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Tishman Nears Restructuring, Sale of Stuyvesant Town (Update1)

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By Hui-yong Yu, Jonathan Keehner and Oshrat Carmiel



Nov. 9 (Bloomberg) -- Tishman Speyer Properties LP and **BlackRock Realty**, the owners of Manhattan's Stuyvesant Town- Peter Cooper Village, moved closer to restructuring \$3 billion in debt on the apartment complex as the property verges on default, Fitch Ratings said.

The companies turned the loan over to mortgage servicer CW Capital on Nov. 6, Fitch said in a statement. Fitch said the property doesn't produce enough income to pay the debt and a reserve fund probably will be depleted by year-end. A sale is more likely than a restructuring because the complex has lost so much value, said **Kevin O'Shea**, managing partner and head of the real estate practice at the law firm Allen & Overy.

"We requested that the joint venture's loan be moved to special servicer in order to facilitate negotiations on a restructuring of the debt load," said **Bud Perrone**, a Tishman Speyer spokesman. "The loan is not in default."

The biggest holders of the securitized mortgage are **Fannie Mae** and Freddie Mac, the government-owned home-loan finance companies. Freddie Mac has said it doesn't expect to lose money on the bonds backed by the property. Tishman Speyer and BlackRock paid \$5.4 billion for Stuyvesant Town in November 2006, near the top of the market, in the biggest deal in New York residential real estate history. They counted on increasing rents but were blocked by a tenant lawsuit and rising costs. Since 2007, U.S. commercial property values have fallen about 40 percent and apartment rents declined nationwide. The drop in prices and the credit freeze have made refinancing many loans impossible.

Wiped Out

Stuyvesant Town's worth has plunged to \$1.8 billion, according to Fitch. This means that all the investors besides the senior bondholders are probably wiped out. BlackRock has written down the investment to zero, said spokesman **Brian Beades**. On a conference call on Oct. 20, BlackRock Chief Financial Officer **Ann Marie Petach** said the writedown occurred "last year."

Beades referred all further questions on Stuyvesant Town to Tishman. The Florida State Board of Administration also wrote off its \$250 million investment.

Transferring a loan to a servicer means "the occurrence of a default is considered to be imminent," said **O'Shea**, who represented the lenders in foreclosures of Boston's John Hancock Tower and New York's Sheffield57 condominium.

A loan modification is far less likely in this case, said O'Shea.

"The borrowers' equity is currently so far underwater, there's not much point in extending the loan in the hopes that the market will recover quickly enough to service or repay the debt," O'Shea said. "You'd

probably be just delaying the inevitable.”

Loan Transferred

The transferring of the loan to special servicing means holders of the \$1.4 billion of mezzanine debt, including **Fortress Investment Group Inc.** and SLGreen Realty Corp., may have lost their money.

CW Capital, Tishman and BlackRock are likely to begin talks soon. Among the scenarios that could be pursued include an outright sale, a debt restructuring, and the conversion of bondholder stakes to equity. In a case like this, bankruptcy is another possible path.

The resolution could take a different turn should city or state officials get involved. A group of Stuyvesant Town tenants made their own bid for the complex in 2006. The property has about 25,000 residents.

Eric Bederman, a spokesman for the city’s department of housing preservation and development, declined to say if the city is in discussions with anyone on the apartment complex. “We’re keeping an eye on it,” said Bederman.

Talks Welcomed

“We would be glad to talk with the officials in hopes that the debt can be restructured with the special servicer and the residents have affordable places to live,” said **Freddie Mac** spokeswoman **Patti Boerger**. “As a bondholder, we don’t have the legal right to make decisions on the restructurings,” she said.

Boerger said Freddie Mac hasn’t been contacted by city or state officials about being part of a new ownership entity.

“There will be many factors involved in the workout,” including potential legislative changes to rent-stabilization laws, Fitch said on Nov. 6. The \$3 billion mortgage doesn’t mature until 2016 and works out to a “low” \$267,213 per apartment, based on 11,227 units, Fitch said.

