

# Who got crunched—and who didn't

*A look at where players landed one year after the credit market debacle*

BY LAUREN ELKIES

A year ago this month the credit markets erupted, and since then it has been rough going. While the wheel of fortune always turns — there will forever be some real estate players on top while others take hits — this year many of the stories appear to be related to credit market woes.

Because it is the anniversary month of the subprime mortgage crisis,

*The Real Deal* has chosen to look at some of the year's biggest winners and losers. People whose stars have risen or fallen run the gamut from heads of real estate firms to architects to investors to individual real estate brokers to politicians.

Every tale is instructive, but we decided to hone in on 25 of the most notable cases, limiting our scope to firms and entities with direct impact on the New York City area real estate market.

## Fortunes on the rise

↑ **Mortimer Zuckerman**, head of real estate investment trust *Boston Properties*, editor-in-chief of *U.S. News & World Report*, and chairman and co-publisher of the *New York Daily News*.



In June, Boston Properties beat out other bidders and completed the acquisition of the General Motors Building from Harry Macklowe for approximately \$2.8 billion, the highest price ever paid for a U.S. office building. Zuckerman also bought three other buildings from Macklowe, bringing the total sale to \$3.95 billion.

Zuckerman was able to do the deal by turning to sources few have access to in the current market — Middle Eastern investors.

"It is no surprise that he was able to maneuver capital worldwide to make the deal happen," said Adelaide Polsinelli, an associate vice president of investments at Marcus & Millichap. It also set an example for investors on how creative one needs to be to get deals done in a tumultuous and unpredictable capital market."

↑ **William "Billy" Macklowe**, recently ascended to chairman and CEO of *Macklowe Properties*.

While the Macklowes have obviously seen their empire diminish, it was the son who was instrumental in saving the family firm and is now charged with rebuilding it. Not long after his father, real estate titan Harry Macklowe, got into trouble trying to pay back loans he took out to purchase seven Midtown buildings last year, Billy Macklowe took the reins, and his father became chairman emeritus. (Billy Macklowe had been the president of the company.)

Billy Macklowe was publicly critical of his father's decision to buy the seven buildings, according to the *New York Times*.

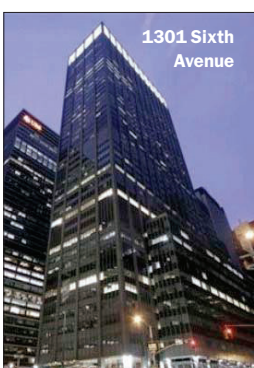
He is seen as more conservative than his risk-taking father. After Harry Macklowe, as head of the company, defaulted on a \$1.2 billion bridge equity loan from the Fortress Investment Group, Billy Macklowe negotiated a partial payment plan on behalf of the company, *Portfolio* magazine said.

He also was instrumental in the sale of the General Motors Building to avoid the company's financial collapse.

According to spokesman Steve Solomon, Macklowe is "focused on overseeing the development" of office building 510 Madison Avenue and the redevelopment of another office tower, 1330 Sixth Avenue.

He added: "Long range, he hopes to rebuild the Macklowe real estate portfolio with Class A properties and remain one of the preeminent owner/developers and managers of commercial and residential real estate in Manhattan." (See Harry Macklowe.)

↑ **Albert Behler**, CEO of real estate firm *Paramount Group*.



Paramount has been able to put together some of the biggest buys since the credit crunch hit, making the priciest building purchase ever Downtown by buying 60 Wall Street for \$1.2 billion on the cusp of the credit crunch. Paramount Group was in talks to buy 1301 Sixth Avenue from Harry Macklowe's distressed portfolio for \$1.5 billion, according to media reports, which would be the second largest deal of the year, behind the G.M. Building. (See Harry Macklowe and Darcy Stacom.)

Last year, the company purchased 31 West 52nd Street for around \$600 million, one of the biggest buys to happen in Manhattan just after the credit markets imploded.

↑ **David Schechtman**, senior director of *Eastern Consolidated's* turnaround and distressed group.



A former bankruptcy lawyer, and part of perhaps the only — or at least the most visible — local brokerage company with a dedicated group handling smaller distressed loans and real estate deals, Schechtman has benefited from a rise in the amount of distressed properties. Prior to that, he had to subsidize his distressed loan business with ordinary real estate deals. "There wasn't enough distress to support me," Schechtman said.

