CASE STUDY: KEEN CAPITAL

Differentiating your firm with Commercial Real Estate

How RIAs like Keen Capital are using CrowdStreet to add greater value to client portfolios.

The first and foremost responsibility for any registered investment advisor (RIA) is to put clients' interests first. This isn't just a proven business principle along the lines of "the customer is always right," but a fiduciary duty mandated by the Investment Advisers Act of 1940. In other words, an RIA's universe is completely centered on clients' unique needs, priorities and circumstances.

For many financial advisors and advisory firms, that means an emphasis on diversification is essential: the more investment opportunities you can provide for your clients, the more valuable your services become. But finding some of those opportunities requires more than research, networking or economic acumen. And up until recently, RIAs have generally not been able to access some of the most rewarding commercial real estate investment offerings on the market.

Pioneering RIAs like Keen Capital, LLC are demonstrating how technology has finally made client-centric direct real estate investments possible. The Denver, Colorado-based wealth management firm is part of a new breed of financial advisors using CrowdStreet to invest in CRE deals on behalf of the high-net worth individuals they advise. According to Tom Jennings, Keen Capital's Managing Partner and Co-Founder, the properties available on the CrowdStreet marketplace fill an important alternative investment category for clients.

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Tom Jennings
Registered Investment Advisor

DIVERSIFICATION: A NECESSITY AND CHALLENGE

"Our clients are typically well-funded for retirement and have the resources to ride out a bear market," he says. "Most often, they have accumulated their wealth through hard work and concentrated risk. Now my clients expect a reasonable, risk-adjusted, market type return with asset preservation as a priority. We are swinging for singles and doubles rather than home runs. An allocation to directly owned commercial real estate complements our equity, fixed income, and alternative investments, enhancing the likelihood of achieving those goals long-term."

VOLATILITY AND RISK-ADJUSTED RETURNS ACROSS ASSET CLASSES
Annualized performance for 20-year period ended 12/31/16

	U.S. Equity	Non-U.S. Equity	U.S. Fixed Income	Direct Real Estate	REITs
Total Returns	7.86%	5.05%	5.29%	9.31%	9.67%
Standard Deviation (volatility)	18.46%	21.86%	3.63%	11.37%	19.59%
Sharpe Ratio (risk-adjusted returns)	0.31	0.17	0.43	0.55	0.30

Sources: CBRE, TIAA

47%	ADVISORS ACTIVELY LOOKING FOR NEW WAYS TO DIVERSIFY PORTFOLIOS	36%	ADVISORS WHO DOUBT WHETHER A TRADITIONAL STOCKS & BONDS PORTFOLIO CAN STILL PROVIDE THE RETURNS IT HAS HISTORICALLY

Tom knows that his clients' wealth is best protected through diversification, and that alternative investments, of which CRE is a major component, are instrumental in diversifying a typical stock-and-bond portfolio. In fact, according to FPA's 2017 Trends in Investing Survey nearly half of today's investment advisors (47%) say they are actively looking for new ways to diversify portfolios, with another 6% expecting to do so soon. And critical to creating a strong portfolio is diversifying with non-correlated assets: the same report found that over one-third (36%) of advisors "doubt whether a traditional 60/40 stocks and bonds portfolio can still provide the returns it has historically."

Directly investing in properties such as hotels, multi-family developments and medical centers is attractive to Keen Capital's clients. It provides a real feeling of ownership you don't get from REITs. Also, some sponsors offer Funds (often groups of 5-10 similar projects) that add diversification within one investment. This is particularly appealing to those without the means to diversify otherwise. However, Tom says, the asset class doesn't come without uncertainties. And the traditional primary CRE investment vehicle—real estate investment trusts (REITs)—often poses unacceptable risks:

"I prefer to invest in a diversified portfolio of individual CRE projects where the Sponsor can implement any safeguards they had in place to mitigate market and economic risks. Regardless of managers' best efforts to mitigate risk, REITs are traded publicly, and are therefore subject to the whims of the market. At times, trading impulses are more correlated to investor interpretation rather than the value of the underlying investments. In my opinion, this creates volatility. As with many things, time cures all, so a patient investor may do quite well with a REIT, but I'd rather avoid the manic nature of the markets when possible."

Looking beyond REITs, Tom began engaging with prominent and local CRE developers and inquiring about investing directly in these developers' projects on behalf of his clients. While many developers he spoke to were willing to offer lower per-investment minimums to RIAs, this approach presented its own challenges.

"I was a small fish in a big pond," says Tom. "I found that we were either placed on a waiting list to invest or projects were completely financed by large family offices. This proved frustrating given the time and energy it takes to review deals and introduce clients to developers. Developers are usually very busy people and constantly working deals, and although I've found them to be friendly and helpful, they aren't known for hand-holding."

