Igor Khmel of Brik.exchange

Speaker1: [00:00:04.77] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode. Hello, this is Hall Martin of Investor Connect . We're here with Igor Khmel of Brik.exchange. Brik.exchangeis a platform where you can trade stable coins. Igor, thank you for joining us.

Speaker2: [00:00:33.32] Thank you. Thank you for inviting me.

Speaker1: [00:00:35.66] So what was your background before cofounding Brick?

Speaker2: [00:00:38.54] Yeah, I'm in a different era. So I was I was in several business school in 2011. I then led Innovation Lab for one of the biggest banks in Europe. I worked with McKinsey. I work for the. And finally I started to direct and companies and the company that I did before it was called Banquettes, which is asset backed securities built in protocol for making loans backed by some real assets. And the break is kind of spin off for my previous company from our expertise that we've got during the last four years of making this basically book. And so this is how we come up with the idea to run a large, stable company.

Speaker1: [00:01:24.32] And so what led you to start work in this space?

Speaker2: [00:01:27.75] It's a long story. So I was. Yeah. To come back like a do just a burrito there. And I got my first bitcoin from Brian Armstrong for the founder of Coinbase. I met like once just started going by. Well, I wasn't that I'm just going to set up a business school and that is because of his own steam with my friends. So we got introduced to open and does like accounts where one of the users would get down to it. But then I never open that become a business for years and then basically like four or four years later start to come back to work again. And I started I was interested in all sorts of protocols and the opportunity to connect, to unlock liquidity of some real assets and to bring liquidity to the broad, centralized finance applications so that the biggest asset was it's obviously real estate. So it wasn't many people would just save money that we people invest. They're basically just just in case. And at the same time, there is like so many real estate that doesn't work properly, that just the money dissipates and did not work. So and we are we're trying we're trying basically to solve this problem. So to make the money work and make really real estate, not just by some kind of asset that we have, but really make money.

Speaker1: [00:02:55.82] Right. So what's your advice for people investing in this space where you tell them to do before they write that check?

Speaker2: [00:03:01.41] So there are there are a couple areas here. So one of them, it's obviously a real estate area. And in real estate, many of my friends and Bear Lake, and they have the strategy of investing in some single multifamily properties where they're managing them and they're making a return and that kind of activity. So the more successful they are, those people who experience and actually manage and most people cannot do that. So they they have a day job. They have kids, they have or they don't have enough expertise. So and also as many people, not so many people have enough money like to buy the whole property themselves, like 10, 20 or so in this case are usually entering syndication syndicates. So you're entering syndicates and as part of the deal is making syndication harder to come by to invite another like five, 10, up to 20 people to the deal and the and the sponsors sharing the upside with those people. And then when they have all this all together, sponsor and syndication and syndicate of investors, they also get in going to the bank and getting leverage on top of that. So usually the sponsor getting going around like 10, 20 percent of the deal, then this is syndicated by some investors prefer it. They could to they're getting another 20, 30 percent all together. They have money to pay for 40, 50 percent of the deal. And for extra 50, they're getting leverage.

Speaker2: [00:04:31.61] So this is how everybody gets increased and sponsors getting more or more upside because he's a sponsor, because he's taking care of the deal. So unless we have significant upside because of the because of the leverage and then when the liquidation of the payment starting, there is a wonderful structure. So there's money going to the bank and then the investors get paid. And finally, the sponsor investor. So this is this is the typical on the real estate. And this is exactly what we basically think. Nice. So we come up with the free tokens here. Excuse you. Square foot is equal to the average square foot price during the last month in the United States. So square foot excuse me, talking is pretty much equal, basically is guilty buyers. They just get exposure to real estate, but not direct. Spohrer, they're just getting something that is equal to their index price to the average price of this of square foot, no interest, nothing. This is not security. This is like it's like buying gold. Yeah, it's like buying like something which is like represent like some piece of like something. Would it be called for and then never used the second token stable coin. And this is the token where, where the people can get basically like this token build, not for people, it's mostly for banks where their banks can provide leverage financing to these deals for banks to use because they get paid interest on this.

