

New Nontraded REIT Targets \$200M for Land Buys

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Shopoff

IRVINE, CA — A new nontraded REIT called Shopoff Properties Trust that specializes in acquiring tracts of land from lenders and developers has launched a \$200 million offering, has closed on its first \$16.7 million of stock sales and is

already in escrow on three properties. The REIT's top exec, Bill Shopoff, tells GlobeSt.com that it is buying primarily from lenders—in some cases acquiring foreclosed development sites and in other cases buying the loan from the lender and then conducting the foreclosure process itself.

Although Shopoff Properties Trust has only recently entered escrow on its first deals, the REIT filed its first preliminary prospectus with the SEC in November 2006 in anticipation that land prices would fall and properties that ran into trouble would be available at significantly lower prices. Shopoff—who serves as the REIT's chairman, president and CEO—says that he and his team "thought there would be a retrenchment," but prices have fallen even farther than they expected.

The business plan for Shopoff Properties Trust involves acquiring the land and then taking whatever steps are necessary, such as completing entitlements that the previous owner had started on, to re-sell the the property to home builders or developers. In a few cases the REIT might be able to just buy a piece of land, sit on it for a while and then sell at a profit, but Shopoff says that will not be the case with most properties it buys. "Most of these deals have some other problem than just the financial structuring," the Shopoff CEO explains. "There is often still some entitlement work that needs to be done, or some re-entitlement to make the asset viable. We might buy a subdivision and have to protect the approvals that the previous owner got."

The new REIT is focusing primarily on land for residential development, but "We will buy any type of land asset that meets our criteria," Shopoff says. For example, the REIT is looking at one deal that is a master-planned site with plans for office, industrial and residential development. The company is not looking for raw land at present but instead is focusing on "property that has a concept attached to it," typically a plan for a residential subdivision or a combination of residential and commercial, according to Shopoff. Most of the land the REIT is looking at is in the West and the Southwest, including California, Arizona, Nevada, Texas and Hawaii.

In the cases of the three properties that Shopoff is in escrow on now, the company is in "the due diligence renegotiation phase," Shopoff says. He explains that very few of the types of deals he is pursuing are closing at the contract price these days because "The buyers often discover things that the seller didn't know, and then the market gets some more bad news, which exerts even more downward pressure on prices."

Shopoff is president and CEO of both the Shopoff Group—which is the sponsor of Shopoff Properties Trust—and of Shopoff Securities Inc. Shopoff says that to his knowledge, "We're the only publicly registered company to utilize a REIT for this land investment model." He says that he chose the REIT structure "due to its tax advantages, especially for IRA and other tax-exempt investors."

Shopoff Properties Trust is one of the latest in a growing list of nontraded real estate investment trusts that are being offered to the public through registered broker/dealers and investment advisers. The shares of a nontraded REIT are offered publicly to qualified investors, but the stock is not listed or traded on an exchange. The nontraded REITS typically establish a date by which they will either list or liquidate, and in the case of Shopoff Properties that date is Aug. 29, 2017.