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# Industry vets say syndicated equities needs licensing

by [Neil Sharma](#)  
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The term syndicated equity is often confused with syndicated mortgage—the latter becoming tarnished largely because of the Fortress Real Developments fiasco—but according to a couple of industry veterans, the former should require special licensing.

“People who want to sell syndicated equity should be specially trained and have a special license because it’s a security, not a mortgage,” said First Source Mortgage Corporation’s President David Mandel. “Just because you’re



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registered on title, it's doesn't make it a mortgage. There's no equity behind it. It was all soft cost financing."

Elucidating how woefully unsuited brokers who sold syndicated equities for Fortress Real were, Mandel notes that they were calling them syndicated mortgages.

"Which have more than one person in a mortgage, but it doesn't reflect the risk associated with this type of product," he said. "They didn't understand development, or even construction, therefore, they did not understand that this type of loan was really a loan for soft costs. They looked at it like any other mortgage and didn't realize this mortgage has to potentially postpone—you have a first mortgage on the land, a second, even a third, mortgage for construction, which could be behind a mortgage for bonding. At the end of the day, if you're in fourth position, it's no different than a collateralized loan or security for a loan. It's not a mortgage; it's just a charge on title."

The syndicated equities Fortress Real fundraised weren't, at an 8% yield, risk-adjusted, either.

"Companies that have done this historically yield north of 20% on that type of facility because it's very risky and there's no underlying equity until such a time as the project is basically finished and on its way to registration," added Mandel.

Soft cost construction loans are inherently risky because of how many things could go wrong and create delays, thereby driving costs higher. There could be a shortage of material or unionized workers could suddenly strike and cause months-long delays.

"Once again, you have all these interest costs and other debtors ahead of you," said Mandel. "You're basically fifth place by the time you're under construction. It's a very sophisticated investment, and the people who sell this product need to be highly educated in risk adjudication with regards to real estate development and construction."

**Calum Ross**, a leverage wealth expert and VERICO broker with Mortgage Management Group, concurs with Mandel's statement. In fact, he doesn't mince his words about selling syndicated equities without first satisfying stringent licensing requirements.

"How mortgage people, and realtors, were ever allowed to sell them and/or thought they were qualified to sell them, is absolutely idiotic to me," said Ross. "Real estate and mortgage professionals were never, and should never have been, licensed to sell investment products and represent them as investment-grade assets. Even people who have

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