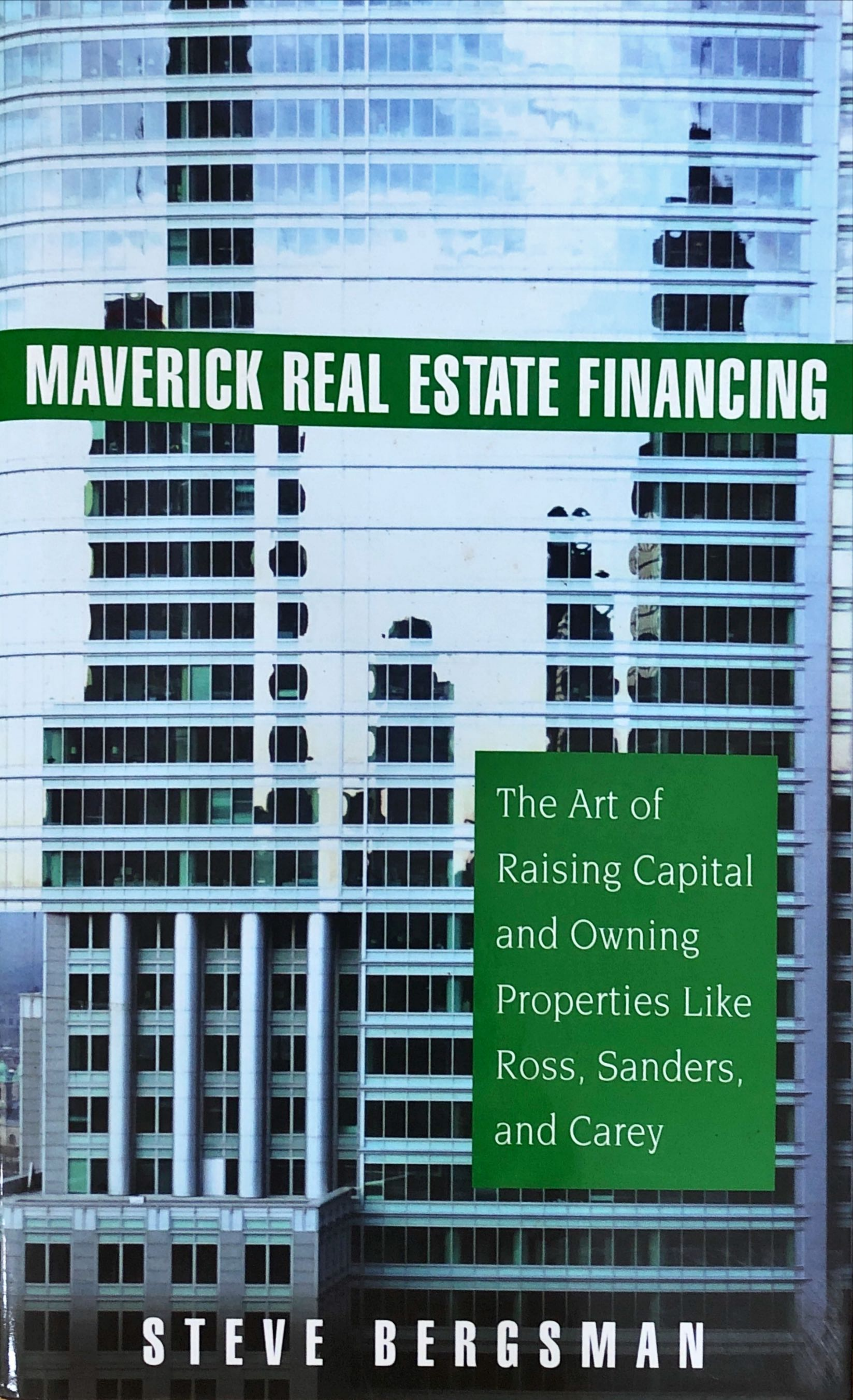

MAVERICK REAL ESTATE FINANCING

The Art of Raising Capital and Owning Properties Like Ross, Sanders, and Carey

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To my lovely wife, Wendy,
and my two, wonderful boys,
Ethan and Aaron

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Introduction

The inspiration for *Maverick Real Estate Financing* derived from my experiences promoting my first book, *Maverick Real Estate Investing.*

When I undertook a series of lectures and book signings to help market my first real estate tome, I found most people wanted to hear reassurance about their inclinations to make an investment in real estate. They had land they wanted to buy, a concept for investment but most of all they wanted to buy a house, fix it up, and sell it. Most of them had heard about these seminars offering tips on how to buy a house with no money down or how to flip properties.

