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January 1, 2011

Real Estate Developers Prosper Despite Defaults

By CHARLES V. BAGLI

Larry Gluck, the apartment building king whose company defaulted on loans in New York, San Francisco, Los Angeles and Washington, recently bought the Windermere Hotel in Manhattan and Tivoli Towers, a subsidized housing complex in Brooklyn.

Ian Bruce Eichner, who lost two major New York skyscrapers to foreclosure in the early 1990s and defaulted on a $760 million loan for a Las Vegas casino resort in 2008, is working on a plan to rescue One Madison Park, a troubled 50-story condominium project.

Even Harry Macklowe, whose $7 billion gamble on seven Midtown skyscrapers at the top of the market almost cost him his entire empire, is out looking for new deals.

Industry lore has it that New York is one of the toughest, most unforgiving real estate markets in the world. The costs are so high, the unions so ornery, the politicians so demanding and the rivalries so fierce, that one false move invites financial disaster.

But the truth is that there have been surprisingly few career fatalities among New York developers, even though they have lost billions of investor dollars on overpriced real estate and have littered the city with unfinished apartment buildings. While a homeowner who lost a house to foreclosure would find it difficult to borrow for years, developers who defaulted on enormous loans have still been able to attract money.

The reasons, experts say, are that there is still plenty of money floating around and that the market has a very short memory.

“You can always find an investor who’ll put up equity with a guy, unless he’s Attila the Hun,” said Daniel Alpert, managing partner at Westwood Capital, a real estate investment bank.

For some of these developers, however, putting together a deal is not as easy as it used to be. Large banks and pension funds that endured huge losses have become very picky. Scott Lawlor, the founder of Broadway Partners, bought 28 office buildings in 2006 and 2007 and is now stuck with heavy debts on what is left of a portfolio whose value has dropped by at least a third. He is trying to come back with a focus on distressed residential real estate but has been unable to attract institutional money, according to lawyers and real estate executives who know him. He is now trying to line up wealthy investors.

Hedge funds and private equity funds are still offering backing for deals, believing that the real estate market will warm up again this year. There are also new investors looking to get into real estate, including funds based in China, and Norwegian pension funds.

And there have been casualties. Shaya Boymelgreen, the once-ubiquitous developer who built more than 2,400 apartments during the boom, broke with his money partner, was peppered with lawsuits from condominium buyers and was evicted from his offices in Brooklyn.

The $3 billion real estate portfolio that Kent Swig, a scion of a West Coast real estate family, put together over the past two decades is slowly slipping through his hands, and he warned last year that personal bankruptcy could be in the offing.

But while a homeowner who is foreclosed upon is often on the brink of financial ruin, many developers who defaulted emerged relatively unscathed themselves. Most of them invested relatively little of their own money in the deals, preferring “O.P.M.,” or “other people’s money.” One of the best-known examples is Tishman Speyer Properties, which lost $56 million on Stuyvesant Town and Peter Cooper Village, while lenders and other investors lost over $2.4 billion.

It was a rare stumble and, in perspective, a minor setback for the company, which controls Rockefeller Center and operates on four continents. It has since raised $2.5 billion to expand its portfolio and recently acquired two buildings in Paris, one in Washington and a 45-story office tower in Chicago.

Mr. Macklowe, an unabashed property gambler, is also considered a real estate genius with a keen eye for development, having turned the G.M. Building across the street from the Plaza Hotel into a gold mine. He sought to double his holdings in 2007 by buying seven office towers for $7 billion. Desperate for cash during the credit crisis 15 months later, Mr. Macklowe was forced to relinquish those buildings and to sell several other properties, including his beloved G.M. Building.

Now a new set of investors is bringing him back to develop a site he once owned, where the Drake Hotel stood, according to two real estate executives who work with him.

In 2005, Mr. Gluck and a partner bought the 1,232-unit Riverton Houses complex in Harlem for $131 million. The following year, he refinanced with $250 million in loans, allowing him to renovate the lobbies and elevators and to put tens of millions of dollars in his pocket.

But in less than two years, Mr. Gluck’s plan to replace residents of rent-regulated apartments with tenants paying higher rents unraveled. The lender foreclosed as the property’s value fell by half. Loan defaults followed in San Francisco, Los Angeles and elsewhere.

Most recently, Mr. Gluck and a partner, Rob Rosania, paid $70 million for a residential hotel in Manhattan, the Windermere. But the days of easy money, when Wall Street would lend 90 percent or more of the purchase price, are over, Mr. Gluck said. His lenders required his company to put up 28 percent of the purchase price and to provide an additional $10 million for renovations.

Mr. Gluck and Mr. Rosania said they were buyers again because they were better capitalized than their competitors and did not squabble with their lenders when the money ran out. “If you behave like a gentleman and don’t leave your partners and investors to fend for themselves, you will be rewarded for your loyalty,” Mr. Gluck said.

In his case and others, investors and lenders are forgiving losses incurred after a bubble in which everyone from the smallest homeowner to the largest bank was overleveraged. “Throughout my 30 years in the business,” Mr. Alpert said, “I have seen an enormous amount of forgiveness for market errors.”

It is an infuriating pattern for the city’s real estate aristocracy, like the Durst family, which has been measured in its borrowing and has never defaulted on a loan. Yet, Douglas Durst said, “That has not given us any advantage as we go through each financial cycle in which the bankers who made bad loans are let go, but the defaulting borrowers are waiting for the new team of bankers to start the process over again.”

Mr. Eichner has been up and down more than once. After lenders took over two of his skyscrapers in 1991, Mr. Eichner dismissed criticism that he was an example of the excesses of the 1980s boom. “Everyone who was aggressive in the ’80s suffered substantial losses,” he said in 1994.

Mr. Eichner’s lenders suffered the biggest losses, and at one troubled building, 1540 Broadway in Times Square, they paid him tens of millions of dollars in 1992 to relinquish control.

More recently, in Las Vegas, Mr. Eichner has said he was a victim of the credit crisis after he was forced to walk away from the Cosmopolitan Resort Casino in 2008. Unable to obtain new financing and plagued by cost overruns and environmental issues, he defaulted on loans from Deutsche Bank for the project.

Still, Mr. Eichner, who did not return calls requesting comment, vowed in 2008 that he would be back and that bankers would lend to him once again. He is now putting together a reorganization plan to salvage the bankrupt tower, One Madison Park. The lender, iStar, opposes Mr. Eichner’s involvement, arguing that his approach would unfairly slash the mortgage in half while Mr. Eichner would reap a huge return on his $40 million investment.

“Capital is blind,” said David W. Levinson, a founder of L & L Holding Company, a real estate firm that controls 11 Manhattan buildings. “It will go wherever it can for a return. That’s it in a nutshell.”