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New twist on luxury living: cash out, deposit bonds in

Company offers a way for buyers to have their condo and keep their investments

By JENNIFER ROBISON
REVIEW-JOURNAL



Deposit Alternative executives Louie Nehme, left, and Todd Andrews, just opened a Las Vegas office. The company offers deposit bonds in place of cash earned money on condos.

Photo by [Gary Thompson](#).

So you're trying to figure out how to swing that 20 percent cash deposit on that luxury condominium you're looking to buy.

Should you dip into the equity in your existing home? Maybe trade in some stocks?

If the executives of a new local business have their way, you won't have to do either.

Executives of Deposit Alternative, an Australian company that just opened its [U.S.](#) headquarters in [Las Vegas](#), want you to put away your checkbook and stash your cash. They're offering deposit bonds in place of cash earned money on local high-end condominiums.

Condo buyers pay a fee of 4.5 percent of the bond amount per year, and Deposit Alternative issues a bond good for as long as three years. The idea is to let condo buyers hold onto investments and home equity during the two to three years it takes to complete a high-rise, and to ensure that sellers receive their deposits even if buyers back out of their deals.

"Many people today are equity-rich and cash-poor," said Louie Nehme, president of Deposit Alternative. "Most people don't have hundreds of thousands of dollars in a bank account. They have it in their home, in stocks and mutual funds or in other investments. Instead of liquidating those investments, they can apply for a bond and not have to worry about paying cash."

The point is that a buyer's investments can continue to earn interest and gain value while the deposit bond holds the condo reservation, said Todd Andrews, chief operating officer of Deposit Alternative.

One local condominium developer has already embraced the deposit-bond concept.

Gemstone Development just began offering the service to buyers at Manhattan West on Russell Road near the Las Vegas Beltway. Nearly 10 buyers have applied for the funding, said Mark Chatow, Gemstone's vice president of marketing.

"Our buyers have really responded well to the idea," Chatow said. "Even if they have the funds to pay cash for an earnest deposit, they do the math and realize (a deposit bond) has roughly a 5 percent annual cost, while many of them are earning more than that on existing investments."

Deposits at Manhattan West, where prices range from around \$250,000 to \$1 million, average \$20,000 per unit, though some earnest payments cost as much as \$100,000. Gemstone officials are telling "pretty much every" buyer about deposit bonds, Chatow said.

Deposit bonds don't benefit buyers alone: They also make it easier for Gemstone to sell units, and they've given the developer a financing option most competitors aren't yet offering, Chatow said.

Deposit Alternative qualifies buyers for the bonds and the condo purchase, performing due diligence similar to the financial checks a mortgage lender would perform on a borrower, Nehme said. The company verifies income and determines whether a buyer can service existing liabilities plus mortgage payments on a pricey new condo. Deposit Alternative also looks at assets to make sure a buyer has the financial wherewithal to complete the deal. Once the buyer closes, the condo's seller gets his money. The bond is frozen for the duration of the contract.

Nehme likened the concept to a bank letter of credit secured against cash or property.

"We're not in the business of producing a small investment or a huge loss," Nehme said. "We underwrite correctly and put real people into real property."

If a condo project folds, Deposit Alternative refunds the buyer based on how many months the bond has been in place. With a 12-month bond on a tower that falls apart six months later, for example, the buyer would receive his premium minus six months of risk.

If a buyer defaults on the bond and fails to complete his purchase, Deposit Alternative pays the seller the deposit and then sues the client to recover the cash.

For every 100 bonds Deposit Alternative writes in Australia, the buyer backs out 1.8 times, Andrews said. Nehme declined to disclose the recovery rate on those unpaid deposits, but he said the company's claims process "is aggressive, and the recovery amount is exceptionally high."

Deposit bonds on homes are unusual in the United States. A spokesman with the Nevada Department of Insurance, through which Deposit Alternative is licensed, said he couldn't tell based on licenses whether other companies in the state are offering earnest bonds on housing, but officials of Deposit Alternative say theirs is the first such business in Las Vegas.

In Australia, where deposit bonds have existed since the mid-1990s, buyers take out the guarantees on 80 percent of home down payments, Nehme said.

The executives of Deposit Alternative considered several states, including high-rise hotbed Florida, for the company's U.S. headquarters. They chose Las Vegas because "it's beautiful one day and perfect the next," Nehme said.

"Through our research, we found that Las Vegas is shaping itself into an international city," he said. "Las Vegas, in my opinion, is far more sophisticated than Florida. We wanted to be in a state where tourism, not just from the United States but also from international markets, is only going to increase. The scope of high-rise development in Las Vegas has just started, and we see the caliber of design and creativity will surpass that of Florida by any standard."

Bruce Hiatt, a local high-rise broker and co-owner of Luxury Realty Group, called Deposit Alternative's opening here an indication of growing international interest in Las Vegas.

The move also fits well with local developers' efforts to sustain the brisk sales volume they were posting when the market was stronger in 2004 and 2005.

"At this juncture, we're all trying to figure out how to be creative over the next 18 months, and to know where the market is going and how to win at the market," Hiatt said. "So to see a product like this come into the market is not a surprise at all. People are trying to figure out how we can keep business going in the market below \$1.5 million, and how buyers can commit fully to homes."

But consumers could be reticent at first to embrace a financing concept they're not familiar with, Hiatt said. Deposit Alternative will have to educate the public about deposit bonds before consumers "learn to trust them," he said.

Also, many consumers might blanch at the idea of committing to a two- or three-year deposit bond because unforeseen events can interrupt long-term plans.

"People don't always know what will happen in their lives," Hiatt said. "We see everything from divorce to death to medical problems. Life happens. People get into situations where they really just can't close."

Nevertheless, between 70 percent and 80 percent of condo buyers in the \$700,000 to \$1.5 million price range will purchase their homes using mortgages rather than cash, and for some of those consumers, deposit bonds could be useful, Hiatt said.

Nehme said he expects Deposit Alternative to write about 2,000 bonds in Nevada, Arizona and Texas in its first year. He's estimating a 50 percent gain in business in the company's second year, and a bond volume of about 10,000 in the fourth year. Beyond Nevada, Arizona and Texas, Deposit Alternative is obtaining approval to do business in 15 other states, with Hawaii likeliest as the next market.

The company is negotiating to offer deposit bonds through several local condominium developers.

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