

## Chipping in to buy a piece of New York

*Syndication deals, especially among ethnic groups, are on the upswing* October 01, 2011  
07:00AM By Janna Herron



Timour Shafran of Capin & Associates in front of the Hamilton Heights building where he has a syndication deal pending. It's a deal that blends the American Dream with a touch of globalization, and hints of a bubbling trend.

Fifty-three Chinese-Americans pooled \$160,000 each to buy a corner at Delancey and Pitt streets on the Lower East Side for \$8.5 million this summer. They each plan to contribute \$240,000 more to fund the construction of a 53-unit condo to replace the auto shop that is there now, said seller Anthony Marano, a principal at Ozymandius Realty.

"Fifty of the units are already spoken for," Marano told *The Real Deal*. "It's not a building that will be vacant or unfinished. We wish we could have done it, but there's no construction financing to speak of."

The group of Chinese-Americans -- known as Delancey Bridge Tower Inc. and led by Yanpo Zhu of Manhattan -- approached Marano and his father more than a year ago to buy the land, which consists of five side-by-side lots. Other developers had also expressed interest, Marano said, but the sunset of the 421-a tax abatement at the end of last year kept the numbers from penciling out for many bidders.

In the end, Marano and his father chose the Chinese syndication because the money was all-cash and the group offered concessions, such as allowing the elder Marano's shop to stay open for two months after the deal closes and signing a contract with no contingencies.

"Things that a lender would find hard to swallow," said Marano. "Groups like this have a leg up on every site on the Lower East Side versus conventional groups."

Syndication deals -- where small investors pool together their money to purchase property -- have long dotted the city's real estate landscape, whether they involve immigrant groups, wealthy family members, or professionals like doctors or lawyers coming together to buy. Some of the Big Apple's most storied developers and investors, including Larry Silverstein and the late Harry Helmsley, got their start with simple syndication deals.

But in certain corners, industry insiders say they are seeing the market for these deals, especially immigrant-led ones, heat up.

A confluence of factors, such as higher equity requirements for financing and the tepid economy, is behind the uptick. But the deals can be tricky, sometimes literally lost in translation, as both sides navigate cultural land mines.

Bob Knakal, chairman of Massey Knakal Realty Services, has seen syndication interest from all over the globe: Israel, Germany, Argentina, Brazil, China and South Korea, to name a few. Deals range from the very small, \$2.5 million, to the bigger, around \$70 million, he said, noting that investors he sees are high-net-worth individuals looking for Manhattan properties south of 96th Street without a rent-regulated tenant.

"Investors are increasingly worried about their own economies," he said. "They look at properties as a safety deposit box more than cash flow."

Since the financing rules have changed and lenders now require more skin in the game, syndication deals appeal to investors who want to spread out their risk, Knakal noted.

### **It's the economy, stupid**

Syndication interest started peaking in June, when the stock market roller coaster convinced many to seek more stable investments, said Timour Shafran, vice president at Capin & Associates.

"Immigrants or first-generation [buyers] tend to gravitate toward investments they can touch and that are under their own control," Shafran said. "The great thing about real estate is that you can rub it. It's there. It's not going to move."

Shafran has a deal under contract in Hamilton Heights with six Japanese investors, five of whom still live in their native country. The group is buying a 35-unit apartment building for an undisclosed sum. Three-quarters of it will be financed by a lender. Shafran describes the property as a "very clean walk-up, a nice asset and return."

Adam Hess, partner at TerraCRG, also noted a rise in demand for syndication deals as the global economic uncertainty plays out. Hess has worked on these types of deals for seven years in Brooklyn's Sunset Park, the city's fastest-growing Chinese community.

"As the Chinese economy has strengthened and the U.S. economy has weakened, the amount of liquidity in the Chinese system to buy real estate in Sunset Park has increased," Hess said.

Sunset Park investors are interested in retail properties on the main drags on Fifth and Eighth avenues, along with multifamily on the side streets, he said. The deals tilt to the low side (below \$2.5 million), with a mix of all-cash and financed transactions.

### **Coming to America**

Some foreign syndicate investors are using real estate development as a back door into the U.S., according to both Hess and Adelaide Polsinelli, associate vice president of investments at Marcus & Millichap.

Immigrant investors, the two said, are taking advantage of the EB-5 Investor Visa Program, which allows internationals to obtain a green card if they invest money in the U.S.

"There is in excess of \$200 million in EB-5 money," Polsinelli said in an e-mail to *The Real Deal*. "This is a motivating factor."

The EB-5 program stipulates that foreigners who invest in a U.S. commercial enterprise can obtain a green card for themselves and four family members if the investment creates 10 direct or indirect jobs for every investor, explained Steven Polivy, the chair of the economic development and incentives practice at the law firm Akerman Senterfitt in Manhattan. Investors contribute either \$500,000 in targeted neighborhoods -- where the local jobless rate is significantly higher than the national average -- or \$1 million in all other areas.

This program works best for high-net-worth immigrants rather than smaller-time investors such as the Chinese-Americans who bought the Lower East Side plot. Typically, a multifamily development project doesn't yield enough jobs to make the EB-5 program work, Polivy said. But he's successfully financed hotel projects, a restaurant complex and a retail transit terminal through the program.

"It's extremely popular and there is a well-developed broker network in China for these types of projects," he said.

While many of these groups are native to countries that have stringent laws for owning real estate, embarking on syndication deals here isn't always a walk in the park, either.

Typically, the group appoints a spotter, someone who has a more established business, to head the effort. Sometimes that person has done a few real estate deals, while at other times, that person is just experienced in doing business in the U.S.

Good due diligence is a must, said Amit Doshi, executive director at Besen & Associates. And whoever is helping to structure the deal should be paid based on the success of the deal, so that he or she has a vested interest, he advised.

Polsinelli also noted that partnership disputes can unravel a deal, while Capin & Associates' Shafran said steering through financing can sometimes be a bear, especially if there are no records -- such as social security numbers -- in existence for the foreigners.

Then, too, there's the issue of being syndication virgins.

"They have to learn a whole new business when they start. Sellers are dealing with novice buyers," said Shafran. "They don't necessarily understand what is normal in the transaction. It makes for a lot of miscommunications."

And it calls for a lot of patience, but the rewards can be universal. Just ask Anthony Marano and his father after negotiating with the group of 53 investors for more than a year.

"It was a bit of a personal decision for my father. He felt comfortable with [Zhu]," the younger Marano said. "And foreign investors have a different perspective, a longer-term perspective than many developers. They have a 15-year horizon. They are looking to own."