He said last month that he has seen exponential growth in his business in the previous 12 to 16 weeks. He has been hired exclusively to sell several loans and said he is able to tap into the firm's Rolodex of "a lot of under-the-radar high-net-worth individuals and institutions." Another source of revenue is the mezzanine loans that are now coming due. "I'm sorry that banks and their investors are losing money on some of the risks that they took in the last few years, but I'm happy that we're able to mitigate their losses," he said.

↑ **Arthur and William Lie Zeckendorf**, founders of *Zeckendorf Realty*, and owners and co-chairmen of *Terra Holdings*, parent company of *Halstead Property* and *Brown Harris Stevens*.

The brothers' 15 Central Park West condo development has been a huge success, drawing a list of high-profile buyers including Sting, Denzel Washington and hedge-fund manager Daniel Loeb and achieving staggering sales prices in a down market.

The 202-unit project sold out for around \$2 billion before the building was constructed. Recently the building, where apartment resale prices are more than double the original price paid, has benefited from the continued strength of the luxury market.

When asked how 15 Central Park West has been able to achieve such jaw-dropping prices, William responded: "It's been well-received and well-delivered, and the market's reacted strongly to what Zeckendorf Development created in conjunction with Robert A.M. Stern." The Zeckendorfs are working on a project near the United Nations, which William said was "progressing."

↑ **Andrew Cuomo**, *New York State attorney general since 2006*.



Eliot Spitzer may have been called the Sheriff of Wall Street, but since taking office last year, Cuomo has done his share of eliciting change.

In contrast to Spitzer, who was often called out for targeting individuals, Cuomo is focused on making "systemic reforms," according to the *New York Times*, and has vowed to crack down on shoddy developers. Currently, Cuomo is trying to catch up on backlogged condo construction complaints; his proposal to increase developer filing fees is awaiting passage in the state Legislature. Should it pass, the funds would be allocated to the attorney general's Real Estate Finance Bureau for hiring and enforcement.

He's gotten a good reception from some for how he has tackled reforms in the face of the subprime crisis.

In March, Cuomo, who is knowledgeable about housing from his cabinet stint at the Department of Housing and Urban Development, moved to restore the credibility of appraisers through an agreement with Fannie Mae and Freddie Mac. The companies agreed to adhere to a code that attempts to eliminate bias in appraisals. Cuomo has taken a number of other steps to root out appraisal fraud, issuing subpoenas and filing a suit against companies suspected of price inflation. Also, Cuomo is looking at the role of investment banks in the subprime crisis.

↑ **Stephen Ross**, *chairman, CEO and founder of the Related Companies.*



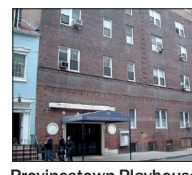
The Related Companies might have a chance to leave more of an imprint on Manhattan than any other developer over the course of the next several decades as a result of their 26-acre Hudson Yards win earlier this year, which will give them an undeveloped site bigger than even Ground Zero, which is 16 acres, to work with.

Related, along with Goldman Sachs, grabbed the project away from Tishman Speyer when the latter's deal for a \$1 billion re-development of the yards fell through. "The Hudson Yards is a once-in-a-lifetime, generation-defining opportunity, and we are ecstatic," Ross said. "All of us at Related are passionate about this historic opportunity to create New York's next great neighborhood."

The company is moving forward with condo and rental projects around Manhattan but isn't shy about heading to outer boroughs that other major developers steer clear of. In April, city officials formally announced Related's third major project in the Bronx, the redevelopment of the Kingsbridge Armory into a retail center. "We have tremendous confidence in the future of the Bronx and our current retail developments in the borough have been very successful," Ross said. "As an area, it is statistically under-retailed, and the transformation of the Kingsbridge Armory into a retail and entertainment destination is a great opportunity that we are pleased to be a part of."

It hasn't been all positive results, however. Related lost its bid for a proposed entertainment center at the site of Pier 40. Also, the Moynihan Station project, which is being developed by the city and state as well as developers Related and Vornado Realty Trust, has been slow to get off the ground.

↑ **John Sexton**, *president of New York University and NYU Law School's dean emeritus;* **Lee Bollinger**, *president of Columbia University*



With fierce community opposition to its plans to add 6 million square feet of space by 2013, NYU has taken some steps to assuage community concerns that the additions will dominate Greenwich Village. It signed a lease for housing in Brooklyn Heights and bought land on Roosevelt Island for faculty housing.

