# THE REAL DEAL

National Real Estate News

May 2022 | Vol. 20 No. 5
TheRealDeal.com

PLUS: MARC ROBERTS' E11EVEN LIVES p76

# You are o

You generate the business. You create the value. Our job is to support you with all the tools and expertise you need to be successful.

We've assembled the most trusted and experienced minds in the real estate business to provide you with proven strategies for every market condition.

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# Enzo Says, Life Is Better On The Water

Water Mill | $37,000,000 | 8 BR, 10.5 BA
**Video tour at elliman.com/H360296**

East Hampton | $20,000,000 | 9 BR, 8.5 BA
**Video tour at elliman.com/H364310**

Quogue | $15,500,000 | 6 BR, 8.5 BA
**Video tour at elliman.com/H354402**

Quiogue | $10,250,000 | 10 BR, 8.55 BA
**Video tour at elliman.com/H359448**

Quogue | $8,950,000 | 5 BR, 3 BA
**Video tour at elliman.com/H353477**

Quogue | $5,950,000 | 2 BR, 2 BA
**elliman.com/H364682**

Westhampton | $5,250,000 | Zoned Highway Business | **elliman.com/H3357730**


Sag Harbor | $4,250,000 | 4 BR, 3.55 BA
**elliman.com/H363627**

Southampton | $3,700,000 | 4 BR, 3 BA
**elliman.com/H364865**

## Enzo's Available Waterfronts

315 Rose Hill Road | $37,000,000 | Web# H360296
72 Louse Point Road | $20,000,000 | Web# H364310
214 Dune Road | $15,500,000 | Web# H354402
47 Dune Road | $10,995,000 | Web# H357848
2 Delafield Street | $10,250,000 | Web# H359448
84 Dune Road | $8,950,000 | Web# H353477
35 Homans Ave | $7,950,00 | Web# H361694
607 Main Street | $7,500,000 | Web# H359408
1 Waters Edge Drive | $5,950,000 | Web# H364682
59 Montauk Highway | $5,250,000 | Web# H3357730
43 Noyac Harbor Road | $4,250,000 | Web# H363627
5 Edgemere Drive | $3,700,000 | Web# H364865
7 Duck Point Road | $3,500,000 | Web# H362220

## Enzo's In Contract Waterfronts

156 Dune Road | $4,975,000 (Last Asking)
38 Tuthill Lane | $4,950,000 (Last Asking)

## Enzo's Sold Waterfronts in 2022

2 & 4 Seascape Lane | $17,999,999 (Last Asking)
167 Dune Road | $11,750,000 (Last Asking)
285 Oneck Lane, Lot 3 | $7,500,000

## Enzo's Sold Waterfronts in 2021

244 Dune Road | $19,800,000 (Last Asking)
86 Dune Road | $8,250,000 (Last Asking)
28 Halsey Avenue | $9,149,000 (Last Asking)
143 Dune Road | $7,999,000 (Last Asking)
145 Dune Road | $7,250,000 (Last Asking)
848 Dune Road | $6,250,000 (Last Asking)
10 Bob White Lane | $5,500,000 (Last Asking)
553 Dune Road | $5,349,000 (Last Asking)
56 Redwood Road | $4,500,000 (Last Asking)
547 Main Street | $3,950,000 (Last Asking)
107 Dune Road | $3,799,000 (Last Asking)
951B Dune Road | $3,500,000 (Last Asking)
9A Brushy Neck Lane | $3,250,000 (Last Asking)
23 Rivera Court | $1,999,000 (Last Asking)
149 Senix Avenue | $575,000 (Last Asking)

DouglasElliman

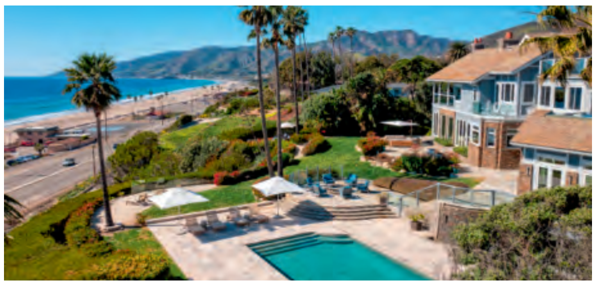
**27930 PACIFIC COAST HIGHWAY**
$75,000,000 | 12 Bed | 14 Bath

**28808 CLIFFSIDE DRIVE**
$58,500,000 | 6 Bed | 9 Bath

**3903 CARBON CANYON ROAD**
$35,000,000 | 6 Bed | 9 Bath

**0 TRANCAS ROAD**
$25,000,000 | Approx. 24.88 Acres

**11100 PACIFIC VIEW ROAD**
$24,500,000 | 9 Bed | 12 Bath | Rendering



**29754 BADEN PLACE**
$22,500,000 | 6 Bed | 8 Bath

**21614 PACIFIC COAST HIGHWAY**
$21,500,000 | 4 Bed | 7 Bath

**5949 & 6009 BONSALL DRIVE**
$18,995,000 | 2 Bed | 2 Bath

**11802 ELLICE STREET**
$18,500,000 | 6 Bed | 6 Bath

**948 N ORLANDO | WEST HOLLYWOOD**
$17,995,000 | 8 Bed | 10 Bath

**31220 BROAD BEACH ROAD**
$16,850,000 | 4 Bed | 6 Bath

**27033 SEA VISTA DRIVE**
$15,000,000 | 5 Bed | 5 Bath

**6097 MURPHY WAY**
$14,950,000 | 6 Bed | 7 Bath

**42500 PACIFIC COAST HIGHWAY**
$14,500,000 | 5 Bed | 5 Bath

**31952 1/2 PACIFIC COAST HIGHWAY**
$11,995,000 | $60,000/month | 4 Bed | 3 Bath

**6345 TANTALUS DRIVE**
$11,995,000 | 6 Bed | 8 Bath

**42500 PACIFIC COAST HIGHWAY**
$10,499,999 | 5 Bed | 5 Bath

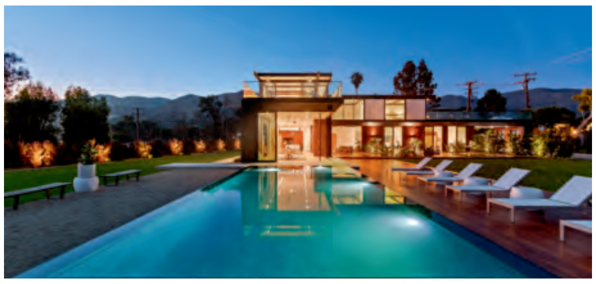
**28859 BISON COURT**
$8,450,000 | 5 Bed | 4 Bath


## CHRIS CORTAZZO

310.457.3995
chris@chriscortazzo.com
DRE 01190363


COMPASS

**33127 PACIFIC COAST HIGHWAY**
$7,450,000 | 5 Bed | 6 Bath



**5737 BUSCH DRIVE**
$6,950,000 | 4 Bed | 5 Bath

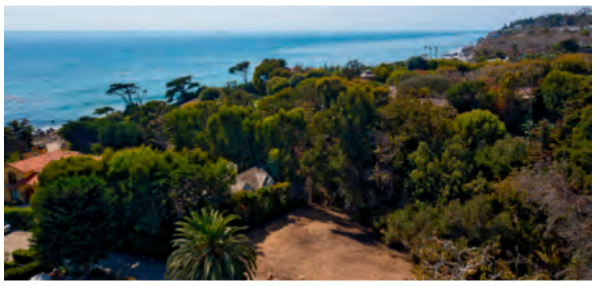
**23907 MALIBU ROAD**
$6,500,000 | Approx. 4.36 Acres | Rendering

**42500 PACIFIC COAST HIGHWAY**
$4,999,999 | Approx. 1.065 Acres

**6611 PORTSHEAD ROAD**
$4,995,000 | 1 Bed | 1 Bath

**30099 HARVESTER ROAD**
$4,400,000 | Approx. 0.414 Acres | Rendering

**6445 LATIGO CANYON ROAD**
$2,750,000 | Approx. 5.196 Acres



**31864 SEA LEVEL DRIVE**
$1,995,000 | Approx. 0.158 Acres

**19901 PACIFIC COAST HIGHWAY**
$1,499,000 | Approx. 2.75 Acres

**ENCINAL CANYON**
$1,375,000 | Approx. 21.447 Acres


**9533 DEER CREEK ROAD**
$1,250,000 | Approx. 10.32 Acres

**SOUTH FOOSE ROAD**
$950,000 | Approx. 5.05 Acres

# CHRIS CORTAZZO

Representing Malibu's finest estates.

**$8B+**
Total sales volume

**$1B+**
Sales for 2021

**28**
Years in real estate



chris cortazzo

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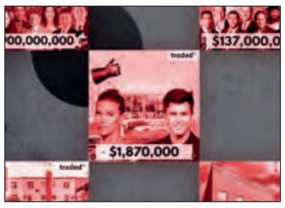


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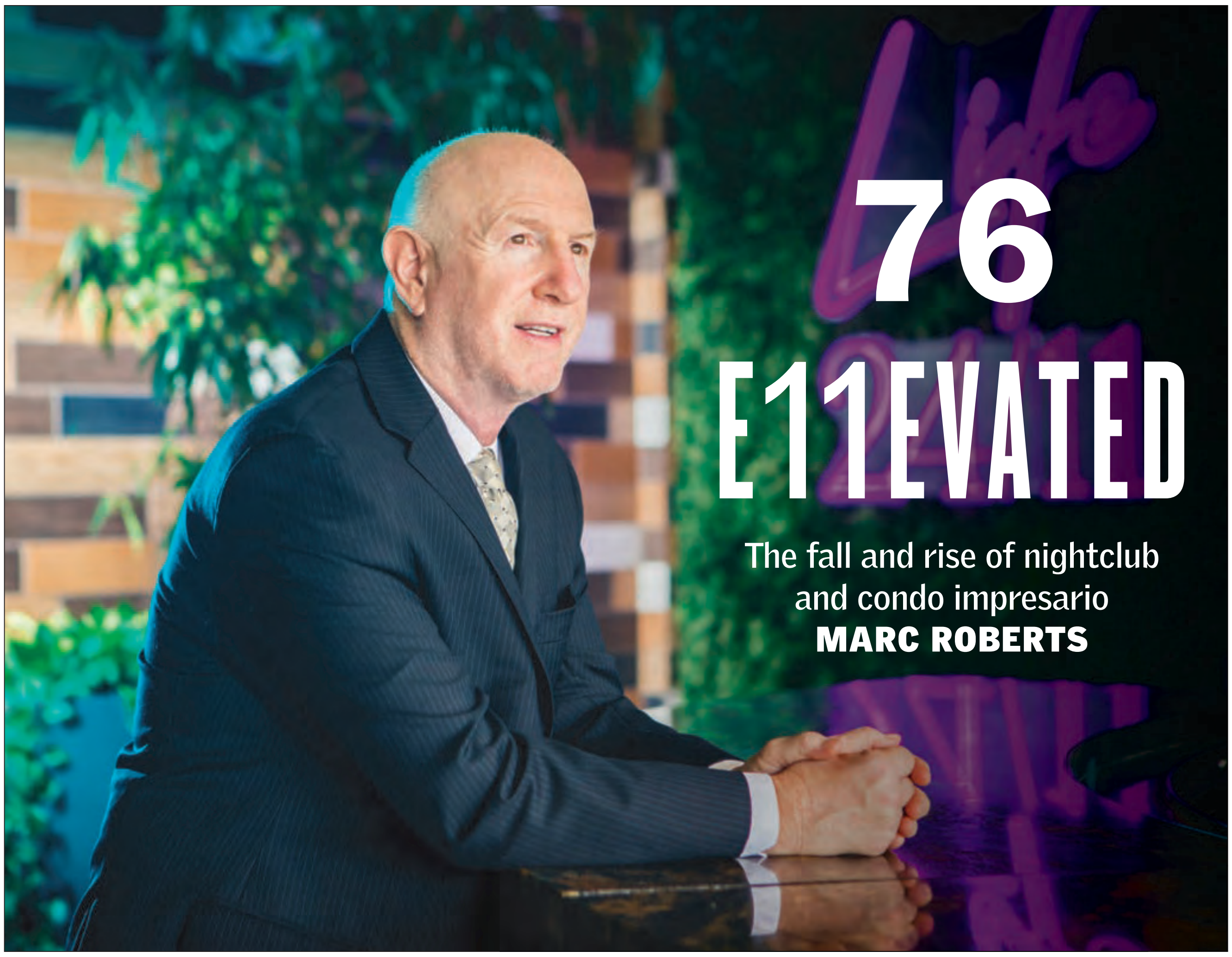

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SONYA REVELL (ROBERTS); KEVIN SCANLON (WEINTRAUB); STUDIO SCRIVO (GOLDBERG)

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## EMPTY BOXES

Cities are bouncing back. Offices, mostly, are not. What are all those towers really worth?





GETTY IMAGES

# THE REAL DEAL®

REAL ESTATE NEWS

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EDITOR'S NOTE

# A ringside seat to the bloodsport of NY real estate

Billionaires and autocrats monopolize everything these days.

Whether it's Elon Musk's deal to purchase Twitter, Vladimir Putin invading Ukraine or Bezos or Zuckerberg or Trump or Xi, it's the age of the strongman.

Real estate looks downright democratic by comparison.

It's hard for one single person to dominate a skyline. The best a billionaire developer can do is compete against another billionaire developer to put up the tallest building or the biggest project. Billionaires don't own entire cities (yet).

The battles these real estate titans wage against each other makes for thrilling bloodsport though, and that's the subject of *The Real Deal*'s first full-length book, which I'm excited to say arrives May 24.

"The New Kings of New York: Renegades, Moguls, Gamblers and the Remaking of the World's Most Famous Skyline," by our longtime contributor Adam Piore, looks at New York real estate since the turn of the century — the highs and lows, the big players and big deals and the fortunes won and lost.

Nobody has seen more ups and downs than developer Harry Macklowe and his ex-son-in-law Kent Swig or built bigger projects than Steve Ross. The Zeckendorf brothers, Gary Barnett and a host of others also play starring roles in the book.

**The best a billionaire developer can do is compete against another billionaire developer to put up the tallest building or the biggest project.**

The period the book deals with — from 9/11 onward — coincides with the period when *TRD* was born. In many ways, it's a distillation of all the stories we've written over the years. New York has transformed into the land of Billionaires' Row and Hudson Yards — a luxury playground for the global 1 percent, with real estate functioning as a Swiss bank account for foreign oligarchs. But it's a vision of a city that's faced a progressive-led backlash in recent years and that's still facing an existential reckoning because of Covid (who's going to work in all those office towers now?).

I'm also stoked for the book release because it's a project I wanted to do for a long time, and because I edited the book with my colleague Hiten Samtani. Every journalist wants to be a book author, so this is the closest I'm getting (yet). Check out an excerpt from "The New Kings of New York: Renegades, Moguls, Gamblers and the Remaking of the World's Most Famous Skyline" on page 64 — and then proceed to order it on Amazon.

Meanwhile, we're finally back with live events in New York this month, holding our first Real Estate Showcase & Forum in three years with a who's who of New York real estate. The developer who pioneered Billionaires' Row (and a key character in our book), Extell's Gary Barnett, will give the keynote chat. Join us at the Metropolitan Pavilion in Chelsea on May 19. It will be great to see many of you in person again.

There's a bunch more to dive into in this issue.

Keith Larsen looks at the Westchester County judge whose courtroom has become a favorite venue for New York developers who have troubled projects. The story examines how, contrary to the way the judicial system should work, loopholes allow projects that have nothing to do with that county — some as far away as Florida — to land in front of Judge Robert Drain, who's been seen as sympathetic to debtors (page 68).

In a fun story, we take a look at @TradedNY, which has become a go-to social media destination for dealmaking news (and ego boosts) for those in commercial real estate, even as its owners stay in the shadows (page 26).

In a Miami market that's still on fire, we examine the craziest property flips as well as the inflated land prices that developers are paying today in order to build new projects (pages 36 and 72). And we profile a Miami developer, Marc Roberts, who's parlayed his ownership of the city's hottest nightclub, E11even, into a neighboring condo complex targeting "people in their 20s, crypto buyers, celebrities and influencers." It's a very Miami thing to do.

Meanwhile, on page 60, we sit down with Richard Weintraub, an L.A. developer behind some of the city's highest-end projects.

Enjoy the issue, read the book and come to the show!

