Housing crisis deepens in New York City

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As big investors face bankruptcy or walk away from failed real estate deals, renters are joining the many thousands of homeowners in New York City confronting the impact of the foreclosure crisis. Thousands of tenants in large multi-dwelling buildings face deteriorating conditions and an uncertain future as their landlords are unable to meet debt payments.

The massive Stuyvesant Town-Peter Cooper Village complex in lower Manhattan along the East River, consisting of 110 buildings and more than 11,000 apartments, is the largest and most-publicized case, but it is far from the only development affected by the crisis.

Stuyvesant Town and Peter Cooper Village have seen the recent collapse of the $5.4 billion deal that brought in new owners only three years ago. According to the city's Department of Housing Preservation and Development, however, there are more than 100,000 apartments in the city, housing as many as 300,000 people and perhaps more, that are in buildings that are "underwater," with their landlords owing more than their current worth.

Built more than 60 years ago by the Metropolitan Life Insurance Company, Stuyvesant Town and the smaller Peter Cooper Village comprise a community of some 25,000 people. For decades, they were known for their affordability for working class New Yorkers, although many of the apartments have been deregulated in recent years with their rents skyrocketing in line with the market in the increasingly wealthy area.

More than three years ago, as the real estate asset bubble continued to grow, MetLife put the developments up for sale, and the giant Tishman Speyer and BlackRock Realty companies put together a $5.4 billion deal, the biggest real estate transaction in US history. Existing rental income came nowhere near meeting the massive loan payments required by this deal, but the new owners, counting on a continuation of the real estate boom, planned to get rid of thousands of tenants and welcome wealthy new renters who were willing to pay two and three times current rents.

These plans ran into difficulty almost immediately, as tenants resisted strong-arm tactics seeking their removal, and the turnover of apartments fell below estimates. The deal was blown to smithereens by the financial and housing collapse that began in 2008 and continues today. Rents fell fast, especially for higher-priced apartments. The owners defaulted on $4.4 billion in scheduled loan payments in January and then announced that they were turning Stuyvesant Town and Peter Cooper Village over to their creditors, simply walking away from the properties.

BlackRock and Tishman Speyer will each lose their original investment of $112 million, but secondary investors who bought into the deal, including such diverse entities as the Church of England, the government of Singapore and the California state pension system, after becoming enmeshed in what amounted to a kind of legal Ponzi scheme, stand in many cases to lose much more.

"The fact that they have given the keys back is going to have a chilling effect," one real estate analyst told the *New York Times*. "There'll be some other spectacular blowups, but this will be at the top of the pecking order," said another investor.

Further complicating the situation, New York State's Court of Appeals ruled last year that the owners had illegally raised the rents on 4,400 apartments. Negotiations on $215 million in rent rebates were ongoing as Tishman Speyer and BlackRock announced their intention to abandon the properties.

The foreclosure crisis is affecting many thousands of tenants in addition to the single-family homeowners, mostly in New York's outer boroughs, who have lost jobs and now face foreclosure on their homes. Just days after the latest Stuyvesant Town announcement, a state judge ordered the foreclosure sale of another landmark development in New York, the Riverton Houses in Harlem. With 1,228 apartments in seven buildings, this complex, between 135th and 138th Streets, has been home to sections of New York’s African-American middle class and elected officials like former Mayor David Dinkins since its construction in the 1940s, also by Metropolitan Life.

Like Stuyvesant Town, Riverton was snapped up a few years ago by another multimillionaire developer, who hoped to deregulate half or more of the apartments and came up far short as the financial collapse took its toll.

In Riverton’s case, the developer, Stellar Management, reportedly made a killing before the real estate bubble burst. Refinancing of the deal in 2006 allowed for return of the original $44 million investment plus tens of millions of dollars in profit.

This highlights the class gulf between the wealthy dealmakers and the vast majority of tenants, who are left to contend with the consequences of the failed gambles.

Alexander H. Schmidt, a lawyer who represents Stuyvesant Town tenants, said, “This is not a blow to the tenants; it doesn’t change or alter anything of significance in the case. Whoever the owners of the property are, they will be liable for the tenants’ claims…. Tenants have nothing to fear.”

The tenants remain in limbo, however, unsure of the level of maintenance and service they can expect in the immediate and longer-range future, of when or even if they will see the rent money they are owed, and also facing the possibility that new owners will attempt to continue the process of gentrification and massive rent increases. As another observer told the press in connection with the Riverton foreclosure, “We’re about to see a wave of foreclosure sales throughout New York City. This is the first. For tenants, there’s good news and bad news. Excessive debt will be eliminated, but they will be at the mercy of the auction process as to who the new owner will be.”

Yet another prominent example of the crisis facing tenants is the fate of 1520 Sedgwick Avenue in the Bronx, a 102-unit building that owes its prominence partly to the fact that is considered by many to have played a significant role in the evolution of hip-hop music in the 1970s. The Sedgwick Avenue building was recently discussed in a report in the *Times*. It was well maintained and affordable for decades, but it changed hands in 2008 when its owner left the state’s Mitchell-Lama rent-protection program and sold it to real estate investors. In the year since the sale, the number of violations at the building has jumped from 82 to 598. Longtime tenants complain bitterly about deteriorating conditions, and a dozen families have either moved or plan to in the near future. More than 20 tenants have filed a lawsuit against the current owners, citing these violations and conditions that include flooding toilets, dirty floors, no repair service and other complaints.

The Sedgwick Avenue building was bought as an investment vehicle by a private equity group that included Mark Karasick, a prominent investor who had earlier sold the Bank of America Center in San Francisco to a group that included Donald Trump. The fate of the Bronx tenants clearly meant little to these investors.

The building is now among the many hundreds in the city that are endangered. According to the city’s housing agency, there are about 4,000 apartments that are almost uninhabitable because of these conditions, at least 90,000 apartments that are in danger but not facing immediate collapse, and 16,000 apartments, including the 100 in the Sedgwick Avenue building, that are in growing disrepair.