Introduction

Now, one thing I tell everyone is, learn about real estate. Repeat after me: real estate provides the highest returns, the greatest values and the least risk.
—Armstrong Williams, entrepreneur

It was early 2012. We had just closed a $200 million round of capital investment for our company, Waypoint Homes, and were in high-octane growth mode. After an unnerving but exciting beginning, when we could scarcely believe we were the only people who had perceived the opportunity amid the wreckage of the 2008 San Francisco Bay Area real estate market, we had turned our business model into a thriving company with thousands of homes in our portfolio, nearly two hundred full-time employees, and several hundred high-net-worth investors.

However, we were also adrenaline junkies. We had locked Waypoint into an exhausting pattern. We would burn through our capital buying home after home until we had only a few months of cash left to keep the lights on and pay our people, like two guys joyriding in a Corvette and headed for a thousand-foot cliff we could see in the distance. More than once we had come to the edge of disaster only to reach out to our network of high-net-worth investors to raise funds just in time to keep us alive—the entrepreneurial equivalent of twisting the wheel, slamming on the brakes, and skidding in a cloud of dust to a heart-stopping halt inches from the edge of a drop-off like something from a Road Runner cartoon.

Think *Thelma & Louise*, only with two guys: a former NFL football player and a UC Berkeley engineer. And while we didn't actually drive off the cliff, we came very close to catastrophe more than once. Then, in 2011 and 2012, our push to grow Waypoint as aggressively as possible took us right to the edge of the abyss. We were down to a few weeks' worth of cash in the bank, with a critical financing deal that had appeared to be a sure thing suddenly unraveling before our eyes in less than twenty-four hours.

Oh, by the way, that was all happening while we were being investigated by the FBI for possible violations of antitrust law and living with the threat of being sent to federal prison! Other than that, 2011 and 2012 were pretty boring.

But if you're really going to appreciate our story and what we did with Waypoint (and our new company, Mynd), we first need to take you to early 2021 and a merry band of outlaw traders on Reddit.

GameStop and "Big Short" Thinking

You probably remember that back in January and February of 2021, a populist uprising of Reddit stock traders drove the price of flailing shopping mall video game retailer GameStop into the stratosphere and stuck it to a bunch of hedge fund investors to the tune of billions of dollars. Quite a victory for the little guy over the Wall Street billionaires, right?

Not so much. There was a little bit of David-beats-Goliath, but mostly what played out with Reddit, Robinhood, GameStop, and the cofounder of Chewy.com and hedge fund giant BlackRock was a cynical, misunderstood example of the scorched-earth investment strategy known as "going short." As you might have guessed from the title of this book, we approach business and finance from the opposite perspective. Here, we'd like to demonstrate why.

You probably know the basics of the story. A Reddit investing group called WallStreetBets, whose members had a penchant for messing with short sellers, found out that some major hedge funds were "shorting" GameStop stock and decided to buy the stock and artificially drive up the price to hurt what they saw as greedy hedge fund billionaires.

"Going short" means you're betting the price of a stock will drop. You profit off that bet by borrowing shares of that stock from someone who owns them, selling the stock, and buying the shares back at a later date to return them to the party you borrowed them from. The short seller bets that after he sells the stock, it will go down in price. Then he can buy the shares back at that lower price and return them to the lender, keeping the difference as profit. Short sellers get in trouble when the price of the stock goes *up*. They're obligated to buy the stock back at that higher price and can lose a fortune. That's called a "short squeeze."

That's what happened to some of the hedge funds that owned GameStop. Reddit's activities put the short squeeze on some big Wall Street players. But while some WallStreetBets members made a nice profit and a few hedge funds like Melvin Capital and Citron took a beating, the harm to small investors was actually a lot greater, while the rich got richer. Trading app Robinhood and other brokerage services suspended trading of GameStop after a six-day GameStop buying binge, bringing a halt to all other trading on those platforms and wiping out an estimated $11 billion in value. And while BlackRock and Chewy.com cofounder Ryan Cohen made a fortune, plenty of starry-eyed, inexperienced day traders who bought the "meme stock" lost their shirts when the bubble burst.

In other words, the GameStop saga represents capitalism at its worst—cynical, voracious, and willing to manipulate markets for short-term profit with zero concern for the long-term effects. That's the "going short" mindset that made pop culture heroes out of the people featured in best-selling author Michael Lewis's 2011 book *The Big Short: Inside the Doomsday Machine*. If you haven't read the book, there's a good chance you've seen the Oscar-winning 2015 film of the same name starring Christian Bale and Steve Carrell.