Although I don't believe in either of those methodologies, I tried not to be too negative and attempted to impart key, prepurchase procedures concerning such necessities as market research. There were two things that concerned me in 75 percent of the situations where my audience held a somewhat fixed idea about what they wanted to do in regard to real estate.

First, they had given no thought to investigating competitive market conditions other than to ascertain nearby properties values. Consequently, they didn't know, for example, if they were to buy a house as a rental investment property, whether an existing glut of apartments in that community would make their purchase difficult to rent and thus unprofitable. They didn't know whether they were buying into an up economy or a down economy.

Second, these novice investors had no concept of the inherent price of capital—what it would cost to borrow, what form the loan would take, and how it would eventually affect the value of the investment. Fortunately, the year of my book, interest rates were still very low, and this gave even the most naive investor a forgiving climate to indulge in outright stupidity.

For investors starting out, venturing into a first property acquisition, the margin of error was relatively wide, considering where interest rates were at the time. Nothing stays the same, obviously, and interest rates would eventually rise, while demand for property would push up pricing. The margin of error would quickly erode with subsequent investments, subsequent leverage, and any change in market conditions. If the financing was expensive, a reversal of fortune for the investor was definitely at hand. This is what the new Donald Trumps didn't understand.

As I mulled over these issues, I came to see I should do a follow-up book on the subject of financing and ancillary necessities such as corporate formations. Unlike my first book, in which many of the people I profiled were household names, the names in the world of real estate finance aren't as well known to the general public. Conversely, if you work in the industry, you will recognize all the people profiled in *Maverick Real Estate Financing*. After all, who is more important to know, another investor or the person who will lend you money?

I spent an unusually long time deciding which chapters should be included, because I came to realize that how the investment is organized is equally as important as how the investment is financed.

Think of these as the *approach* and the *endgame.* The quest for the right kind of real estate financing eventually moves the machinations forward. With luck, a portfolio of investments is created. The process does not end there. Entrepreneurs have continually searched for the most convenient, legal, tax-advantaged vehicle to hold those investments. As much financial engineering goes into the latter as the former.

Finally, there was the question about what to do with William Sanders. I knew I wanted him in the book, but he didn't fit neatly into a real estate financing chapter. In some regards, he really should have been in the first book, because he has been one of the most successful and imaginative real estate investors this country has produced. However, he was not successful in creating a vehicle for holding those investments. He wanted public valuation with what should have remained a private structure. His company, Security Capital Group, was never very well understood by Wall Street, and in the end he dismantled it, but not before creating some of the biggest real estate companies in their individual sectors, such as ProLogis in industrial.

My solution was to create a first chapter about William Sanders that would in many ways sum up all the chapters.

That freed me to do two things. First, I expanded my list of people to be profiled to include developers and real estate entrepreneurs, because they represent the best users of capital and finance tools. Second, I was able to set the book's structure.

The earlier chapters (after the Bill Sanders chapter) involve true real estate finance—how to get the capital necessary to pay for whatever type of investment you want to make. Obviously, there are myriad ways to make that happen, and I tried to cover the most apparent as well as some of the more esoteric, from simple bank loans to agency loans to equity to low-income-housing tax credits. Most of the gentlemen interviewed here would be considered financial guys of one sort or another. This group includes Jack Cohen, Brian Stoffers, Michael Mazzei, David Twardock, and W. P. Carey. Although now known as a developer, Stephen Ross is in this group because of his pioneering use of low-income-housing tax credits, which is a financing mechanism with which he is still associated through cross-corporate relationships.

The middle chapters cover investment strategies based on corporate finance techniques, and the two gentlemen interviewed here are as different as they can be in the real estate world. After decades in real estate investing, Thomas Barrack prefers the opportunity fund structure, while Milton Cooper remains one of the best corporate chieftains in the real estate industry, having built Kimco Realty Corporation into the largest nonmall retail REIT in the country.

The later chapters cover what I call *corporate formations,* essentially different organizational strategies for holding those investments you struggled so hard to find and acquire. Again, this is a mixed bag of individuals. Maury Tognarelli is a true finance guy, whereas Robert Taubman is of the corporate stripe, the chief executive officer of the mall REIT, Taubman Centers Inc. The last fellow in this group is Leo Wells, who splits the difference—part corporate and part finance.

Real estate financiers are not well known, although they are equally important, successful, and wealthy. Also, some of the financiers are not entrepreneurs but corporate employees who, through either hard work or unusual vision, have helped to create new arenas in real estate finance. I had to make room in this book for both kinds of people.

One final note. Lest you think real estate finance is not very important, consider this: It's because of our country's diverse, deep, and inventive ways to create financial products that we have been able to build a commercial real estate industry that is strong, effective, viable, and different from almost all other countries in the world today. Not only have we been able to create individual wealth, but more important, real estate finance has allowed more people to invest in real estate than at any time in world history.