

## **15. Investment Real Estate Fraud**

### **Background**

Investors selected residential properties based on a promotional brochure and other representations promising rent subsidies, safe property investments, sound demand, and solid returns. All properties involved in this case were Section 8 subsidized residential properties. The real estate agents represented that rent payments came from Section 8 subsidies paid by the U.S. Department of Housing and Urban Development and from a grant assistance program described in property promotional materials.

The promotional brochure failed to indicate that a portion of the rent for each property would also be paid by the tenant. The rent required to be paid by the tenant was not noted in the brochure describing the income and expenses for the properties.

After closing on the properties, the investors discovered that the grant assistance represented by the real estate agents did not exist, that the management company withdrew from the management contract, and that some of the properties were damaged by tenant vandalism and/or were vacant and could not be leased. The investors sold some properties at a loss.

### **Issues**

The listing agents of the properties failed to investigate the income, expenses, and tenancies critical to the investment integrity of the properties. The real estate broker and the agents failed to meet the fiduciary duties and the standard of care incumbent upon them in the listing and sale of the properties purchased.

### **Outcome**

Dr. Musil prepared an extensive report on this case. The case settled.