The school recently got a foothold in Brooklyn by acquiring Polytechnic University, which could allow classroom space to be moved to Brooklyn from Manhattan, but opponents claim it was just a move by NYU to lay claim to Polytechnic's Downtown Brooklyn real estate.

Regarding Downtown Brooklyn, "we haven't come out there with any firm plans yet," said Alicia Hurley, vice president of government and community affairs at NYU. And, she said, the school is considering growing in remote locations like Governors Island.

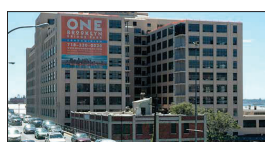
Hurley said the school is trying to be community-friendly by being transparent and engaging in a dialogue with the community early in the process. Also, the school made a decision to stop demolition plans for the historic Provincetown Playhouse, while the community board supported its decision to demolish neighboring buildings. The school did an about-face and said it would lend its support for the landmark designation of I.M. Pei's Silver Towers complex.

NYU has moved ahead with some Manhattan expansion plans, like constructing a dormitory on 12th Street between Third and Fourth avenues for about 700 students, and in the spring the school bought Gramercy Green at Third Avenue and 23rd Street to house around 900 undergraduates.

NYU is not alone in continuing to expand successfully in the face of opposition. Farther uptown, Lee Bollinger, president of Columbia University, is also successfully taking steps to meet the school's goal to expand its campus, in the face of some community opposition, by 17 additional acres near its campus in the next 15 to 20 years. In its most recent deal, the school paid nearly \$7 million last month to purchase a property in the footprint of its planned expansion, at 2293 12th Avenue. Also last month, Columbia was poised to acquire a Metropolitan Transportation Authority property on 131st Street within the school's expansion zone.

A month earlier, Columbia had a small victory, the New York Times reported, when a Washington Heights holdout, who was demanding the use of eminent domain to remove her from the school's expansion area, negotiated a deal to move. The school has to contend with two more landlords.

↑ **Robert Levine**, *president and CEO of RAL Companies & Affiliates.*



After more than two decades of wrangling over plans for One Brooklyn Bridge Park in Brooklyn Heights, the biggest conversion project in the history of Brooklyn, RAL's project saw success.

The first residents began moving in last month, al-

though the building is not slated to be complete until fall 2009. Although the record was struck down just two months later, in March, the building scored the then-highest price for Brooklyn's most expensive condo with the sale of a \$6.6 million penthouse apartment to Elizabeth Stribling, founder of Stribling & Associates, which is marketing the project.

↑ **Peter Fine**, *president and co-founder of Atlantic Development, which specializes in affordable housing.*



With the slowdown in the market, some real estate players might have more hobbies or side businesses, but Peter Fine has both.

Fine co-produced and partly funded the Tony award-winning musical "In the Heights," which chronicles the experiences of residents in the Upper Manhattan enclave of Washington Heights. The play opened on Broadway at the Richard Rodgers Theatre in March.

"In between closing six construction financing [deals] in the last four months, it certainly was a relief to win the Tony for best musical. It made my mother very happy," said Fine, who has "always loved musical theater."

He is now looking into setting up a company to evaluate and fund theater and film projects; Fine said he might invest \$10 million in the endeavor. But he won't be giving up his day job. Fine said that his real estate business is holding up.

"The credit crunch hasn't really affected us that much, just marginally," he said. His firm is perhaps best known for its work on the mixed-use project Boricua Village in the South Bronx, which, like "the Heights," has a Latin theme.

The company did, however, lose the bid to Related Companies to redevelop the Kingsbridge Armory in the Bronx.

The two worlds of theater and real estate are not that dissimilar, Fine noted. Both are capital-intensive and require retaining a lot of professionals to "create the end product."

↑ **Darcy Stacom**, *vice chairman and partner in the investment properties institutional group at CB Richard Ellis.*



Since the building sales market has slowed dramatically following the credit crisis, the city's top building sales broker has still figured out a way to make a buck — or commissions on more than \$4.15 billion in sales since last year. She brokered the sale of the General Motors Building to Boston Properties for \$2.8 billion (but not the sale of the three other buildings that brought the total portfolio price to \$3.95 billion).

The month of the credit crisis, Stacom negotiated the sale of 885 Third Avenue for \$607 million. And, the month after the credit crisis, she sold Financial Square at 32 Old Slip for \$751 million.

