



Real Estate Private Investors: Small players competing with the newest players: The crowfunder types

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Transactional real estate deals lately result more in frustration than deals for individual and smaller players. The questions my client ask are, "What went wrong?" "What could we have done different?" To answer that we must first understand the players in today's market.

The newest players are crowfunder types. There are foreign money players from countries like Russia, China and South America; large companies that purchase for their own portfolio's: REITS's; and syndicate buyers.

The availability of money has deals closing at record per s/f levels. Sky high in fact. Why not, apartments are now selling for tens of millions of dollars. The purpose of this article is not to comment on the prices but to explain to the individual investor what they are up against.

Crowdfunders use other peoples money (OPM) to purchase properties. They are the managing member of the LLC (commonest form of ownership) and maintain control over the project and usually the management of the properties as well.

Foreign investors see U.S. properties as excellent and safe investments, a way to bring their money to a very stable environment where their money is better protected. The price paid is not as important as the quality of the property and the safety of their money, and their ability to sell and retain their money.

Companies that purchase for their own portfolios are major players. Sometimes they, like the others, buy for speculation or as part of an accumulation of properties for a massive project. Sometimes the purchase is to obtain the air rights that they can transfer to other projects on the same block. More air rights mean more floors or s/f means more profit. Their financial leverage affords them to allow properties to sit and appreciate in value or for them to subsidize the properties waiting for a turnaround in neighborhood, or the economy, or permit the properties to be vacated to be repurposed or for a more profitable usage.

REITS are public or private vehicles that are used to likewise purchase properties. They are run as if they are a corporation and the management has those that it is required to report to. They manage the properties and maintain them. For a fee.

Syndicate buyers purchase the property with OPM and take a healthy share of the project. They cash out their project fee at the closing and also take a share of mortgage money. The bigger the deal the higher the fees. They leave monies in the operating account and pay monthly "dividends" to their investors (giving them back their own money) and then refinance the project to its maximum value on a regular basis where the syndicator then receives another percentage of the mortgage money. Post closing they then divide up any monies left after their fees, old mortgage and operating account needs, and distribute the monies in accordance with everyone's ownership interests.

Like the REIT, crowfunder and many of the foreign investors they also retain management of the

properties and use their own companies for maintenance and repair of the projects. The larger players do as well.

In New York individual owners or small players on residential properties are bidding against the other players above, who may not have the same concerns for local legislative pitfalls. New York has the Tenant Protection Unit (TPU). It is a unit unilaterally set up by the governor to investigate increases that owners of residential apartments are allowed to make. When you buy a building the obligation to prove the increases falls on you. Faced with the possibility of refunds to tenants, reductions of the rents, change of the legal apartment status (from non regulated to regulated) and potential treble damages, individual and small players need to proceed cautiously. How can any individual investor or small player risk that unless every T is crossed and every I is dotted, while bidding against the other players whose concerns on those issues is not as strong, if it exists at all? So how is an individual or small player supposed to compete with persons and their entities who make money at every step of the project and are willing to overpay for property especially since it is not their money in the first place or they have such reserves as are necessary to maintain the properties on any down swing or subsidize the building if necessary? Yes, it is a good question.

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