and what impressed... And for you, I could drill beyond you on this. Now, maybe this was my ability while on Amtrak to drill into a website.

Ben Miller:

No. I mean, because our website's designed for the consumer. It's like, if you're on amazon.com, you're not looking for the people. You're looking to transact on the product.

Matt Slepin:

Right.

Ben Miller:

Our website gets tens of millions of people a year. I don't know how many. 50 million people a year, huge numbers. And that's a consumer-facing product. And so, it's designed more like Airbnb or Amazon than a real estate website.

Matt Slepin:

Okay, fair deal. But I wouldn't say just real estate, because I look at any kind of company. Those are the things that I do. And if I invest in a company, which I'm not, I am an investor, but my wife does it all because she's smarter than me. But I do look at the folks. I look at the organization. I underwrite it. I don't just care about the marketing that they say. And so it's interesting, as you describe your organization. So I'll drill beyond it because I don't care if you have it or not.

Ben Miller:

Yeah, yeah.

Matt Slepin:

I only put 100 bucks, so I'm safe. It's going to be okay.

Ben Miller:

Mm-hmm.

Matt Slepin:

Or do you have a chief investment officer who's not you? Do you have a research function to help with those allocation decisions that you've described so much?

Ben Miller:

Yeah, we have an investment committee. We have what would look like a normal real estate function. So we have different verticals. We have a team that's build for rent. That team is 25 people. There's a multifamily team. There's industrial team. There's a public credit team. There's leaders of each team. There's an investment committee that sits on top of those teams. There's underwriting memos. The actual day-to-day of the real estate team looks very similar to any other real estate function. A lot of that stuff, we don't put it. I've sometimes argued to the team that we should try to put that stuff more to the consumer-facing part of the website. I don't know. We haven't.

Matt Slepin:

Okay. But with that team and with you, is there a chief investment officer, or is that you? And then, I want to talk about the rest of the business too.

Ben Miller:

Yeah. So the investment committee is three people. It's me. I'm chief operating officer, and I have a head of real estate, and it's who's the chief investment officer, one of the two of them, depending on the asset. But there's no CIO because the decision is usually a three-person decision.

Matt Slepin:

Uh-huh. Yeah. Because the allocations you're making in the strategy discussion that we're having suggests that there's a lot of thinking behind that in there. And I don't know how much is you, how much is the team, how much the team challenges you.

Ben Miller:

I would say I'm on the investment committee, but a lot of the decisions get made by my two partners, who are in the day-to-day of it. And again, a lot of these decisions... This is the hard part. I have the same thing with when you do data science, and if you ever do data. And everybody in the real estate industry does some kind of data science-

Matt Slepin:

Yeah, absolutely.

Ben Miller:

... because they get a lot of data and they put it in a spreadsheet. And my experience with data analytics is that usually there's either a signal or no signal. The more analytics you throw at it, the more you can find signal. But what you want is when the signal's popping off the screen. So we do tons of A/B testing. We have tons of data analytics, data engineering. And so my experience is that you usually don't find signal. When signal is really strong, prices are really out of whack, then it's easy. And when there's no signal, that's when it's hard. And so this is what I'm talking about making these allocation decisions. It's about when there is signal. I'll give you an example.

We were doing a build-to-rent securitization in the summer of 2022, and a big investment bank was taking us to the process. We met with the rating agencies. I'm sitting with... I don't remember which one, but I think the fanciest one. And I was saying, "Okay, whatever, 3,000 home securitization." First build-to-rent because they've never seen build-to-rent. They've only seen scattered-site, single-family. And they said, "Who's your property manager?" And we say, "Cushman & Wakefield." And they said, "Who's that?" I said, "What? Wait." Sorry, I just said, "Uh-huh," but I should have said, "The rating agency didn't know who Cushman & Wakefield was?" And I said, "I don't understand. What?" And so, I was really confused, and then I started saying, "Wait a second, these rating agencies don't seem to know that much about real estate."

And then the market dislocated, September 2022, and we were... And I looked at it, and I said, "Well, I don't want to be a seller in this market. I want to be a buyer." We turned around to the same investment bank, saying, "We want to see what's being issued." And at that moment, the market was empty. And so we were the certificate holder, which means you're the swing investor on all the deals that year. I think there were three or four single-family securitizations, and we were getting 12 or 13, 14, 15% yields on the triple B-rated tranche, and we were looking at it. Well, we're in this thing for 60% of LTV on a... I mean, they're like, "Why would I be an equity investor if I can be a dead investor? The same returns with liquidity at half the basis." And that's what I mean by signal and flexibility.