Stuart Elliott
Editor-in-Chief



AXEL DUPEUX (ELLIOTT)

# Kay Properties Operates One of the Largest DST 1031 Exchange and Real Estate Investment Online Marketplaces in the Country

KAY PROPERTIES & INVESTMENTS LLC

*The firm emphasizes the utilization of tax efficiencies afforded to investors through the 1031 exchange and real estate investments to potentially reduce risk for investors through a fully integrated real estate investment platform.*

**Kay Properties is considered one of the most experienced and knowledgeable investment firms in the country specializing in DST 1031 Exchanges and private equity real estate investments. The firm was established with the emphasis on providing real estate investment options to high-net-worth clients looking for passive real estate ownership. In addition, Kay Properties believes it has created one of the largest 1031 exchange and real estate investment online marketplaces in the country that generates some of the largest DST 1031 investment volume in the United States.**

## Participated in More Than $30 Billion of Real Estate Transaction

Since its founding in 2010, Kay Properties has participated in more than $30 billion of real estate transactions invested through the Kay Properties platform into multifamily, manufactured housing, single tenant net lease, industrial, self-storage and medical properties nationwide.

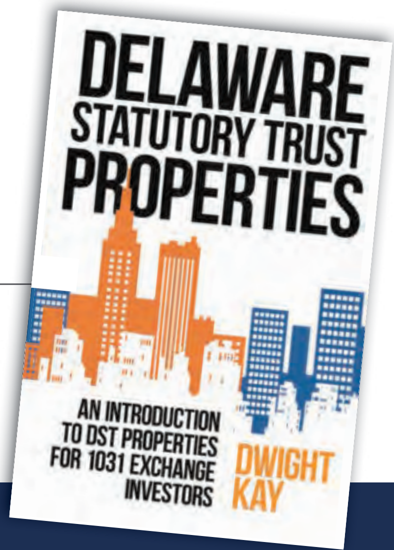
***"The www.kpi1031.com online marketplace has truly become a best-in-class robust platform connecting high-net-worth investors with quality real estate offerings as well as a place for real estate sponsors and operators to connect with thousands of high-net-worth investors seeking to deploy capital into real estate offerings. We think the platform creates a perfect match for all sides of the 1031 exchange equationatch for all sides of the 1031 exchange equation,"*** said Dwight Kay, Founder & CEO of Kay Properties & Investments.

Kay explained that most investments made on the Kay Properties platform are for DST 1031 exchange replacement properties followed by a growing number of cash investments into real estate funds and other vehicles. DST investments help investors defer taxation on their gains, enter a passive management structure, and potentially broaden their geographic and real estate asset diversification by reinvesting the proceeds in qualifying properties.

***"While it is true that a majority of people investing through the kpi1031.com marketplace that are seeking like-kind exchange properties, it is also true that the platform attracts many high-net-worth investors who are interested in participating in the offerings on the company's marketplace with direct cash investments, a trend that we are seeing growing tremendously,"*** stated Kay.

## Founded by Pioneering Thought Leader of DST 1031 Exchanges

Dwight Kay founded Kay Properties with a passion for client education. Kay is considered a leading expert on Delaware Statutory Trust 1031 exchanges and authored what is considered the first book on Delaware Statutory Trust properties. Kay maintains an industry-leading blog, and also regularly contributes to financial periodicals as ***Kiplinger***, ***Forbes***, ***Real Estate Forum***, and ***National Real Estate Investor***. Kay and his team of DST experts educate hundreds of investors every week through seminars, conference calls, and webinars.




## To learn more about Kay Properties and www.kayrealdeal.com

**Call: 1 (866) 830-1140 | Email: info+REALDEAL@kpi1031.com | Visit: kayrealdeal.com**

## About Kay Properties

Kay Properties & Investments is a national Delaware Statutory Trust (DST) investment firm. The www.kpi1031.com platform provides access to the marketplace of DSTs from over 25 different sponsor companies, custom DSTs only available to Kay clients, independent advice on DST sponsor companies, full due diligence and vetting on each DST (typically 20-40 DSTs) and a DST secondary market. Kay Properties team members collectively have over 150 years of real estate experience, are licensed in all 50 states, and have participated in over $30 Billion of DST 1031 investments.

***NOTE: Past performance does not guarantee future results and DST investments may result in a complete loss of investor principal. This is an example of the experience of one of our clients and may not be representative of the experience of other clients. These clients were not compensated for their testimonials. Please speak with your attorney and CPA before considering an investment. *Diversification does not guarantee profits or protect against losses. All real estate investments provide no guarantees for cash flow, distributions or appreciation as well as could result in a full loss of invested principal. Please read the entire Private Placement Memorandum (PPM) prior to making an investment. This case study may not be representative of the outcome of past or future offerings. Please speak with your attorney and CPA before considering an investment.*

*There is a risk of loss of the entire investment principal. Past performance is not a guarantee of future results. Potential distributions, potential returns and potential appreciation are not guaranteed. For an investor to qualify for any type of investment, there are both financial requirements and suitability requirements that must match specific objectives, goals, and risk tolerances. Securities offered through FNEX Capital, member FINRA, SIPC.*

# In Their Words

The most colorful, insightful and incendiary comments on real estate

Compiled by Hiten Samtani

“Desk hierarchies, definitely pre-Covid.”

—RYAN SERHANT on doing away with assigned seats in his new brokerage office

“I HAVEN’T READ YET. PRETTY MUCH AFRAID.”

—Former Katerra CFO **JOANNE SOLOMON**, reacting to an audit about the company’s accounting practices, according to a lawsuit

“We don’t want to wait until 2026 for a comeback.”

—NYC City Council member **AMANDA FARÍAS** on supporting slashing the hotel occupancy tax rate

“IF YOU HAVE TO WORRY ABOUT GAS, YOU SHOULDN’T HAVE ONE OF THESE BOATS.”

—Developer **GIL DEZER** on keeping his 84-foot motor yacht going during a time of volatile fuel prices

“THIS NEIGHBORHOOD IS WHERE ALL THE BIG BOYS PLAY.”

—E11even condo developer **MARC ROBERTS** on Miami’s Park West *(page 76)*



QUOTE SOURCES: *TRD*, WSJ, THE INFORMATION, NYT
IMAGE SOURCES: SONYA REVELL (ROBERTS, CALDERON), AXEL DUPEUX (KNAKAL), GETTY IMAGES

"THAT WAS DEFINITELY NOT ME."

—Developer **LISSETTE CALDERON** on whose idea it was to feature her in a magazine she launched to hype Miami's Allapattah neighborhood

*"A lot of owners there either don't speak English or pretend not to speak English, so it's very hard to cold call."*

—JLL's **BOB KNAKAL** on scoring business in Chinatown

"It's like if you go in to buy a Prius and they show you a Ferrari."

—Plastic surgeon-turned-developer **ALEX KHADAVI** on blowing the budget for his L.A. spec megamansion

"I hope that anyone who wrote obituaries for Times Square has an eraser."

—Times Square Alliance President **TOM HARRIS** on the area's resurgence


"A JUDGE HAS MADE CLEAR THAT NO ONE IS ABOVE THE LAW."

—New York AG **LETITIA JAMES** on the court's decision to compel Cushman & Wakefield to cooperate with her Trump Organization probe

# BLACKSTONE: GIVE US YOUR TIRED, YOUR POOR REITS

## Investment firm eyeing takeovers as real estate stocks dip

**BLACKSTONE SEES RICHES IN THE VOLATILITY OF REIT** valuations.

The investment giant is pursuing private takeovers as the public-market valuations of REITs suffer, the Financial Times reported. Inflation and rising interest rates have led to REIT share prices dropping, presenting Blackstone with bargains if it can take the companies private.

The public REIT market is "not necessarily reflective of what's happening at any one time in real estate," Blackstone President Jonathan Gray explained to the publication.

Blackstone's own private REIT, Blackstone Real Estate Income Trust, has reportedly raised $63 billion since its inception five years ago. And since the beginning of the pandemic, Blackstone has taken four real estate companies private.

Last June, Blackstone and Starwood Capital dished out $6.3 billion to acquire the 62,000-key portfolio of Extended Stay America, one of the biggest real estate deals of the Covid era. The acquisition took the country's largest lodging REIT private at a price of $20.50 per share.

Last month, Blackstone agreed to buy American Campus Communities in a deal valuing the student housing provider at $12.8 billion, including debt. The Austin-based company is the largest publicly traded student housing owner and developer in the United States; Blackstone is paying $65.47 per share to buy the company and plans to take it private.


Jonathan Gray

And on April 25, the Wall Street Journal reported that the firm agreed to buy California-based PS Business Parks, a suburban office REIT, in a deal valued at $7.6 billion, including debt. The deal is expected to close in the third quarter.

REITs pay out the bulk of their income annually in exchange for corporate tax exemptions. In taking them private, Blackstone benefits from investors having fewer ways of cashing out, while investors could benefit from a lack of knee-jerk reaction to market volatility.

*— Holden Walter-Warner*

# THE REAL ESTATE T

# FORECLOSURES APPROACH RETURN TO PRE-COVID LEVELS

**EIGHT MONTHS AFTER A NATIONWIDE** moratorium expired, foreclosure filings soared to the highest level since the pandemic began.

In March, 33,333 properties across the U.S. faced foreclosure, a 29 percent jump from February, according to a report by real estate data provider Attom. The first quarter saw 78,271 properties with a foreclosure filing, a 39 percent increase from the previous quarter.

Those figures represent the highest number of foreclosures since March 2020, when nearly 47,000 U.S. homes held foreclosure filings, said Attom's Rick Sharga.

March was the 11th consecutive month in which foreclosure activity saw a year-over-year increase. Properties foreclosed on in the first quarter were in the process for an average of 917 days, down from 941 in the previous quarter.

On a statewide level, California reported the highest number of foreclosure starts for the first three months of 2022 at 5,378. Florida and Texas ranked second and third with 4,707 and 4,649, respectively, but South Florida bucked the national trend. Foreclosures across Broward, Miami-Dade, Broward and Palm Beach counties declined 10.4 percent compared to the fourth quarter of 2021.

Among major metros, Chicago saw the greatest number of new filings during the quarter with 3,101. New York City was close behind with 2,580 starts, despite a statewide moratorium that expired two weeks into January.

*— Suzannah Cavanaugh*

# VENTURE CAPITAL PUMPS RECORD $4B INTO PROPTECH IN Q1

**RISING INTEREST RATES AND MARKET** volatility have whipped up headwinds for real estate technology in recent months, but venture capitalists didn't get the memo.

A record $4 billion of VC equity funding flooded into the proptech field in the first quarter as "investor confidence" in the sector hit an all-time high, the investment bank Keefe, Bruyette & Woods said in a report.

That's an increase of 41 percent compared to the fourth quarter and a gain of 31 percent compared to the same time last year. The high-water mark comes after a record year for proptech fundraising in which VC investment in the sector hit $11.7 billion, according to the report.

Investors' appetite for risk seems to be on the rise, too. Seed and early-stage investment was up a whopping 122 percent year-over-year, while mid- and late-stage rounds saw a 14 percent decline in dollars committed.

The elevated first-quarter funding — buoyed, according to KBW, by investors' positive long-term outlook for proptech adoption and growth — belies the sector's recent weakness in the public sphere. Proptech stocks significantly underperformed the broader market in the first quarter as investors rotated to value names from growth ones amid rising inflation and the Federal Reserve's "more hawkish" interest rate outlook, the firm said.

Proptech stocks fell 20 percent in the first quarter, on average, while the S&P 500 and Nasdaq Composite logged declines of 6 percent and 11 percent, respectively.

"We've kind of been washing out the sector over the last several months," said Ryan Tomasello, KBW's research director.

Market conditions are ideal for M&A, the firm said, citing a broad "reset" of company valuations and performance expectations in recent weeks.

Globally, 57 proptech M&A deals were announced in the first quarter, a 16 percent increase from the fourth quarter but consistent with last year's quarterly average.

*— T.P. Yeatts*



BLACKSTONE, ISTOCK

## NYC OFFICE LEASE SETS POSSIBLE RECORD

### At $300+ psf, deal at One Vanderbilt may be city's priciest ever

**ONE SQUARE FOOT OF OFFICE SPACE HAD REPORTEDLY** never been leased for more than $300 a year in New York City.

But a Canadian-based environmental services company agreed to break that barrier to rent the 73rd floor of SL Green's One Vanderbilt tower, *The Real Deal* has learned.

Sources say GFL Environmental signed a deal for all 9,871 square feet on the Midtown building's highest office floor, right below its Summit observatory. The asking rent was $322, *TRD* reported last summer.

The ultra-high-end workspace, with its commanding views of the city, stands in contrast to the job sites of many of GFL's 18,000 employees across much of Canada and the United States: They provide waste management and soil remediation services.

The company was represented in its search for office space by Rob Lowe of Cushman & Wakefield, which did not respond to a request for comment. SL Green was represented in-house by Steve Durels and David Kaufman and by CBRE's Bob Alexander and his team. CBRE declined to comment.

The record rent of $300 per square foot had been set by the top floors of L&L Holdings' 425 Park Avenue in 2015. Billionaire Ken Griffin's hedge fund, Citadel, inked that deal and added to it in 2019. However, a source said he paid $350 per square foot for some of the best space, leaving some doubt as to whether One Vanderbilt is the new record holder.

But the 73rd floor of One Vanderbilt is even higher and is the uppermost office space in the building, whose spire, at 1,401 feet, towers over the city skyline.


Marc Holliday with One Vanderbilt tower

SL Green's Durels declined to comment on the rent but boasted, "The floor unquestionably is the single most spectacular floor." Aside from its height and newness, the building benefits from immediate access to Grand Central Terminal.

*— Lois Weiss*

ERMINAL

This month's roundup of the biggest deals, projects and other headline news around the country

## TEXANS STUNNED BY TAX APPRAISALS

**TEXAS HOMEOWNERS ARE REELING FROM A** leap in property-tax appraisals.

One resident told the Houston Chronicle that her appraised home value went up by $110,000 this year. The median taxable value of appraisals in Austin rose 53.6 percent, the Austin American-Statesman reported.

It's a result of a remarkable spike in home prices statewide: Taxes are determined as a percentage of a property's value as appraised by a county tax assessor, so an increase in home values can have a dramatic impact on the amount owners pay.

In the Austin-Round Rock area, the median home sale price was up 22 percent year-over-year in March to $521,000 — and set a record with a median of $624,000 within Austin city limits. The Houston metro area saw its median price jump 15.5 percent to $335,000, and the Dallas-Fort Worth metroplex set its own record in March with a median home price of $335,000, up 19 percent.

Statewide, the median home price jumped 15.7 percent last year, according to a report from the Texas Real Estate Commission.

"It's hardly a surprise that property taxes increased in 2021," wrote Attom's Rick Sharga in a national report. "In fact, the real surprise is that the tax increases weren't higher, which suggests that tax assessments are lagging behind rising property values, and will likely continue to go up in 2022."

Property owners can appeal appraisals with local districts, which can lower their taxes substantially. In addition, Texas state law dictates that if owners who live in or on a property being taxed file for a homestead exemption, the appraised value of their home for tax purposes can't go up more than 10 percent a year.

*—Cindy Widner*

## LOSS OF $21B IN BUSINESS TRAVEL DENTS HOTEL RECOVERY

**A LAGGING RETURN OF BUSINESS TRAVEL** will continue to slow the hotel market's recovery from the pandemic over the next two years.

Nationwide hotel revenue from business travel will remain 23 percent, or $20.7 billion, below 2019 levels in 2022, according to a forecast from the Hotel & Lodging Association and Kalibri Labs, first reported by Bloomberg.

Though leisure travel is forecast to exceed pre-pandemic levels, hotel revenue from business travel is projected to be well short of 2019's $90 billion. According to the forecast, business travel isn't expected to recover until 2024 at the earliest.

For some big cities, the hit will be even harder this year.

In New York City, revenue from business travel will reach an estimated $2 billion this year, less than half of the $4.5 billion that hotels there made in 2019. In Chicago, projections call for $1.3 billion in business travel revenue, down 48.7 percent from $2.5 billion in 2019.

San Francisco will be feeling the most staggering effects among the major markets. The forecast projects only $762 million in business travel revenue this year, a precipitous 68.8 percent drop from three years ago.

Despite the tough blows continuing to come from a lack of business travel, there are signs of optimism in the market. The first quarter saw more than $12.5 billion in hotel sales, a six-year high, according to CoStar data.

Real Capital Analytics reported that hotel values climbed 18 percent year-over-year in March as hotel sales prices outpaced profits.

*—Holden Walter-Warner*

# INBOX

From left: James Whelan, president, REBNY; Cea Weaver, campaign coordinator, New York Housing Justice for All; Kathy Hochul, governor, New York

## THE TRUTH ABOUT 421A

### What fans and foes of New York's $1.8B-a-year tax break are hiding

By Erik Engquist

**BY NOW, YOU'RE PROBABLY SICK OF** reading about 421a. Really, what's left to say about this property tax break? A lot, actually.

We've been drubbed by supporters and opponents' tiresome narratives about the abatement, which forsakes nearly $1.8 billion in taxes annually from apartments in New York City.

Backers say without 421a, developing rental buildings in the city wouldn't be profitable. All we'd get are luxury condos, and the housing crisis would get even worse. Progressives say without 421a, developers would still develop and New York state could spend that lost tax revenue on truly affordable housing.

