

LEVERAGE WITHOUT DEBT IN REAL ESTATE FINANCE: TWO DEEDS INSTEAD OF A LIEN

The dual deed capital structure - where ownership of a single property is represented by two separate deeds that represent different possessory interests - has fallen into obscurity after wide use by landowners for centuries. In contrast to contemporary real estate leverage, in which a single deed records a fee simple interest in the property and a lender records a lien on the property, landowners could leverage property by selling a term of years interest while retaining a remainder interest. The term of years interest and the remainder interest both are represented by recorded deeds, neither of which represents a lien against the other deed.

What makes the dual deed structure interesting and applicable today?

The dual deed structure generates leverage for the remainder interest holder without debt. With no lien recorded against any ownership interest, there is no debt to be recorded on any corporate or pension fund balance sheet. This expands the universe of financing opportunities for modern corporations and tax-exempt institutions.

Why has the dual deed structure been overlooked?

Although the dual deed structure played a prominent role in estate planning for centuries, changes in property law created potential conflicts between property rights of the respective deed holders that could be economically detrimental to both parties. Electrum Partners has developed financial engineering that removes any significant potential for conflict, see [1].

Where is the synthetic debt?

If property is fully leased for the duration of the term of years interest, then the term of years interest becomes a fixed-income obligation with default protection. However, conventional leases are not debt from the lessee perspective. It follows that the term of years interest is synthetic debt. From the perspective of the remainder interest holder, the synthetic debt provides leverage for asset acquisition.

How does the dual deed structure compare with mortgage-backed securities?

Under the dual deed structure, individual commercial properties can be securitized into fixed-income and non-fixed-income components for private placement. This avoids three sources of incremental risk passed through to investors in pools of conventional mortgages: interest rate exposure while the pool is being assembled, and both prepayment and default risk estimation for the various tranches.

Who can implement the dual deed structure for financing leased property?

Electrum Partners has exclusive rights to patented financial technology relating to the creation of securitized fixed-income and non-fixed-income equity interests in leased property and to financial technology relating to maintenance of investment positions in the equity interests. Electrum Partners has demonstrated the technology in the private placement market.