Matt Slepin:

Good example for that. You mentioned Cushman & Wakefield managing. Are you vertically integrated in each of these three vertical businesses? Meaning, do you do your own operations, since we've been talking about operations so much?

Ben Miller:

No. Property management is normally... We've gone through different property managers. Actually, I wish we could have a hybrid, the one thing we can't get them to do. So we use their systems, but I wish we could actually pay the property management team on site directly, because we would probably pay two times what Cushman would let us. We'd probably pay $250,000 a year for good property manager, maybe even $300,000 a year. We'd pay something outrageous because the best property manager is worth millions. But Cushman doesn't let us do that because they... So we end up having to provide them different other incentives. Because the person on the ground, that person in that property... We have 50 build-for-rent communities. The person who manages that community is night and day, night and day.

Matt Slepin:

Night and day. Same in multifamily?

Ben Miller:

Same in multi, if not as extreme. There's more alpha and build-to-rent today than there's multifamily, but same in multifamily as well.

Matt Slepin:

And you use Cushman or others?

Ben Miller:

We use a few different managers.

Matt Slepin:

Okay, cool.

Ben Miller:

Greystar, Cushman. It's the same problem, and really, we've replaced property managers a dozen times because it's just so spotty. It's such a spotty process, and it just always comes down to that leader on the ground at the property, and whether or not they're great.

Matt Slepin:

So you're fine. When we talk operations through this conversation, it's your asset manager who's riding the property managers-

Ben Miller:

Riding them.

Matt Slepin:

... who are third parties.

Ben Miller:

Hiring, firing, riding them.

Matt Slepin:

And that matters the most. That's where you get your operational excellence.

Ben Miller:

Yes. Yeah. Bringing property management in the house, ugh, man.

Matt Slepin:

Okay, cool. You've made the point. This helps square the circle, circle the square, circle the circle in terms of describing property management versus operations [inaudible 00:52:23] those words that we've used.

Okay, I want to change the subject. How much of your business is the tech side of your business and setting this up, and how much of your personal time directs the tech vision for making all of this work? And what makes it work is the investor side of it, tech. There is in operations tech, but it's a different thing. So talk about that part of the business that you have here. And sitting in your office, I think I'm in a tech business more than I'm in a real estate company. It just feels that way.

Ben Miller:

Well, we had to pick our culture, and we picked the tech culture, and the real estate people had to adopt the tech culture, which, at times during the 2021, '22 period, when it had gotten pretty extreme, that wasn't always fun. The team has always been majority tech people. So the real estate people, again, are about a third. And then the rest are product managers and software engineers. Though, where I've had to focus has just changed with the business because we had to build all of these things that didn't exist before us. We were the first people ever to do this. How do you check out? How do you go through an online checkout for a piece of a real estate deal? What does that checkout flow look like? We had to invent that.

Matt Slepin:

And is that checkout flow easier if I'm investing in your fund, which is my only option now? Is that an easier model than, "Hey, I get to pick"? I'm thinking of... I've never used the swipe. What's the dating app?

Ben Miller:

Tinder?

Matt Slepin:

I've never used Tinder, but it almost feels like, "Oh, I want this real estate," "Nah, let me swipe. I'm going to invest in that one." But if I'm only investing in the fund, then that seems like a one-to-one decision.

Ben Miller:

Yeah, it's funny. We had, at one point, 150 copycats or competitors, and now we have, I think, zero, but not many. And so I usually wouldn't tell people the decisions we made and why we made them because we ended up scaling, and really no one else did. Part of the right decision was to eliminate as much choice from the investor, from the customer. Customer does not like choice. Choice is the enemy of conversion rate, and that's counterintuitive to real estate people. But if you think about the country, let's just say there's 100 million investors in America or 50 million, what percentage of them are real estate professionals?

Matt Slepin:

Tiny.

Ben Miller:

Tiny, right? So, why would you build a website for the real estate professional? You wouldn't. So the mistake, actually, it alienates them. It hurts the conversion rates. I didn't know that. I did the opposite in the beginning. We did really complicated, fancy real estate. We did the World Trade Center on Fundrise, 3 World Trade Center, back in 2015, '16. And I thought our customer would be blown away. They didn't even care.

