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Running Commentary <http://trentsrunningcommentary.blogspot.com/>

By Trent Thurman, Executive Director of the Texas MBA Program, University of Texas at Austin



Neil Martin (l) and Keith Bilski

By my count, I've conducted 547 interviews for the various Texas MBA programs since I returned to McCombs in 2005. At roughly an hour each, that's almost 23 full days of interviewing. I've met many great people and heard countless fascinating stories. It's honestly one of the best parts of my job.

I'm often asked by current students and alums if I remember their particular interview. Most of you guys know me well enough to guess that I usually respond with an enthusiastic yes, even though the truth is that many of these interviews - the faces and the stories - collide into a mosaic of dark business suits and lofty career goals. Let's just say it's a good thing I take detailed notes.

Every now and then though, I'll remember an interview in its totality. One of those was with Keith Bilski, a 2008 Texas MBA at Houston graduate. At the time of the interview, Keith was transitioning into a career in commercial real estate and I was just coming off my ten-year stint in that very industry.

I vividly remember our animated discussions about real estate investment. I further recall Keith's confident response to my question about his long-term goals and dreams. He fully intended to open and build his own real estate investment and development firm. The MBA was the next logical step in that journey. I referenced these goals in my write-up and noted that Keith had the "determination and drive" to achieve them.

If interviews are difficult to remember, then essays are next to impossible. I've read thousands of essays over the last five years and can probably count on my fingers the ones I can now link to a certain person. One of those rare essays was penned by Neil Martin, one of Keith's classmates in the Texas MBA at Houston program.

Neil compared his career goals to running and, of course, that captured my attention. At the time, Neil was enjoying a successful career in the construction industry and, like Keith, dreamed of one day running a real estate investment firm. I mentioned in my notes that we shared similar interests, including real estate and running (though I do think I also made some snide comment about being able to "take" Neil in a half-marathon - sorry Neil).

Fast forward to a Friday afternoon in early summer 2009. Keith and Neil were coming to Austin to share their latest plans with me. I had enjoyed getting to know both of them better over the course of the program and was aware that they had assumed greater responsibilities in their respective careers upon graduation. I was also aware that neither had lost sight of their similar long-term goals.

For several hours on that Friday afternoon in June, I sat and listened as Keith and Neil enthusiastically described their plans to open their own real estate firm. It was one of those moments when I couldn't stop smiling. It's one thing to announce some far-off dreams in a business school interview. It's quite another to confidently pursue those dreams and turn them into reality. Keith and Neil were doing just that.

Over the next few months, the pair would periodically ask for my thoughts on a variety of topics; from the business name and logo to the location of a physical office. I was impressed with their thoroughness and systematic approach to the venture. I knew they were going about it the right way.

So, I was thrilled to get an email from Neil last week in which he announced that the venture was now reality. Both Keith and Neil tendered their resignations in mid-January and the Finial Group is now open for business.

I asked the guys if they would share some thoughts on the venture and the process it took to get there. I thought you all might enjoy what they had to say.

TT: "First of all congratulations! This has been a long time in the making and I know you're thrilled to reach this point. Let's go back to the beginning. Tell me when you guys realized you had similar goals and started talking about going into business together."

KB: "Thanks Trent! Well, as you know we met in the program during the first year and although we were in different cohorts, we spent a lot of time outside of class talking because of our shared experience in the real estate industry. We jokingly talked about starting our own firm together about three years ago, but actually got serious about it at the end of 2008. Out of recessions come opportunity, and we knew there was going to be a lot of opportunity for firms that could focus on the tasks at hand without the distraction of liabilities acquired during the run up. We knew that clients and investors would want to work with a firm that could focus on servicing their needs and the investment opportunities that are beginning to present themselves with a clear head."

TT: "Do you guys mind providing a little background information on what you were doing and how that prepared you for this venture?"

KB: "Sure. Neil brings substantial investment and development experience from the position he left with Hines Interests. Prior to Hines, he managed large construction projects in Atlanta and Houston, which provides a perspective that almost no other broker or investor brings to the table. That will be crucial with the new venture. I have significant transactional experience through my work at Caldwell Companies. I left as a vice president with complete P&L responsibility for the asset management business, leading personnel in both leasing and management efforts of both internally owed and third party assets. Additionally, I bring exposure to the full spectrum of property types including office, retail, industrial, and mixed-use projects. Also, prior to leading the asset management business, I was anchored in a role on the investment and development team within Caldwell Companies where I was involved in a wide array of acquisitions and development projects."

TT: "That's impressive experience. What makes you guys a good team? In other words, are there certain skill sets that each of you brings to the table?"

KB: "Together we have the perfect medley of skills and experiences for leadership of a full-service commercial real estate firm. Neil brings significant operational management expertise and analytical

proficiency while I bring business development and personnel leadership experience and aptitude. Combining our experiences provides for expertise in every facet of the business. Together we have formulated a strategy that allows us to leverage these talents and build a platform that we expect to be the foundation for growth for many years to come.”

TT: “Some would argue that this is a terrible time to start a new venture, particularly in commercial real estate. How would you respond to those critics?”

NM: “There is no question that these are challenging times for commercial real estate, certainly for owners who bought assets at the peak utilizing high debt capital structures that can’t be refinanced. Their misfortune presents a significant opportunity for firms like ours that have access to capital and who can purchase assets at prices based on sound underwriting. From a service standpoint - transactional work like tenant representation and landlord representation brokerage - our firm has a distinct advantage in that we have very low overhead and very low infrastructure costs relative to our competitors. This allows us to focus on service rather than volume. We are able to provide creative fee structures that fit the specific needs of our clients and properly align interests without sacrificing the high level of service we insist on maintaining - which is a key differentiator in this market.”

