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Market drives Desert Capital to halt sales, cut its dividend

Real estate investment trust insists it is scaling back, not going broke

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REVIEW-JOURNAL

Desert Capital REIT, a real estate investment trust holding short-term loans secured by real estate, on Wednesday said it has stopped redeeming shares from investors, halted the sale of new shares and cut its dividend because its borrowers are getting hammered by the real estate crisis.

In reports filed Wednesday, however, the Henderson-based company said it isn't going out of business.

"We're still cash-flow positive, and this is not a company that is going broke," Chief Executive Officer Todd Parriott said.

Desert Capital has little debt, other than \$30 million in preferred trust securities. As a result, he said it is unlikely Desert Capital will need to seek bankruptcy court protection.

Parriott said the REIT continues to make loans to financially strong borrowers who often have been unable to borrow because of lending restrictions at commercial banks.

Desert Capital is a private, or hard-money, lender that uses money from individual investors to make loans to developers and homebuilders. Investors generally are attracted to hard-money lenders because of the high yields they can earn on loans to developers.

Desert Capital has \$200 million in assets and about \$150 million in tangible shareholder equity. Desert Capital has loans bearing rates between 7.5 percent and 16 percent.

In its announcement Wednesday, Desert Capital also cut the dividend to 2.5 cents from 10 cents, starting with dividend payments going out March 14.

Desert Capital said it suspended sale of shares starting Feb. 22 because of market conditions.

Shares of Desert Capital aren't publicly traded, but the company has repurchased shares from investors in the past based on the price paid for the shares and the length of time the shares are held, Parriott said.

Desert Capital used money from a dividend reinvestment program to provide cash to buy back shares, but the dividend reinvestment program has been suspended because shares are no longer being sold, Parriott said.

Desert Capital said it doesn't believe it has sufficient money to repurchase shares from investors now. Parriott said attorneys are working to reinstate the share buyback program.

An affiliated company and separate brokerages have been selling Desert Capital shares at \$15 each most recently, of which 9.5 percent went to commissions. The company was buying back shares at \$9.46 a share, according to its latest quarterly financial report.

The company scheduled a conference call Wednesday with brokers and dealers who sell shares in Desert Capital, but Parriott canceled the call Wednesday and said the company would talk with brokers and dealers separately. Parriott later explained that the conference was canceled based on advice from attorneys.

However, the company recorded comments for shareholders to hear by telephone.

The shareholder investor call closely followed a script the company filed with the Securities and Exchange Commission, noting that many of its borrowers were struggling because of the residential real estate market slump.

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