While it wasn't Stacom's biggest year — 2006 saw her broker the \$5.4 billion Peter Cooper Village and Stuyvesant Town deal — her commissions fell less than the overall drop-off in the market.

As of June, the last date for which data was available for a year-over-year comparison, property sales (closed and under contract) in Manhattan dropped nearly 60 percent to \$13.8 billion from June 2007, two months before the eruption of the credit markets, according to data from Cushman & Wakefield. (See Harry Macklowe and Mortimer Zuckerman.)

↑ **David Paterson**, *New York's 55th and current governor.*



Governor since March, Paterson got off to a rocky start when he announced his extramarital affairs and other transgressions. But he appears to be gaining clout, as reflected by the \$3.3 million campaign war chest he is building up largely from real estate industry contributors — one of the largest amounts ever garnered by a governor not seeking reelection, the New York Times reported.

Heavy hitters in the real estate industry appear to be taking him seriously, donating big money to Paterson's campaign coffers. Contributors have included World Trade Center lease holder Larry Silverstein, developer and former state housing official and investor Royce Mulholland, and developer Donald Capoccia.

Paterson looks to be growing comfortable in the new role, even referring to himself as the "new sheriff in town" at Russell Simmons' Art for Life Benefit in the Hamptons last month, the New York Post reported. He even took a pot shot at the former governor, saying, in response to a standing ovation: "You can slow it down; I get paid by the hour." (See Eliot Spitzer.)

## Fortunes on the wane

↓ **Bruce Ratner**, chairman and CEO of Forest City Ratner Companies and owner of the New Jersey Nets basketball team.



As the weak economy and the inability to find an anchor tenant stall construction of Ratner's Atlantic Yards, Brooklyn's biggest mixed-use development ever, plans for the \$4 billion, 22-acre project near Downtown Brooklyn have been scaled back. The office tower Building One, once called "Miss Brooklyn," was shrunk to 511 feet from 620 in May. A couple of months prior, the New York Times reported that due to financial problems, plans for the project, including Building One, were being put on hold until Ratner found a tenant.

There have been attempts to derail the plans for years, as opponents have wrangled with Ratner in court and politicians and civic groups have proposed legislation to control the scope of the project. But Ratner has received numerous victorious court decisions. Still, he suffered a blow when the City University of New York pulled out of a deal for Ratner's company to develop its new facility, City Tech Tower, another Brooklyn project.

To the north, Ratner has also seen contention, albeit on a smaller scale, over Ridge Hill, a mixed-use project in Westchester County, which marks the largest development project in Yonkers. Construction began in November after five years of legal battles.

Forest City Residential, a division of Forest City Enterprises, the parent company of Forest City Ratner, is also facing some public hurdles in clearing the land for its proposed \$450 million, 26-acre Echo Bay development in New Rochelle.

In Manhattan, Ratner did successfully secure \$680 million in financing in March for the 76-story, mixed-use Beekman Tower designed by renowned architect Frank Gehry. The building, whose address will be 8 Spruce Street, will be one of the tallest buildings in Lower Manhattan.

↓ **Robert Toll**, chairman and CEO of Toll Brothers, the largest luxury U.S. home building company.

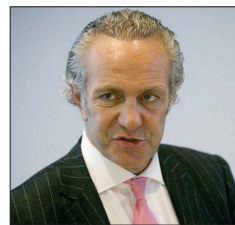


As new home sales have taken a nosedive, the publicly traded Fortune 500 company received several blows. In its second fiscal quarter ending April 30, Toll Brothers reported a loss of \$93.7 million, versus a \$36.7 million profit for the same quarter last year. That amounts to a loss of \$.59 a share compared to \$.22 per share for the second quarter of 2007.

Bloomberg News reported that Moody's Investors Service cut the company's credit rating to junk. Also, the average price of a Toll Brothers home tumbled in the second quarter of this year to \$534,000, from \$710,000 in the second quarter of 2007.

For the company, New York City has been a bright spot, however: Toll Brothers' troubles have been somewhat offset by the company's projects in the New York metro area, including ones in Williamsburg and Hoboken, according to David Von Spreckelsen, a Toll Brothers senior vice president. (See Toll Brothers story on page 34.)

↓ **Ara Hovnanian**, president and CEO of New Jersey-based Hovnanian Enterprises, one of the largest home builders in the country.