The spin is dizzying. It's time someone cut through it.

First, the obligatory context. The tax break will expire June 15. Gov. Kathy Hochul has proposed a replacement, 485w. The industry likes it, but 421a haters call it more of the same.

Legislators declined to include it in the budget, so they would have to pass a standalone bill to keep 421a going. Politically, that's harder.

Both sides are being deceptive, willfully ignorant or both.

Developers routinely omit that 421a raises the prices they must pay for development sites. That means a chunk of the tax break enriches owners of those sites rather than subsidizing affordable apartments.

Don't believe it? Think it through. Not having to pay property taxes for 25 years, then getting a discount for another 10, means developers can bid more for a development site and still make a profit. If they had to pay property taxes, they would bid less.

I confronted the Real Estate Board of New York's leaders with this fact when they were pushing my previous employer's editorial board in 2015 to support 421a's renewal. Their response was, "What? No!"

But I persisted. Eventually they amended their rebuttal. "Okay, maybe so," they said. "But if we lose 421a, owners will not reduce land prices."

I was dubious. "Landowners will sit on underperforming property rather than make millions of dollars?" I asked. "What kind of capitalists are they?"

And REBNY said, "Yes, landowners in this city are very patient. They would wait for years until the tax break was restored."

It's true that some would wait. That's why if state lawmakers want to trash 421a, they must make clear that it's not coming back. The last time it lapsed, negotiations for a replacement continued, so developers waited rather than starting projects.

But not everyone would wait. Some landowners would continue to sell sites even if they had to lower prices to account for the lost tax break. Rent-stabilized buildings were devalued by the 2019 rent law, but have continued to sell.

"There might be a freeze period where developers don't build because they're waiting for a tax break to come back," said Housing Justice for All's Cea Weaver, an opponent of 421a. "I find it hard to believe that developers will simply not build."

Opponents of 421a, however, omit crucial facts from their campaigns against it. One is that all new housing, even if it's market-rate, helps affordability now and in the future. Supply absorbs demand, and the "luxury apartments" of today become the affordable housing of tomorrow.

"We know that adding housing supply does help lower housing costs in the long term," said Matthew Murphy, executive director of NYU's Furman Center, a real estate think tank.

Another fact understated by opponents of 421a is that without it, property taxes would be too high on newly built rentals, so developers would build condos or commercial buildings instead.

The lack of new rentals would constrain supply, allowing owners of existing properties to jack up rents. Opponents' answer to that is to regulate all rents, but that would cause other problems and trigger an endless cycle of regulation. Policymakers need to stop tipping the scales in favor of rentals or condos and let the market provide the mix that New Yorkers want.

Weaver acknowledged that "421a does, in some respects, lower the property tax bill" on rentals. "But a better thing to do," she said, "would be to overhaul the tax system, which is incredibly fucked up."

Hochul and the state legislature have not proposed an overhaul, because it would involve raising some people's property taxes — which few lawmakers are willing to do, especially in an election year. Politically, it is much easier for them to tinker with 421a.

But until the industry and its critics lobby together for a comprehensive solution, Albany will not do the right thing: reset the property tax system rather than patch it with complicated programs, allow more residential development and use the power of markets to ensure we get enough housing at all price levels.

Dogs and cats are not about to start playing together. The politicians, meanwhile, will keep catering to narrow constituencies. Legislators on the left will kick and scream to end 421a. Moderate Democrats will negotiate a revision similar to Hochul's, adding wage benefits for labor unions. Lip service about property tax reform will continue, as will the housing crisis.

And when the next version of 421a expires, we will do it all again. TRD





REBNY, NY HOUSING JUSTICE FOR ALL, GETTY IMAGES, ISTOCK; PHOTO-ILLUSTRATION BY STEVEN DILAKIAN/*THE REAL DEAL*


# INSIDE TRADED, REAL ESTATE'S VANITY MIRROR

## How an ego boost for brokers became a flourishing business

By Joe Lovinger

Allan Lebovits was ready for the spotlight. He brought gold-rimmed sunglasses.

Lebovits is the founder of BridgeCity Capital, a Brooklyn-based company that bills itself as a "millenial marketplace for real estate capital." He and Moishe Loketch, who handles business development ("work hard, play hard and embrace the challenges of the deal," his bio reads), went to the U.S. Open in September to schmooze with a lender. The crowd at the tennis match was full of deep-pocketed financiers and real estate investors, getting to know clients over a Honey Deuce or three. But from the moment they entered the arena, Lebovits and Loketch felt eyes on them.

The duo have become minor celebrities in real estate circles thanks to Traded, a social media company popular with industry pros. Traded posts collage-heavy images about closed commercial real estate deals — think a most-wanted board for the deal-obsessed. And it's caught the eye of just about everyone with an Instagram account and a real estate bone in their body.

Traded devotees know Lebovits even if they don't know that they know him. He has appeared in at least 22 posts on the account, usually sporting aviators, a black yarmulke and ruler-straight bangs. He's flanked by a rotating cast of co-workers, such as Joel Wertzberger, smirking behind a thick beard and suspenders, and Pinny Loketch, Moishe's father, who wears an adorable fedora and starts his bio with, "There's a rare form of authenticity in a time worn classic."

> **"Everywhere we walked, people wanted to take selfies with us."**
>
> MOISHE LOKETCH, BRIDGECITY CAPITAL

"Everywhere we walked, people wanted to take selfies with us," said Moishe Loketch.

What Loketch calls his "Mount Rushmore" of "goofy headshots" has brought BridgeCity real business. In the same way a traditional ad can lodge a brand's name in a consumer's head before she ever interacts with its products, a Traded post gets the word out that you're making deals.

When Loketch started buying Traded posts in 2019, it was still a fledgling account competing with traditional media companies for eyeballs. But as it grew, other lenders and brokers felt more pressure to get their faces out there, no matter how silly. For Traded, that pressure means profit.

Continued on page 28



PHOTO-ILLUSTRATION BY PAUL DILAKIAN/ *THE REAL DEAL;* SCREENSHOTS VIA TRADED

Continued from page 26

Traded pulled in between $500 and $1,300 in daily fees from its New York Instagram posts alone, according to an analysis of several days of posts. Some cost nothing, while others climbed as high as $400 for a single post. Yet, few people know where all that money goes.

An anonymous publisher has built a lucrative empire on the egos of the most egotistical of all professionals — commercial real estate brokers — without giving up his identity. After an extensive investigation, *The Real Deal* was able to track down what appears to be at least one founder of real estate's favorite vanity mirror (more on that later). A broker himself, Traded's creator came up in the New York real estate gridiron, and has a history of experiments in tech and media.

Traded has proven to be his most influential invention yet.

> **"You're speaking with hello@traded.co."**
> TRADED

## "A bang-up job"

Traded is a media company built for the social networking age. It shares bare-bones images representing commercial real estate deals in seven markets across the country. The recipe is simple, consisting of a brokers' headshot, the building they've leased or sold and the sale price in bold print.

The company's city-specific accounts cover transactions in seven markets: New York, Los Angeles, Chicago, Miami, Boston, New Jersey and Texas. They've also branched into covering real estate–focused venture capital deals. In all, Traded boasts 176,000 followers on Instagram, Twitter and Facebook. Its TikTok account shows zero posts, but recent ventures into animated videos suggest that could soon change.

Even though some followers may use Traded like a news source, at its core, it's an ad platform. Users pay Traded to share their brand with tens of thousands of people, most of whom are their competitors or potential clients.

And it is fast. Just hit follow, scan your feed as you would any other day and catch the latest deals in snackable form.

"It used to be that when the print version of *The Real Deal* would come, you'd flip to the back and see what's going on, who's buying and who's selling," said Greg Corbin, president of bankruptcy and restructuring at Rosewood Realty Group. "That's commuted over to Traded."

Traded doesn't pay a dime and does scant research. There's no need for competing brokers to argue over who deserves credit for a deal, as Traded just posts whoever submits it. On occasion, the same deal gets two posts because brokers on both sides buy a post. It serves up generic content that anyone with Photoshop could make in five minutes. Face, building, dollar amount. But the followers — and the opportunities for new fees, new markets — keep on coming.

Until recently, almost every post had a base cost of around $250, several sources said. Now, only leases require payment upfront, but Traded still has plenty of ways to draw in cash. If you want your company's logo next to your mug, that'll run you $50. It's another $25 to add a note to the caption, and $100 to push your post to the front of the line and get it up in 24 hours. Traded is also, unlike news outlets, not snobbish about deal size. As long as you pay a premium, everything is worth a post.

If your lease is less than 1,000 square feet, you'll have to cough up another $200. If your partner in the deal doesn't want his or her involvement publicized, there's another fee. Tack on $200 if you're posting a residential deal or your sale price is less than $1 million. Ego can be an expensive companion.

## On the hunt

While Traded's followers recognize the account's characters, they know nothing about the person behind it. Traded's founder — or founders — have built a wall of secrecy around the company that, even after my attempts to knock it down, stood up to scrutiny.

Traded's main email address, hello@traded.co, handles all external communications. It didn't handle my interview request though, because my initial correspondence and follow-up were both ignored.

But hey, they're a new media company — I should try speaking their language. So I DM'd Traded's main Instagram and Twitter accounts. Crickets.

I reached into my investigative-reporting bag of tricks. Using LinkedIn advanced search, I found six people who have worked there. They included marketing consultants, graphic designers and one researcher. Half are based in New York, two in the Philippines and one in Nigeria.

LinkedIn revealed a few details: Dakota Pentony, a designer, serves as creative director. Two former recruiters, Cecilia Tann and Edna Gibbs, handle growth marketing. One digital marketing manager lists four different ongoing gigs on her profile.

None of them responded to messages.

No matter — plenty of people in real estate are secretive. Digging deeper, I checked Traded's registration in New York State's corporation database. All limited liability corporations doing business in the state have to provide basic information to the government, and even when they're light on details, they usually list at least one living, breathing person.

Traded's registration is skeletal. The company was incorporated on August 16, 2018, a parentless child without so much as a registering attorney to tuck it into bed at night. The only clue that Traded has any connection to a human being was its address, a Turtle Bay condo building with walnut cabinetry and soaking tubs.

I also searched for Traded on state and federal court systems. Court cases are generally great reporting fodder, throwing all sorts of company secrets into the public record. But even the long arm of the law hasn't unveiled Traded yet.

Ajay Suresh, a self-taught photographer who specializes in building portraits, is suing Traded for copyright infringement after it allegedly used one of his photos without permission. One issue: he doesn't know who Traded is. Neither does his lawyer.

Traded appears to have used one of Suresh's photos, a generic shot of Touro College near Penn Station, in a November 2020 post. Unable to find Traded itself, Suresh sent two letters to the broker in the photo but got no response.

The court tried serving the lawsuit to Traded, but had to settle for the New York Secretary of State, because Suresh and his attorney couldn't find anybody else to give it to.

At that point, I really hit the gas, enlisting the enterprise search engine Spokeo. The service scans 89 million business records, 130 million property records, 600 million court records and 120 social networks for any people associated with a website or email address. I tried Traded's main URL, traded.co, as well as two email addresses connected to the website. Nothing new.

I then searched the web domain registry to at least find who bought Traded's website. It pointed me to Domains By Proxy, an Arizona-based company that buys web domains on behalf of people who don't want their identities being sniffed out. The Domains By Proxy slogan stung: "Your identity is nobody's business but ours.®"

All the while, I was calling anybody I could who has appeared in Traded posts. Early adopters and late additions had plenty of stories about the company, but one question remained: no, they didn't know who was behind Traded.

Rosewood's Corbin has appeared in at least 19 posts on Traded and offered one of its first testimonials. He says he's spoken with Traded on the phone, but that's as far as he's gotten. "Hi, who am I speaking with?," Corbin asked on one call.

"You're speaking with hello@traded.co."

The solution to my search, as usual, was just more shoe leather. Eventually, sources pointed to Eric Hedvat.

Unsurprisingly, Hedvat is a bit of a mystery. He didn't respond to several requests for comment. On LinkedIn, he calls himself a real estate tech entrepreneur and says he spent five years as director of acquisitions and marketing for Ben Shaoul's Magnum Real Estate Group. According to the New York MLS, he now works at investment sales brokerage Jet Real Estate.

Traded wouldn't be Hedvat's first venture in anonymous real estate media. He previously founded QueensBeans, a news blog about Queens real estate deals that uses pseudonyms for its bylines. His partner on that venture was Jonathan Eshaghian, a Queens-focused investment-sales broker with Marcus & Millichap.

Eshaghian declined to comment.

Hedvat appears in two Traded posts, both of which include Shaoul.

When reached by phone, Shaoul said: "I don't know what Traded is, man."

## #NoDaysOff

You could drown a therapist in the sea of studies examining the connection between social media and narcissism. One of the more damning findings to come from the research is that excessive social media use boosts narcissism while killing self esteem. Real estate brokers are a notoriously cutthroat, ego-driven bunch, so move that competition to social media platforms, and you've got the perfect recipe for problems.

A Traded post validates less established dealmakers. But it comes with a cost: to collect the medal, you have to play the game. Confronted by the endless feed of bigger deals for higher price tags, the validation quickly fades. You're in a hamster wheel, addicted to this bad version of yourself, refreshing, refreshing, refreshing.

In their 2008 book, Born Digital, media scholars John Palfrey and Urs Gasser study "digital natives," the first generation of people born with easy access to the internet. For young people who don't know a world without Instagram profiles, there's no real separation between their digital and real-life identities.

> **"I don't know what Traded is, man."**
> BEN SHAOUL,
> MAGNUM REAL ESTATE

Some 14 years later, those digital natives are working phones, trying to chart their own careers. They don't just know how to build an online reputation — it's the only thing they know.

"For younger brokers, the exposure tied to a closing is a very important thing to demonstrate, 'I'm not just out there trying hard; I'm getting results,'" said David Schechtman, a veteran investment-sales broker at Meridian Capital Group. It's no surprise young real estate professionals want to see their faces on Traded — it's just a new iteration of how brokers might have fought to get their faces in print 20 years ago. TRD

*—Hiten Samtani contributed reporting.*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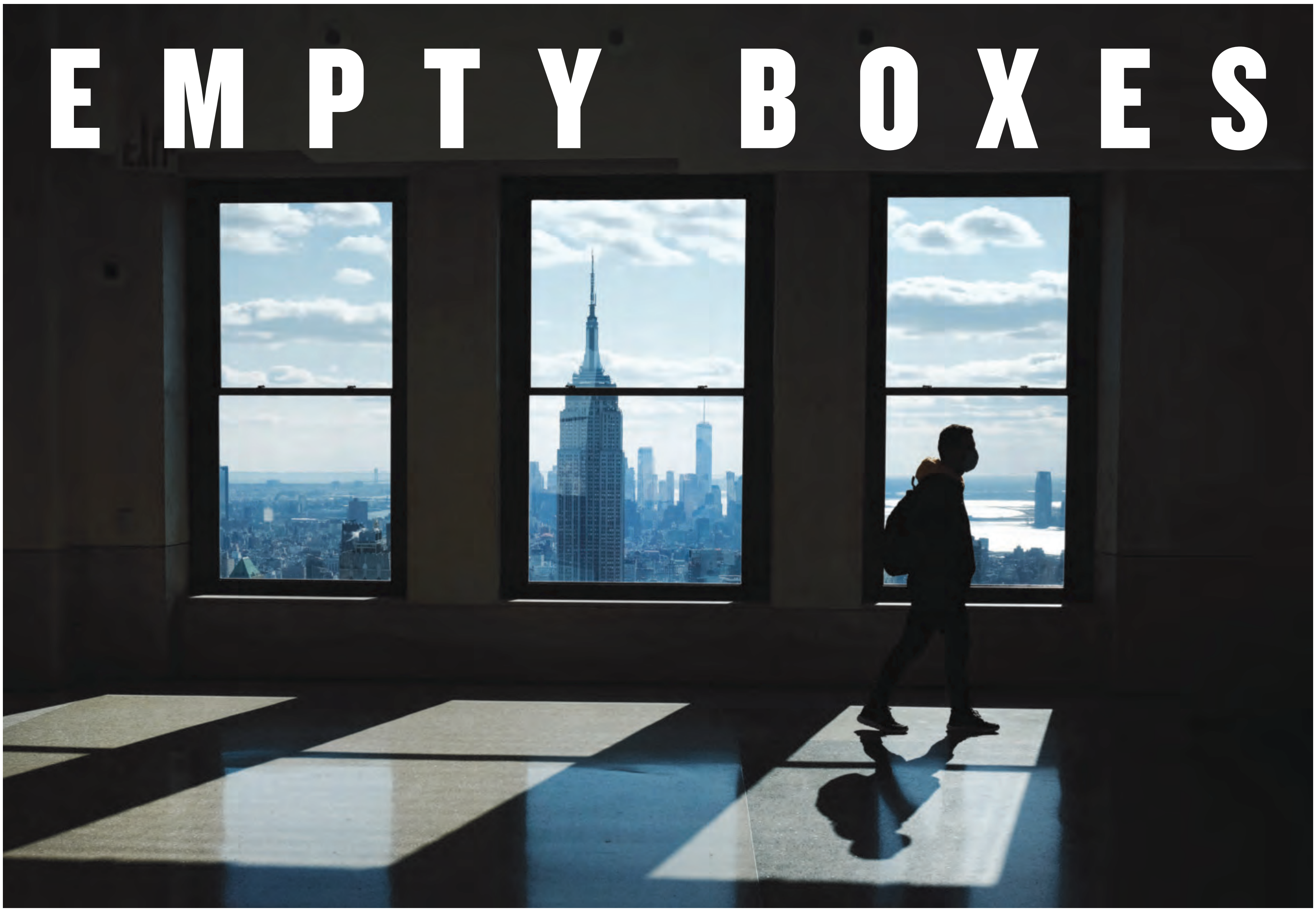
# EMPTY BOXES



## Cities are bouncing back. Offices remain mostly empty. What are all those towers really worth?

By Rich Bockmann, Sam Lounsberry, Matthew Niksa and Orion Jones

Blackstone is handing back the keys to an outdated office building north of Times Square. In Chicago, Alliance HP walked away from the leasehold on a West Loop office. A loan on Jamison Properties' Equitable Life Building in Los Angeles is on a watchlist of properties in danger of defaulting.