Speaker2: [00:06:01.54] And finally, there is the token goldbrick. And that's why the name of the protocol exchange. This is what it's called the protocol, a governance token. It's if you're familiar with the destroys finance application world, which is, by the way, to draw like from one billion to 40 billion just in eight months so that this market is booming right now. It's it's it's a lot of liquidity there and it's continued to grow. So in Australia's financial obligations, there are many stable coins similar to bricks built for for digital assets. And one of them called Makhado, the company here in San Francisco as well. So it made clear that this is one of the biggest like three billion dollars there in market capitalization. And they have this stable coin. And the companies governance tokens, they were going all day, which is one door all the time. And maker is this is a government so and so in the end and break protocol that the government took in this brek, it's called BRIC. And this token is needed to know that to govern the conversion ratio, college or liquidation ratio as well. Basically, the token holders will enjoy kind of ongoing demand for the stock. And because the upside from from the distributor portfolio upside from liquidation of real estate will have spent another to buy back the stock. And so there will be upside as demand pressure on the market.

Speaker1: [00:07:26.41] So let's talk about the state of investing in this sector. How do you see the industry evolving from here?

Speaker2: [00:07:31.39] So we already see with basically this this project. Yeah, it's quite unique, but it's not new in terms of like in terms of like nature. Yeah. So it's a home equity. And we saw previous projects such as like FIGGER technologies, new homes, points like Cloudstreet and some others like us. So there are there are many of them. Yeah. So usually those projects that have like that have this crowd funding element, they end up with having gridline or agreements with the banks that is underwrite the platforms and that is providing the leverage for everybody that is trading on the platform or refinancing some brokers. They basically do not work even with the retail investor. They work only with banks, institutions. So the biggest credit line that I know of, for instance, the technologies, they have one billion more than one billion dollar credit line from big banks from Jefferies are surprised at the market, like because hundred million dollars like Codrea, like 250 million dollars from saurus. So so basically the investment banks, many of them they have right now. I already talked to a number of them and they have digital as the teams inside and those digitalise the teams that is responsible for structured as structured products. So they understand that that the market landscape is changing and the technology that the Bocchini technology adds a lot of William in their business in structured finance products.

Speaker2: [00:09:15.01] So it makes quick, smooth, cheap to settle, to refinance small, small, small assets and not basically the traditional process of securitization or like of issuing this type of package or repackaging these portfolios. So usually there is like small banks. They collect like a lot of like small mortgages. Then the way to and there will be significant portfolio that they like. They have their weight like up to six months. They building this portfolio and then they resell this portfolio to the bigger bank or to the agencies, Fannie Mae. And it takes like I don't know exactly, but as far as I know, like a couple of months another to transfer this portfolio, they can do reconciliation or for different databases, mistakes this is done and all that. And then this big bank, let's say the Morgans taking this portfolio and then in some moment, they basically they they as soon as the portfolio did grow to like a billion dollars approximately, they issuing bonds and they do securitization. So and then anybody can on the open market can. It is more mortgage bonds traded and and the whole process is what it's low, kind of a very lengthy and this requires a lot of a lot of intermediaries, and that's why it's not so efficient. And it's you need capital and other traditional origination.

Speaker2: [00:10:41.10] So so we're making this and this is the reason, one of the reasons why it takes so long to buy real estate with mortgage. So, like, statistically, like it takes it before currently before it used to be like forty, forty two days for a mortgage and 45 days for Killick for the line of credit. So and the reason for that to be when you're buying that there is a lot of like check should down. So like a policy like estimate of the property or grid check that they need to check with another bank or with age in the agency if it's eligible for refinancing, if they will be able to resell this. So when they give you the money at the same time they're checking it, they will be resilient long. So the whole process takes a lot of time. That's when everything can be automated, everything can be decreased, number of people involved and it kind of goes smoothly. We go we call this automation, the process called continuous securitization. So it means that when you can do securitization of not of the person, not wait till it is going to be a hundred millions more, but just want one product. So this is this is their revolution. This is the new thing that will change bring bringing.

Speaker1: [00:11:51.54] So what's the growth rate of this sector and how many companies are engaged in it?