Matt Slepin:

Yeah, I remember early in this business. Now we'll pivot to talking about the business and the founding of the business. But I remember early in the days, when you, and you had [inaudible 00:55:21]. I just remember RealtyShares, because we did some work for them, and I think they crashed, so they didn't last. But either you or someone got, "Hey, private people can now get into this deal, and it's the first time it ever happened, and we have a 10% slice of the capital stack alongside blah, blah, blah and blah, blah, blah." And maybe that's World Trade Center.

Ben Miller:

Yeah, World Trade Center, because the guy... Silverstein team was on my board, had been on my board. Tal Kerret, president of Silverstein, has been on my board for 10 years. So that's how I got into 3 World Trade Center. And I used to have the Ratner as investors, and Rising, and all these fancy real estate people as investors. It didn't matter. It didn't help. No one cared. And so it's much harder to unlearn something than to learn something, and unlearn the real estate parts of my experience and for tech was like a brutal few years.

And so, the instincts in real estate are just... They don't serve you in tech. In real estate, you [inaudible 00:56:26]. You become obsessive, repulsive about these small things. When you're building a building, everything needs to be right. It takes years to get through entitlements, and to get the plans. And software is the opposite. It's the opposite. You want to go fast. You want to be... It's hugely flexible. It's so funny to me because it's actually the same language. You have developers, you have software architects, you have software developers, you have a site, literally, but the instincts are wrong. So we began by trying to get the biggest, fanciest real estate people, and the biggest, fanciest real estate deals. And I moved away for years. We just did class B, value-add multifamily. It was so boring, and it was so good.

Matt Slepin:

Right. Boring is fine.

Ben Miller:

Well, it turned out to be great. But I thought, "We got these. We worked heaven and earth to get these incredible, coolest real estate deals you could imagine." And it just didn't matter. It just didn't matter. And that was unintuitive to me.

Matt Slepin:

And did that not matter for your growth or for the returns that you were showing?

Ben Miller:

I would say neither. I mean, it was just a lot more work, unless somebody say, "I made this mistake." I think real estate people have tendency to overcomplicate things. Because you don't operate at scale, the scale is a very different kind of scale. If you are a huge, huge, let's say, manufacturer, like Lennar. Lennar is just obsessed with efficiency and simplicity, or whatever. Pick another... Pick a tech business. Amazon. Amazon is about simplicity. That's how you scale. And in real estate development, which I've done a lot of real estate development, that mistake... The mistake we made is... We did a lot of deals that were good, but they weren't about having a scaled platform. And when you have a lot of different kinds of deals, you have a lot of different kinds of complexity, and that complexity really hurt our overhead, our execution. It's just [inaudible 00:58:31] one really good, special deal is the worst thing to do, but you want it as 100 of the same deal.

Matt Slepin:

Right. So 100, boring. But what I'm curious about is, which lets you scale, or which, for your investors, gets them more money for better returns? Is success returns or a success scale?

Ben Miller:

Success, ultimately, is good returns that are stable. So our investors... This is another mistake I made. So, in 2021, I think our returns were 40%. And in 2022 or 2023, our returns were -7 or something, -10 or whatever. They were -12. That was the worst thing for our investors. Even though, in theory, 40 minus 12, you're better off, our investors are much happier with a stable 11%.

Matt Slepin:

And that's called beta. That's the beta that you've been describing all along.

Ben Miller:

Yeah. And this is the problem with the closed-ended carried interest structure, is that, as an investor, I'd rather have a 12% return forever than a 20% return for three years.

Matt Slepin:

Okay. So back to another question I've asked before. I should be unpacking this with you in a more structured fashion, but we're all over the place. I asked the question before a hold period. So you have an open-ended fund, which something I love. There's less friction in an open-ended fund. But are you trading in and out of that open-ended fund in order to hit returns, or you're looking for stability in that and holding longer term after you do, say, a value add?

Ben Miller:

Yeah. I mean, I think another mistake we made is we were reluctant to sell, and so we had a bias towards holding. I really had not sold much, and I think that I should have sold in 2021. This is another example of a real estate bias that I'm still having trouble shaking on the team. The team wants to finish the business plan of the property. So they have a business plan, value add, whatever it is, three years. Usually three years. You wish it was three years. So it's probably five years. You're much better off selling at the top of the market with an incomplete business plan than having a business plan that's complete, and the market's not in your favor.