Office landlords across the nation, hammered by the work-from-home revolution, are coming to terms with the first signs of distress. While a number of buildings were struggling to make debt payments even before Covid, home offices and hybrid work schedules have accelerated their downfall. The busts may be an early sign of a larger problem concealed by slow sales activity: Many office buildings are losing value.

"I don't think we're ever going back to the same level of economic activity in the big cities we saw in 2019," said Manus Clancy of Trepp, the largest commercially available database of securitized mortgages. "People have fallen in love with this three-days-in-the-office thing," he added. "I think that's here to stay."

Even as masks come off and urbanites return to the cities they fled, pushing up rents, sparking bidding wars and filling nightclubs with such alacrity that Miami Beach imposed a rare spring break curfew, offices remain stubbornly lifeless. Just over 40 percent of office workers were back in buildings in 10 major cities at the end of April, according to Kastle Systems, which tracks keycard swipe data.

On top of that, about $1.1 trillion of office buildings — some 30 percent of the national inventory — are in danger of becoming obsolete due to changes in work patterns, according to an analysis by commercial real estate economist Randall Zisler, cited by Bloomberg.

One big caveat: Any change in building values hasn't yet been reflected in data. Properties that have sold so far have mostly held their value. Concessions are showing signs of decreasing, and some leases in big cities appear to be recovering to pre-pandemic levels. One Vanderbilt, SL Green's brand-new Midtown office tower, leased its uppermost office space for more than $300 a foot last month, a probable New York City record, people familiar with the deal told *TRD*.

Yet a recovery in sales and leasing has mostly been for higher-end assets, which are more likely to be insulated from valuation shifts. Struggling properties aren't coming to market now and smaller tenants aren't signing new leases, masking those changes.

"It appears that smaller-size deals are still lacking as a percentage of leasing activity," real estate database CompStak wrote in a recent analysis. "Since smaller floor plate spaces tend to be cheaper than premier space, the recovery indicated by the average rent calculation is more of a reflection on the higher end of the market."

Put another way, much of the market is hard to value because of a dearth of deal activity. So far, the shift is anecdotal, not based on viable data points.

"We're still in discovery mode, and everyone is starving for more information and facts and data to really help them understand what the implied changes to value are," said Erik Hanson of JLL's capital markets team in San Francisco.

### Widespread challenges

Midtown Manhattan's second- and third-tier office buildings faced competition from newer properties even before the pandemic. As in other markets, these properties have been the first to show distress.

At 1740 Broadway, for example, L Brands relocated to 55 Water Street in the Financial District, signing its lease in January 2020 — meaning Blackstone's largest tenant in the 26-story Midtown building decided to move out before the pandemic.

The asset manager paid just over $600 million in 2014 to buy the now-70-year-old building from Vornado Realty Trust, which had renovated it seven years earlier.

Blackstone is reportedly handing over the property to the special servicer on its $308 million CMBS loan.

Trepp's Clancy said the buildings that are getting into trouble are the older ones

> "People have fallen in love with this three-days-in-the-office thing. I think that's here to stay."
> MANUS CLANCY, TREPP



GETTY IMAGES

in less desirable locations that were already facing a tough road before Covid sent most office tenants home.

“Those buildings would need a fortune to be retrofitted to attract higher-paying companies,” he said.

In Chicago, a lender took control of Brookfield’s 22-story building at 175 West Jackson Boulevard in March, while the most likely outcome for AmTrust Realty’s 1.3 million–square-foot 135 South LaSalle Street is a deed-in-lieu of foreclosure, Trepp reported on March 21. The two owners had struggled to keep the properties sufficiently occupied to make loan payments before the pandemic, and were prevented from recovering as the virus raged.

New York-based AmTrust bought the South LaSalle Street property for $330 million in 2015, but longtime anchor tenant Bank of America exited its 830,000-square-foot space last year to head to its new namesake, a 57-story tower on Wacker Drive. A recent appraisal slashed the building’s value to $130 million.

“If you ever land an anchor tenant in your building, you should sell it the next day,” said Andy DeMoss, a landlord rep for Chicago-based brokerage Bradford Allen. “You’re so vulnerable to be picked off when their lease rolls.”

**30%**

**SHARE OF U.S. OFFICE INVENTORY AT RISK OF BECOMING OBSOLETE**

As occupancy declined at Jamison’s Equitable Life building in Downtown Los Angeles, the rating agency KBRA gave the 42-story Class A office tower a value of $89 million last April, when its outstanding CMBS debt sat above $92 million.

The 50-year-old building’s occupancy fell to 66 percent last June from 82 percent in late 2020, according to DBRS Morningstar, and it remains on a special servicer’s watchlist since being placed there last October. KBRA appraised the building at $150 million in 2014, when Jameson refinanced and took out $95 million in loan proceeds. The building began facing issues as early as 2018, when its largest two tenants decided to vacate.

San Francisco has probably been the slowest of the nation’s major office markets to rebound from the pandemic in terms of occupancy, said JLL’s Hanson.

About 22 percent of its office space was vacant at the end of last year, an almost fourfold increase from 2019, JLL data show. Direct asking rents, meanwhile, have decreased to about $80 a square foot a year after hitting $90 a square foot in 2019, according to JLL.

One such building downtown — steps away from Union Square, the city's retail center — is testing the city’s office market. The 51,000-square-foot structure at 166 Geary Street consists of two levels of retail and 14 floors of offices, with the latter backing a $19 million CMBS loan that Concord Capital Partners took out from JPMorgan Chase in 2019.

Things were looking rosy for Concord, owner of the 115-year-old property's office space, when it said in March 2019 that WeWork had signed a 10-year lease for 12,500 square feet. The deal, valued at over $10 million, made the flex-office company 166 Geary's largest tenant and left the building more than 95 percent occupied.

Three years later, the outlook has become murkier. WeWork exited the building seven years ahead of schedule after defaulting on its lease, special servicer LNR disclosed in December. Concord began falling behind on its loan payments in April 2020 but emerged from delinquency in February after pumping more equity into the building’s offices, whose appraised value has dropped by 17 percent, to $21.5 million, since 2019, according to DBRS.

Almost 11,000 square feet of the building's office space — the 12,700-square-foot retail condo portion of the property is owned separately by The Jackson Group — was available for lease as of April 28, according to its LoopNet listing. Concord is offering $10,000 to any tenant rep broker that gets their client to sign a full-floor lease by the end of the year, the listing said. Other San Francisco office landlords are handing out perks including higher commissions and a vacation in Cabo to avoid cutting rents in a stubbornly soft market.

> **“If you ever land an anchor tenant in your building, you should sell it the next day.”**
> **ANDY DEMOSS,** BRADFORD ALLEN

## Bargain buys

The data from Kastle Systems underlines the uneven pace of various office markets’ recovery.

New York- and San Francisco-area office properties tracked by the firm were 33 percent occupied in late April, trailing eight other major markets, including Chicago’s 37 percent, Los Angeles’ 39 percent and Austin’s 59 percent.

Averaged across all 10 major markets, occupancy has recovered to its pre-Omicron peak of just above 40 percent, but has generally flatlined there. Now, more than two years into the pandemic, Kastle’s index has yet to cross the 50 percent threshold.

One way to assess the impact on office building values is through capitalization rates, which aim to show how much an investor pays for a property relative to the income it generates.

While cap rates vary by market, they’ve generally stayed even or compressed slightly since the end of last year, suggesting investors haven’t yet been scared off, according to CBRE.

“In the markets that have been impacted, there’s still some uncertainty, but they’ve remained relatively stable,” said Darin Mellott, a researcher at CBRE. “A lot of this has to do with the success of the policies responding to the pandemic. Trillions of dollars in fiscal policy did a good job of maintaining asset values.”

Cap rates for trophy office buildings in Los Angeles have moved up to 4 percent from about 3.5 percent, but New York has had some compression. Mellott said secondary markets like Atlanta, Dallas and Denver have led the recovery.

Mellott noted that very few buildings have been selling. Those trading are typically well-leased properties that can attract strong pricing, so it’s difficult to assess the impact hybrid work has had on their values.

In Chicago, DeMoss said that if lenders get more aggressive in prying older properties back from struggling owners whose rent rolls were diminished by both the pandemic and the Windy City’s appetite for new development, it could propel the market upward.

“The 135 LaSalle and 175 Jackson seizures aren’t going to be the last,” he said. “There are multiple buildings that are probably in a very similar situation. If lenders take them back, that creates chances for fresh blood to come in and get it at a low basis. That’s good for the market. Some of that will flush out over a longer time horizon than we would want. I’m thinking two to three years before we’re fully out of this.”

For now, investors seem confident that markets will largely recover and that the busts will be contained, even though offices have been through a number of false starts as planned returns have been derailed by Covid spikes.

CBRE’s Mellott said a strong economy and job creation are stirring hope among investors that they will blunt the impact of companies cutting back space due to hybrid work. He said they generally say it will take three years.

“They’re clear-eyed about the changes in work patterns,” Mellot said. “The market clearly understands there are timing issues and uncertainty to be sorted through.” TRD


A rendering of the South Dade Logistics & Technology District, a largely industrial complex with some offices and retail proposed for 800 acres outside the Urban Development Boundary in south Miami-Dade County.

# SOUTHWARD BOUND

## Commercial project proposals are on the rise in the long-overlooked southern reaches of Miami-Dade County

**By Lidia Dinkova**

Miami real estate development duo Jose Hevia and Stephen Blumenthal are not afraid of taking risks, let alone catching heat.

While developers' proposals often anger residents who are fearful of traffic congestion and the loss of green space, Hevia and Blumenthal's plan is so controversial, it's on a scale that Miami-Dade County has not seen for almost a decade.

The partners envision an up to 9.2 million-square-foot industrial complex outside the Urban Development Boundary, an invisible line that restricts the sprawl of development as a way to preserve farms and wetlands surrounding the built-out part of Miami-Dade.

The greenbelt is vital to protecting the county from flooding, as well as for preservation and restoration of the Everglades, environmentalists say. They argue this is especially applicable to the land where Hevia and Blumenthal want to build their South Dade Logistics & Technology District.

Hevia, president of Miami-based Aligned Real Estate Holdings, and Blumenthal, principal of Coral Gables–based Coral Rock Development, pushed back on this claim, saying that the project is actually beneficial for the environment. Still, it is a hefty task to take on, Blumenthal conceded.

"Because of its size and because it involves moving the UDB, it is the most challenging deal that Coral Rock has developed," he said. "I am in business to make a profit, so the reward will definitely outweigh our pursuit costs."

Blumenthal and Hevia join a growing number of developers who have built some of the county's marquee projects in prime locations — and are now homing in on the long-overlooked southern stretches of the county.

The area includes Homestead and Florida City, municipalities on the southernmost tip of Miami-Dade, and the neighborhoods of Naranja, Leisure City, Princeton and Goulds — largely single-family-home and townhouse communities interspersed among expansive, untapped land.

Therein lies the appeal to builders. South Miami-Dade is fertile ground for commercial real estate projects that would meet the growing rental and office demand, developers and brokers say. While prices of development sites in the urban core have reached new heights, south Miami-Dade is a reprieve.

Land sales in south Miami-Dade averaged about $795,000 per acre so far this year, a steal compared with the $22.9 million per acre in Miami's core, roughly from Coconut Grove north to the Miami Design District, according to Colliers and CoStar Group data.

Lack of land has plagued Miami-Dade for decades because the county is sandwiched between the Everglades and Biscayne Bay.

"We are seven miles of land between alligators and sharks," said Anthony De Yurre, a developers' attorney with Bilzin Sumberg. "If you want to go somewhere, you have to go up or down."

And many are going down. Way down south.

### Bitcoin bet

Homestead, which was the second municipality in the county to incorporate in 1913, has a penchant for maintaining its independence from the rest of Miami-Dade.

Case in point: It has its own utility, unlike the rest of the county and even the state, which largely uses Florida Power & Light.

"That puts us in a unique position because we have been able to maintain our electric rates lower than most of the other parts of the state, which helps us attract more business," said Homestead Vice Mayor Julio Guzman, who also is a realtor.

Entrepreneur Jose Mallea's Esperanza Opportunity Zone Fund is in talks with the city to set up a Bitcoin mining business park that would tap into the city's grid for the high-energy-consumption operation. Mallea is asking for a rate of 5.5 cents for every kilowatt-hour consumed.

"If we can attract one, we can attract 10," Guzman said.

Homestead political winds have long swung in favor of development, with the city ready to shell out $71 million for a new sports complex south of the Homestead-Miami Speedway, according to Guzman. Homestead is pushing for a thriving west side, with grants averaging $25,000 for business facade improvements, interior buildout and expansion.

In downtown Homestead, the city completed Homestead Station near the bus corridor in 2019 with 30,800 square feet of retail, as well as a next-door ShowBiz Cinemas and Cybrarium library with offerings such as virtual reality.

In likely the biggest validation of Homestead's efforts, Jorge Pérez's Related Group wants to build an apartment and retail project on the southwest corner of Campbell Drive and U.S. 1. CityPlace Homestead, modeled after Related's CityPlace Doral, started out as a proposal for over 300 apartments, but has expanded to 635 units, according to Guzman.

The development, which is still being negotiated, will likely be six or seven stories, although it could go slightly higher, Guzman said.

> **"We are seven miles of land between alligators and sharks. If you want to go somewhere, you have to go up or down."**
> ANTHONY DE YURRE, BILZIN SUMBERG

Rents are expected to be largely or entirely market rate, which in south Miami-Dade is lower than the skyrocketing rents fueled by population growth elsewhere in the county.

Homestead and its neighbors had the second-lowest monthly rents among nine county submarkets in the first quarter, at

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ALIGNED REAL ESTATE HOLDINGS, CORAL ROCK DEVELOPMENT GROUP

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$1,637, much less than the $2,150 average countywide, according to a report from RealPage, provided by Newmark.

That is expected to attract more residents priced out of prime areas, experts say.

"Obviously, tenants from Miami who are local will move to other parts of the county that are more affordable because they understand the market a little better," said Alexander Kaushansky of lender Arbor, which is making more south Miami-Dade loans.

As for the newcomers? "Not every single one of them can afford to live" in the urban core, he said. "So they are going to be moving to Homestead and Naranja."

## 'The Last of the Mohicans'

Across south Miami-Dade, 1,068 new apartments are expected to be completed this year, up from 88 in 2021, according to the RealPage report.

Additional proposals include Related Group's plan for a 307-unit apartment complex with retail in seven low-rise buildings and an eight-story building, all on 10 acres in Princeton.

The site, on the west side of Southwest 127th Avenue and less than a quarter mile north of 248th Street, is in the Princeton Community Urban Center District. The county designated this Princeton area, as well as areas in Naranja, Perrine, Goulds and Leisure City, as urban districts, to allow for denser development. They are near the busway running along U.S. 1.

The districts were created years ago, but the market is at a tipping point, with developers taking a hard look at building garden-style communities in these areas, said De Yurre, the Bilzin attorney. It remains to be seen if mid-rise buildings will be feasible.

"I don't know if they can build responsibly yet, because it's a more expensive product," he said. "Developers are sharpening their pencils and looking at where construction costs go, land costs go."

The conundrum: Mid-rise buildings are more expensive to construct, partly because they require garages, which could run roughly $30,000 more per space than surface lots. Higher upfront costs means higher rents, but the south Miami-Dade resident is used to getting high-quality, new units at a significant discount, according to De Yurre.

Builders are considering using prefabricated walls, bathrooms and kitchens, a more efficient way to put projects together "like Legos," he said.

