SEC Enforcement Case Summary
Real Estate Developer Charged with Negligently Misleading Investors

On March 20, 2025, the Securities and Exchange Commission (***SEC***) charged Peter Stuart and twenty-seven real estate companies he collectively operated as Outlier Realty Capital with misleading investors about how their funds would be used. The defendants have agreed to settle the charges, with Stuart and thirteen of the corporate defendants agreeing to pay a total of more than $3.3 million.

According to the SEC's order, from January 2018 through at least May 2023, the defendants raised at least $34.4 million from approximately 100 outside investors by selling securities in companies created to invest in real estate. Defendants marketed each company as investing in a particular property or properties located in Washington, DC, Maryland, or Virginia. Investors that purchased the securities understood they were investing in specific real estate projects. In reality, the defendants failed to manage the companies separately, and routinely commingled investors' money to cover shortfalls across related entities and to pay Outlier overhead expenses, such as salaries. The order noted that Outlier commingled more than $50 million of property-specific funds during the relevant period despite concerns raised by business partners, internal and external bookkeeping staff, and other insiders. Defendants also failed to disclose the true and complete facts to investors who expressed concerns about the location and use of their money.

The SEC equated the commingling of property-specific funds to interest-free loans between Outlier entities that exposed investors to undisclosed investment risks that were incompatible with purported business plans. The SEC's complaint also alleges that when some of the properties were sold, the defendants underpaid investors by approximately $1.47 million. Accordingly, the SEC noted that defendants' conduct deprived investors of the time-value of their money and investment returns they should have received on a timely basis.

The case highlights the risks and conflicts inherent when commingling assets and that firms should expect scrutiny to the extent that they manage and control the assets of multiple funds or entities. It may seem that assets across related funds or entities are fungible and that using assets from one vehicle to temporarily satisfy an obligation of another vehicle is not a concern, as long as it is trued up within a reasonable amount of time. However, this case emphasizes that the SEC will focus on the economic impact to funds and investors in such activities and highlights the risks and conflicts that arise when investor funds are commingled. The Custody Rule under the Investment Advisers Act specifically prohibits commingling client assets with investment adviser assets. Moreover, gatekeepers such as fund administrators and auditors should be a resource in avoiding commingling and other practices that create financial risks and conflicts across parallel managed funds or entities. The case further noted the lack of transparency as a problem in informing investors regarding the firm's commingling practices and also the fact that the firm disregarded warnings from insider and employees, which actions should always trigger red flags for compliance staff.

See SEC Summary – https://www.sec.gov/enforcement-litigation/litigation-releases/lr-26263