Matthew Sullivan of QuantmRE (follow-up)

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 with Investor Connect the Day, we're here with Matthew Sullivan, CEO and founder of Quantum R.E. Quantum is a unique real estate marketplace that makes home equity accessible, investable and tradable. They solve a major problem for homeowners that want to access their home equity with no monthly payments and without the burden of additional debt for investors. They offer the ability to access this vast untapped real estate asset class with the marketplace where their investments can be bought, sold and traded. Matthew, thank you for joining us again.

Speaker2: [00:00:50.33] Thank you. Thank you for having me back.

Speaker1: [00:00:52.07] I think the last time we talk was in 2018. And of course, the world has progressed and changed quite a bit since then.

Speaker2: [00:00:58.08] So, yes, I think Understatement of the Year Award Nestico

Speaker1: [00:01:02.56] And so looking forward to catching up to be. See where you've taken quantum theory since we last talked about it. But before we do that, what was your background before investing in real estate.

Speaker2: [00:01:12.26] Well I, my background is very much entrepreneurial, so I started off, I think my early years in the late 80s. If we can if any of us can remember those 1980s is not 1888 was as a stockbrokers, I used to break the Far East market. So my introduction really to finance was, you know, very much, you know, baptism by fire when I was sort of, you know, a stockbroker broking, Hong Kong, Singapore, Malaysia, Thailand, Indonesia, some fantastic markets, and then moved into corporate finance. And that stage was sort of mid to late 90s, worked with Richard Branson for a number of years on a number of the Virgin projects. And then really the early 2000s embarked on an entrepreneurial career, really at the same time that the Internet was launched. So I was one of the very early sort of Internet, say, pioneers, but we built a company that was a very Internet focused, I think, really before anyone had any idea what the Internet was or was going to be. But it just felt like a really exciting place to be. And so I really focused on finance and technology, but always wanted to get into real estate. So I moved over to the U.S. seven years ago, landed in Orange County, which really is the epicenter of, you know, real estate, and launched a crowdfunding company and where it was a real estate crowdfunding company. So that helped that enabled me to combine my, you know, finance and telecom sort of technology and, you know, real estate aspirations and launched an early stage crowdfunding company. And about sort of four, three or four years ago, I stumbled across this really interesting real estate asset class, which is the ability to invest into the equity in owner occupied homes, which really sort of captivated me. And we set up Quantum's very, very soon after that to try and, you know, find a way to, you know, create a marketplace and some sort of dynamism out of what was a very, you know, early but incredibly interesting asset class.

Speaker1: [00:03:24.59] Great. And so what excites you right now, really?

Speaker2: [00:03:27.11] I mean, I am delighted to say that the the business that I set up three and a half years ago, quantum theory still is the most exciting thing on a business for me each day, because we have this vision of making home equity accessible, investable and tradable. And that vision just has remained in place like this beacon. And the world has obviously changed, but it's also developed. So a number of the things that we wanted to do three years ago, we couldn't do because the regulatory environment wasn't there. And our platform is based on blockin technologies and those were still, you know, little early. And this whole concept of unlocking equity without that was was still very much in its infancy. All of that has moved forwards. So that's really enabled us to get a lot closer to achieving our original objectives. And the excitement that you get from, you know, seeing your dream block by block and bit by bit come true is is incredibly motivating.

Speaker1: [00:04:31.46] Great. So what's your advice for people investing in real estate? What do you tell them to do before they write that check?

Speaker2: [00:04:38.02] Well, six percent do your own research. It's a treat it as a job. Now, the problem with real estate is it's not liquid. So if you make a mistake buying the wrong stock, the chances are you could probably cut your losses and sell your shares the following day. You know, then you go and you know, and, you know, you walk around with a cloud over you for a few days and then you'll get over and then you you've got your cash. The problem with real estate investing is it's nowhere near as liquid. So if you get involved in a real estate transaction, then it's something that you can't take lightly because there are you know, there are all sorts of longer term implications. So you've got to treat it as if you're an. Active real estate investor treats it like a job. So, in other words, do your research work at it, make sure you understand what the risks are? You know, I wouldn't recommend that you don't go in. I think the most important thing is that you do invest, that you do get the shovel dirty, as it were. But just because it's real estate doesn't mean that it's automatically going to go up. There are all sorts of moving parts involved. Read as much as you can understand, as much as you can go to as many meetings as you can speak to as many people. And then when you do make your investment, do it from a point of knowledge and a point of understanding in a position of knowledge rather than you simply sort of a click and hope situation.