The growth of the area around Dadeland Mall could also play a role in more renters moving to south Miami-Dade. "If demand continues the way it does, you are going to see a faster migration to a center of gravity with a nucleus of Dadeland," De Yurre said.

Parts of south Miami-Dade are also Opportunity Zones, areas deemed in need of an economic boost. Under the Tax Cuts and Jobs Act of 2017, investors are incentivized to put their capital gains in Opportunity Zone real estate and business projects in exchange for tax breaks.

Critics of the law argue it used the 2010 Census to designate areas, resulting in the inclusion of already developed and gentrified areas.

South Miami-Dade Opportunity Zone investment could be more aligned with the law's purpose. Yet, attorney Ronald Fieldstone, who represents Opportunity Zone investors, said the area is not yet a prime target. It's still largely single-family houses, which don't work for Opportunity Zones' required long-term hold.

Developer Armando Bravo is not seeking Opportunity Zone funding for his 11 acres at 503 Krome Avenue, which he purchased for $5.4 million in October with plans for a supermarket.

The development-friendly city politics and low-priced land supply are enough of an incentive to bet on Homestead, he said.

"I want to call it the 'Last of the Mohicans,'" Bravo said.

## Everglades politics

The last time Miami-Dade expanded the Urban Development Boundary was to include 521 acres west of Doral in 2013.

Hevia and Blumenthal plan the South Dade Logistics project on 800 acres east and beyond the boundary. The land runs from the Florida Turnpike south to Southwest 268th Street and between Southwest 122nd and 107th avenues.

They separately own or have under contract a combined 335 acres slated for Phases I and II, Hevia said via email. The third phase on 329 acres is owned by others, and the remaining 130 acres are public and utility rights of way.

They laud the project as a much-needed boon for south Miami-Dade, promising the creation of 12,000 permanent jobs in an area where residents have a 30-mile drive to downtown Miami. Other employment hubs such as Kendall are roughly 20 miles away.

The largely industrial project would also have offices and retail and possibly a 150-key hotel, Blumenthal said. Not only is Miami-Dade's industrial pipeline trailing that of other metropolises because of the scarcity of developable land, but a project of this scale is needed because the big-box users such as Target or Amazon need the accompanying smaller last-mile distribution facilities to be nearby, he added.

The proposed South Dade Logistics site is the only one that can accommodate a development of this scale, they said.

"We searched high and low, both Jose Hevia and myself," Blumenthal said. "We were shown 15 acres here, 20 acres there. But a collective, contiguous piece of industrial property does not exist."

Jorge Pérez's Related Group is in talks with Homestead officials to build a mixed-use apartment project on 16 acres (area in red) on the southwest corner of Campbell Drive and U.S. 1.

> **"Because of its size and because it involves moving the UDB, it is the most challenging deal that Coral Rock has developed. I am in business to make a profit, so the reward will definitely outweigh our pursuit costs."**
>
> **STEPHEN BLUMENTHAL,** CORAL ROCK DEVELOPMENT

Laura Reynolds, of the Hold The Line Coalition that fights UDB expansion, disagrees. "There are more areas for sale now than when they originally looked, but they should look again," Reynolds said.

In fact, because Phase III landowners have not committed to the project, the first two phases can comfortably fit on a 400-acre site also in south Miami-Dade, but within the boundary, she said.

An entity owned by retired banker and environmental advocate Leonard Abess owns some of the land in the third phase, and asked the county in November to freeze its zoning application, citing concerns by state agencies reviewing the proposal.

Hold The Line's concerns with South Dade Logistics include that the land is considered for Everglades and Biscayne Bay restoration, a government initiative to return the natural flow of the Everglades. Also, the wetlands on the site protect from storm surge, and the agricultural portion could prove to be vitally important for future farming needs, Reynolds said.

The developers' plan is to raise the land by filling it in, but this would lead to flooding of the residential community to the west, she said.

Hevia and Blumenthal countered that the project would benefit the environment, as it will allow for Everglades discharges in the bay, but without the runoff from the farms on the site.

"Right now, there is tree farming and groves, and pesticides and fertilizers are all being used and dumped into Biscayne Bay," Blumenthal said. "We are going to self-contain on the site, so there will be no runoff into the bay."

Added Hevia: "The water quality improvements to Biscayne Bay will be realized with the South Dade Logistics & Technology District project much sooner than can ever be expected to occur through" the government's restoration project.

The Miami-Dade County Commission is expected to take a final vote on the proposal this year, with the plan requiring nine out of the 13 commissioners to approve it. Mayor Daniella Levine Cava, who has opposed the plan, has veto power, although nine votes would be enough to override her.

The issue of balancing growth and environmental interests has been ever-present in other land-constrained markets, said Ken Johnson, a professor at Florida Atlantic University.

"This is a trade-off we have to decide as a society," he said. "We might have to give up some environmental restrictions. And, well, we might want to maintain some environmental restrictions. Other places have dealt with this, but this is really going to come into focus in Southeast Florida." TRD



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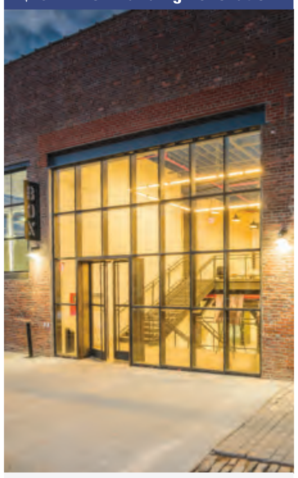

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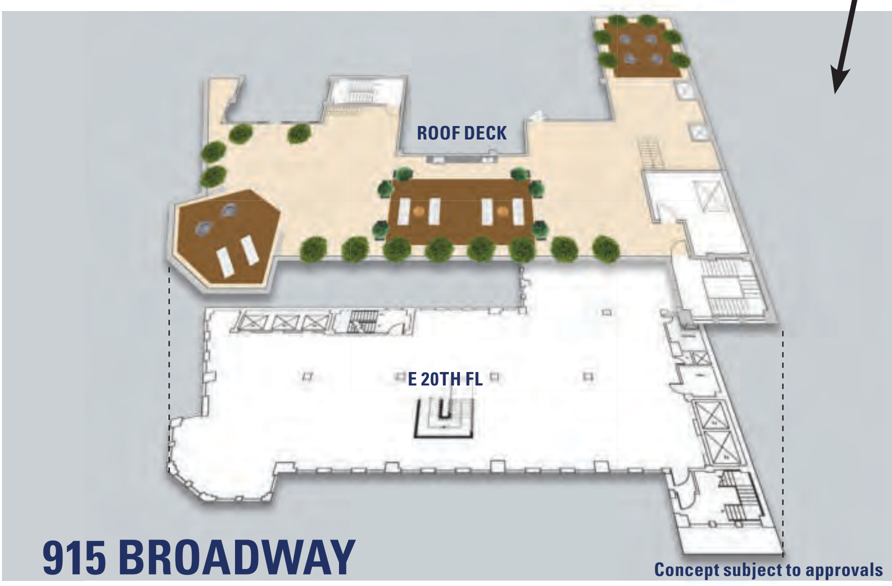


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Tommy Hilfiger (left) and Steve Wynn

# FLIPPING FRENZY

## Flippers include billionaire Steve Wynn, designer Tommy Hilfiger

**By Katherine Kallergis**

The first big flip in recent memory seemed too good to be true.

Russell Weiner, the billionaire founder of Rockstar Energy Drink, sold two North Palm Beach homes for more than $48 million — $15 million, or 45 percent more than he paid to acquire the properties from Swedish model Elin Nordegren just one month earlier.

That was the fall of 2020.

Since then, buyers of multimillion-dollar properties across South Florida have fielded offers from brokers and their clients to make a quick profit and walk away from their homes. Some do it intentionally, like billionaire casino magnate Steve Wynn, while others stumble into major windfalls.

The result: flipping fever is spreading across South Florida's luxury market. Yet, after astronomical sale prices in the waterfront market, buyers may be becoming less eager to overpay.

"We definitely see pricing hitting its peak," said Milla Russo, an agent with Illustrated Properties in Palm Beach County. "It depends on the location and the supply and demand."

The biggest deals are for properties in Palm Beach and Miami Beach, but flips are occurring almost everywhere. What was previously seen as risky is now considered a safe investment strategy, as prices continue their upward climb and sales volume soars, brokers say.

A proliferation of off-market sales of luxury single-family homes has helped fuel that, said Jay Parker, CEO of Douglas Elliman Florida.

"There is this cachet in the market with off-market because the buyer thinks at least there's some more juice in the deal," Parker said. In other words, the buyer thinks they got a good price, and can turn it around for a good return.

In many cases, buyers are paying cash. And luxury buyers "don't really look at the prices," said Russo of Illustrated Properties. She is seeing new-to-market buyers who are end-users, and investors who are looking to make a quick buck.

"They don't rely on appraisals. They are [making] cash offers," Russo said.

"We've had a few clients who come from up north looking for real value. They move in and decide that's not where they want to live," she said. "They bought it sight unseen, and they turn around and sell it."

> "Someone comes along and they offer these really aggressive offers, and you're sort of like, how do you not entertain these offers?"
>
> **JAY PARKER,** DOUGLAS ELLIMAN FLORIDA

### Flipper's market

Spec home developer Todd Michael Glaser has flipped more than a handful of properties over the past year.

Glaser and his partners paid $12.6 million for the oceanfront home at 870 South Ocean Boulevard in Palm Beach in early 2021, and sold it while it was under construction. Before the expansion of the four-bedroom, 6,124-square-foot house into a six-bedroom, 7,589-square-foot home, a buyer approached him to pay $28.5 million for the property, Glaser said. The deal closed in July.

Glaser also flipped a Palm Beach estate that he planned to keep as his "forever home" for nearly $32 million to cardiologist Dr. Robert Fishel in February. Glaser paid $23.8 million for the mansion at 210 Via Del Mar in May of last year.

"There's people everywhere flipping shit," Glaser said, pointing to Wynn, developer Steve Witkoff and others.

As former President Donald Trump told a crowd of more than 3,500 attendees at a Grant Cardone conference in March, Wynn flips as a hobby. The billionaire mogul's recent sales include a waterfront Palm Beach home for $32 million, one year after paying $24 million for the house and completing some renovations, including a new kitchen and bathrooms.

"He will buy a house, fix it up a little and sell it. He doesn't need to do it, but he likes it," Trump said.

In March, Tommy Hilfiger and his wife, Dee Ocleppo Hilfiger, sold the non-waterfront home at 244 Fairview Road in Palm Beach to Fox News host and political correspondent Bret Baier for $12 million, $3 million — or 33 percent — more than the Hilfigers paid for the property a year earlier.

Palm Beach has become a foolproof market. The median price of single-family homes on the small island jumped 51 percent to about $10 million in the first quarter, according to the Elliman reports, prompting some to ask if pricing has peaked.

"No, nothing is too high," Glaser said. "At this point, the market has legs. It has a good foundation. People buying into it are very wealthy people."

Glaser even managed to flip the property previously owned by the late convicted sex offender and financier Jeffrey Epstein. After paying $18.5 million for the estate at 360 El Brillo Way in Palm Beach in March 2021,

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PHOTO-ILLUSTRATION BY PAUL DILAKIAN/*THE REAL DEAL* (IMAGES VIA GETTY)

# NOTABLE FLIPS IN MIAMI BEACH

### 6455 PINE TREE DRIVE CIRCLE

In April, a company tied to New York developer Steve Witkoff sold the waterfront lot at 6455 Pine Tree Drive Circle for $20 million, a 188 percent markup compared with the $7 million Witkoff paid for the property in early 2021.

### 6300 NORTH BAY ROAD

The waterfront home at 6300 North Bay Road sold in February for $21 million, more than double its previous sale price a year earlier. A company linked to Miami Beach investor Michelle Simkins bought the house last year for $9.7 million, and sold it to a hidden buyer for 118 percent more. It is now back on the market for $24.5 million.

### 6385 PINE TREE DRIVE CIRCLE

Andian Group, led by developer Andres Isaias and broker Alejandro Diaz-Bazan, sold the waterfront mansion at 6385 Pine Tree Drive for $28.1 million in September, $9.1 million more than the company paid for the property in May 2021. Andian renovated and expanded the estate.

**Continued from page 36**

Glaser demolished the house and sold the waterfront lot to venture capitalist David Skok for $25.8 million seven months later.

In Miami Beach, Glaser partnered with broker Nelson Gonzalez to buy the Palm Island home that once belonged to the late mobster Al Capone for $10.8 million in August. They planned to demolish the house, but after a public outcry over the demolition of the circa 1922 home, they were able to flip it within a month for $15.5 million, an increase of over 40 percent.

And Gonzalez recently represented Anatomy Fitness owner Chris Paciello in the flip of a waterfront Sunset Islands home on the Sunset Islands. Paciello paid $9.3 million for the property in March, and sold it one month later for $14 million, records show.

## From single-family homes to condos

In October 2020, Miami Beach investor and developer Greg Mirmelli declared the city "the hottest place in the whole world" when he sold a waterfront home on the Sunset Islands for $18 million, following a bidding war. The buyer was David Lindsey, founder and CEO of a security systems company that ADT bought in 2020. (Mirmelli paid $5.7 million for the home in 2007.)

It would get hotter.

In March of this year, Lindsey sold that house at 2120 Bay Avenue for $33 million. That's $15 million or 80 percent more than he paid less than two years earlier.

"Someone comes along and they offer these really aggressive offers, and you're sort of like, how do you not entertain these offers?" said Parker of Elliman, referring to the overall market.

Waterfront single-family homes have gotten so expensive that buyers are looking at dry properties and condos, brokers say.

In Miami-Dade County, luxury single-family home sales fell about 4 percent in the first quarter to 667 sales, compared with the first quarter of 2021, according to the Keyes/Illustrated Luxury Report. Luxury condo sales, meanwhile, increased 43 percent to 837 closings.

"Buyers were a little bit more open to meeting a seller's request in the last 18 months," said Dina Goldentayer, a top agent at Douglas Elliman, regarding waterfront single-family homes. "Now some of the sellers, their pricing requirements are so absurd it's not easy to convince the buyer to meet that number. Buyers are OK to wait."

Escalating demand for condos caught some by surprise, including One Sotheby's International Realty agent Eddy Martinez. Martinez and his partner Roland Ortiz's clients, Jeff Herzog and his wife Jill, paid $8.4 million for unit 1201/1202 in the south tower of the Continuum in South Beach in October. The Herzogs decided it wasn't the right fit and listed the unit for sale.

"He thought he would be lucky to break even," Martinez said of Herzog. It was listed in February for $10 million, then the price increased to $10.5 million.

"Demand was so high, we were really able to push the envelope. We did not think that that would happen," Martinez added. Related Group Development CEO Steve Patterson ended up buying the unit for $10 million, a 19 percent increase from the Herzogs' purchase price.

That deal created a new record in that tower, prompting another client of Martinez's to buy a unit in the north tower for $6.3 million at the end of March. That buyer now has it under contract to flip for $8.8 million, or 40 percent more, in just over a month. The sale is expected to close in early May.

"When we saw it happen with [unit] 1201, I guided the investor to this unit in the north tower that no one wanted to buy, and told him 'I think you can trade this successfully around the $7.5 million range,'" Martinez said. "Once he closed I started showing it. Sure enough as soon as I raised it to $8.9 million, someone paid $8.8 million."

Non-waterfront homes are also increasingly setting records. Compass agent Angel Nicolas was involved in the off-market, $7 million sale of a property in the Ponce Davis neighborhood, near Coral Gables. It then flipped for the full asking price of $7.9 million within six months.

Another non-waterfront house in Coral Gables that sold for $3 million in 2020 traded in April for $8.9 million. He represented the seller, who only changed the flooring.

Said Nicolas: "Nothing surprises me in this market anymore." TRD





ROBERTO CASTELLANOS (6455 PINE TREE DRIVE CIRCLE)


From left: Waterford Property Company's John Drachman with the Oceanaire complex in Long Beach and Affiliated Development's Nick Rojo with the Bohemian project in Lake Worth Beach

# PUBLIC HOUSING GOES MIDDLE CLASS

## States, cities subsidize complexes for priced-out white-collar renters

**By Lidia Dinkova and Isabella Farr**

Public housing has gone middle class.

Billed as "workforce housing," it mimics a private-sector trend in places where home prices and rents have soared beyond the household budgets of many working professionals, who find themselves locked out of homeownership and hard-pressed to afford monthly rents. Making the market work requires a little government help.

"Cities are looking at a broader use of subsidy further up the income scale because there is a shortage of moderately priced housing for critical members of the workforce," said Christopher Ptomey, who heads the Terwilliger Center for Housing at the Urban Land Institute.

Both Los Angeles and Miami housing are "vastly under-supplied at moderate-income levels," Ptomey said.

"Those markets are worst-case examples," he said.