Matt Slepin:

Also, it's better to sell someone to have the dream because they'll pay more for the dream because they can make money on it versus you're selling them a totally stabilized property.

Ben Miller:

Yeah, but even that's a business plan. Again, you'd rather have no business plan and sell at the top of the market.

Matt Slepin:

Yeah, of course, but that's luck because you're not going to know... You can't time that.

Ben Miller:

That's not all luck.

Matt Slepin:

Vintage of sale.

Ben Miller:

I mean, the mistake, and this is actually one of the things managing an organization of a few hundred people, is everybody in the organization optimizes to their job. And so, their job is to do that thing, taxes, or complete the business plan. And when you try to do something different from that, like sell the asset, they hate it. And managing that dynamic with a team is always a challenge.

Matt Slepin:

So let's change the subject again. There's so many things I want to talk about, and we're going to run out of time here. Do you have investors? So when you started the business, what did that look like? And I read the story of RealtyShares, which was a tech company which is supposed to grow like a tech company like crazy, and one of the things that didn't work there was the investors were pushing it in the wrong direction. But what has been... How did you get this started, and what kind of [inaudible 01:02:01] did you use? And you've had long-term investors, so what's behind the business?

Ben Miller:

Right. So the challenge with venture investors is that they're hot money. Hottest money in the world is venture investors. It's not hedge funds. And we were lucky when we started the company. It was my brother and I, and we had a small real estate company, we had small real estate deals, and we used our own deals. So we didn't raise what we call seed money. And then, we had a friends and family round that got us further along than normal. And then, I went out to raise a series A. I was in Silicon Valley on Sand Hill Road, and I was so, so, so lucky. I always like to say that we weren't a unicorn, we caught a unicorn, because through LinkedIn, I got this message saying, "Hey, I'm going to be in DC. I want to meet with you." And it was some company called Renren.

Matt Slepin:

Renren?

Ben Miller:

I never heard of them, and it turned out they were the Facebook of China.

Matt Slepin:

Wow.

Ben Miller:

And this guy, actually, is an American Chinese guy, who went to China and copied Facebook, and he had a billion dollars in cash, and [inaudible 01:03:14]. When I sat down with him, I had no idea that this guy was one of the most famous tech people in China. And I just talked to him for an hour and a half, just about what we were trying to do. And he sent me an email the next day saying, "Name your terms." And I was like, "What is this guy talking about?"

Matt Slepin:

Right.

Ben Miller:

And so I named my terms, which was I needed to have complete control of the business, that they called founder shares or golden shares. We wanted a $10 million sidecar, so we could have ability to invest in deals, hold deals. And so he ended up writing... We ended up raising a $27 million series A, which is absolutely huge. And he was the best investor. He essentially left us alone the whole time. He still left us alone, never bothered us. It's actually funny, when they said yes, I said, "Okay, we're going to do due diligence with you. I'm going to China." Because the Chinese investor doesn't have the best reputation, so I wanted to figure out what the heck was going on. These guys are just phenomenal. They're phenomenal. And so we raised enough money that we never needed to raise venture money.

Matt Slepin:

God bless.

Ben Miller:

Yeah. It was just, again, we caught a unicorn.

Matt Slepin:

Sure.

Ben Miller:

It was pure luck.

Matt Slepin:

What's the exit?

Ben Miller:

I don't know. I mean, I guess I have two minds. I think that we have to eventually go public, if we get to scale. That's an option. But I believe that, eventually, the real estate industry will come to realize that they have to be in our business. BREIT was the intermediate step, but ultimately, retail capital wants to flow into real estate, wants to flow into private assets. We have venture, we have private credit, we have real estate. I think that it's just a matter of time before the big real estate managers realize they need to be in this business.

Matt Slepin:

So let's come back to AI. But one of the things we're missing in the conversation is, if I look at the major trend of the last 10 years in real estate, it is the retail investor, but it's also coupled with the vortex of Blackstone and, to some degree, Starwood and the others, but it's really Blackstone. So it feels like the future might not be you in this space, but it might be just more Blackstone in this space. Any comments on that?

Ben Miller:

Yes. I mean, I do think that's been remarkable. It has had recently some challenges. I think, at some point, somebody realizes that both is better than just one, and it really depends. I mean, this is the thing that is highly speculative, is essentially, how does AI affect all of this? It's going to have this massive effect on... If you think about the investment decisions we're talking about, every investment decision is going to be complimented, supplemented, or maybe even replaced by AI.