Speaker1: [00:06:10.98] Ok, great. So where do you see the real estate market going now that we're coming out of covid where you think it's going to happen next?

Speaker2: [00:06:17.31] Well, I mean, real estate is you know, there are so many different types of levels and strata within the real estate, you know, sort of stackers, as it were. So we're talking about residential real estate. It's interesting because the market has been stronger over the past 12 months than anyone would imagine. And I think really as a function of supply and demand and I don't mean to state the obvious, but there's been less demand than is anticipated and there's been less supply than anticipated and far more demand. I think that the market that we deal with, which is traditionally the coastal towns, the coastal cities, rather, that, you know, it looks like that will continue to be strong. So we don't see any signs of softening or collapse or bubbles in any of the real estate markets that we work with. We anticipate the prices will probably slow down and the growth will begin to dial back. But we don't see any impending bubble on the horizon. And that's primarily because the amount of lending compared to previous years is far less than the amount of ownership is far greater. What we are seeing is a much higher percentage of equity than has ever been owned before. And there are a number of problems associated with having a ton of equity in your home and not being able to get your hands on that. And so, again, that's that's one of the problems that we hope we can solve.

Speaker1: [00:07:42.12] Well, tell us more about unlocking your home equity. How does that work and who is it for?

Speaker2: [00:07:47.41] The problem that we solve is primarily for residential homeowners. So this is not a commercial product. It's designed for people that have built up equity in their homes and either cannot borrow money or don't want to borrow money, because the only way that you can unlock the equity in your home right now is to go deeper into debt. So that is by way of a mortgage, some form of cash out refinance, a home equity line of credit or a reverse mortgage in some cases. Now, the way that our programs work is very different. It's not debt. So in a commercial transaction, there are a number of different ways of funding a commercial property. Do you have senior debt, junior debt, mezzanine? There's senior equity, there's equity, there's a shared appreciation mortgage, which is a combination of debt, plus a share of the equity outside. The difference is, if you are an equity investor in a commercial property, you do not expect to get the monthly payment. You do not expect to receive interest because it's not a loan. Now, all of those different ways of funding commercial real estate properties, only very few of those are available to residential homeowners. So if you're a homeowner, the only way you can finance your home is through debt. So, you know, a bank loan of some variety. So there are a number of different commercial financing policies that are just not available. Our program makes some of those equity based funding processes available to the residential homeowner. So the way that a home equity agreement works, very similar to an option agreement where the homeowner, in exchange for a lump sum, agrees with the investor that when they sell the property, which can be up to 30 years, or if they agree to buy back the agreement when the agreement terminates, the homeowner will give back the original investment amount together with a share of the appreciation.

Speaker2: [00:09:52.65] So the investor gets paid not through interest or through some sort of loan capital. They get paid further down the road by sharing in some of the appreciation. Now, even there's a longer term strategy. It's great for investors because they get an asset backed investment where they get a return that is based in some cases on a multiple of the house price appreciation it enables investors to buy into home. That are not for sale and they don't have the carrying cost or the expense of owning the underlying property, so they don't have to own the property, they don't have problems with toilets, tenants, trash and termites. You know that the 40s that we love, but they do benefit. They share in the appreciation. So it's a very useful investment mechanism for the homeowner. It's very useful because they get cash up to half a million dollars with no immediate tax implications. Tax is deferred and they can use the money on whatever to spend on whatever they want. Most importantly, there are no monthly payments. So they're it's not a debt product. It does not appear on their credit report as debt. They can use it to get current with their mortgage to pay off their forbearance, you know, some that they pay off credit cards or they can use it to diversify into other investments, put a down payment on another property or invest and diversify into other more liquid instruments.

Speaker1: [00:11:24.85] So who is this good for or what is the ideal profile of someone that owns a house that wants to do this, or what's your criteria for applying it?

Speaker2: [00:11:34.03] Well, the criteria is all dependent on equity, so it really depends on how much equity you have in your home. So we're looking for homeowners really who start off with a minimum of 40 percent equity. So that means that their current loan to value is around 60 percent. That enables us to unlock some equity and that increases the combined lean to values. If you add the amount that we invest to the amount of their loan, depending on the state, that can cap out at about 80 percent. So in other words, we are able to invest between 20 and 40 percent of the current value of the home, depending on which state you're in and how much equity you have. So first of all, we look at the amount of equity, then we need to make sure that you are likely to continue to pay your mortgage and your taxes and the other obligations you have. So we have a minimum credit score of 550 now. We can be flexible on that. But that is really just designed to give us an indication that you are likely to be in a position to continue to make your payments, because we don't want to be in a position where the bank forecloses on your home.

