Overview

Overview and Origin

Jointer is not the only game in town when it comes to companies trying to creating a new business model around commercial real estate (CRE) but they may be poised for the fastest growth and they have some finance heavy hitters in their line up. Jointer was founded in the San Francisco Bay area in March 2016 and according to the SEC registry was incorporated in the state of Delaware on 10/23/2018. Jude Regev was the original founder. He is a serial entrepreneur out of Isreal who's had a big exit with TACT Group in 2010 in Israel and has since formed at least three startups in the Bay Area including Jointer.

Business Activities

Jointer has basically taken a traditional model for buying and owning real estate and retooled it. The model is the principal/joint venture (JV) model. Here you have a principal and JV partners. The principal is the party that will coordinate the purchase, typically put up at least 5% of the capital down payment required, and then manage the property in whatever way was agreed upon in the JV agreement. The joint venture (JV) partners typically are solely capital contributors with a rarer role as advisor and allow the principal an entry to the property with less capital. The typical entry for a principal without a JV partner is usually at least 20%. This is the minimum amount a lender requires as down payment. A JV may put down all of the down payment in extreme cases but it is usually around 15% with a principal contributing 5%. JVs usually look for an exit at some predefined point in the future. This allows them the liquidity to enjoy a portion of their return while reinvesting the rest. The deal always leverages a bank's money to get the most out of the returns. In an upward moving real estate market this is where the true value comes in. This is also why JV deals outperform typical REIT returns, leverage. The potential downside to the leverage of course is if/when the property market moves against the participants. Historically though this is a very low risk and can easily be mitigated simply by watching interet rates. If they go up divest of real estate (and assets in general for that matter) otherwise stay in.

The Jointer model is similar to the above model but removes the lender completely. Jointer defines the business problem they tackle like this. "Many brand businesses continue to lease properties for years and even decades but at the end the landlord is the one that enjoy from the appreciation." And despite their bad grammar it's a good point. Why should businesses basically throw money away on leasing when they can actually buy and hold the real estate and get the resultant appreciation gain. Unless they don't intend to stay very long the math is clearly in favor of ownership. However, there are many businesses, massive businesses, that lease. On Jointer's website they note companies like weworks, Starbucks, Walmart, Wells Fargo, KFC, Sprint, and several others. These are Jointer's potential customers/principals and if in fact they are correct in thinking they can attract these giants then from an acquisitions perspective their model has rapid scalability.

In order to attract these businesses though they will have to overcome these businesses reasons for not owning in the first place: lack of capital resources and cost of lending. Jointer provides these businesses a way around these issues with an entry to buying that is comparable to leasing (both require a down payment) by allowing the potential principal to contribute only 1% of the property's value while receiving 50% ownership. This allows the current leasee and hopeful principal entry to owning with very little capital and the valuable upside of a large instant equity, the future property appreciation, and eliminates the need for lending altogether.

Jointer comes up with the rest of the funds typically provided by a bank using capital raised through stock issuance on the other side of the deal and branding it as a collateralized asset, the collateral being all of the properties they are using the stock-raised capital to buy. In this way they act just like the JV in the traditional real estate deal providing the needed funds to allow the principal to afford the deal but also replacing the lender by coming up with 99% of the overall funds. There is no bank. The deal is handled completely on the equity side of the balance sheet. The big benefit here is that there is no debt service. This is the real beauty of the model. It takes banks out of the equation and puts the money in the hands of investors.

Landscape

The benefits of the Jointer's model to the principal are it provides a principal access to ownership at a much lower entry (1%) and the deal exposes the principal to the future value brought by increases in the now owned property. There could also be a reduction in cost of use to the principal. Most leases are triple net leases meaning rent, maintenance, and insurance are all paid by the tenant. Though the latter two costs would likely remain close to the same, a possible reduction in rent in the form of fewer dollars paid to Jointer shareholders than would be paid to a landlord is conceivable though certainly not required given the possible upside to owning the property and the instant 49% equity gain.

The value added on the investor side can all be measured in opportunity cost--that is, the return on this investment relative to other investments. According to REIT.com the Dow Jones REIT index returns usually averaged between 11.1% and 12.4% per year with a cross-sectional standard deviation of 5.7%, while general stock returns usually averaged between 8.8% and 12.8% per year with a cross-sectional standard deviation of 12.6%. And REIT returns have exceeded returns in the broad stock market generally during nearly two-thirds of the available 20-year historical period, including every single period that started more recently than March 1989--that is, during the “modern REIT era.” Further REITs outpaced stocks by close to 3% during the most recent 20-year period.

