

Another Crooked Untraded REIT

Unlisted registered REITs (Real Estate Investment Trusts) have a well deserved reputation for enriching their sponsors more readily than their investors. A recent case in point is Strategic Realty Trust, Inc. (formerly TNP Strategic Realty Trust, Inc.), a REIT once run by Tony Thompson (who recently closed his broker-dealer and handed in his securities license). Although Strategic Realty raised around \$100MM equity in 2009, directly following the financial crisis and seemingly a good time to buy almost anything, they've managed to lose their investors' money. It's not that the properties they bought didn't appreciate, but that appreciation was more than wiped out by fees.

One of the selling points of untraded REITs is that they don't experience the volatility associated with listed products. Somehow the absence of a public market and the ability to exit your investment is supposed to be a good thing in the minds of those who push such things. It doesn't mean that the assets aren't changing in value of course, simply that investors don't know it from the company's financial statements.

Strategic Realty recently announced its NAV had dropped from \$10 to \$7.11. Adding insult to injury, its by now former CEO had sold his holdings to an affiliate for \$8 earlier this year.

Transaction costs, offering fees and organization costs on Strategic Realty added up to over 27% of investors' capital, substantially accounting for the losses suffered by investors. Underwriting fees of 10% and more are common in this sector. Since there's no index on unlisted registered REITs there's really no coherent basis on which to make an allocation to the asset class at all. And although Strategic Realty pays an annual dividend of 24 cents, its operations don't generate enough income to fund this so it's in effect a partial return

of investor's capital rather than a result of profitable operations. Still, it looks like about the only way to get any of your money out of this company.

Meanwhile, the Financial Industry Regulatory Authority (FINRA) filed a complaint against former CEO Tony Thompson last year alleging fraud on a related transaction.

Investors should be warned – any broker-dealer recommending such an investment may well be placing his interests in high fees ahead of the client's desire to earn a fair return.