That helps explain why subsidies for workforce housing have been coming at a rapid clip lately in Southern California and South Florida. They tend to generate official announcements that lend a veneer of market-driven sensibilities to deals that are often touted as public-private partnerships on the West Coast.

Not quite.

In Southern California, a public entity called the California Statewide Communities Development Authority (CSCDA) issues bonds — typically tax-free instruments — to finance deals that involve private developers.

Except there is no development — the deals involve buying existing apartment complexes by a public entity. Rents are adjusted to below-market rates for qualified residents. The private "partner" in the deal isn't an owner — instead, companies sign on to manage the properties on a fee basis.

The public entity that issued the bonds — usually on behalf of a city — aims to take in enough rental revenue to pay management fees, maintain the properties and pay off bondholders. Once the bond debt is retired, the public entity owns the complex outright.

Et voila! Public housing for the middle class.

### Housing as hedge

"We're like an asset manager," said John Drachman, co-founder of Newport Beach, California-based Waterford Property Company, which has charged into workforce housing with 12 deals that total $2.4 billion for workforce projects in Los Angeles, Orange and San Diego counties since the beginning of 2021.

Waterford does everything from ground-up development of market-rate apartment complexes to affordable projects. The company's workforce housing division — dubbed its "Essential Housing" unit — stands apart as a niche. The demand for subsidized middle-class rental units seems here to stay — and the public entity bears the lion's share of the risk.

The CSCDA offers somewhat of a hedge for the private sector with stability rather than the sort of risk-reward equation that has been at the heart of the development of housing for generations in Southern California.

"To be frank, developers would make a lot more if they just purchased the properties outright," said Jon Penkower, managing director of the CSCDA.

Waterford's deal for the Oceanaire complex in Long Beach in March cost $120 million, with all the funding raised through the sale of tax-exempt bonds.

Rents at the 200-unit complex were slashed by nearly 40 percent for qualified tenants. Average rents for two-bedroom units dropped to $2,366 from $3,905.

With public-entity ownership, there's less incentive to maximize returns through higher rents and operating margins, Drachman said.

That's a recipe for long-term rent stabilization — the CSCDA plans to hold the complexes at least for the duration of the bonds issued for each property — usually 30 to 35 years. The typical outlook foresees the city where the property is located taking ownership of it once the bonds are paid off. The city then can continue to operate the property as subsidized housing — operating costs would be lowered with the bonds paid off — or could sell.

"There's a potential windfall of equity [for the city]," Drachman said, adding that Waterford's agreement bars it from buying the property.

> **"There is opportunity in every market. You just have to be out there looking for them."**
>
> ROBERT SURIS, ESTATE COMPANIES

### Sunbelt spreads

The workforce housing trend plays out differently in South Florida, where some developers include below-market units in exchange for financing or extra density granted to new development projects.

There's even a secondary market of sorts for the subsidized units. In some cases, luxury developers get off the hook on local requirements for workforce units through a payment in lieu. They either hand over money — often millions of dollars — to municipal public housing programs or directly contribute to another company's mid-market project. The risk is thus held by the private sector,



RENDERINGS VIA KOBI KARP, OCEANAIRE

but spread among developers and their investors — often pension funds that are warming up to backing middle-class rentals.

Fort Lauderdale–based Affiliated Development builds ground-up mixed-income apartment buildings that include workforce units, according to co-founder Nick Rojo.

"You are not going to make the most money in it," Rojo said, but "you are going to have a very predictable steady stream (of rental income) from the building."

Affiliated's 200-unit Bohemian project under construction in Lake Worth Beach — with 42 workforce units — was partly financed with $1.8 million from the city's Community Redevelopment Agency. The city forked over the money in exchange for public infrastructure work. The developer got another $1.8 million from a Palm Beach County workforce housing exchange program.

Under the county exchange program, homebuilder GL Homes opted out of building-required workforce units for a project elsewhere in the county and instead made the payment to Affiliated. That helped Affiliated's project pencil out, Rojo said.

The project also scored a $34.1 million loan and took out $11 million from Affiliated's $125 million mixed-income rentals fund.

Investors in the fund include the Fort Lauderdale Police and Firefighters' Pension Fund, West Palm Beach Police Pension Fund, Hollywood Police Pension Fund, Hollywood Firefighters' Pension Fund and Miramar Police Pension Fund — all organizations that represent the kind of professionals that workforce housing targets.

"Our investors are the ones going through this problem," Rojo said. If there is a workforce project near their members' jobs, "they are benefitting from it."

The trend remains a relative blip. In California, around 7,500 units of workforce housing are owned by the CSCDA — about 0.1 percent of the state's rental stock, according to census data.

Miami has seen 1,860 workforce units built or approved since 2014, although the trend picked up steam in the last two years, with 3,122 units proposed, city data show. It's still well under 1 percent of Miami-Dade County's rental stock.

## Litmus tests

Whether the workforce housing trend has legs will likely be revealed in Southern California and South Florida.

The two regions take different approaches to the concept, but they share a number of key factors that have made them pioneers.

Both are warm-weather regions with coastlines that have made them touchstones of the global luxury residential real estate market. Both are anchored by big cities — L.A. and Miami — that raise the profile of their larger metro markets. Both have a transplant-heavy population. And both have accommodated robust multifamily development that has sprawled inland.

A rendering of Sabal Palm Village at Flagler Trail

On top of all that has been Covid, which led to an unexpected boost in residential markets, with home prices and rents hitting new highs.

The result is a very real, community-based example of the income disparity that could continue to fuel the push into workforce housing. Renters in Miami and L.A. increasingly face a high-low split, with luxury units for high earners and subsidized units for low-income individuals and households.

It's a lack of inventory in between that has given rise to talk of "the missing middle" that fit the budget of those working professionals who can't afford the high end but earn too much to qualify for traditional forms of housing aid.

"True affordable housing or subsidized housing only covers a smaller subset of the population," said Anthony De Yurre, an attorney at Bilzin Sumberg who helps structure South Florida workforce housing deals.

"The reality is there is this entire band of blue collar members of our community — teachers, police officers, firefighters, nurses — that are really in this band of rental where they are priced out buying their own home and they are priced out of renting a luxury product," he added. "Every day, there is more demand for it from tenants and there are more developers looking."

## Not for everyone

The complexities of public financing and limited returns on workforce housing deals mean that it's just not the right game for many developers.

Cityview in Los Angeles and Estate Companies in Miami are able to charge "workforce" rents by lowering upfront costs, often on smaller units or projects in markets luxury developers generally would shun.

"We won't buy land in Downtown Los Angeles or Beverly Hills, since those areas are expensive already," Cityview CEO Sean Burton said.

In January, the firm paid $22 million for a fully entitled site for a 265-unit apartment complex in Gardena, a South Bay city about 15 miles south of L.A.

Gardena has traditionally been home to a generally working-class population — with significant communities of color — thanks in part to its proximity to the local seaports. More recently, it has landed some big employers from the new economy, including Amazon's Ring subsidiary and SpaceX.

Cityview aims to meet the market with rents within range of local budgets — the City of Gardena pegs the local median household income at around $80,000.

One potential reason that Cityview doesn't take any financing from government entities is because there is none for ground-up workforce housing development in California.

The CSCDA is looking to create a financing program for workforce housing construction, though nothing is set in stone yet.

"[Affordable and workforce housing] costs so much to build, it makes sense that [the CSCDA and its partners] would rather buy and convert," Cityview's Burton said. "But you're still not adding to the housing stock if you do it."

**Continued on page 42**

## FOLLOW THE MONEY

**ALL OF WATERFORD PROPERTY'S** 15 workforce housing projects have come about through a state joint-powers authority called the California Statewide Communities Development Authority. The CSCDA issues tax-exempt bonds to raise funds to buy market-rate apartment properties on behalf of cities, counties, the state and other governmental entities.

The bonds are tax-exempt. Private developers that work with the CSCDA, meanwhile, take on none of the debt or get any equity. They get paid for finding acquisition candidates and managing the properties once they are acquired and converted to workforce housing. For a deal on the 216-unit Oceanaire complex in Long Beach that the CSCDA acquired last year for $121 million, Waterford was paid $2 million in fees, with Goldman Sachs getting the same amount for underwriting the bonds, according to documents from the city of Long Beach. Waterford will also receive $200,000 per year as part of the deal, to asset manage the project.

Waterford also receives a $5 million subordinated bond from the CSCDA for each deal, which makes regular payments once senior debt is paid off. The company will receive interest payments from the subordinated bond once there's enough revenue to pay off senior debt — probably in five to seven years, according to Jon Penkower, the CSCDA's managing director. It'll receive the entire principal on the bonds once everything is paid off in 30 to 35 years.

*—Isabella Farr*

**Continued from page 41**

The California Housing Finance Agency does have a program to support new construction for housing designated between 40 and 120 percent of area median income — technically both affordable and workforce housing — but few units have been built. Affordable housing construction subsidies are capped at 80 percent of AMI.

At Estate's buildings in Miami, one-bedroom apartments could be as much as 200 square feet smaller and roughly $500 less in monthly rent than a unit in a nearby property, said Robert Suris, managing principal. The developer also looks for other cost-cutters such as tandem parking, allowing a drop in the overall garage size and a reprieve on upfront construction costs.

Estate also has dived into hairier deals that can be bought on the cheap, "deals that have environmental or zoning issues or have all kinds of issues that a lot of people shy away from."

"There is opportunity in every market," Suris said. "You just have to be out there looking for them."

## Rhetoric vs reality

The Florida Housing Finance Corporation, a state authority, provides some low-interest loans to developers who build workforce housing. They can couple them with other financing packages, such as low-income housing tax credits and a multifamily revenue mortgage bond program.

Related Urban, the affordable housing arm of Jorge Pérez's Related Group, has used such financing at the Liberty Square project in Miami's Liberty City. Once a strictly public housing project, Related is converting it to a mix of public, affordable and workforce housing.

It's still an open question whether workforce housing is truly alleviating the crisis for the middle class or is a mere marketing campaign that creates lucrative property management contracts and density bonuses for developers.

The issue has touched off a firestorm in Miami's Little Haiti, a quickly gentrifying neighborhood.

The city's Special Area Plan provision allows owners of more than nine contiguous acres a density bonus negotiated with the city in exchange for community benefits such as workforce housing. But the units are too small for many households in Little Haiti, where it is common for several generations to live under the same roof.

"The nuances are never considered," said Anthony Parrish, a developer who sits on the Miami planning board that reviews projects. "You could make a case for saying that who they are really after is people in their 20s and 30s, who don't have any kids, who don't mind living in a high-rise and can pay up to $2,000 a month in rent to start off with.... So it's all smoke and mirrors."

Justin Podolsky's Sabal Palm Village at Flagler Trail, proposed as a Special Area Plan, would replace the existing Design Place apartment complex with 5.9 million square feet of commercial real estate, including nearly 3,000 rental units spread across towers that could reach as high as 20 stories.

Podolsky designated 512 of his project units as workforce housing in response to a push by city planning board members. Design Place residents have first priority to move in at the same rents they pay now. Podolsky's attorney, Melissa Tapanes Llahues, said that the median income in the Little Haiti where Sabal Palm would rise is $46,100, squarely within the mid-range for the area.

> **"A major cause of affordability and workforce housing is failure to act with developers at the bottom of a housing cycle, not at the peak. We could have gone a long way in solving this problem in 2012."** KEN JOHNSON, FLORIDA ATLANTIC UNIVERSITY

Figuring out median incomes in local jurisdictions and the various rules on qualifying for programs such as workforce housing is complicated. Announcements by public agencies and private developers tend to toss around the term with little explanation, and local media outlets haven't pressed the subject much.

The lack of debate has left some strategic flaws unaddressed.

Ken Johnson, an expert on rental housing at Florida Atlantic University, said a key drawback of workforce housing as it's been pursued is that it tends to go dormant until the market gets so hot that affordability becomes an issue.

"I think a major cause of affordability and workforce housing is failure to act with developers at the bottom of a housing cycle, not at the peak," Johnson said. "We could have gone a long way in solving this problem in 2012 when we were at the bottom of the housing market. We didn't hear anything about affordability at the time because the market was solving it. But only temporarily." TRD

# EXPANSION TEAMS

## As buyers push into new markets, brokerages take their growth strategies on the road

By Sasha Jones

In February, Douglas Elliman signaled its arrival in Vero Beach, a small Florida city about 75 miles up the coast from Palm Beach, by scooping up Daley and Company, a local brokerage that it said had closed more than $232 million in sales since 2020.

Founder Sally Daley said that her firm has always made an effort to target buyers from the city's feeder markets, including Connecticut, Michigan and Canada, but operating as an independent brokerage had stifled its efforts.

Joining a larger operation like Elliman's is "a way to strengthen our outreach and get exposure in front of brokers and clients when they're up in, say, Connecticut, and they're thinking about coming to Florida," she said.

Elliman's expansion to the area is part of a larger push into what chairman Howard Lorber described in March as "low-cost states," including Florida, Arizona and Nevada, as the pandemic has driven more of its clients to seek homes in different parts of the country.

"We always go where our clients go," said Scott Durkin, CEO of Douglas Elliman Real Estate, who noted that the firm has opened offices in Austin and Dallas and plans to expand to Scottsdale, Las Vegas and Nashville while bolstering its presence in markets closer to its core, including Fairfield County, Nantucket and the Hudson Valley.

Beyond the need to follow buyers, another factor encouraging brokerages' forays into new markets is reduced overhead costs in a largely work-from-home world.

"Agents are out in the field much more," Durkin said. "As long as you're licensed within a state, you can sell real estate anywhere. It's all mobile, and you really never have to go into a brick-and-mortar space ever again if you don't want to."

"It's much more economical now to expand," he added.

## New frontiers

Elliman is not alone. As markets like Texas emerge as destinations for buyers with newfound freedom to work remotely, brokerages that have historically focused on larger, more established markets are hoping to capitalize.

Compass, which said it entered 25 new markets last year, further expanded to Richmond, Virginia, and Chapel Hill, North Carolina, in March and opened its first permanent office in Sacramento. In both Richmond and Chapel Hill, the brokerage launched its presence by bringing on established local teams totaling at least 30 agents.

Los Angeles-based luxury specialist The Agency, which launched 11 additional franchises last year, recently announced a new division that focuses on selling single-family homes in the suburbs. The operation will start by catering to homebuilders on the West Coast before expanding nationally.

"I don't think there's any big secrets on the list of luxury markets around the globe in terms of what's hot," The Agency's founder and CEO, Mauricio Umansky, said. "But it's about making a sustainable business and not just following the hot new thing."

When it comes to recruitment, brokerages can plow ahead by luring individual agents or teams or "acqui-hiring" — buying independent brokerages or scooping up franchises wholesale.

Late last year, Chicago-based @properties acquired the brand assets of Christie's International Real Estate, a deal that saw approximately 900 Christie's-affiliated offices around the world transferred to @properties.

"The Christie's brand was the body of a Ferrari, a beautiful frame body of a car, and we have the best motor and best engine, which was our technology, marketing, training and coaching," said Thad Wong, co-CEO of @properties. "So by combining the two, we thought we'd have the best value proposition to help independent brokers grow."

To keep and attract talent, Keller Williams launched the KW Expansion Network, which standardizes compensation plans for agent teams that want to grow beyond their local markets and connects them with resources at its franchise locations across the country. The arrangement means that as its top agents expand, Keller Williams does too.

"We're literally trying to offer a way to have your cake and eat it too," said Cody Gibson, director of expansion and growth at Keller Williams.

Luring new agents can be more difficult.

"The majority of strong top producers aren't going to leave a company for just a couple more bucks," Wong said.

Wong referenced the "Compass effect," whereby the venture-funded brokerage rapidly gained market share by attracting top brokers with generous incentive packages, including stock options.

"Nobody joined Compass for their culture or anything," Wong said. "They really joined because they were given more money."

When a firm establishes a culture based on signing bonuses and high commission splits, Wong said, it's difficult to "shift that to something more meaningful."

> **"As long as you're licensed, you can sell real estate anywhere. It's much more economical now to expand."**
>
> SCOTT DURKIN, DOUGLAS ELLIMAN

Still, there's no denying Compass' continued success in increasing its market share, even if those efforts contributed to its nearly $500 million net loss last year. The brokerage, which declined to comment for this story, reported that its agent count had swelled to more than 26,000 by the end of last year. In its full-year earnings report, Compass claimed that most who joined in the fourth quarter "took a less favorable split than at their previous brokerage."

Umansky said The Agency looks to recruit agents that will fit well with its organizational culture rather than simply targeting brokers with top sales totals.

"We do not have recruiting managers that are just out there dialing for dollars to see who they can get," he said. "We don't count how many agents we have. We count our market share." TRD



PHOTO-ILLUSTRATION BY PAUL DILAKIAN/*THE REAL DEAL*


# CRASHING THE PARTY

## Regulators aim to rein in SPAC mania after bad deals burn investors

**By T.P. Yeatts**

Taking a proptech firm public will never again be so easy — if regulators have their way.

