

The dynamics of a purchasing group

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In recent years, quite a few residential real estate projects in Israel have been executed by purchasing groups. A purchasing group constitutes a number of people who band together to purchase land, and they arrange the building process. Purchasing groups have existed in Israel for a number of years, but it was only in the past decade that they have really taken off.

Despite the fact that a purchasing group is made up of individuals who are all essentially equal, the group is usually organized by an individual or a company that specializes in purchasing groups. The organizer usually finds a plot of land on which to build, and he organizes the group around it. In most cases, the organizer will administer the project until it comes to fruition. This means that the construction process is completed, and the property is registered with the land registry office.

Purchasing groups have proliferated because they have advantages for the organizers and the participants. For the organizer, it is a win-win situation. The risks are small and the rewards plentiful. Unlike an entrepreneur, the risk factor for the organizer is minimal. He does not finance the building project like the entrepreneur. This means he does not need to raise capital or risk his own money to buy the land and finance the building process. The whole process of buying the land and constructing the building is financed by the members of the purchasing group. The organizer ends up with a lower profit margin, and that is one of the advantages for the members of the group. The final cost of the apartment building is much less than a similar property bought directly from an entrepreneur.

While purchasing groups have advantages for the organizer and the group members, they also have disadvantages for the members of the group. These disadvantages are the risk factor and the time factor. In a purchasing group transaction, the members take all the risks upon themselves. In a conventional transaction, these risks are assumed by the entrepreneur. The other major disadvantage in a purchasing group transaction is uncertainty. One can never be sure of the final cost of the property or the date of completion.

Another disadvantage is that the organizer does not need initial capital or any special professional skills. Consequently, quite a few purchasing groups have been organized and managed by somewhat unprofessional people, who often gave out unreliable information to buyers while making promises that could not be fulfilled. Due to media coverage, several extreme cases of mismanagement and the losses incurred by individuals were brought to light. In addition, the attitude of the tax authorities towards purchasing groups considerably lessened the appeal of purchasing groups to the public.

However, we believe that in light of their economic advantages to purchasers and the fact that most residential real estate luxury projects in the central areas of the country are started by purchasing groups, joining such a group should not be dismissed out of hand. Having said this, it is important to minimize

the risks involved by examining the contract in detail.

The first thing to consider is if the project has been granted a construction permit. If not, verify when it is expected to be received according to a professional's opinion. Should a permit not be in place, one should ascertain whether the project is marketed based on an existing urban building plan or if there's a need to request any facilitation or even promote a new plan, which casts doubt on the possibility of starting the project as planned.

One should also examine whether contractors have already provided quotes for performing the project, quotes that served as the basis for the building's final cost estimates. If such quotes have been made, it's important to check the date on which the contractor guaranteed delivery of the property and according to which specifications the quotes were made, in order to ensure that the construction budget is realistic vis-à-vis the expected specifications.

Furthermore, it's important to find out whether an initial overture was made to banks for financing the purchase of the land and starting work on the project.

All of the above should greatly assist in alleviating the uncertainty and providing better indications as to the project's costs and expected delivery dates.

Finally, and perhaps most importantly, the organizer's reputation and history of past projects should be examined in great detail. It's important to ascertain, for example, whether any of his previous projects have gone over budget; if the delivery dates promised to buyers were met; whether projects he organized were built and received occupancy permits; whether he took care to register the building as a condominium; and if his previous projects received bank financing, which

would provide an indication of his ability to receive funding for the current project as well. A qualified professional organizer can use all his experience to ensure that the project is carried out in the best possible manner, while reducing the risks as much as possible. Specifically, he may also choose the contractor and remain in contact with him.

Another significant factor regarding a purchasing group is its service providers, such as the project's architect, appraiser, chief engineer and legal advisers, the lawyers. Undertaking a residential real estate project in Israel is a tall task. It's a long, arduous road that starts before any land is ever purchased, continues with actual construction until the property is completed, and concludes with condominium registration. The roles lawyers play in this tapestry are varied and far-reaching, with an emphasis on safeguarding the buyers' rights when purchasing the land, ensuring receipt of satisfactory guarantees from the contractor, keeping contact with the financing entity and the authorities and more. In light of the many complexities and risks involved in projects started through purchasing groups, it's important that the group's lawyers have a good reputation and specific experience in the field.

In conclusion, we believe that the age of purchasing groups is not over. They may lead to savings and lowering of potential costs, acting as a profitable investment in real estate in Israel. However, due to their many complexities, it is very important to safeguard the group members' interests by employing reputable, responsible and reliable people to manage and accompany the project.

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