Matt Slepin:

Uh-huh. So we're talking about two sides of this. So talk about... Major part of this discussion has been democratizing access to investment in real estate, and all of those investors that you have. How does AI affect that decision versus the real estate decisions on the other side of the conversation?

Ben Miller:

Well, so let me just go back to real estate for a second. So we have spent the last few years working on how to use AI for the real estate side of the house. Most of our technology was facing the consumer apps and APIs, and payment processing, et cetera. So, generally, AI is going to become the agent, like people say, agentic. It's going to be your avatar in terms of going out and helping you make decisions, and actually doing the work. So when somebody says, "What am I going to invest in?" Whether that's an institutional investor or that's a person, AI is going to be very, very much part of that decision-making. And so, you have to be important to that AI.

Matt Slepin:

So if I'm a retail investor, I got five grand, what do I do with my five grand? I go ask my AI bot, "Hey, I want to invest in real estate. How do I do that?" You want to come to the top of the search engine, although it's not search, it's AI.

Ben Miller:

Yeah. I mean, it is search, right? But yeah.

Matt Slepin:

Yeah.

Ben Miller:

Yeah, exactly. Right.

Matt Slepin:

You want to be driven. You want them to drive to you, as well as Blackstone, which they're going to do.

Ben Miller:

Well, they probably won't, but yeah, it's Google.

Matt Slepin:

They probably won't, what?

Ben Miller:

I don't know if they get to Blackstone. I'd be surprised, but we'll see. Maybe Blackstone. I think Blackstone is like... I've always said, "Blackstone is our biggest competitor." No one would take me seriously, but there's no number two to Blackstone. AI is not going to go to anybody else but Blackstone and us.

Matt Slepin:

I'd be curious [inaudible 01:08:06]. Listeners, go do a Google search right now, say, "Where do I invest $5,000 in real estate?"

Ben Miller:

Real Estate.

Matt Slepin:

See if you get Blackstone in this case.

Ben Miller:

You're not going to get... You might get Blackstone, you might not. The name recognition of anybody outside of Blackstone is close to zero. And even Blackstone is confused with BlackRock. And so, from a consumer point of view, if the consumer matters. And the other thing about why AI. I mean, if it's the end game, how is AI trained? What is the information they use to make the AI? And that's the internet. They use the internet to create AI. If we have either the biggest or second-biggest presence on the internet for real estate, guess what the AI is going to say.

Matt Slepin:

Mm-hmm. And they're not to get to my friend with the three dogs or my friend with 100 people.

Ben Miller:

Yeah, or Starwood or KKR. They just don't exist on the internet in terms of how AI is trained and taught. So there's a much deeper strategy here that's again, speculative. But I think we're going through another revolution, like we did with internet and mobile, and I want to be on the winning side of that.

Matt Slepin:

Yes. And one of our next podcasts... The prior podcast talked about all of the alpha that you get by being a great operator. So I had Corman on the last podcast, opposite discussion of what we're having today. And then, two podcasts from now, we're going to be talking about AI with David Stanford, and we're going to talk about what that means for the real estate business, broadly speaking. So what it means for the real estate platform.

Okay. We're running low on time. A couple of things that we haven't talked about, and I had promised to talk about your dad. So I want to talk for a moment about what he did because he did something special in the real estate business, and then how that ripples to you.

Ben Miller:

Yeah. It's so funny, because in some ways, my dad did the thing I said that most people in real estate can't do, which is building a unique real estate asset. So the Sawgrass Mills or Potomac Mills, the Mills Corporation. Sawgrass Mills is a unique real estate asset. There's nothing like it.

Matt Slepin:

What makes it that?

Ben Miller:

So I'll just take Sawgrass, because I think Sawgrass may be the most successful mall in the world. It's certainly top five. It does probably $3 billion of sales a year. It's massive. I think it's maybe almost two million square feet at this point. And so my father believed that if you combined value and choice, I mean, it was like an Amazon strategy. If you put enough value and choice and scale in one place, you create enough critical mass that you-

Matt Slepin:

And value was not in an outlet mall. He was close to outlets, but that's not what that was, right?