As demand for new homes drops, developers like Hovnanian Enterprises are suffering. Hovnanian's revenues dropped to \$776.4 million for its second fiscal quarter ended April 30, from \$1.1 billion in the same quarter a year ago. The company delivered 21 percent fewer homes for the quarter: 2,494 in 2008, down from 3,150 in the comparable quarter of 2007. Also in the second quarter, the company reported a net loss of \$340.7 million compared with a loss of \$30.7 million a year earlier.

Hovnanian, who is developing 77 Hudson Street, a luxury, 420-unit project in Jersey City, said the company can withstand the current climate, as it has weathered similar downturns over its 50-year history. Since the market started slowing in mid-2006, Hovnanian Enterprises has taken a number of measures to secure its position, such as building up cash reserves, lowering home prices and cutting staff from 7,000 people in June 2006 to 3,000 today, Hovnanian said.

He added that he anticipates low earnings in the last two quarters of the year. But the future is not bleak, he said, because population growth is strong, competition will be reduced because a tough market pushes smaller private home builders out of business, and a housing stimulus bill could provide a sizable tax credit to buyers.

↓ **U.S. Rep. Charles Rangel**, Democratic congressman for Upper Manhattan, a small area in the Bronx and Rikers Island.



While some Harlem developments have been struggling financially in the wake of the credit crunch, it was revealed that Rangel, who has reportedly received more money from real estate developers than all but two other members of Congress this election cycle, had four rent-stabilized apartments at Lenox Terrace, a luxury development in Harlem, and was paying less than half the market rate for each apartment.

After the National Legal and Policy Center filed a complaint with the Federal Election Commission, Rangel announced he would move his campaign office, which was occupying one of the units.

↓ **Kent Swig**, president of investment and development firm Swig Equities, and an owner and co-chairman of Terra Holdings, parent company of Brown Harris Stevens and Halstead Property.



After spending hundreds of millions of dollars on New York City buildings, Swig has encountered some troubles. He sold his two adjoining Upper West Side tenement buildings at 201 West 92nd Street and 200 West 93rd Street for \$61 million, less than the asking prices of \$90 million and then \$72 million. Swig sold off the buildings after abandoning plans to build condos atop them. Six months

before the sale, he was sued by his lender for defaulting on the property's mortgage, *The Real Deal* determined.

Meanwhile, at his Sheffield57 condo conversion at 322 West 57th Street, where sales were launched in October 2006, 50 percent of the 583-unit building is unsold. (The building originally had 845 apartments, but units were combined in the process of development, according to Swig's public relations spokesperson, Alan Segan.) Tenants are suing Swig, alleging harassment, and asking the city to take over the condominium.

Lastly, his condo conversion plan at 25 Broad Street stalled. Swig failed to deliver the minimum number of buyers after a number withdrew offers to buy units in the building.

On the upside, in May Swig announced plans for construction of a 62-story glass tower near the New York Stock Exchange that will house a 128-room, five-star Nobu hotel, 77 luxury condos and a Nobu restaurant.

↓ **Eliot Spitzer**, former governor of New York.



It is not clear whether Spitzer will face criminal charges for alleged ties to a prostitution ring. Meanwhile, the former attorney general and recently departed governor is trying to build up a real estate business.

The son of real estate tycoon Bernard Spitzer, Eliot Spitzer is looking to launch a vulture fund, according to media reports, capitalizing on market conditions by purchasing distressed real estate assets and flipping them for a profit.

Spitzer presumably has time on his hands after resigning in March in his first term as governor, following news that he was caught on a federal wiretap making an appointment with a prostitute.

His work inside the real estate industry contrasts with crusades during his eight-year tenure as attorney general, when among other things, he aggressively fought Wall Street corruption, investigated one of the city's largest landlords, the Pinnacle Group, and sought transparency for the Atlantic Yards project. (See David Paterson.)

↓ **Harry Macklowe**, founder and chairman emeritus of Macklowe Properties.



Perhaps the biggest symbol of the real estate boom and slowdown in New York City, Macklowe famously overleveraged himself and was forced to sell off many of his assets, including the General Motors Building, to pay off creditors for loans he took out to purchase seven Midtown buildings for about \$7 billion last year.

Not long after, Macklowe stepped down as chairman and chief executive officer at Macklowe Properties, making way for his son William to run the company. According to the New York Times, William Macklowe was publicly critical of his father's decision to buy the seven buildings.

