

ARC NYC REIT Shareholders Urge Fellow Investors to Vote Against “Schorsch Control”

Cove Partners III LLC, a dissident shareholder of American Realty Capital New York City REIT Inc., [issued a letter](#) to fellow shareholders urging them to vote against certain charter amendments being proposed at the upcoming annual meeting of shareholders on June 27, 2017.

Cove Partners III is an entity overseen by Michael Ashner and John Alba. Ashner, along with Steven Witkoff, also owns WW Investors LLC which was instrumental in [replacing AR Global](#) as the advisor of New York REIT (NYSE: NYRT) with their affiliate Winthrop Realty Partners and shaking up the board of directors.

Cove Partners III owns 100 shares of ARC New York City REIT, but did not purchase the shares in time to vote at the upcoming annual meeting, but noted that they would consider an increased investment in the REIT. Ashner and Alba also noted in their letter that share value had dropped by 10 percent although the value of New York City real estate soared.

“The quarterly distributions to shareholders which you had been receiving were NOT dividends from profits or earnings, which management has finally admitted,” said Ashner and Alba in the letter. “Rather, they consisted of your own capital investment and proceeds from borrowings being paid back to you.”

According to Summit Investment Research, ARC NYC REIT had a 19 percent distribution coverage in the first quarter of 2017 for its 6 percent distribution rate and a \$2.91 per share total overdistribution.

NYC REIT is managed by an external advisor controlled by Nick Schorsch, and as Ashner pointed out, his affiliated entities have experienced a series of scandals in recent years, including the American Realty Capital Properties (NYSE: ARCP) accounting cover-up and upcoming criminal trial, the Realty Capital Securities proxy fraud charges and fine by the state of Massachusetts, and the RCS Capital (NYSE: RCAP) 2016 bankruptcy.

“Since he has withdrawn from raising new money, Mr. Schorsch has been on a tear to convert his one-year management contracts into long-term 20-year contracts locking in the fee income for himself and diminishing the value of the shares,” said the investors.

The pair urged shareholders to “reject the basket of outrageous self-serving and entrenchment-minded proposals to amend the company’s charter...which were recommended and approved by the handpicked Schorsch board of directors.”

The investors believe that, if approved, the proposals will “eliminate valuable shareholder protections” and “open up the door for unlimited and unfettered Schorsch control” of shareholders’ investments.

The proposals, among others, include ending the fiduciary obligation of the board to shareholders, including the fiduciary duty to supervise the relationship with the company’s advisor; extending the agreement with the Schorsch-controlled advisor for an indefinite period rather than limiting it to one-year renewals; and limiting access to the books and records of the company.

The REIT is also seeking to prevent the Schorsch advisory agreement from being terminated on 60 days’ written notice; allowing the board to privately sell shares in the company, eliminating the ability of 10 percent of shareholders to call a special meeting and giving the board authority to increase

this threshold by 5x, and eliminating the current shareholder majority voting requirement before the board can take specified actions.

Ashner and Alba offered to openly debate their position with NYC REIT board members.

American Realty Capital New York City REIT is a non-traded real estate investment trust focused on properties located in the five boroughs of New York City, with a focus on Manhattan. The company closed its initial public offering in May 2015 and had raised a total of \$764 million in investor equity, as of March 31, 2016. The company owns six properties valued at \$785 million, and in October 2016, the company's board approved an estimated net asset value of \$21.25 per share. Shares were originally sold for \$25.00 each.

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