TT: “Okay, you just mentioned differentiation. Houston is a very competitive market. How will you differentiate your firm to effectively compete?”

NM: “Texas is widely regarded as one of the most sophisticated commercial real estate markets in the United State, having bred firms like Trammell Crow and Hines and, more recently, firms of increasing national importance like Stream and Transwestern; so we no doubt have our work cut out for us. Our key differentiator in our transactional and management businesses will always be service. Our capabilities and experiences provide for a unique perspective unlike any competition can offer, and as we grow we will maintain this advantage by hiring the most qualified people within the industry that fit our criteria. As for our differentiators in the investment business, we will take a middle market approach to investing rather than trying to compete with the glut of institutional money that courses in and out of the market pushing down yields and returns. We’re going to be very deliberate about what we buy and at what price, and we will largely make unsolicited offers on assets that aren’t for sale publicly. Our approach won’t result in the sort of volume that you see from some firms, but we think we’re going to provide some very outsized returns on a percentage basis relative to other real estate investment players.”

TT: “Tell me about the name, Finial Group.”

KB: “It’s funny you should ask. We initially called ourselves Woodway Partners because of the Houstonian Hotel, where we had our MBA classes and where the concept of our firm originated. As you probably remember, the hotel is off of Woodway Drive in Houston. We found out from an attorney friend of ours that the name wasn’t available, so we went back to the drawing board. A finial is the decorative spire or apex on the top of a building and we thought that the name was symbolic of where we hoped our firm would be one day, so very quickly agreed on Finial Group. Much to our surprise the name, domain name, etc., etc., etc. were all available, which is really what synched it. You’d be amazed how hard it is to find names that have some level of symbolism and haven’t been used and whose web domain is still available.”

TT: “You guys took a very systematic approach to this and made sure you covered all of your bases. What did you learn through this process that would be beneficial to others considering launching a business?”

KB: “Always maintain sufficient personal cash reserves to take a chance when opportunity presents itself. We both know people who would have loved to have done what we did, but whose personal financial situation and financial commitments wouldn’t allow them to. We also learned that it is never

too early to start focusing on your IT needs and that despite all the planning in the world, there will no doubt be some loose ends that haven't been completely wrapped up by the time you go live. The key has been resilience to quickly work through issues as they arise while staying focused on service of existing clients and business development to continue to fill the pipeline with more opportunity."

TT: "What trends do you see in commercial real estate in the next five to ten years and how will your firm approach these?"

KB: "Sustainability is imperative and will continue to grow in importance. We think that the next five to ten years will see a re-working of how sustainability across all product types is evaluated, with a larger focus on the issues that we think are important, like conservation. We also think that the manner in which people are compensated for transactional work in commercial real estate will evolve for greater alignment of interests. This evolution likely won't happen in the next ten years, but who knows."

NM: "As for commercial real estate as an investment we are quite bullish. This recession was accompanied by a credit crunch that brought new development to a screeching halt, so unlike prior recessions developers haven't been able to continue building in the face of waning demand which will result in upward pressure on rents over the next five years as unemployment abates."

One trend we'll both watch with a keen interest is how the competitive landscape within the industry will evolve and whether or not the benefits of smaller, locally focused firms will be sufficient to maintain and gain market share from the larger players that sell a global platform that offers clients a one-stop global shop."

TT: "You both have families and, obviously, this was a huge decision. What factors led you to pull the trigger?"

KB: "We were both so confident in the other one's abilities and work ethic that we knew the success of our own firm wasn't a matter of if, but when. Our biggest concern was, and continues to be, providing for our wives and children so we both had to make sure we felt comfortable with the reserves we had stockpiled and the amount of runway we thought those reserves would provide. Thankfully for both of us, our wives were very supportive and equally committed to the success of this endeavor and we have generated business more quickly than we originally anticipated."

TT: "What was the most important thing you took from the Texas MBA experience that is helping you with this venture?"

NM: "The network is how we became acquainted, so I think we both place a lot of value on the MBA program's ability to bring together a large pool of intelligent, high challenge individuals. It also gave us each an opportunity to see the other's work ethic and commitment to success. Beyond that, the rigor of the program and quality of the education provides instant credibility when we meet with clients and they review our individual profiles."

TT: "How are you initially funding the firm?"

KB: "We're bootstrapping and are funding everything out of our own personal funds. We have some high net worth equity available to us to invest and we will form separate partnerships as those opportunities arise, but will fund all of our operating costs ourselves through revenue generated by our service lines."

TT: "What are your goals for the first year?"

NM: "We set a revenue goal of \$300,000 for our service lines in year one and an investment goal of one asset purchase in year one. Other than that, our biggest short-term goal is maintaining a long-term

perspective and sticking to the strategy that we have developed for growth.”

TT: “When I write this article, I’m going to reference the dreams you guys had when you entered the program. Clearly, you are pursuing those now. With that in mind, what’s the dream now? In other words, where do you go from here?”

KB: “Have you ever seen the movie Brewster’s Millions? Just kidding. The short term dream is solvency and growing market share. Long term, we want our firm to be viewed in real estate circles like Blackstone is viewed in private equity; Goldman Sachs in investment banking and McKinsey, Bain and BCG in consulting. We want to hire the smartest people we can find and give them partnership opportunities that allow us to retain their creative ideas and differing perspectives.”

TT: “Thanks guys. I’ve sincerely enjoyed watching you guys go through this process. I know you’re going to be successful. Best of luck! Hope to see you in Austin soon.”

To learn more about the Finial Group, visit the company’s website at [www.finialgroup.com](http://www.finialgroup.com).

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