

# Arbitration Real Property Management

A property management company served as manager for three significant office buildings owned by our client. The property management company's principal also held an equity position in each of the three properties. After our client became concerned about poor leasing results and substandard management, plus suspected improper self-dealing by the manager, an agreement was reached to buy out the manager's equity interests at appraised value, offset by any amounts the manager had improperly taken for his own use (he admitted to about "\$200,000 or so" against a presumed equity value of about \$5 million).

After the parties couldn't agree on valuation, the manager filed an arbitration demand. Each party hired its own real estate appraiser to value the equity interests, and Schulze Haynes Loevenguth & Co. was retained to determine the appropriate amount of the offsets.

The appraised value of the manager's interests did indeed come in at about the expected \$5 million. Settlement was considered by our client. Once we started digging into the records, however, the staggering extent of his misappropriations and self-enriching actions became apparent. In addition to extensive direct misappropriations (either to himself or his affiliated entities), we found numerous payments made on behalf of properties outside the ownership of our client's group. Add to this the impact of below-market leases drawn up on behalf of the manager's affiliated companies, costs of curing loan defaults directly arising from the manager's misappropriations, along with other self-interested transactions, the losses and offsets totaled a whopping \$11 million.

Karl Schulze presented these findings at deposition and then in arbitration testimony and when it came time for cross-examination, neither the claimant nor his counsel were present - his counsel had resigned and the claimant had abandoned the arbitration, and in the process his claim.

The arbitrator adopted our findings, and a sizable award was entered in our client's favor.

**Lesson to be learned: Consider settling if appropriate, but first conduct enough investigation to be sure that your client is not leaving too much on the table**

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