

Company offers new way to buy into the real estate game

By Lois Weiss

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An enterprising woman is investing in properties with the goal of creating a publicly traded REIT.

For now, Janine Yorio, chief executive officer of Compound, says accredited investors can plunk down as little as \$2,500 to buy into the current pre-IPO Compound Manhattan Residential ReTF (real estate thematic fund).

“New York City is a tremendous opportunity that is shut off to [small] investment,” says Yorio, a former NorthStar executive.

She and co-founder Jesse Stein have invented the “ReTF,” a proprietary financial product “combining the thematic investment strategies and liquidity of an ETF with the property ownership, tax and diversification benefits of a REIT. “We intend to list the ReTFs on an exchange when they are eligible,” she says.

Each fund will target a specific city through a diversified portfolio of residential real estate. While New York is first, Miami and London are also in the works.

Yorio was previously head of development for Andre Balazs at the Standard Hotels. Compound Chief Investment Officer Stein developed a trading platform for real estate securities while at ETRE Financial and partnered with Nasdaq on a series of REIT Indexes.

Backed by a Silicon Valley venture capital firm, Compound is now targeting investors from small family offices and institutions along with foreign and younger investors who love watching HGTV and are fascinated by house fixing and flipping.

“Residential is the gateway drug to real estate investment,” Yorio declares.

Since millennials aren’t familiar with real estate investment trusts, Yorio says Compound will rebrand REITs to “create something that resonates.” “You can invest through your IRA,” she adds.

The ReTF will be focused on both multifamily residential and bulk condo units to rent out.

To kick off its fund, Compound bought a 49 percent stake in four buildings owned by Two Kings Real Estate, which will contribute its 51 percent into the fund in return for shares that are currently valued at \$10 each.

Yorio attended Yale with Manish Shah, who founded Two Kings along with Christopher Wang. These mid-block buildings with a mix of stabilized and free-market units were initially purchased over the last few years.

Now valued at \$47 million, the portfolio consists of mostly small walk-ups with 83 units in 44,700 square feet. They include the eight-story 41 W. 24th St. near Madison Square Park in the Flatiron District, 310 W. 20th St. in Chelsea near Google’s headquarters, as well as 424 E. 14th St. and 220 Ave. A, both in the East Village.

Compound is focused on net income and capital appreciation while targeting more opportunities through intensive data mining and relationships.

Yorio believes the residential market is currently undervalued, and like New York’s family building developers and owners, holding real estate long-term is the way to generate wealth.

As with any investment, however, conducting your own due diligence is imperative. During the last market downturn, the Furman Center reported in 2010 that “multifamily rental properties with five to 19 units consistently received foreclosure notices at a higher rate than other multifamily rental properties.”

These smaller buildings require intensive, hands-on management and a thorough understanding of and compliance with the numerous city and state requirements.

“We believe that due to increasing customer service expectations and complexity surrounding compliance with the numerous city and state requirements, ‘mom and pop’ owners will be more inclined to sell to more professional owners, creating attractive investment opportunities for us,” Yorio says.

Additionally, the state Legislature is weighing extreme changes to the rent stabilization laws. Among other things, the state could remove or modify rent increases upon vacancy, change or discontinue the move to market rate apartments, as well as discontinue or change the calculations of Major Capital Improvement rent hikes.

Building owners and associations warn such changes will cause the value of multifamily buildings to tank and housing conditions to deteriorate rapidly.

But Yorio isn’t worried, saying, “As a long-term holder, the recent uncertainty surrounding the rent stabilization laws also presents opportunities on the buy-side as downside scenarios are priced into transaction prices.”

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