Having an investment model much like a REIT Jointer benefits themselves by ready access an 80 million investor REIT market in the US alone. They achieve this by modelling after a REIT but potentially yielding higher returns. They model a REIT having unlimited investors and small investors. Their investors can be a diverse group and need no deep knowledge of the market. They provide liquidity even for low volume. And they have the same tax advantages as a REIT. They have all of the same upside exposure as a REIT with the added benefit of higher possible returns and superior scaleability. The likely interested Jointer stock buyer is the same buyer as a REIT buyer with the main difference being presumably a higher rate of return.

The details of how Jointer structures the whole thing are unfamiliar because they are newly formed instruments in a newly formed configuration. They provide three asset classes all digitally traded. First is a stock that is purchased through a digital wallet. This is how an investor initial enters Jointer’s closed market. Once vested, the owner has access to two further assets: JNTR and ETN. JNTR is what they call a liquidity bridge and acts as a sort of pool allowing investors immediate access to 10% of their invested funds. This fund is also used to ensure asset liquidity as Jointer buys back shares as needed presumable to maintain a target value in line with prescribed valuation model. Details are murky here and will require further digging to better understand but the idea is that all investors to Jointer stock have immediate access to 10% of their invested funds presumably through their wallet. The stock is also convertible to ETN. ETN is pegged to the Dow Jones Global Select REIT Index with 2X leverage and Jointer will honor ETNs current market value based on the index. This seems rather complex and could require an advisor just to know how and when best to move from one asset class to the other.

Results

The multi-trillion dollar real estate market is massive. Jointer has had very little impact on the industry thus far and it is fair to point out that they are so much like a REIT as to more or less be a REIT and thus create almost no industry impact. On the other hand, where they compete with the JV market I would suspect that a potential participating principal would get a much better deal from Jointer than from a JV. Despite their potential appeal as a REIT on steroids with higher returns and less downside risk this company seems to have only pretended to really hit the decentralize, democratized, blockchain, property ownership model they appear to be at face value. They do not truly allow small buyers to participate directly in a specific property--something that has a more organic appeal and could allow folks to participate in a prized local, favorite property. In fact they have been billed as a leader in blockchain tech applied to real estate having won #1 Place Blockchain Disruptor Award in real estate awarded by disruptor daily. And David Weild IV, according to Jointer's website says, "Jointer's new syndication approach presents a better solution that has the potential to disrupt the real estate industry". Unless he is just referring to them as a REIT substitute model and here the sheer volume of smart contracts that could possibly be generated to accommodate potential deal volume should their model take off could be substantial. The principal/Jointer relationship is defined and maintained through smart contracts and in a CRE market with a value of #33.3T the user base on the blockchain could increase dramatically.. If major retail chains such as Starbucks or others decide to onboard there will be some disruption in the market and a significant increase in the number of smart contracts. In fact I couldn't agree more that this model has great profit potential for all involved as value chains are disrupted and banks removed but it is still hard to imagine that there is any real disruption to the real estate market from a business model perspective. I envision a system with much greater disruptive capacity and look forward to working on it.

It is yet unclear how well Jointer will perform. The fact that they still have an open raise with all of the major names they have on their advisory board should give one pause. It might have been presumptuous of Jointer to assume that the major chains hadn't already considered owning and decided it didn't fit well into their business models.

Recommendations

The potential is there for Jointer and their investor's success is practically built in--a REIT but better. This has massive profit potential but the weakness seems to be on the principal side of the equation. Is the potential saving to the principal and the instant 49% equity enough? You would think it would be but why not make it even easier for potential partners. I think they could to improve their model to encourage participants. If I were advising Jointer I would suggest they create a property management tool that would make it easier for the companies that don't know much about real estate to manage there new "business". By that I mean create a system that would track property insurance, property taxes, property appreciation, a thorough physical maintenance program, etc. Create a system that could track all of this for each property and that is traceable for all properties in each businesses portfolio. Presumably if these principals are companies like Starbuck's and KFC there portfolio would be huge and providing a IS that would manage and track this could be profitable on its own and might encourage these players to become real estate owners and so become Jointer customers. The added benefit here is that once these properties had such a system the resultant data would provide some pretty incredible due diligence data should the company decide to liquidate or even partially liquidate in the future. This is a concept I have been playing with as part of my own blockchain real estate model and though the models are vastly different this component would serve them well.

**As an endnote it is also worth pointing out that though this model might have great appeal to companies like Starbuck (Jointer's target market) who is to say the current owner would be willing to sell. It is much more likely they would themselves want to take this deal. I would and am looking at it for my properties.

1. Jude Regev history. Source LinkedIn
2. Jointer model details. Jointer.io
3. Syndication. www.realtymogul.com