Ben Miller:

Well, it's funny. So he had to go get the off-price retailers, and then the outlet people, and the way he did it at Potomac Mills is, he had the same project with two different names. So he had the Washington Outlet Center, and then the Washington value. I can't remember what the two names were, but he actually basically tricked the two retailers into co-locating. And then he got IKEA's first... Location was in Potomac Mills. So yeah, he did what I'm saying most people can't do, which is build a differentiated real estate product that you scale, that you repeat, a repeatable, scalable business, which is, you stamp out a mills in every major market. So he is a quintessential real estate developer. If you know real estate developers, they're a very special personality. And so, he is a wild man, and he did a lot of really the first urban mall, I think, in the country.

Matt Slepin:

Georgetown?

Ben Miller:

Georgetown Park. I think that was the first-

Matt Slepin:

It's never worked well.

Ben Miller:

We sold it at the top of the market [inaudible 01:12:03].

Matt Slepin:

So it worked well for you?

Ben Miller:

It worked well for him. It's because [inaudible 01:12:06] took over operations, and the operations declined, so operations mattered. He built a lot of really unique... Washington Harbour. I mean, these projects that were just... I mean, I look at them as a developer. I've built plenty of real estate. They're insane. I mean, I don't know why anybody builds those things, but that's just fish swim, birds fly. He builds ridiculously complicated projects. What it gave me of a few things? It gave me a longer horizon. I've watched him since the '80s, and I saw the S&L crisis. I have a longer history in real estate, and so it helps me understand how real estate has changed and will change.

Again, when he started, there were no such things as private equity funds. Everything was syndication, everything was... I mean, the 110% S&L loan, you get a loan that was 105% of the value of the property, 110% of the property. It was just such a different world. And I think that people take that current status quo of real estate as the permanent, and I think it will... It's really, actually, that... The way real estate exists today was birthed out of the S&L crisis. It came at public REITs and private equity, and commercial mortgage-backed securities. Those didn't exist, really, before 2000. I'm sorry, before 1992. And they fabulous technical innovations. They're a form of financial innovation. And I think we're on the cusp of another one, and I'm hopefully-

Matt Slepin:

With AI?

Ben Miller:

Well, a combination of AI and the internet and mobile and voice, all these things. But I think AI is the catalyst.

Matt Slepin:

Mm-hmm. And democratizing institutional business, one of the difference is there's still three guys in a garage, but there was never... Keep picking on it. There was never Blackstone, or there were never owner-operators who just... There weren't [inaudible 01:14:07] back then. So those groups have consolidated ownership. There was not a Greystar, as in the apartment business, at that size and scale. And technology drove the ability to size and scale, as well as financial capabilities, like a REIT structure.

Ben Miller:

Yeah. I mean, the industry is way more efficient than it was. It's way more institutionalized. It's got better ethics. I think it didn't blow up this time, right? It's blown up historically, every time there's been a downturn. You didn't see it blow up this time. So I think it's a much better industry, but I'm hoping and I expect that the biggest risk to the industry is technology change, and the only... Here, I'll give you an example. So we've been out building an AI model, and we've been building a huge amount of data, just absolutely enormous. We were talking to a data provider, and they said, "It's really funny. We sell data to all the big players, Amazon and Target. There's only one real estate company who's ever bought data from us, other than you."

Matt Slepin:

Who was that?

Ben Miller:

Blackstone.

Matt Slepin:

Of course. Yeah.

Ben Miller:

Right? I mean, I think Blackstone's legit, but it just shows you how far behind the rest of the real estate industry is.

Matt Slepin:

And is the data that you acquire from them, is that to gain investor, customers, or is that for real estate decision?

Ben Miller:

That data is for real estate decisions.

Matt Slepin:

Okay. And is there a central component of that that you could tell us? What is it that you're looking for from that data, headline, and then we have to wrap up?

Ben Miller:

Well, I mean, great real estate investing is fundamentally a data business. People don't think of it as data because that's just not how real estate people are trained. They're not trained as data scientists.

Matt Slepin:

Not a word. Right.

Ben Miller:

Even though what data engineering is blah, blah, blah. But they're essentially in the data business. They just don't operate with data at scale, and they use Excel rather than SQL and Python. But I think that within five years, the great real estate investors will be using Python. They'll be data scientists, and that's the future of real estate. You're using AI to do real data analysis. You have access to a million times more data than you did, just like internet gave you access to a lot more data. AI and the types of innovations coming will give you more access. And that access, hopefully, makes you a much better investor, much better operator, and that's what... We're going to be part of that, for sure. I mean, stay tuned.

