Adding Value to Real Estate through Asset Segregation

Freehold Capital Partners is helping real estate developers and property owners implement an asset segregation strategy that utilizes capital recovery fees

AUSTIN, TEXAS, UNITED STATES, December 31, 2018 /EINPresswire.com/ -- In the eighties a form of corporate activism emerged where a publicly traded company would be an acquisition target under the theory that its various divisions could be spun out into separate publicly-traded entities which collectively would add up to a higher cumulative share price. This same theory of asset segregation applies to real estate.

Real property interests have been called a "bundle of rights" or "bundle of sticks". Rights associated with certain sticks can be "possessory" (the right to occupy the land) or non-possessory (the right to control use of the land, such as with a deed restriction or covenant). Common "sticks" include surface rights (the right to the surface of the land and all improvements on that surface), subsurface rights (mineral rights, oil rights, etc.), air rights, water rights and incorporeal rights such as "covenants, conditions and restrictions". Sticks can be pulled from the bundle and owned separately, which can create simultaneously existing, legally recognized interests.

Segregating the various sticks can increase value. One example is breaking out the leasehold from the fee simple. Consider an office building appraised at $100 million and owned by Mr. REIT. Mr. REIT creates a leasehold interest for 99 years. The building now must pay rent to the leasehold owner. Since the leasehold now has virtually zero credit risk, it will command a market premium. Mr. REIT sells the leasehold for $30 million and the building for $80 million. Mr. REIT has increased overall value from $100 million to $110 million. A purchaser of the building enjoys greater tax advantages (because the leasehold payment can be written off in its entirety each year, and need not be amortized or capitalized) and lower acquisition costs.

Another form of asset segregation can be seen in capital recovery fees. Real estate developers create capital recovery fees by filing a legal instrument (called a Declaration of Covenant), which imposes an obligation to pay a one percent fee at the time of each sale, generally for 99 years. This non-possessory real property interest can be segregated out and sold separately from the surface rights. In practical terms, this means that the developer can lower the sales price, and gain a competitive advantage yet still increase profits over time, because of the power of price appreciation. Each property buyer benefits from the lower purchase price (which means the buyer can qualify for a larger home or enjoy reduced payments).
Asset segregation represents an effective method of restructuring real estate transactions in a way that creates value and reduces economic inefficiencies.

About Freehold Capital Partners: For over a decade Freehold Capital Partners has helped real estate developer and property owners implement an asset segregation strategy that utilizes capital recovery fees. Freehold's portfolio now covers hundreds of thousands of planned and existing real estate parcels in 34 states, including office buildings, retail centers, industrial space, apartment complexes, and hundreds of thousands of residential homes.
Source: Freehold Capital Partners http://www.freeholdcapitalpartners.com

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