Affordable Housing Complex

Officials at CW Capital weren’t available for comment after business hours. CW Capital is a unit of Caisse de depot et placement du Quebec, Canada’s largest pension fund.

Stuyvesant Town was built in 1945 as an affordable housing complex for World War II veterans and the development was governed by strict rent regulations. **MetLife Inc.** owned the property, comprised of modest red-brick buildings, for six decades before selling to Tishman and BlackRock.

Since taking over the ownership, the Tishman group has marketed the property as a **luxury rental complex** offering amenities such as a putting green and concierge service.

The new owners had aimed to make a profit by raising rents as old tenants moved out and by converting units to market rates. Tenants sued, claiming the owners illegally increased rents on more than one-third of the units because they had received tax breaks for building upgrades and because the project was built with city assistance. After buying Stuyvesant Town, Tishman Speyer repainted the lobbies, installed new automated door keys and new washers and dryers, among other improvements.

Court Decision

On Oct. 26, four days after New York State’s highest court upheld the tenants’ claim, elected officials representing Manhattan’s East Side wrote to the chief executives of Fannie Mae and Freddie Mac urging them to protect the tenants in any loan workout.

Tishman Speyer and BlackRock each invested \$112.5 million in Stuyvesant Town out of total equity financing of \$1.9 billion. They took out a \$3 billion mortgage from Wachovia Bank and \$1.4 billion of mezzanine debt. About half the equity was set aside in reserves to pay interest, property taxes and such.

“Cash flow generated by the property remains insufficient to service the debt,” Fitch said. “Debt service

reserves are expected to be depleted by the end of December.”

The \$3 billion mortgage was bundled with other loans that formed five pools of commercial mortgage-backed securities that were sold in 2007 to investors. Fannie and Freddie are the largest holders of the senior-most classes of the loan.

Transfer Scenarios

One scenario would be that the lenders don't foreclose, leave the current ownership in place, and collect all of the rental income after paying operating expenses, including a management fee to the owners, said O'Shea.

“All the net revenue generated by the property goes to the lenders now anyway,” he said.

Stuyvesant Town could be transferred to the lenders through a consensual or a contested foreclosure, although it's unlikely because Fannie Mae and Freddie Mac aren't in the business of owning real estate, O'Shea said.

As long as the net revenue is being paid to the lenders, there's little economic incentive for them to take ownership since such a transfer would trigger a tax equal to 2.625 percent of either the debt being foreclosed or the property's market value, whichever is higher, said O'Shea.

Preserving Community

Since the debt is \$3 billion and the property is estimated to be worth less than \$2 billion, the transfer tax would come to \$78.75 million, according to O'Shea's analysis.

Any new financing plan “must preserve” the property for middle-class residents and keep it as a single community, said the letter to Fannie Mae and Freddie Mac signed by State Senator **Thomas Duane**, Congresswoman **Carolyn Maloney**, Borough President **Scott Stringer**, Assembly Member Brian Kavanagh and Council Member **Daniel Garodnick**, who is a tenant at Peter Cooper Village.

“We want them to be on notice that we expect them to look after the tenants' interests here,” Garodnick said in an interview. “Now that 100 percent of the community is rent stabilized it takes a more patient investor than has existed in recent years.”

The fate of Stuyvesant Town probably won't be clear for several months. Different classes of bondholders might have competing aims, dragging out any resolution. The senior classes, more insulated from losses, might push for an immediate sale, while more junior bondholders might seek a loan extension in the interests of recouping more value when the real estate market recovers. The legal questions surrounding future rent increases at Stuyvesant Town further cloud the outcome.

Jon Searles, a spokesman for Fannie Mae, didn't immediately respond to requests for comment placed after regular business hours on Nov. 6.

To contact the reporters on this story: **Hui-yong Yu** in Seattle at hyu@bloomberg.net; **Jonathan Keehner** in New York at jkeehner@bloomberg.net; **Oshrat Carmiel** in New York at ocarmiel1@bloomberg.net

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