Many feel it would be good if they did.

Shares in proptech companies that went public over the last two years in a series of mergers with special-purpose acquisition companies, or SPACs, have continued a long downward slide into 2022, reflecting just how frothy that market became in the heady days of the pandemic, when stimulus money was flowing and some SPAC sponsors, touting spectacular growth projections, sold investors on questionable deals.

SPAC mergers tend to be hugely profitable for sponsors regardless of how well they pan out for their investors, thanks to the fees they collect for setting them up. In the worst cases, sponsors, some with limited real estate know-how, entered eleventh-hour "shotgun weddings" with targets just to complete a transaction.

"The vintage of SPACs that came to market in 2020 and 2021 in the proptech space have left investors with a number of messy stories to deal with," said Ryan Tomasello, research director at the investment bank Keefe, Bruyette & Woods. "Performance projections have not been met, and their cash burn really calls into question, in some cases, their timeline to profitability."

The Securities and Exchange Commission now wants to tighten the rules around SPACs, ostensibly to protect retail investors who aren't privy to the risks of early-stage growth investment.

Shares of proptech SPACs fell an average of 47 percent during the first quarter as investors moved away from less profitable stocks amid a broader market sell-off, according to KBW research. By the end of March, these stocks were trading at an average of 51 percent below the standard $10 SPAC buy-in price.

While deals have slowed substantially — only two new proptech SPACs have been announced in the last six months, and just three have closed — funding hasn't dried up. As of late April, there remained 10 potential sponsors seeking a proptech- or real estate-related target, according to the data firm SPAC Research.

Whether they can successfully take a target public will depend, to a degree, on whether regulators succeed in reforming the space.

### New rules

In late March, the SEC laid out its proposed new rules for SPACs, which have historically been perceived as a "back door" to the public market. In essence, the SEC wants SPACs to look more like traditional IPOs, with more limited valuations and greater transparency around sponsor fees and other conflicts of interest.

The SEC also wants to reign in the pollyannaish performance projections that have defined the market in the last two years by holding those who issue them liable for their accuracy. For many, this is the key proposal that, if ultimately approved — the rules are in a 60-day comment period — would alter the landscape.

It was those long-term performance projections that allowed less worthy deals to make it to the finish line, and contributed to the spectacular swings in share prices that have hurt retail investors, experts say.

"A lot of people took these 2024, 2025, 2026 and 2027 forecasts without the proper grain of salt," said Dave Eisenberg, founding partner at proptech-focused Zigg Capital. "It's really difficult to project with any certainty the performance of a high-growth business multiple years out. It's far more art than it is science."

A key problem: It's not always clear who comes up with those performance projections, and therefore who is to blame when the results aren't delivered. The sponsor, the target company and any investment bank advising on a deal are incentivized to inflate the growth trajectory.

The use of long-term projections to sell investors on SPAC deals hinges on a technicality. When they've identified a target to take public, SPACs file an S-4 registration statement for SEC review — M&A-related documentation — rather than the S-1 used in traditional IPOs. Statements made in an M&A process are protected under a safe harbor provision, so the SPAC isn't liable if projections made "in good faith" aren't achieved. The S-4 process involves financial and legal advisors, not an underwriter.

By contrast, companies undertaking a traditional IPO must navigate the S-1 process, which involves an underwriter and is not protected by a safe harbor provision. While there is no rule stating that projections cannot be included in an S-1, they typically are not for precisely those reasons: The underwriters have liability.

In its final draft of the new rules, the SEC may opt to rewrite the definition of an underwriter to include SPAC financial and legal advisors, meaning investors could sue them if a deal turns out to be a flop — or "for anything," according to Kristi Marvin, founder of the website SPACInsider.com.

"That's a pretty bold thing for the SEC to do, to rewrite the Securities Act of 1934," Marvin said.

### Polishing the tarnish

There are still a record number of SPACs — 600 across the market — shopping for a target, but industry players described a wariness among proptech founders to entertain SPAC deals, given how poorly they have performed.

SPAC investors, importantly, have the option to redeem their shares when it comes time to approve a deal, and redemption levels have been climbing, leaving targets with only a fraction of the capital they'd expected and a smaller number of tradable shares. This makes the stock less liquid and therefore "less investible," KBW's Tomasello said.

Ben Kwasnick, founder of SPAC Research, expects a reckoning in the coming months when many SPACs fail to identify or woo a target. Sponsors typically have up to two years to find one.

"There's a cresting wave of maturities over the next six, 12, 18 months that will very likely result in a huge increase of liquidations," Kwasnick said.

The market has already started to self-regulate, according to Jay Ritter, a finance professor at the University of Florida. Hedge funds and other increasingly cautious investors are "squeezing" sponsors, forcing them to put more skin in the game up front — as much as 4 percent of the $10 SPAC buy-in, rather than the typical 2 percent — exposing them to greater potential losses, he said.

Meanwhile, major investment banks, sensing the turmoil in the market and the reputational risk of participating in it, "have really pulled back," Ritter said. In the first quarter, that cohort participated in only three of 54 SPAC IPOs.

Zigg Capital's Eisenberg described the caution stemming from the proposed new rules as a positive. Before, SPAC players operated on the assumption that deals could come together quickly, people could make a lot of money off of fees, and "everything was just going up and up forever," he said.

"It was not grounded in any reality," he said. "It was much more about marketing ability, and the ability to stay in the center of attention, which is not what investing should be about."

Eisenberg expects there to be far fewer but higher-quality SPAC deals in the coming years, with fewer swashbuckling sponsors and better, more mature targets with proven business models.

"There will be truer valuations," Eisenberg said. "And the companies electing to go public via SPACs will do so without any sense of there being an extra perk." TRD



ISTOCK, GETTY IMAGES; PHOTO-ILLUSTRATION BY KEVIN REBONG/*THE REAL DEAL*


PERLATO
ALESSANDRIA


# CHICAGO'S LIFE SCIENCE AMBITIONS

## As lab boom arrives in city, adapting buildings wins leases

By Sam Lounsberry

Chicago's ambition to become a center for life sciences got a boost from a surprising tenant: Google.

The tech firm wants to lease 200,000 square feet in Trammell Crow's new 400,000-square-foot Fulton Market building at 400 North Aberdeen Street, which is geared toward laboratory use, bolstering hopes for developers eager to fulfill the city's plans to create a life science hotspot that could eventually rival Boston and San Diego.

Yet some brokers and developers suspect Google will use the building as a traditional office instead of for Verily, a sibling life science firm. If that's the case — and it's still a big if, because Google hasn't revealed its plans — it would undercut the city's long-term goals and show that Chicago needs a faster office rebound as it embarks on its ambitious life sciences aims.

"This Google lease may be for some life science component, and I'm hoping that's the case," said Mark Goodman, whose namesake Chicago development firm just bought a $15.8 million site on Elizabeth Street to build a 16-story lab-oriented building. "If it is, this would be extremely significant. If it's not, I have to put my blinders on, stay focused on what we're trying to do and generate interest from potential life sciences companies."

The conundrum is a microcosm of the long path ahead as Chicago seeks to compete with a herd of developers who galloped into such established markets as Boston, San Diego and Silicon Valley. Lab rental rates in Boston exceed $100 per square foot, more than twice Chicago's average rate.

Chicago's academic institutions graduate talent in life sciences and other research disciplines, and the city hopes to keep more of them local as they advance in their careers. Companies that started in university labs grew by moving to one of the coasts, with few lab options available in Chicago. Developers see an opportunity to change that.

For now, Google's plans in Chicago are a mystery in the real estate community. Google didn't respond to requests for comment. Its big real estate investment plans excited commercial landlords, but Goodman isn't sure an office lease would be a good sign for Chicago's life sciences goals.

"That's a negative," he said.

An office lease to the tech firm would be another indication of the lengths Chicago's lab landlords are willing to go to land a big tenant or two in the pricey life sciences sector.

### Life science ambitions

Google's possible encroachment into a building designed for lab users wouldn't be the first pivot a promising lease caused Trammell to make.

The developer bolstered its position as a lab landlord after originally pitching 1375 West Fulton Street as an office. It's down the road from the separate Trammell building Google is considering. When Trammell had a chance to land Xeris Pharmaceuticals in the 14-story project, it switched to a lab-oriented design, signing the firm to an 11,000-square-foot lease. Two other lab users then inked their own leases.

"My initial reaction to Google's potential lease was a little bit of disappointment," said Michael Marrion, a Cresa broker in Chicago. "I would have much rather seen three big up-and-coming life sciences tenants take that space. But if you're Trammell, you can't turn down Google. It'd be foolish."

Trammell Crow said its executives weren't available to comment.

Tishman Speyer's Fulton Market development at 320 North Sangamon followed a similar office-to-lab planning process after Hazel Technologies said it would move in.

Sterling Bay also stepped further into lab development once it had a taste. After gaining a life sciences tenant at 2430 North Halsted Street, the company made its first building — at 1229 West Concord Place, in the Lincoln Yards site — an eight-story, 280,000-square-foot life sciences workplace. Construction just topped off. No tenants have been announced, though Sterling's building could allow existing life sciences tenants at Halsted to expand locally.

Chicago-based JLL broker who counts Abbott Laboratories among his clients. "I've been in the life science game since 2005. We didn't work in our backyard very often because we just didn't have the space for those users. Now we're able to help these growing companies in Chicago."

Even bulls know Chicago won't match Boston or San Diego anytime soon.

"I'm specializing in life sciences, but it's emerging here," said David Burden, a Chicago-based Colliers broker. "It's not quite enough to dedicate the entire practice to. There's not that much business, but it's growing. I see an opportunity to grow with it."

In Boston, almost half of the 11 million square feet of labs due for completion by 2023 is already leased, CBRE found. With lab rents in Chicago about $50 per square foot, the city has potential to land companies that can't secure space in tight coastal markets and want a bargain as they expand.

"We're all growing, so it may be a race to see who can have that product available when these other markets can't," said JLL's Dimitri Tsiribas.

For Goodman, the outcome of Google's negotiations with Trammell will inform the market.

"It's the most difficult, challenging product to develop," Goodman said. "Life sciences companies start and get venture capital and want to be in business four months later, which means you have to build these buildings on spec."

Lab users co-locating with tech firms and tenants in other sectors is expected and welcomed, Sterling Bay's Suzet McKinney said, while brushing off notions of Google limiting the city's lab supply during industry efforts to expand it.

> **"I would have much rather seen three big up-and-coming life sciences tenants take that space. But if you're Trammell, you can't turn down Google. It'd be foolish."**
>
> **MICHAEL MARRION,** A CRESA BROKER IN CHICAGO

Chicago is on track to nearly double its commercial lab space, with more than 864,000 square feet under development. As of the fourth quarter last year, none of it was pre-leased, CBRE found.

### Short supply

Supply is still short, with just under 300,000 square feet of vacancy in the fourth quarter, representing 19 percent of the city's total lab stock, while 22 tenants were in the market for 350,000 square feet of demand.

Chicago is facing nationwide competition. A record 31 million square feet of lab space was under development in the top 12 markets during the fourth quarter, according to CBRE.

"The amount of proposed products is significant," said Paul Giannopulos, a

"I think we're going to see more of this convergence and multi-tenancy, as well, as demand picks up in the market and it matures," Giannopulos said.

If Google inks a lease on Aberdeen, it highlights the growing appetite for real estate with tech-infused frameworks and amenities. Developers want to be able to market buildings to both lab and office users, Tsiribas said.

"Electrochromic windows so they don't have blinds but you can use your smartphone to change the dimness — all tenants like that," Giannopulos said of Trammell's new building. "The HVAC has 12 air changes per hour — all tenants are looking at that now with Covid. When you look at a traditional new lab building, it could be very advantageous for most office-type users." TRD

# WHERE HAVE ALL THE SELLERS GONE?

## America's housing inventory has collapsed. It's not recovering any time soon.

By Kathryn Brenzel and Harrison Connery

Untethered from the daily commute, homebuyers fanned out across the country during the pandemic, seizing the newfound freedom to explore markets far away from city centers.

Harbor Custom Development was ready for them.

"It just pushed everyone to us," said Sterling Griffin, CEO of the publicly traded homebuilder. "I can't imagine any better set of circumstances."

Since forming in 2014, Harbor has focused on suburban markets primarily in areas without a personal income tax. That strategy paid off as the pandemic drove up demand in places already low on inventory. The company recently announced that it's adding more than 200 single-family homes in the Austin area, where the median sale price rose a whopping 30 percent last year, according to the Austin Board of Realtors.

"That pressure, on a very, very significant shortage of inventory, you are throwing fuel on the fire," Griffin said.

Austin is not unique — at least in terms of housing supply. Inventory has collapsed in markets across the country. A recent estimate by Realtor.com found that the U.S. is short by more than 5 million homes. The number of homes on the market plunged to a record low of 456,000 in March, according to a report by Redfin, a 50 percent decrease from two years ago.

There isn't a singular reason for the lack of listings in most markets. When adjusted for population growth, the number of new homes built in the U.S. has consistently declined since the 1980s. Demand that exploded during the pandemic was further exacerbated by rising rents, which created additional competition by luring some would-be tenants into the housing market.

The hot rental sector has also attracted institutional investors, who've spent billions during the pandemic buying up single-family homes in bulk and converting them to rentals, further squeezing supply.

It's become such a lucrative opportunity that a growing number of new houses are being built specifically to be rented out, bypassing traditional homebuyers entirely. More than one in four houses purchased by rental investors in the fourth quarter was newly constructed, according to data from John Burns Real Estate Consulting, up from 3 percent in the first quarter of 2019.

Meanwhile, thanks to rising interest rates, some homeowners that may otherwise have sold opted to keep their homes off the market rather than risk being unable to find a suitable replacement — or getting locked into a pricier mortgage.

For a well-positioned homebuilder like Harbor, with access to institutional financing, these conditions can mean higher returns. But smaller developers and contractors may struggle to secure funding as interest rates continue to climb and delays in procuring supplies continue to snarl project timelines.

These challenges, as well as land use restrictions and the amount of time it takes to develop even in the most ideal of circumstances, make it unlikely that homebuilders will catch up with demand anytime soon.

"Housing is a market where supply is very inelastic," said Benjamin Keys, a real estate and finance professor at the University of Pennsylvania's Wharton School. "Large price changes do not lead to a large upswing in production in most markets."

Griffin said that supply chain disruptions are likely to continue to affect home construction over the next year.

"This shortage of inventory nationally is not going away anytime soon," he said. "How could you create inventory at the scale that is necessary, nationally, to meet demand?"

### A long-foreseen crunch

The supply of single-family homes across the country has been on a downward trajectory since the 1980s. Researchers with Freddie Mac estimate that construction was completed on only 65,000 new entry-level homes in 2020, less than one-fifth the yearly average in the late 1970s and early 1980s.

Keys said demand has also been fueled by long-anticipated forces, such as millennials, which now make up the largest U.S. demographic at 72 million, reaching buying age or baby boomers buying second homes.

> "This shortage of inventory nationally is not going away."
>
> STERLING GRIFFIN, HARBOR CUSTOM DEVELOPMENT

"This was foreseen before Covid, that there would be a demographic sweet spot," he said.

Demand has shown signs of slackening. Existing-home sales dropped for the second

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PHOTO-ILLUSTRATION BY PAUL DILAKIAN/ *THE REAL DEAL*

**Continued from page 52**

straight month in March, according to the National Association of Realtors. But there remains only two months' worth of supply; a balanced market typically has six months' worth.

Steve Dutra, John Burns' chief information officer, noted that the price cuts observed in some areas largely represent a correction rather than a sign of the market cooling. In order for that to happen, the volume of listings would need to spike considerably, but he said they remain "really, really low."

## Hesitant sellers

Sky-high home values might seem like an incentive to sell, but brokers say they're actually preventing homeowners from listing.

"Suddenly, the cost to move got a lot more expensive," said Rick Sobin, managing partner at @properties' Chicago Gold Coast and Lincoln Park offices. "It's making people say, 'Hey I think I'm going to stay here for a bit longer and see what happens.'"

Sobin said that only 1.5 months' worth of inventory remains in Chicago, and it's fallen to just one month's worth in the suburbs, down from 1.2 a year ago.

Mary Grant, a broker at @properties in Winnetka, a suburb north of Chicago, said market conditions are constraining sales, particularly among baby boomers.

"In the past, I represented more sellers. Now I'm definitely representing more buyers," she said, adding that business for many brokers has slowed recently.

Dutra said sellers are "very cautious." Roughly half of U.S. homeowners have a mortgage rate that hovers below 4 percent, according to Redfin. With 30-year rates approaching the 6 percent threshold as of late April, sellers may opt to maintain their lower rate and stay put.

A similar trend is playing out in Los Angeles, brokers say.

