

CASE STUDY #3

When Trust Fails

How I Lost Everything in a 'Can't-Miss' Investment

The Transparency Files

Case #265

Name: R' Shimon Farber

Age: 67

Children: 6

Occupation: Retired Yeshiva Administrator

Investment Type: Retail Center

Money Invested: \$500,000

Source of Investment: Equity Broker / Word of Mouth

Time frame before Investment Deteriorated: 4 months

Money Lost: \$475,500

Deteriorated: 10 months

I had no reason to suspect anything was wrong. The references were solid. The broker seemed to have all the right answers. How could I have known that I was on the brink of losing everything I had worked for?

For thirty years, I served as a dedicated administrator for Yeshiva Toras Chessed, trying to make ends meet while raising my family. It wasn't glamorous work, but it was honest, and I was doing what I loved in a Torah environment: helping *talmidim* grow and thrive. During this time, we lived simply, and I was able to save \$250,000 during those decades of service. After years of scrimping and sacrificing, my wife and I even took out a home equity loan, pulling together another \$250,000. It was a risky move, but I wanted to ensure that my family would be financially secure as we aged. That \$500,000 felt like a lifeline.

Then came the opportunity. It all started with a conversation with my married son, who heard about a real estate deal in Alexandria, Virginia. He was full of excitement, telling me that someone he knew—a friend who had a reputation for finding promising investment properties—was offering a share in a retail center in the heart of the city. "It's like Manhattan," my son said confidently. "You can't lose in a place like this."

I spoke to my son's friend directly and he sang the same tune. He described Alexandria as an up-and-coming city with a booming retail sector. The center was supposedly located in a bustling area with high-end tenants, and the investment promised a strong monthly return. I wasn't familiar with Alexandria at all, but the glowing endorsements impressed me.

I wanted to take my time, to think it over, but the broker pressed hard. He told me only a select few people were invited to be a part and if I didn't wire the money within 24 hours, he would have to move on to the next investor. The pressure was intense. Even though something inside me told me to slow down, I couldn't shake the fear of missing out on what seemed like a golden opportunity. I signed the contract in haste, still unsure about the specifics but trusting in the broker's reputation. After all, if my son vouched for him, that was enough for me.

At first, all seemed good. I received \$3,500 monthly in returns, and I was happy that my nest egg was growing. But all too soon, the cracks began to show. After four months, the steady returns we had been promised started to dry up. The broker's tone changed from confident to apologetic. "We're having problems," he said. "The tenants aren't paying, so we can't pay you."

When I asked what had gone wrong, the broker blamed the neighborhood. It turned out that Alexandria wasn't the gold mine it was made out to be. The surrounding area was deteriorating, tenants were leaving, and the retail center could no longer cover its mortgage. The entire investment had been mismanaged from the start.

I later learned that the retail center wasn't even in a thriving part of Alexandria but in a neighborhood that had been in decline for years. The rental comps the broker had shown me were for properties in a completely different area—a more desirable part of town, miles away from the center I had invested in. None of this was explained to me when I signed the papers. I had blindly followed the broker's assurances without doing my own research, trusting in his expertise instead of questioning the details.

When I reached out to the broker for answers, I was met with vague excuses. "It's just a tough market right now," he said. "We're doing our best, but there's no guarantee in real estate."

That was the last time I heard from him. Soon after, the bank foreclosed on the property, and I was left with nothing but a few scattered payments and a check for \$14,000—less than three percent of my total investment.

And now? Now I'm selling my house to repay the home equity loan, and I'm searching for a cheaper place to live, much farther from my children than I ever wanted to be. When it came time to host my married children for Pesach, it's hard to even admit this... but I had to turn to a local organization for assistance with the food. It was demoralizing; in all my years as an administrator (when I was being paid a paltry salary) I'd never had to ask anyone for help. My wife and I are in our sixties, facing the brutal reality that we must look for new jobs at a time when most people are winding down. We believed we were securing our future, but instead, we found ourselves rebuilding our lives from the ground up.

A TRANSPARITY REVIEWER WEIGHS IN

When Rabbi Farber* walked into the Transparency office and told us his story, it was clear that the root of the issue lay in trust—trust in the wrong people and the wrong process. Rabbi Farber was pressured into making a decision without fully understanding the neighborhood or the investment itself. Here are some red flags:

- 1. Pressure to Sign:** Rabbi Farber was pressured to sign the contract within 24 hours. This kind of pressure is often a tactic to prevent investors from taking the time to think critically about the deal. Had he waited, he might have done due diligence and seen that the neighborhood was not as promising as the broker had claimed.
- 2. Lack of Understanding of the Location:** Rabbi Farber blindly followed the broker's referral without fully understanding the nuances of Alexandria, Virginia. Real estate is local, and understanding the specific neighborhood is crucial. In this case, the retail center was in a declining area, far from the vibrant part of the city that had been presented.
- 3. Middlemen Misrepresenting Facts:** The equity broker acted as a friendly middleman, never explicitly mentioning that he would make money off the deal. Instead, he positioned himself as someone simply helping Rabbi Farber by "showing him the deal." This deception

kept the broker's true motives hidden and gave Rabbi Farber a false sense of security. This underscores the danger of trusting middlemen who present themselves as friends or protectors but are really earning fees by pushing risky deals onto unsuspecting investors.

UPDATED 9.27.24