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The Flipper

The unusual steps one founder took to fund his startup - off buying and selling real estate.

By [Jamie Lerner](#), August 10, 2007 — [1 Comment](#)

Watching television shows like A&E's "Flip This House" and hearing stories of families spending entire weekends on seemingly easy home renovation projects gone awry makes me laugh (and sometimes cringe) as these are vivid reminders of my real-life adventure funding my current company back in 2001. I did it by flipping real estate.

As the dotcom bubble continued to shrink, so did the myriad of venture capital financing options available in Silicon Valley. Long gone was the seemingly bottomless pool of funds, and entrepreneurs boasting great ideas and legitimate business plans were forced to look elsewhere. It is here that I found myself, Jamie Lerner, the intrepid entrepreneur, faced with one of two options – give up on my dream of founding my own company or find a way to procure the necessary resources somewhere other than Sand Hill Road. I opted for the latter.

Quite honestly, *not* founding my network and systems monitoring start-up [CITTIO](#) was never an option, but the path I took to fund it is not for the faint of heart. During this time of uncertainty, I realized that while the tech market sagged, the real estate market was booming. Moreover, interest rates for real estate loans were at an all time low. In some of the hotter markets at the time, such as Sacramento, real estate could provide a return of three-to-four times the initial investment in just two years. I thought, "Why not purchase some property in an up-and-coming neighborhood, put a little work into it, flip it, and use the proceeds to fund CITTIO?" Not letting a complete lack of knowledge about real estate or home renovation stand in the way, I decided to try my luck. I realized early on that my renovations would need to be as cost efficient as possible — meaning I would be doing most of the heavy lifting. So while my business plan came together easily, life as a construction worker by day and code warrior by night was not something I was entirely prepared for.

Spending all the money I had, and borrowing a little more, I purchased two apartment buildings close to downtown Sacramento. Armed with a hard hat and a half-dozen people, the buildings were torn down to the studs. I soon found myself working seven days a week with the construction crew to renovate a four and a 12-unit building and return them to their former glory — classic Victorian and Edwardian styles. To say I worked hard is an understatement. What kept me going was the knowledge I would not only recoup the initial investment, but reap enough of a profit to, in fact, self-fund my start-up.

Mired in the muck of toting sheet rock by day and writing software code by night, I embraced the old adage "I'll sleep when I'm dead," and pushed myself and my fellow construction workers to produce the best homes possible. Quality over quantity are words to live by when flipping real estate — and they ironically applied to the goal I had for CITTIO: to create and deliver a product that was not only attractive on the outside, but with the strong foundation or "plumbing" required to take on the established Big 4 network and systems monitoring companies and win.

Two years after purchasing the buildings, the properties were sold for three times the initial investment. This

capital provided CITTIO with enough resources to boot strap the company for the first four years. As the environment for start-ups became friendlier, CITTIO secured \$3.5 million in first round financing from Hummer Winblad Venture Partners after demonstrating a profitable business, 20+ paying customers and a product that actually worked. Fast forward to today and we count many marquee brands among our customers and \$11.5 million in total funding from Hummer Winblad and JK&B Capital. As a reminder of where we came from, the old saw horses from Sacramento now serve as the foundations for many of our desks.

A lot of people ask, “Couldn’t you have done something easier? Does starting a business really need to be as dirty as putting in drywall, soldering pipes, and pouring cement?” My feeling is true entrepreneurs will figure out how to start and build companies regardless of market conditions or the amount of support services within their grasp, financial, legal or otherwise. It’s a primal urge, on par with a musician’s need to create music or an artist’s need to paint. To satisfy this urge, I used the most efficient funding method available to me at the time. Now that the real estate market has turned, I sometimes wonder, “What would I do now?” I can’t say I know the answer, but I’m 100 percent confident it would get done.



About [Jamie Lerner](#)

Jamie Lerner founded CITTIO in 2001 to address the need for cost-effective, easy-to-use enterprise management software, which Jamie found to be missing while he was running XUMA, Inc., a server management company he cofounded in 1997. XUMA provided Internet services to over 90 domestic and international customers, including Cannon, Logitech, Bristol Meyers Squib, Bayer, Boeing, Riverdeep, Chase H&Q, General Electric, PG&E and Aegis Insurance. Under Lerner's leadership, XUMA grew to 340 employees and over \$20M of annual revenues in just two years. Prior to XUMA, Lerner held senior positions at Platinum Technology Andersen Consulting. He earned a Bachelor of Science in Quantitative Economics and Decision Sciences from U.C. San Diego.

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Excellent story.

Thats the right spirit of an entrepreneur.

True entrepreneurs are those who never stop while pursuing their dreams.

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