

Redwood Trust puts the pedal to the metal

The real estate investment trust's plans to rapidly broaden its market reach, including expanding its venture capital investments, may threaten its status as a REIT, however

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Redwood Trust CEO Christopher Abate

Redwood Trust Inc. recently unveiled a hint of how 21st century technology is about to transform the opaque process of securitizing residential mortgages in the non-agency space — via the use of blockchain technology.

The Mill Valley, California-based real estate investment trust, or REIT, which operates as a specialty finance house that invests in, acquires and securitizes residential loans, earlier this month announced that it was bringing to market a [\\$449 million bond issue](#) backed by 497 jumbo residential loans. Assisting Redwood with the securitization is a fintech startup, **Liquid Mortgage**, in which the REIT earlier this year acquired a minority stake.

The fintech firm, which represents one of several venture capital investments Redwood has made over the past year, will utilize its digital asset and data platform to leverage blockchain technology to track loan-level payment and transaction-reporting data for borrowers and lenders. Blockchain technology links transaction records in a data chain, creating a transparent yet indelible digital ledger that can be accessed securely by designated parties.

And that's just the tip of the iceberg for Redwood, whose CEO, Christopher Abate, plans to transform the REIT he oversees by expanding its reach in its existing markets as well as new markets. That includes venture capital plays; expanded business-purpose residential lending through its [subsidiary CoreVest Finance](#); asset management and securitization; and potentially even home-equity product lines. The vision is so grand that Abate said he is "skeptical that the REIT structure can accommodate the transformative scale" envisioned for the company.

A recent analyst report prepared in the wake of Redwood's [Sept. 14 "Investor Day" conference in New York City](#), where Abate was a keynote speaker, is much more straight-forward in its assessment of the REIT's future.

"The management team was particularly bullish about the outlook for the company," the Minneapolis-based investment bank and financial-services firm **Piper Sandler** concludes in its report. "New guidance suggested a doubling of mortgage banking earnings within two years and doubling of the investment portfolio in two to four years. The company may look to move to a corporate structure rather than be a REIT in order to recycle capital faster and grow."

On the technology front, which Abate described at the investor conference as being key to "building efficiencies" to accomplish the REIT's bold goals, Piper Sandler notes that Redwood plans to quadruple capital allocated to its venture capital segment to \$100 million by the end of 2022.

As part of its plan to augment its reach into that market, Redwood's venture investment arm, RWT Horizons, in early September inked an investment-partnership deal with Silicon Valley-based **Frontiers Capital** — which is focused on investing in companies developing leading-edge technologies in areas such as artificial intelligence, quantum computing and blockchain. Also, this year, in addition to **Liquid Mortgage**, Redwood invested in two other early-stage tech firms — Chicago-based **Rent Butter**, which is developing a tenant-screening tool for landlords; and **Rent Room**, a New York-based software-as-service firm that has developed a property-management platform.

"Management stated they have a pipeline of 15 to 20 actionable investment opportunities whereby they could deploy capital," the Piper Sandler report notes. "In our view, this strategy of spreading capital into several different small investment opportunities presents an attractive call-option for shareholders whereby one of these investments could develop into something much larger."

The analyst report also indicates that Redwood is willing to commit up to 10% of the REIT's total capital to this venture capital strategy, which "signals the core business doing well enough to fund these investments."

That core finance business is expected to expand rapidly too, according to Abate. He stressed during his recorded presentation at the investor's conference that there is [some \\$9 trillion](#) in household equity nationwide, and he then pointed to a slide in his presentation that states Redwood plans to "target traditional mortgage borrowers and 'under-banked' borrows of all profiles."

Piper Sandler notes that Redwood's aggressive plans for growing its CoreVest business-purpose residential loan segment and its residential lending arm are likely "to cause an increasing amount of asset sales, which could jeopardize [Redwood's] capacity to remain a REIT." The report also projects that Redwood, if converted to a corporation, would likely be able to achieve a 25% to 30% return on earnings "through non-agency residential and business-purpose mortgage banking."

For Abate, part of that growth necessitates being an "innovator" in housing finance.

"There was a record amount of homes purchased this year with cash by investors and by consumers," Abate explains. "And if we can better bank, those investors and consumers, it could be just a massive addressable market for the company. And, you know, for us, that means home equity lines, second mortgages. That'll be part of the solution."

Abate, however, comes back to technology as a growth facilitator, telling those gathered for the REIT's investor conference earlier this month that "what is very interesting right now is what's going on in the fintech sector." He also realizes that achieving the company's goals cannot be accomplished by waiting for organic growth, adding that "we'll continue to focus on creative mergers and acquisitions."

"It's absolutely going to be ... something that we do," he stressed.

That strategy is clearly visible in the REIT's expansion of its venture capital activities. But Redwood's play in fintech and the VC world is up against some stiff competition in the years ahead. Revisions last year to the so-called [Volcker Rule governing bank investment activities](#) open the door for banks to invest in venture capital funds.

Minneapolis-based **U.S. Bank**, among the largest in the nation, is already taking advantage of that open door. This past August, [the bank announced](#) it was "becoming a limited partner in two venture capital firms specializing in the fintech space: **Fin Venture Capital** and **Commerce Ventures**."

Abate is undaunted by the challenges ahead, however. "I think the company is in a very, very good spot," he said confidently at Redwood's recent investor conference in New York. "And we're about to hit the accelerator pedal."