Speaker2: [00:12:53.74] So we operate both with our own capital and with our through other investment companies that we work with in 19 states. The typical customer profile is a range of people who have equity in their homes but have issues with credit or loans that they need to repay and simply cannot borrow money. So they can't access the equity in their homes in a traditional way. We have people that have equity but don't want to borrow money. So let's say you're retired, you have an income, but you don't want to borrow money. You don't want to go into debt. You don't want to have that feeling that if you miss a payment, that the bank can take away your home. And there are those people that want to diversify. So they see their home equity as a concentrated single asset that provides no cash flow. And they want to change that so that they've got some cash flow or they've got some liquidity. So they will unlock some equity and they will invest that into another instrument or possibly invest into another home. So it's really a range of people from those that that that need the money. And to those that want to diversify,

Speaker1: [00:14:05.38] Are there any tax implications on it?

Speaker2: [00:14:07.21] The tax stream is very benevolent. In other words, the capital that we unlock is tax deferred. So there is no immediate income tax or capital gains tax liabilities. It's a capital gains tax transaction. So when you sell your home, if you have a capital gains tax liability, you can reduce your liability with the amount that that our investment has cost you. So the cost of the money can be offset against your capital gains tax liability. And that's very interesting, because if you were going to pay the IRS a certain amount of capital gains tax and that capital gains tax bill is reduced by the amount of the cost of our funding, that means the real cost of our funding is actually a lot lower. So in some cases, particularly in jurisdictions like California, where the combined taxation can be approaching 50 percent, it means that the true cost of our capital in real terms is is up to half what it would be at a nominal level.

Speaker1: [00:15:11.18] And how complicated is it to put one of these projects together? How long is it take and what kind of paperwork you have to go through?

Speaker2: [00:15:17.02] Very straightforward from a homeowner's perspective, typically three to four weeks. It's an online at. And we just need some standard information, such as your ID need to find out a little bit about your mortgage, make sure your property's insured, will send an appraiser out that's appointed independently to make sure that we've got a clear indication of what your current property value is and in cases that are straightforward. Typically, these will close within four weeks. Occasionally we have complications on title due to ownership or other issues can take a little bit longer. So it is very straightforward, very high level of transparency from the homeowner's perspective. So the contracts have all been designed so that there are no potential issues, all of the costs and, you know, all of the, you know, things that you would expect to see as a homeowner or as a participant in the contract. They're all very clearly laid out. So it's a very straightforward process, right?

Speaker1: [00:16:17.78] Well, in the last year that we have here, what else should we cover that we haven't?

Speaker2: [00:16:20.78] I think really the interesting thing is just the fact that I think the the the U.S. certainly is ready for a new type of home financing option. So I think really it's one of the questions you asked earlier was what are the challenges that we have with this? And I think our biggest challenge is education. In other words, trying to get across how these work, why they're different, why they're not alone. The questions we get most frequently are it's too good to be true. I don't have to make any monthly payments. How can that be? And so if we can get across how these work, why they're different to loans and how the investors do get paid and they do make a good return. And I think really there are so many opportunities for these types of equity based funding alternatives because it could unlock enormous amounts of capital for homeowners without the burden of debt. So you're not increasing the leverage on the home yet that capital can work its way back into the economy. And so I think what covid has done is really upset a number of previously held entrenched beliefs and has really opened our minds to all sorts of things, good and bad, that we never thought were possible. And we hope that this opens the door from a sort of like a psychological perspective. And we want people to realize that equity is just another form of wealth that can be tapped in a way that really doesn't burden you with debt. And so that points to a very bright future for some people. The thought that they were really in a position where they couldn't be helped.

Speaker1: [00:17:57.50] Right. Were how best for listeners to get back in touch with you?

Speaker2: [00:18:00.35] Well, everything's on our website, so it's Quantum Ari Cucu and TM, Ari dot com. So we have videos on there. We have podcasts. We have a calculator where you can find out how much equity you can unlock in your home, all the contact details. The most important thing is that there are human beings behind the website. So we're there ready to answer any questions that you have. So if you reach out to us and will be happy and delighted to jump on the court, explain how this works and how it could benefit you.

Speaker1: [00:18:31.82] Sounds great. We'll have to check it out. I want to thank you for joining us today and hope to have you back for a follow up soon.

Speaker2: [00:18:36.77] Wonderful. Thank you. Thank you for having me on.

Speaker3: [00:18:39.08] 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.