Speaker2: [00:11:55.23] So yeah, as I said, the biggest one is FIGGER or so which is the unicorn. There's stage already. So there is like a half billion dollars themselves and more than one billion of credit facility. So and they're doing one thing they're doing Killock, they're doing a home equity line of credit. And then there is there are no number of and they are watching companies. So they have on the back provisions. Bocchini, which is for people watching. And they can just out of two elements, one origination, the just website theglobe.com, and then on the back, there is a provenance that know there is provenance ball chain, which is kind of a marketplace for hillocks on block chain where anybody where old originators that are connected to the marketplace, they can resell. So. And then. Yeah, and then there are there are a number of like other players which is more traditional, which starts earlier, which is, which is doing quite well. Microtubules. I mean one of the biggest one is stock. So out of stock you can buy their rental property and safe return. They have what they're developing. Also rule one, which is marketplace where you is a great investor, can go there and participate in the shares in buying shares of the property. So, yeah, there is there is a electronic or digital wreath company is someone just like a fundraiser. So, yeah, there are there are there are a number of them. There is a number of them, many of them. And they're just basically there. But they are walking out, not on the stand up. They would kind of figure is probably the only one that is building the stand. All the other companies, they just building kind of alternative lending companies where, where, where? I mean, there means there as much as they because they booton like you shouldn't be slaloms.

Speaker1: [00:13:46.98] So what are the challenges in this space and building and rolling out these solutions?

Speaker2: [00:13:52.14] One of the challenges in the space is to build open protocol and to change like all the things is going is to to launch stable console, to go away from the console, from the security tokens and from but investing in getting exposed in particular property rather rather to kind of to get a coin, which is backed by not distributed, distributed pool of properties, which is quite diverse and automatically kind of support and growing. So with stable core. And it's much better than security block. And for many reasons, one of them is liquidity. And so you can trade it on open and crypto exchanges, you can trade it and access security tokens. There were by default, not liquid. And the biggest all the experiments that we saw there were not so successful. The biggest security in the real estate was asking hotel. It was like 50 million hotel with about 18 Melanesians. We just traded on the zero right now, and last time when I saw that the liquidity, the liquidity for this school, it was like a security token for the stock. It was five thousand an average day, which is not enough. I mean, another to really trade something that cost like 20 million dollars a year. So and the slides doesn't really work. And so the meaningful liquidity for these kind of assets would be like 10 percent of the market cap. So then it could be five, 10 percent, which means like if you have like 20 million issuance, then you need daily volumes, like at least one million. So this means there's going to be liquid and this means that anybody who has a position there and the one to liquidate it and exit, they can do this without that pushing market too hard.

Speaker2: [00:15:47.73] So it's possible to liquidate. So this one, the reason and second reason is simple because they get access. The connection to Australia's finance obligations, to the plans from suggestiveness wall are they're like and like so many others. So this is this is this is how the liquidity is come into this assets. And this is how basically anybody can buy or sell or can sell property, also share or sell the stable, buy my share of the property in a matter of like seconds. So it's the experience should be pretty much the same as you having right now with the Cars and Kelley Blue Book. So when you have, like a lot of these dealerships and if you run like a car, you basically friend for many of the guys on the lease and they don't really kind of or a competitor on the car. Yeah, it's their car, but basically it's its line from dealership. And then after like a couple of years, two, three years driving this car, four years, five years, they can change it. So they can. And this means that they have outstanding balance. They turn into the dealership, they getting in because how much this car, according to the blue book and they are done that magically they don't even pay the money. They just buy another car with the same loan program and automatically take that balance from that car to the new car. So this is this is expanding. It's happening basically during the like, working hours and few hours. And this is exactly the experience that we're trying to build with real estate as well.