When asked whether Harry or Billy Macklowe wanted to comment about how they have fared in the wake of the credit crisis, company spokesman Steve Solomon said, "The Macklowes want to move on. There's been enough written on how they've fared in the wake of the credit crisis to fill a wing of the New York Public Library." (See Billy Macklowe and Mort Zuckerman.)

↓ **Patricia J. Lancaster**, former commissioner of the city's Department of Buildings.



After six years on the job, Lancaster resigned in April following a series of fatal construction accidents. Some say Lancaster, the first woman in the post, was responsible for the accidents, and others say she was a scapegoat for a long-troubled agency. Lancaster had been successful at fighting corruption,

increasing transparency and overhauling the city's building code at a time when the building industry was booming. One of her supporters was Douglas Durst, who gave Lancaster, a licensed architect, a consulting job two months after she stepped down as building commissioner. "Patricia is helping us with issues relating to the building code," Durst said. "She is knowledgeable, experienced and outstanding to work with."

↓ **Scott Lawlor**, *founder and CEO of Broadway Partners, a private real estate investment and management firm.*



Like Harry Macklowe, Broadway Partners is trying to deal with debt. The company reportedly overextended itself at the top of the market and is trying to pay back over \$1 billion in short-term debt that it borrowed in 2006 and 2007. In January, \$750 million dollars of the debt comes due.

Yet it wasn't that long ago that the company ranked at the top of the food chain. *The Real Deal* determined that the company was the third-most prolific building buyer in New York City between May 2006 and May 2007, when it paid \$1.25 billion for 280 Park Avenue and \$644 million for 450 West 33rd Street. (During that same time period, Macklowe scored the first spot.)

When asked if Lawlor would respond to questions about how the company went from being one of the most prolific buyers last year to struggling to pay back its short-term debt due early next year, company press person Rick Matthews responded: "Your characterization of 'struggling' reflects industry gossip that I do not believe is based on information provided by anyone with firsthand knowledge of Broadway's considerable progress in fund recapitalization in a difficult market." Meanwhile, the company had success in leasing up 340 Madison Avenue.

↓ **David Firestein**, *a partner at Northwest Atlantic Real Estate Services.*



Like most brokers in this market, Firestein has to work a little harder now that retailers are slowing down their openings of new stores. Such is the case with chains that were once aggressively opening new locations, like Starbucks and Washington Mutual.

Firestein is the exclusive Manhattan broker for the ubiquitous coffee chain, which recently announced that it is closing 600 stores nationwide through the first half of 2009. Eleven stores are slated to close in the five boroughs by mid-2009, including six in Manhattan. (See Starbucks story on page 38.)

Still, Firestein sounded somewhat optimistic. "They're not closing very many in this part of the world. There will be a few in Manhattan but not very many." In part to compensate for the reduction in Starbucks business, Firestein has picked up other chains like frozen yogurt retailer Pinkberry.

As for Washington Mutual, the bank has slowed its demand for space. "Expansion has dropped dramatically," Firestein said.

↓ **Robert Scarano**, *architect with eponymous firm Scarano Architects.*



After a series of confrontations with the city, Scarano is in the line of fire again. In June, administrative charges were filed against him, alleging that he made false or misleading statements on applications submitted to the city's Department of Buildings in connection with two new buildings in the Greenpoint area of Brooklyn. As a result, Scarano could

be stripped — temporarily or permanently — of his ability to file documents with the buildings department.

That was just the latest trouble plaguing the controversial architect, who has been scrutinized by the DOB for allegedly ignoring zoning and building codes. He has drawn the ire of many critics in Brooklyn, including City Council member Bill de Blasio, who is calling for the revocation of Scarano's license. Scarano has been removed from a series of projects, including Oliver House at 360 Smith Street. The developer, William Stein, hired KSQ Architects of White Plains instead and released a scaled-down version of plans for the building.

Further back, in 2006, Scarano voluntarily gave up his self-certification after receiving pressure from the city to do so, making it mandatory for him to have all permit applications reviewed by a buildings department examiner, rather than have the power to monitor his own projects with little or no department oversight.

↓ **Kathy Sloane**, *a senior vice president and managing director at Brown Harris Stevens.*



Sloane, a high-profile luxury broker, was one of 11 veteran New York City real estate brokers named in March as part of a tax evasion investigation led by the Albany County District Attorney. Sloane, who has not yet been arraigned on charges, declined to comment through her attorney, Darius Chafizadeh. **TRD**