Matt Slepin:

Okay, stay tuned. So two questions before we wrap up. One is, you said early in the conversation that what you're going to talk about cuts to the core of what real estate people believe in. And I said, "Me too. I'm included in that." Come back to that comment and think about what that means.

Ben Miller:

Yeah. I mean, what becomes the biggest source of your weakness is your strength. And so, if you are a retailer, and e-commerce comes along, e-commerce completely cut to the core of what they thought they were best at. And so, real estate people really think that their alpha is picking deals. They actually don't think it's operations, generally. It's actually deal picking. I think it's operations. I think the deal picking is a fairly efficient process. Every deal is auctioned. So I think that they're going to have to evolve when AI starts to really eat up that.

Take hedge funds versus index funds. The hedge funds just could not believe that index would beat them, and it took decades for Vanguard to prove that, and it has proven it. And still, there's lots of hedge funds, and still, they keep trying to prove that they can add alpha. And so, I think we still have probably two decades. But what AI does, which people don't appreciate because they're not really in the business of building AI, is it makes more manifest what is valuable. If you have the data on every single real estate deal, and the data on every single outcome like you do in the stock market, it'd be more apparent what actually creates value, and that's going to happen.

Matt Slepin:

Yeah, it's interesting. One of the themes of the podcast, and I talk about this all the time, is that real estate has two sides to the business. One side is maybe overemphasized, would be my line, which is the assets, the deal selection, the transactional side of it. And I always argue with everybody that the real estate platform matters. Platform's another word for both strategy and long-term strategy, as well as operations. And so the question I ask with everyone is, what distinguishes a real estate company on the operational side to make someone great at doing the business? So I thought I would be leaving this conversation arguing with you, but I'm leaving the conversation agreeing with you on that side of your judgment.

Ben Miller:

Maybe that wasn't clear. I think operations are essential. We're investing and have missed a lot in the technology and the data to make those operations better.

Matt Slepin:

Operations and technology are intertwined 100%. And AI is going to flip how that works.

Ben Miller:

Right. And I think the deal picking, if you're in Charlotte and [inaudible 01:19:39] buy multifamily, it's really unlikely you're going to get a multifamily deal that's materially off-market pricing. It's the opposite of tech. So we're invested in the top tech companies in the world, and there are only 10, maybe 20, and you have to get into those 10 or 20, and that's all that matters. And in real estate, it's the opposite. There are 100,000 multifamily buildings, and you can get into any one of them. The only thing you have to do is pay the highest price, and as long as you're... And the highest price might be 1% higher than the next guy.

Matt Slepin:

Right, then timing matters.

Ben Miller:

Right.

Matt Slepin:

So, timing, buying, selling. Okay. Last question on Leading Voices is always advice for a young person getting into the real estate business. So what's that mean, given all that we've discussed?

Ben Miller:

Yeah. I mean, I was hinting at it earlier. So for people who've been in the business a long time, like my father, he never learned Excel. He doesn't know how to do Excel spreadsheets. They would print them out, and he would mark them up.

Matt Slepin:

Wow.

Ben Miller:

They would use an HP, the old HP.

Matt Slepin:

12C.

Ben Miller:

Yeah, that he would type it in. That was tech for him. And then, obviously, everybody now in real estate uses Excel, and Excel spreadsheets are how they do their thinking. That's going to change. You're going to move from Excel, some sort of AI platform. I'm not sure exactly which one, but you're going to be doing Python. You're going to be doing SQL. You need to learn both. They're not that hard. You can definitely learn them. Probably what happens is that the older people in the office won't know how to do it, and they'll turn to the young person, and the young person will do it for them, and they'll become essential because they have essential skills. I'll call it data science, maybe a little bit overblown, but data analytics, and that's where real estate goes soon, really soon.

Matt Slepin:

Mm-hmm. So advice to young persons to better know that stuff?

Ben Miller:

Yeah, go read about Python, learn Python, take a course, learn SQL. Once you learn it, you're going to be surprised how much it opens up the ability to do really smart analyses. Maybe we have a product for you coming up.

Matt Slepin:

Okay, learn Python. This is the first time this has come up on the podcast, I will tell you. This is a unique observation, first time.

Ben Miller:

Great. Great.

Matt Slepin:

I love it. Hey, Ben, thank you very much. I've enjoyed this conversation thoroughly, and really appreciate the time today.

Ben Miller:

Yeah, it's fabulous. Thanks for having me.

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. And if you have comments or discussion about this episode, or Leading Voices in general, 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.