Both the book and the film chronicle the run-up to the 2008 real estate meltdown that crashed the world economy and the handful of savvy investors who saw the disaster coming and took advantage of their foreknowledge to make billions. The "big short" Lewis referred to in his book was the bet by a small number of investors and others that the US mortgage-backed security market, the largest asset class on the planet, was headed for an unprecedented collapse when millions of over-leveraged borrowers began defaulting on their mortgages en masse.

Popular culture, and especially the movie version of *The Big Short*, have turned the investors who made billions by betting against the housing market into folk heroes, crusaders making the big banks pay for the corruption, greed, and stupidity. But they are no more Robin Hood than the GameStop traders who thought they were sticking it to The Man. "Big short" thinking profits off carnage and misfortune, produces nothing, and leaves devastation in its wake. It's why the average person hates Wall Street.

We believe capitalism can be more than that. We believe entrepreneurs have a responsibility to build for tomorrow, not just take profits today and head for the hills while regular people deal with the damage. Instead of the big short, we've developed a philosophy we call the "big long." In the financial world, "going long" on an investment means buying an asset with the expectation that it will increase in value over time. In our world, it means thinking big and building something with an eye on creating value for the long term—not just for ourselves, but for shareholders, employees, customers, and the community.

In going for the big long, we thought big and long term from the start, investing our time, effort, and money to create something meaningful, something that would transform the real estate industry, create a new asset class, and even help people who lost their homes to the Great Recession find a path back to homeownership. That's capitalism at its best: creative, productive, and serving people—not just generating profit. That's the guiding star we tried to follow. After you read our story, you can decide for yourself whether we are succeeding.

Swim or Die

Since 2009 we'd adhered to our philosophy of "going long" in growing Waypoint Homes, a "buy-and-hold" investor in the single-family rental (SFR) market. Our business model was straightforward: we had developed a proprietary technology platform that helped us locate undervalued single-family homes in real estate markets hit hard by the 2008 foreclosure crisis and then acquired, renovated, rented, and managed them with the same kind of technology-driven efficiency. Our portfolio of rental homes yielded both healthy year-over-year cash flow and long-term asset appreciation while giving renters a path back to owning homes again. It was the polar opposite of the GameStop episode—creative, productive, and a terrific business model that no one thought possible.

However, Waypoint was like a shark. Sharks have to swim constantly to keep water and oxygen moving over their gills; if they stop swimming, they asphyxiate. Our company's growth and continued survival depended on our ability to continuously locate, make offers on, and acquire new single-family homes. Naturally, that takes a great deal of capital. We needed sufficient cash to make offers on thousands of homes each month and close on hundreds of them. That's what it took to keep our pipeline full, keep us growing, and satisfy our obligations to our investors.

When Waypoint was smaller, we simply borrowed against our portfolio and used that capital to buy more properties. That had gotten us through our early life, but our growth needs quickly outgrew that funding source. We moved to raising private funds from wealthy individuals who sought long-term profits from the SFR market. By 2012, we had raised three funds that were performing very well. But now even that well of capital was beginning to run dry. To scale Waypoint to a size that would enable us to reach our goals—and to put us in a position to survive inevitable competition from rivals with virtually limitless resources—we needed to do something different: borrow money from a big bank.

Our plan was to raise $200 million from a private equity firm, secure another $400 million in debt, buy $600 million worth of houses, and invest in developing an even more robust technology platform that would enable us to manage our portfolio with optimal efficiency—in effect, to transform SFR from an impossible-to-manage curiosity that left most investors spooked into a bona fide asset class. That would also give us the operating capital to keep the doors open and continue paying our employees.

In December 2011, we locked up the private equity half of the deal with GI Partners and went bank shopping. The good news was that lots of banks were interested. Waypoint was growing quickly, and while we weren't the only player in the market anymore, we had a big head start over well-funded latecomers who were beginning to notice the SFR opportunity but had not yet pulled out their checkbooks.

Nobody had ever tried to structure a debt deal like this for an asset class like ours. We were seeking a single loan that would be secured by a large pool of houses, many of which had not yet been acquired. Technically, we were getting the loan to buy the collateral for the loan—the financial equivalent of pulling yourself up by your own bootstraps. Our business model was too unnerving for some banks. But then we found our bank: Wells Fargo. Much, much more on them later.

