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Capital Recovery Fees Offer Inflation-Protected Income

A Capital Recovery Fee is a percentage of the sales price,payable when a property sells. The fee is used to reimburse developers for capital improvement costs.

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As the name suggests, a real estate assessment is a fee payable in connection with ownership of real estate. Assessments can be payable monthly, annually, or at the time of sale.

One type of real estate assessment is a Capital Recovery Fee, which consists of a percentage of the sales price, payable each time real estate sells. The fee is used to reimburse developers for capital improvement costs.

The most common type of Capital Recovery Fee was popularized over a decade ago by Freehold Capital Partners http://www.freeholdcapitalpartners.com, and consists of a one percent fee, payable each time the burdened real estate sells, for ninety-nine years.

Traditionally, real estate prices have correlated favorably with inflation. Despite this, real estate has not always proven to be an effective hedge against inflation. This is because closing costs, property taxes, insurance, and vacancies all chip away at total returns. However, Capital Recovery Fees incur no such costs. Instead, as property prices rise, the income rises proportionately, but without the attendant transaction costs and carrying costs. And, since real estate prices have generally outpaced inflation, and since Capital Recovery Fees are tied to the gross sales price (e.g. one percent of the gross sales price), the assessment income tracks the price of the underlying real estate. Therefore, the income stream can reasonably be expected to maintain purchasing power over the long term.

A property with a one percent Capital Recovery Fee that sells for $300,000 will generate a $3,000 fee. If the same property sells again for $400,000 it will generate a $4,000 fee. This typically runs for ninety-nine years, offering passive inflation-adjusted income with no carrying costs, no active management, and no credit risk.

The obligation appears on a properly prepared title commitment, and the Capital Recovery Fee is then collected at closing (just like mortgage payoffs, liens, HOA fees, etc). This adds up long-term inflation-protected income, backed by a transparent asset with no meaningful credit risk long-term income.

About Capital Recovery Fees: Popularized over a decade ago by Freehold Capital Partners, Capital Recovery Fees (also referred to as Private Transfer Fees and Reconveyance Fees) are used by large real estate developers as a way to fairly and equitably apportion public infrastructure costs. Learn more at https://en.wikipedia.org/wiki/Private_transfer_fee

Source: Freehold Capital Partners http://www.freeholdcapitalpartners.com

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