Speaker2: [00:17:25.53] And that we want people to kind of to have to decrease their income, to decrease the number of years to buy real estate. So that's why I was tomatillos properties there from Detroit. Detroit is struggling with selling Detroit. Real estate market is struggling with absence of mortgages. So the people in Detroit and Detroit, they don't have real access to the mortgages, 75 percent of the deals they're chosen for, 75 percent of the deals, the actual the mortgage. And they are bit why one sort of several reasons. First of all, like people don't have enough like a good good enough great history there. And the second one, they don't have like an all reliable, proven income. And the second reason basically is not even people. It's a banking reason because the properties are so cheap, which is like the four banks is not economically feasible to or to run mortgage programs there because of the properties lets them so hk so into a bank. Banks bank separation costs are so high that just killing the deal. And there are many properties there which is like forty five k so that's why, that's why they don't have this access. And what we do our, our own for us the property is like in Detroit that they have no effect for the organization and for because they can pay like a good rental or a rental income potentially so and that the depreciation can. So they're doing really good for us as an alternative. And so they don't have to mortgage rates very well.

Speaker1: [00:18:57.95] So has Bret fit into this landscape? And what's next step for Brick?

Speaker2: [00:19:01.52] Yeah, our our our ambition is and the goal is to establish the standard for financing of commercial real estate, first of all, and then single families as well. So we want to become like as a as an alternative to the alternative to the mortgages and the alternative to traditional financing. And with the with the brick, we also will provide the bank financing. But it's a little bit packaged in a different way and that's a little bit more mean. Basically, this will help to some people. This will help, for instance, through cheaper finance, like some patients, like a jumbo loans or like flipping. So all this where the cost of money is very high. So the cost like and flipping because the regular money for loans is like eight, 10 percent right now, in some case up to 15 percent. So with us, it's going to be much, much lower. So we're going to start from the beginning. We're going to start basically provide love for provide money with for a break. But we're going to take financing from Asian markets. The investments and the break will be close to the beginning, four years. That's what will be available because we need to to make sure that we have enough scale. And certainly at the same time, we're preparing legal opinions so we can the lawyers that is ready to write for us legal opinion about the commodity. This is a very sensitive topic. So that's why I will write the way for U.S. investors. But we about the money itself for commercial real estate developers, they will be available and they basically we talk to with a good number of them. And for them, this is pretty much the same process. But they already have with slightly different deal structure. But for many of them, this makes more sense that the current sources of finance. So we will be a back to back kind of thing with other financial providers and kind of disrupt as the market, right?

Speaker1: [00:20:59.63] Well, in the last year that we have here, what else should we cover that we haven't yet?

Speaker2: [00:21:03.05] Yeah. So we want to we will end up with something bigger. So in terms of defining markets, we think that there are no reasons why the break protocol. Basically, we don't know with the potential support and from Asian with this market in terms of vision about our buying power and all the properties here. So we should be we should try to reach multi billion market capitalization, something between a couple of billions and billions of dollars like I mean, and this is this is completely possible because like we say, a lot of like a lot of supply from origination from the U.S. We see a lot of demand coming from Asia. I like where the people are just staying in lines in order to buy some properties. So for them to possibly invest and some time. Yes, yes. All they are not losing their real estate in any way. So any moment they can execute called go option and and basically kind of release release the properties. They do not sell the properties. They're just getting the loan against properties. So it's a win win. And we hope now we are looking right now for the apartments with multifamily portfolios on a single Clemenger residential origination partners to work with us to build our portfolio, which is going to be fifty million dollars for we have like about half of that confirms. So it's single and which your family properties on East Coast and Midwest and. Yeah. And so as soon as we reach a 100 million loan portfolio or the have information from several big investment banks that are going to provide cofinancing, and this means the whole deal becomes much, much better for sponsors and for stockholders.

Speaker1: [00:22:51.56] It sounds great. Well, how best for listeners to get back in touch with.

Speaker2: [00:22:54.42] Do you yeah, yeah, please go for it to Melanie Team Aderet dot org, or go to our website, break the IRC and all the change.

Speaker1: [00:23:04.25] We'll put those in the show, notes your contact details. I want to thank you for joining us today and hope to have you back for a follow up soon. Thank you. Call. Investor Connect helps investors interested in startup funding. In this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect, Doug. Paul Martin is the director of investor Canek, which is a 523 non-profit dedicated to the education of investors for early stage funding, all opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.