> "In direct real estate investments, there are concerns about accountability and transparency. Each investment and sponsor needs to be vetted and deemed suitable for each client's individual situation. CrowdStreet's extensive review process checks that box, which is reassuring when we're conducting our own screening. It makes due diligence manageable."

THE ANSWER: ONLINE CRE INVESTING THROUGH CROWDSTREET

Tom's desire and ability to work with developers transformed once he discovered CrowdStreet. With a marketplace full of institutional-quality offerings that have already been screened along rigorous standards, CrowdStreet enables Keen Capital to connect clients to CRE sponsors quickly, directly and with confidence.

“In direct real estate investments, there are concerns about accountability and transparency,” says Tom. “Each investment and sponsor needs to be vetted and deemed suitable for each client’s individual situation. CrowdStreet’s extensive review process checks that box, which is reassuring when we’re conducting our own screening. It makes due diligence manageable.”

Tom notes that although CrowdStreet accepts fewer than 3% of all offerings submitted, there is no shortage of investment opportunities available. The marketplace offers plenty of options for clients looking to build a diversified CRE portfolio—without the barriers inherent in offline fundraising.

“There is ample deal flow from CrowdStreet to match clients to suitable investments from duration, liquidity, income and risk tolerance standpoints,” Tom says. “CrowdStreet has a first-come, first-served approach. They disclose how much capital is available throughout the fundraising period. There are no side deals or handshake agreements to disrupt the investment process or experience. Other than a REIT, I can’t imagine a more scalable way to invest in CRE.”

> “Most established developers offer a portal, but unless you invest with only one developer, you’ll have separate logins for each. Having all sponsors information in one site is tremendously helpful for us.”

DIRECT INVESTING FOR RIAS: TECHNOLOGY, TRADE-OFFS AND TAKEAWAYS

On the technology side, Keen Capital has benefited from CrowdStreet’s investor portal, which allows RIAs to view diversification, capital commitment and distribution charts at a glance. Tom has easy access to deal terms, legal and tax documents, cash flow projections, communications and other necessary paperwork.

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CrowdStreet makes it easy for RIAs to create accounts on behalf of their investors, with connected yet unique login credentials for both client and advisor, the technology enables a better level of candor and detail in conversations about investment strategies. The platform also supports multiple investing entities, trusts and investments through self-directed individual retirement accounts (SDIRAs). At a time when advisors who embrace technology consistently outperform their competitors, these capabilities provide RIAs like Keen Capital with an edge in the market.

Still, Tom points out that there are potential drawbacks to the online fundraising model for advisors to consider as well. RIAs should be prepared to educate themselves and spend time and effort mastering the learning curve. His advice is to adjust expectations in line with increased transparency from developers. For instance, in direct CRE investing, investors are exposed to layers of costs that REIT managers typically incorporate into their expense ratios, making fees appear generally higher.

In Tom’s perspective, these kinds of tradeoffs are worth it if he trusts that sponsors have “significant skin in the game” and are taking smart precautionary measures:

“At the end of the day, the net return to my client is driven by cash-on-cash yield, IRR and equity multiple. I am happy to forgo some basis points on IRR projections for the benefit of locking in interest rates or capping rates if rates rise meaningfully. I’m willing to take a haircut in the overall return to know there are safeguards in place.”

This sentiment is reflective of Keen Capital's fiduciary duties, as well as the new sorts of relationships forming between sponsors, investors and RIAs. Through a shared commitment to transparency and willingness to learn from each other, all three parties can leverage online fundraising technology to realize their goals: sponsors can grow their investor networks, investors can gain access to prestigious opportunities, and forward-thinking financial advisors like Keen Capital can meaningfully differentiate themselves from the competition.

And differentiation is where Keen Capital finds the greatest value in CrowdStreet, not only for existing clients, but for driving new business. Virtually all RIAs can offer clients objective, strategic and holistic asset allocation, but few can put their clients' investments to work in specific CRE properties. For Keen Capital's clientele, these are the kinds of opportunities that are most interesting, because of their immediate, tangible impact within a community. Moreover, many are excited to invest in a kind of asset they haven't had access to historically. It's the difference between building wealth and building wealth with purpose and panache.

"CrowdStreet is absolutely a differentiator for us," Tom says. "The fact that we're willing to take the time and effort to expand onto a new platform without an immediate benefit to our bottom line speaks to the integrity of the firm. It's a powerful referral generator."

Once again, it comes down to putting clients' interests first. Any RIA can use online fundraising to meet investors' needs. Interested in partnering with us to serve your firm's clients? Contact us at info@crowdstreet.com. To learn more about CrowdStreet's unique marketplace and deal review process, visit www.crowdstreet.com.

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ABOUT KEEN CAPITAL

Keen Capital is a Colorado-based, independent, fee-only wealth management firm that provides personalized planning, investment management, and investment advisory services to individuals, families, trusts and estates, charitable organizations, and small businesses. The company specializes in providing objective planning to help clients build, protect, and manage their assets through life's transitions.

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