Wells Fargo liked our track record and thought our growth model was sound, and we settled into a six-month process of putting together an unprecedented deal. During the negotiations, we also realized that a tremendous irony was playing out. If we closed the deal, Wells Fargo would be lending us money on some of the same properties they had lost when the real estate market collapsed. Like most banks, they had taken massive losses on subprime loan defaults, so they were understandably cautious about our deal and spent months gathering as much information as possible. It's bad enough to be burned once, but no one wants it to happen a second time.

Meanwhile, Waypoint was rapidly burning through the $200 million from GI Partners by continuing to buy hundreds of homes a month. But even though we were down to perhaps three weeks' worth of cash (a refrain that would repeat many times during Waypoint's existence), as the summer 2012 closing date for the deal approached, we were confident. Excited, even. Soon, we could leave behind the endless cycle of calling investors and raising funds!

Remember that old line about best-laid plans?

Without warning, the bottom fell out of our deal. We've had a running joke for years that a crisis always occurs when at least one of us is on summer vacation. That summer, Doug was in Cape Cod and Colin was in Lake Tahoe when we got the call. Days before our loan was scheduled to close, one of Wells Fargo's highest-ranking executives saw the deal . . . *for the first time*. We're not sure how that happened, but we know what happened next. He killed the deal. With the stroke of a pen, our loan was dead. So, possibly, was Waypoint.

So much for vacation plans. This was a five-alarm fire. We raced back to San Francisco and began putting together emergency plans that would let us keep Waypoint's doors open while we searched for new funding options. One option was to lay off 70 percent of our employees but keep a small satellite operation alive to manage our existing SFR portfolio. If we did that, rent would keep coming in and our homes would appreciate, but buying new inventory would be out of the question. Our economics in the GI Partners deal would also be at risk because our fee hurdles were predicated on securing debt. Without debt, we would never hit our goals and earn our promoted interest.

We also hated the idea of letting any of our people go. We had built a tight-knit team over the past four years, one that grew in a high-intensity, perform-or-perish kind of environment that created a bond among its survivors—a bond that still exists today.

Citibank to the Rescue

So, before taking any drastic measures, we decided to see if we could find another bank that would do our debt deal. At the same time, we did something we had hoped we'd never have to do again: raise another fund. We had already met with Citibank, and we circled back to them to see if they would work with us. At the same time, we called every investor on our list. Knowing that we were at risk of going to this particular well once too often, we worked hard to create an impression of scarcity that would make investing more enticing.

We told our network of high-net-worth individuals that this would be our last noninstitutional deal ever. "Get in now, while you can" was the pitch. Thank God it worked. Over two exhausting, stressful weeks of twelve-hour days during what was supposed to be our summer vacation—keep in mind, this was happening *while* we were being investigated by the FBI—we raised $30 million. That was fund number four.

We had a bridge that would keep us alive while we closed institutional funding. The trouble was, we were burning so much cash buying homes that the $30 million only gave us two months of life. We had to close our deal with Citibank, and we had to do it while keeping the whole affair quiet. If we didn't, our employees might panic and start looking for new jobs. We needed them to remain focused on their work: making offers, overseeing renovations, and managing our properties. So we put on our calm faces while Doug ran the company, Colin took the lead on property acquisitions, and our third managing director, Gary Beasley, dealt with Citibank.

Citibank became our knight in shining armor. We closed the deal in just six weeks. On October 3, 2012, a story came out in the *Wall Street Journal*: Waypoint Real Estate Group had closed $245 million in loans from Citigroup. It was the first large-pooled debt facility for SFR in history. We would live to fight another day.

Ironically, Wells Fargo, which hung us out to dry by pulling out of our debt deal at the eleventh hour and fifty-ninth minute, later became a business partner and an investor in our follow-up company, Mynd. But that's a story for later in the book.

Going Big When Everyone Is Thinking Small

When all this financial drama occurred, Waypoint was still one of the only small, individual partnerships to enjoy large-scale, lasting success in the SFR industry. All our later competitors were huge corporations with the ability to raise and spend massive amounts of capital: Blackstone, the biggest owner of real estate on the planet; Colony American Homes; Starwood; and American Homes 4 Rent. We were there before any of them.

However, when we launched Waypoint in 2009, nobody really wanted anything to do with the SFR market. It was considered too chaotic, too widely dispersed, and too fractious. Rather than investing in a few large buildings containing hundreds of residential units, SFR meant buying and managing individual residences that might be distributed over thousands of square miles. With no single point of contact and hundreds or thousands of individual tenants to deal with, investors regarded SFR as akin to herding feral cats. It wasn't until mid-2011, after we built the technology infrastructure the sector had always lacked and created a scalable, growing operation, that large institutional investors roared into the space and began throwing huge amounts of money at the SFR market.

