

# STUY TOWN: THE FALLOUT

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By David Jones



Stuyvesant Town

As Tishman Speyer's \$5.4 billion acquisition of Stuyvesant Town and Peter Cooper Village transitions from the biggest deal in American real estate to the biggest debacle, the impact on New York residential real estate appears to be profound.

Tishman and its investment partner, BlackRock Realty, agreed in January to hand over the keys to lenders after failing to make a \$16.1 million interest payment. Negotiations then fell apart, and the senior lender filed to foreclose.

The buyers' initial assumption that they would be able to deregulate the complex in three years would have been "nearly impossible," regardless of whether the economy collapsed or the boom continued, noted Jonathan Miller, president of Manhattan-based appraisal firm Miller Samuel. "In hindsight, it was based on a false premise of being able to decontrol all 11,000 units in the buildings," said Miller.

Tishman officials declined to comment for this story.

The state's highest court ruled in October that the landlords improperly raised rents and deregulated thousands of apartments while benefiting from special tax incentives in the so-called J-51 program.

However, attorney Ron Kremnitzer, with the real estate group at Pryor Cashman, said that Tishman had the right to believe that deregulating apartments at a complex receiving J-51 tax incentives was legal and profitable. "There are many, many buildings throughout the city that have J-51, and did luxury decontrol of apartments with the full blessing of all the regulatory authorities," he said. Kremnitzer was not involved in the case.

Still, the "Stuy Town story" may well change how lenders see regulated complexes, and could embolden tenants fighting to keep rent controls. Below are some examples.

## **Following suit: Lenox Terrace**

After Stuyvesant Town and Peter Cooper Village tenants won their case, other lawsuits have been filed

against landlords who receive J-51 tax benefits for alleged rent overcharges. The J-51 program calls for landlords to receive subsidies or abatements from real estate taxes in return for rehabilitating older buildings.

In a class action lawsuit in New York State Supreme Court, hundreds of current and former tenants of Harlem's Lenox Terrace apartments at 470-484 Lenox Avenue allege the landlord illegally deregulated rent-stabilized apartments in an effort to convert the buildings into market-rate units.

According to the complaint, about 20 to 30 percent of the apartments have been illegally deregulated in Lenox Terrace, which includes six 16-story buildings. Olnick Organization officials were not available for comment.

### **Fallout in Chelsea**

Tenants at London Terrace Gardens, a luxury rental complex in Chelsea, filed a suit in November to overturn years of alleged harassment, deregulation and rent overcharges at the property. Tenants at the 10-building complex, located at 415-455 West 23rd Street and 420-460 West 24th Street, claim the owners have received more than \$1.9 million in J-51 tax breaks since 2003. London Terrace officials were not available for comment.

### **From J-51 to 421-g**

Following the decision in the Stuy Town case, a New York City housing court ruled in December that the landlord of 37 Wall Street, W Associates, was illegally deregulating apartments while receiving 421-g tax incentives.

The 421-g program started in 1995, with subsidies granted by the city to spur conversion of Lower Manhattan office buildings into residential housing. The housing court case started with a tenant at 37 Wall Street who complained of a lack of heat and other services. A lawyer for the tenants, Serge Joseph, demanded a rent-stabilized lease, which prompted the landlord to take the tenant to court.

The ruling could impact at least 5,000 rental apartments in the Financial District. The landlord is appealing, and Kevin Smith, a lawyer with Stroock & Stroock & Lavan representing 37 Wall Street, said he believes the court will ultimately back the landlord. "The statute is different. We think there's definitely a difference between 421-g and J-51," Smith said.

### **Reeling at Riverton**

Last month, a state Supreme Court judge ordered Riverton Apartments, one of the city's biggest rent-regulated complexes, to the auction block. In 2006, Stellar Management, led by developer Larry Gluck, acquired the 1,220-unit complex, with plans to raise rental income to nearly \$37 a square foot from \$14.52 a square foot by converting the tenant ratio from 92 percent rent-stabilized to nearly half market-rate in three years.

However, Gluck was only able to deregulate 10 percent of the building's units and could not refinance the building after the 2008 collapse of the credit markets, forcing him to burn through millions of dollars in the

property's reserve fund.

Gluck's attorney Stephen Meister, while conceding there may have been "poor judgment" by Tishman and others, argues that nobody foresaw such a rapid economic collapse. "People bought real estate at the height of the market," said Meister. "No one's guilty of anything here in my mind."

### **Standoff at Independence Plaza**

Tenants at Independence Plaza, a former Mitchell-Lama complex in Tribeca, are awaiting a decision from the state Division of Housing and Community Renewal regarding whether the building should return to rent regulation because it received J-51 tax incentives. If the state rules in favor of the tenants, the landlord, also Gluck, could need to refund rent overcharges.

Meister, Gluck's attorney, told the Downtown Express that he would "make it his personal business to completely take the building to market" if the tenants win.

### **Not everyone lost in the Stuy Town deal**

*City Council Member Dan Garodnick*

The Democratic Council Member has been a champion of the complex -- where he grew up and lives. His 2006 campaign to have tenants purchase the complex from MetLife ultimately proved unsuccessful, but Garodnick garnered citywide exposure for his role in the landlord-versus-tenant struggle. Garodnick told *The Real Deal* that he's happy to have Stuyvesant Town attached to his name. "If people feel that I can be a constructive voice in navigating a [difficult] issue like this, than that's a positive," Garodnick said. "The law was clarified in a way that made sense." *By Amy Tennery*