If you'll pardon us for taking a brief victory lap, Waypoint was the first company to establish SFR as a legitimate, mainstream investment opportunity and attract institutional capital. We probably weren't the first entrepreneurs to imagine SFR as something more than the purview of "buy-and-flip" investors, but we were the first to look at the map of scattered, independent properties with no central hub for underwriting, renter acquisition, communications, or maintenance and say, "Hey, what if we *became* the hub?"

In other words, when most everyone else was thinking small about SFR, we had the nerve to think big and go long. That's the story we want to tell in this book—not that we're smarter than everybody else or more visionary, but that by thinking big and going long when nearly everyone else around you is thinking small or chasing short-term profit, you can build something extraordinary that helps people and even changes an industry.

There were other talented, bold entrepreneurs out there trying to build scalable platforms. We may have raised the first institutional capital and led the way in terms of building out industry-changing technology, but these companies were legitimate pioneers too. The Treehouse team from Phoenix, led by Dallas Tanner, ended up selling to Blackstone and becoming Invitation Homes, where Dallas serves as CEO today. Former hedge fund manager Aaron Edelheit started the American Home and did a great job of building that company up until he sold it to Silver Bay. American Residential Properties was another outstanding early company, led by Steve Schmitz and Laurie Hawks. They did a great job of building up a portfolio in the Phoenix area that was later acquired by American Homes 4 Rent.

The Opportunity Everyone Saw but No One Saw

No one could have predicted the growth of SFR as an asset class when the world seemed to be ending back in 2008. The real estate market had collapsed, the economy was in free-fall, and it looked like we were headed into a second Great Depression. In 2008, Silicon Valley real estate prices fell to their lowest point since 2002; it was the area's worst year for home sales in decades. People everywhere were losing their jobs, the stock market was plummeting, and homeowners in blue-collar East Bay cities like Pittsburg, Richmond, and Vallejo were getting crushed by falling home values, job losses, and foreclosures.

According to the *San Francisco Chronicle*, of the more than twelve thousand Bay Area homes that went into foreclosure in the third quarter of 2008—an increase of 273 percent over 2007—6,183 were in Alameda and Contra Costa Counties, and most of those were in the poorest communities. By the time the carnage was over, housing prices nationwide had dropped 23 percent, and homes in East Bay cities like Antioch and Richmond had lost up to 70 percent of their value. This was a human tragedy because families were winding up on the street.

During that dark time, we were both fortunate enough to be financially secure, with the luxury of looking for new investment opportunities. However, practically everyone in Silicon Valley and the real estate investor community had dismissed the idea of pursuing single-family rentals. The conventional wisdom was that the inventory was too decentralized, dealing with tenants was too time consuming and expensive, and getting to scale would take too much cash. Given the undercurrent of fear and panic that was everywhere, it seemed safer to stick with multifamily or commercial real estate.

However, we saw something nobody else was able or willing to see. Perhaps we were ignorant or stubborn, but whatever the reason, we didn't dismiss the idea of SFR as a business model out of hand. Instead, we said, "Let's not settle for assumptions, anecdotes, and conventional wisdom. Let's gather the data and see what they say." We figured if the data told us that the conventional wisdom was right and SFR really was a quagmire, we would lose nothing but a little time.

When we looked at the data, we saw a market with extraordinary profit and growth potential sitting there in plain sight, with no one taking advantage. Our willingness to take a closer look at the math and the trends behind the Bay Area housing crisis, not to mention the increasing power and availability of mobile and cloud computing and big data, became an opportunity that changed our lives and transformed the real estate industry.

Big Long Thinking

Why were we the ones to do this? Why not more experienced real estate investors? Why not one of the giant REITs? In part, it was because of "big long" thinking. When we did a deep dive into the numbers behind the Bay Area SFR market, we saw that while home prices had fallen off a cliff, rents had remained relatively stable. We could've said, "Cool, let's buy four houses, fix them up, and flip them." That's what most investors at the time were doing—thinking small and short term. Instead, we thought big. When we looked at the numbers, the desirability of the Bay Area, the number of foreclosed homes, and the area's relatively solid job market, we immediately scaled up our idea of what was possible. Rather than think in terms of four houses, we thought in terms of four hundred and then four thousand.

The key to Waypoint's origin story is that from the beginning, we thought big and went long on our idea. We began as a small company, because all start-ups do. But from day one, our goal was to acquire as many properties as possible that fit our financial model. We went long for several important reasons:

1. We trusted our data. While other investors were avoiding the SFR market based on gut instinct mixed with fear of the unknown, we believed our hard numbers. Numbers don't lie.
2. Our confidence that Bay Area real estate market valuations would rebound.
3. The once-in-a-lifetime prospect of being first in a potentially enormous and untapped market.
4. The chance to define a new industry.
5. The opportunity to help people and rebuild communities gutted by the crisis.
6. The inevitability that, sooner or later, the big, private equity firms would get wind of the opportunity in SFR and quickly swoop in. We wanted to be big and established before that happened.

Big long thinking is the success secret we want to share with you. Going long on your ideas when everyone else is counseling caution comes with risks, but it also has the potential to pay off in ways that short-sale thinking cannot. How do you know when you're approaching a business opportunity or investment in this way? First, you're probably one of the few people (maybe the only person) who sees the opportunity for what it is; everyone else is stuck in their own bias or fear. You're probably the first mover, or one of the first movers, in the vertical. You probably have a body of data proving that the opportunity is real, which we did. Our data was so compelling we could scarcely believe no one else was doing what we were doing.

But maybe the signal trait of big long thinking is that you're thinking big from the outset. Your year-one goal isn't to move into an office with six employees and fund yourself with a home equity line of credit. It's to land a $5 million seed round of funding on your way to a $30 million C round as you grow fast and grab market share before anyone else knows what's happening. Sounds fun, right? It was.

How We Did What We Did

We're going to share with you the thought processes, strategies, and tricks that enabled us to turn the "impossible" SFR market into a pioneering real estate investment trust (REIT) that had more than six hundred employees, owned more than seventeen thousand homes, and ended up merging with some of the largest players in the SFR market.

So what's the secret? There is no single secret. We set out to build something based on the principle that renters are also hardworking people who deserve care and respect, and we did that. We set out to assemble a team of terrific people who would play hard, have fun, and care about each other, and we did that. We set out to show real estate investors that with technology, SFR could become a legitimate asset class worth taking seriously, and we did that.

If there is a secret sauce, it's that from the outset, we thought big and went long, with the intent of building something meaningful and sustainable. We had some nerve-racking moments, but we never doubted that we were right. We're going to share the inside story of Waypoint—the good decisions and the dangerous ones, the near-disasters and the big wins, and the people who made it possible.

Did our hyperaggressive, throw-caution-to-the-wind approach lead to some harrowing, bizarre, hilarious, and sometimes frightening occurrences? Of course it did. We've already mentioned being investigated by the FBI, a time of stress and apprehension that lasted for about two-and-a-half years. There were the seven CFOs we hired. We found naked drug dealers sprinting out of our houses. There was the time we saw somebody murdered, and the pre-IPO investor tour where we were so punch-drunk that we couldn't stop laughing. There were the countless times we were a few weeks away from running out of money. None of which should be surprising, since neither of us had ever done anything remotely like Waypoint before! We were making it up as we went along.

There were also the renters who cried and hugged us when they found out they could stay in their homes, the contractor tenants whose work was so good we hired them, and the early employees who are still like family to this day. You'll meet some of them. We'll talk about how everything we learned at Waypoint led us to launch our next venture, a property management technology company called Mynd, and some of the crazy events surrounding that launch, including how we attempted a Series C fundraise in the middle of a pandemic and stock market collapse and got more than one hundred "No" answers, until we finally closed the round with fewer than sixty days of cash on hand.

It's been quite a ride.

We're going to tell our story from a "we" point of view, like we're both sitting on a couch across from you, walking you through everything that happened. From time to time, we'll talk about ourselves individually (i.e., "Doug did this," "Colin said that," and so on). When we do, just imagine that one of us is giving you the scoop on the other.

Why go to the trouble to write and publish a book? Because we want to share what we learned about SFR and tell our story. We believe in the power of both helping people achieve great things and improving the world for everyone. We want you to have access to that power too. We also believe in giving back, and as fortunate as we have been, it's time for us to do that. As you read, we hope you will be entertained, learn more about real estate, and take away any lessons about business, finance, technology, and entrepreneurship that will help you meet your own goals. We hope you'll embrace the mindset of going long.

Let's do this.

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