Listings are down 50 percent year-over-year, according to Ivan Estrada, a Beverly Hills-based broker with Douglas Elliman. That lack of inventory has driven prices so high that in some places near Santa Monica, $3 million gets you a teardown, according to Compass broker Robert Maschio.

Estrada said he's advising buyers to build rather than pay a premium for a house that may need renovations. An existing home that would sell for $5 million in the current Los Angeles-area market can be built for about $1.5 million, he said. Others are choosing to renovate the homes they have instead of moving.

"It's not a stock where you buy low and sell high," Maschio said. "People have their lives wrapped up in their homes."

Broadly speaking, Los Angeles' luxury market is less frantic. Homes asking $4 million or more sit on the market longer and buyers have more negotiating power, according to Estrada.

"It's getting difficult to live in California, especially if you have wealth. Those people have moved or taken primary residence to Texas, Florida or Arizona," Estrada said, rattling off three states with considerably lower tax rates for the wealthy.

> **"It's not a stock where you buy low and sell high. People have their lives wrapped up in their homes."**
>
> **ROBERT MASCHIO,** COMPASS

## Red tape

Although building filings for new homes are on the rise, actually delivering those homes is another matter.

"Homebuilders have gotten the signal that something is out of whack with supply and demand," Keys said, but recent shifts in land-use regulations have largely discouraged more construction.

A 2018 Wharton survey found that across the country, density restrictions such as minimum lot sizes had generally become both more common and more constraining since 2006. The most restrictive land-use regulations tend to be concentrated on the coasts, the survey found, particularly in and around New York City and the San Francisco Bay Area. Miami and Los Angeles also ranked among the 10 most restrictive metropolitan areas.

A controversial proposed tax on house flippers in California could keep even more homes off the market, Estrada said. Profits from flipped houses in the state are already taxed up to 12.3 percent. The proposed California Housing Speculation Act would tack on a 25 percent tax on the capital gains, which would nearly triple the tax rate on homes sold within three years of purchase for residents in the highest tax bracket.

Estrada said he doesn't see a way out of the current predicament in Los Angeles without changes to local zoning laws and less red tape for developers.

"L.A. would have to become a much more vertical city," he said. "It's all going to come down to local and state government." TRD


# BATTLE OF THE BUILDERS

## New York's top general contractors navigate supply chain woes, emissions caps and more

**By Joe Lovinger**

**Research by Matthew Elo**

Building is back. Amidst war, disease and economic uncertainty, New York's skyline is growing, and the contractors who hoist those bricks and beams have no shortage of jobs.

JP Morgan is moving ahead with a brand-new, 2.5 million-square-foot headquarters in Midtown. A $30 billion to $40 billion megaproject surrounding Penn Station has support from the governor and the mayor. And just as $8 billion of renovations wrap up at LaGuardia Airport, the state now plans a new $9.5 billion terminal for John F. Kennedy Airport. Demand for new development condos, and multifamily housing in general, is robust.

Even though construction has recovered from an initial slowdown during the pandemic, it's occurring in a fundamentally changed world. Material costs are high, thanks in part to constricted supply chains that show no sign of easing any time soon. Billions of dollars in government infrastructure spending set to arrive in the coming years will only ratchet up competition for scarce materials.

Developers filed plans for 1,900 new buildings in New York City last year, bringing construction activity back to pre-Covid levels, according to a report from the Real Estate Board of New York, which analyzed public data.

The city received 665 new building filings in the fourth quarter, a 37 percent increase from the previous quarter and the most in any three-month stretch since 2016.

Not only are developers building more, but they're building bigger. Those 665 new buildings represent nearly 32 million square feet of construction — about 10 Burj Khalifas' worth — and the largest quarterly total since 2014.

As a whole, construction activity in 2021 was only marginally above pre-pandemic norms. But the city finished on a hot streak and is carrying that momentum into 2022.

"It's healthy out there," said Jay Badame, president and COO of construction at AECOM Tishman.

For its annual ranking of the city's top general contractors, *The Real Deal* analyzed every building permit issued across the five boroughs between March 1, 2021 and February 15, 2022. To crown the kings of new building construction, *TRD* added up the total square footage across the projects filed by each firm. Alteration work was measured by estimated job cost.

Monadnock Construction topped the new buildings list. The Brooklyn-based firm outworked the competition in both square footage and number of jobs, filing 17 permits combining for over 4.2 million square feet. The next-busiest firms reported 10 projects, and no others broke 4 million square feet. Despite its dominance this year, Monadnock's activity is still dwarfed by last year's champs: In 2020, AECOM Tishman was contracted for 11.2 million square feet of new building construction.

New Line Structures took second place with nearly 3.7 million square feet of new building work. Perennial heavyweights Turner and AECOM Tishman took third and fourth, respectively, an improvement for Turner and a slip for AECOM compared to last year. Hunter Roberts rounded out the top five with 2.1 million square feet.

This year's leader in alterations was STO Building Group, besting their runner-up finish last year, with nearly $1.2 billion worth of work. Turner snagged second place, with J.T. Magen, JRM Construction Management and AECOM Tishman closing out the top five.

### Finder's fee

Frustration is evident in John McCarthy-O'Hea's voice when the CEO of L&K Partners talks about metal door frames. The humble frames were never long-lead supplies for construction firms — they're uncomplicated, non-electronic things — but in recent months, even they have been hard to find.

"We used to be able to get them in four weeks. Now the lead time is ten weeks," he said.

If there's one difficulty plaguing general contractors big and small right now, it's supply chain delays. A single project often depends on supplies from countries in a range of different political and economic situations — and with varying Covid policies. Those differences complicate trade, and even local disruptions can ripple into a global shortage.

"Supply chain durations have — virtually without exception — doubled," said Steve Sommer, a New York construction executive for Lendlease. "If the supplier said it's four weeks, it's now eight weeks. If the person said it's 10 weeks, it's now 20 weeks."

If sourcing a door frame requires a logistics A-Team, imagine the challenges of finding something with a button or a screen. Processing chips are causing nightmares. A shortage of power supply parts has made the humble air conditioner public enemy No. 1 for general contractors.

Larger firms are using their size to their advantage, but even then there are limits. It took Turner Construction a year to get the roof insulation it needed for 181 Mercer Street, NYU's massive new mixed-use development in Noho. But that wait would have been far longer for a smaller contractor; Turner employs about 300 people focused solely on procurement who identify and supply-chain bottlenecks and help the firm bypass them.

> **"Supply chain durations have doubled. If the supplier said four weeks, it's now eight weeks."**
>
> STEVE SOMMER, LENDLEASE

"When you have that kind of size, these manufacturers pay attention to us," said Charles Murphy, Turner's New York lead.

With project timelines stretched and

Continued on page 58



ILLUSTRATION BY PAUL DILAKIAN/*THE REAL DEAL*


Shaping the
NY Skyline
Image courtesy of SL Green Realty

# TOP GCS BY COST OF ALTERATION PROJECTS

| RANK | COMPANY | TOTAL ESTIMATED JOB COST | NO. OF PERMITS |
|---|---|---|---|
| 1 | STO BUILDING GROUP | $1,171,371,957 | 418 |
| 2 | TURNER CONSTRUCTION COMPANY | $672,256,569 | 214 |
| 3 | J.T. MAGEN & COMPANY INC. | $389,693,617 | 253 |
| 4 | JRM CONSTRUCTION MANAGEMENT | $337,726,279 | 369 |
| 5 | AECOM TISHMAN | $316,419,776 | 175 |
| 6 | TECHNICO CONSTRUCTION SERVICES, INC. | $231,393,682 | 41 |
| 7 | WELKIN MECHANICAL | $204,032,748 | 9 |
| 8 | ADAM'S EUROPEAN CONTRACTING INC. | $140,978,068 | 72 |
| 9 | L&K PARTNERS INC. | $134,270,662 | 107 |
| 10 | GILBANE BUILDING COMPANY/ GILBANE RESIDENTIAL | $129,347,924 | 67 |
| 11 | BENCHMARK BUILDERS | $123,600,940 | 101 |
| 12 | NEW LINE STRUCTURES | $121,653,001 | 7 |
| 13 | URBAN ATELIER GROUP | $118,768,001 | 20 |
| 14 | HUNTER ROBERTS CONSTRUCTION | $111,626,480 | 63 |
| 15 | CLUNE CONSTRUCTION | $106,823,035 | 235 |
| 16 | CENTRAL MECHANICAL SYSTEMS, INC. | $103,617,096 | 30 |
| 17 | TAMEER INC. | $102,497,381 | 20 |
| 18 | TRI-STAR CONSTRUCTION CORP | $98,262,965 | 160 |
| 19 | STRUCTURETECH NY | $93,799,710 | 33 |
| 20 | SKYLINE RESTORATION INC | $91,439,918 | 126 |
| 21 | WDF INC. | $91,387,653 | 32 |
| 22 | LEEDING BUILDERS GROUP | $87,634,380 | 17 |
| 23 | RENEWAL CONSTRUCTION SERVICES | $83,398,000 | 31 |
| 24 | CONSTRUCTION SERVICES, INC. | $82,858,182 | 33 |
| 25 | KW TECH CORP | $79,442,373 | 18 |
| 26 | A.A.D CONSTRUCTION CORPORATION | $77,153,459 | 55 |
| 27 | TITANIUM CONSTRUCTION SERVICES, INC. | $75,000,185 | 20 |
| 28 | JAMES E. FITZGERALD, INC. | $71,927,124 | 162 |
| 29 | SHAWMUT DESIGN AND CONSTRUCTION | $64,846,652 | 118 |
| 30 | SCIAME CONSTRUCTION, LLC | $57,334,774 | 28 |
| 31 | ICON INTERIORS | $52,975,078 | 90 |
| 32 | ARCHSTONE BUILDERS LLC | $49,178,071 | 70 |
| 33 | SCHIMENTI CONSTRUCTION | $47,361,791 | 129 |
| 34 | ARMSTRONG ROOFING CORP | $46,455,800 | 25 |
| 35 | ROMA SCAFFOLDING | $43,549,500 | 527 |
| 36 | REIDY CONTRACTING GROUP | $43,182,238 | 51 |
| 37 | DONNELLY MECHANICAL CORP | $42,230,559 | 32 |
| 38 | JOHN GALLIN & SON | $38,410,134 | 99 |
| 39 | HENEGAN CONSTRUCTION CO | $36,652,894 | 75 |
| 40 | CONSIGLI CONSTRUCTION CO., INC. | $35,140,806 | 24 |

# TOP GCS BY SIZE OF NEW BUILDING PROJECTS

| RANK | COMPANY | TOTAL ESTIMATED SQ. FT. | NO. OF PERMITS |
|---|---|---|---|
| 1 | MONADNOCK CONSTRUCTION, INC. | 4,245,790 | 17 |
| 2 | NEW LINE STRUCTURES | 3,681,215 | 9 |
| 3 | TURNER CONSTRUCTION COMPANY | 3,392,205 | 6 |
| 4 | AECOM TISHMAN | 3,260,809 | 5 |
| 5 | HUNTER ROBERTS CONSTRUCTION | 2,123,956 | 10 |
| 6 | ARCO DESIGN/BUILD INDUSTRIAL | 1,972,720 | 2 |
| 7 | JOY CONSTRUCTION CORP | 1,828,808 | 10 |
| 8 | STO BUILDING GROUP | 1,623,278 | 4 |
| 9 | CONSIGLI CONSTRUCTION CO., INC. | 1,567,480 | 5 |
| 10 | TITANIUM CONSTRUCTION SERVICES, INC. | 1,135,245 | 8 |
| 11 | LENDLEASE | 921,708 | 3 |
| 12 | SUFFOLK CONSTRUCTION COMPANY | 908,240 | 1 |
| 13 | LEEDING BUILDERS GROUP | 792,736 | 6 |
| 14 | RAY BUILDERS | 773,349 | 6 |
| 15 | SOIL SOLUTIONS, INC. | 724,302 | 1 |
| 16 | L.R.C. CONSTRUCTION, LLC | 669,438 | 3 |
| 17 | NEW YORK DEVELOPERS & MANAGEMENT | 635,634 | 3 |
| 18 | MARCH ASSOCIATES CONSTRUCTION, INC. | 620,052 | 3 |
| 19 | LETTIRE CONSTRUCTION | 566,328 | 4 |
| 20 | OMNIBUILD CONSTRUCTION INC | 549,406 | 2 |
| 21 | RACANELLI CONSTRUCTION | 438,679 | 8 |
| 22 | EMPIRE MANAGEMENT | 435,422 | 4 |
| 23 | BROADWAY CONSTRUCTION GROUP, LLC | 379,959 | 9 |
| 24 | M&R CONSTRUCTION GROUP | 326,528 | 1 |
| 25 | TARGET NY CONSTRUCTION | 326,455 | 5 |

SOURCE: *TRD* ANALYSIS OF ALTERATION AND NEW BUILDING PERMITS ISSUED IN BETWEEN MARCH 1, 2021 AND FEBRUARY 15, 2022 BY THE NEW YORK CITY DEPARTMENT OF BUILDINGS. IT INCLUDES ALL FIVE BOROUGHS. THE PERMITS ARE THE LATEST ISSUED WITH THE GENERAL CONTRACTOR AS THE APPLICANT.

**Continued from page 56**

fiercer competition for materials on the horizon, contractors are urging their clients to buy early and load up while they can.

"Control the market, otherwise the market will control you," Murphy said.

Uncertainty around pricing and supply has tested contractor-client partnerships and led to new negotiations over who bears the costs. Escalation clauses establishing which side will cover a range of potential budget inflations are becoming more popular. A contractor might offer to cover 2 or 3 percent price bumps, but split anything from 3 to 5 percent spikes with the owner. It requires a new level of flexibility and uncertainty that developers typically seek to avoid.

"These are negotiation strategies that are not easy," Lendlease's Sommer said.

Contractors are also finding new business in environmentally friendly construction. With Local Law 97 set to impose potentially steep penalties on building owners who fail to meet greenhouse gas emissions caps starting in 2024, some are starting to retrofit their properties.

"Landlords and lenders don't like paying fines where they don't see returns," L&K's McCarthy-O'Hea said, so they're starting to get in line now. "We're going to have to pull the trigger, so let's pull it early," he added.

Clients don't just care about an environmentally friendly product; increasingly, they're factoring the sustainability of contractors' work into their hiring decisions. They want less carbon in their concrete and steel. They want construction waste recycled.

"Our clients are absolutely emphatic with a capital E on sustainability components," Sommer said. TRD

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Weintraub photographed at The Samuel Freeman House in Los Angeles

# RENAISSANCE MAN

**RICHARD WEINTRAUB** is behind some of L.A.'s highest-end projects. Now he wants to give a Frank Lloyd Wright house back to the people.

By Trevor Bach
Photography by Kevin Scanlon

Even in Malibu, there was a time when opening an upscale retail center prompted an outcry.

It was the spring of 2009, and the Malibu Lumber Yard had been something of a neighborhood institution for decades. Now, its $25 million reincarnation would keep the name — and its wood theme — but replace the two-by-fours and hammers with gelato and $300 Tory Burch sandals. An open-air deck featured three saltwater aquariums stocked with imported Garibaldi.

Locals — including Dick Van Dyke — slammed the project, fearing it would help turn the beach town into a new Rodeo Drive.

"We'll be like Aspen and Vail," another resident told the Los Angeles Times, "with no local businesses serving the community."

At the time, the developer behind the project, Richard Weintraub, was also renovating another beloved L.A. landmark, the San Fernando Valley's Sportsmen's Lodge, which eventually became a high-end retail center. Weintraub is known around L.A. as a prominent investor who sold a restaurant property to Larry Ellison and built some of the city's top luxury condos and multiple resorts. He's revisited Malibu to develop some of the enclave's most notable homes, including La Villa Contenta, a six-acre estate known for its 2,500-year-old lion-head sculpture and bejeweled Romanesque natatorium. (A few years ago, Jay-Z and Beyoncé rented the estate for $400,000 per month; the next year Weintraub sold it for nearly $50 million.)

All of which made it somewhat surprising when, about 15 minutes into a recent interview, he segued into a lament over L.A.'s gaping lack of affordable housing.

"Eagle Rock, Atwater Village, Frogtown — these are all like million-dollar places now that five years ago were $250,000, $300,000 places," he said. "I worked seven years on the L.A. River and we saw all these challenged areas, and now they're — you know, the price in South Gate, which is a challenged area, is more than a magnificent home in parts of Ohio."

Weintraub was speaking from his airy Santa Monica office, where a marble coffee table in the lobby displayed a bulky silver marquette of a bear sculpture by Frank Gehry — an architectural icon largely associated with L.A. The walls of the room were lined with subway drawings by Keith Haring, an essential New York artist. Weintraub was thinking about both cities.

"What makes Los Angeles so dynamic right now," he said, "is the multicultural experience that one gets here, but also there still are some quasi-affordable places to live, where New York lost all of that…

> **"He can be disarming to the point where you feel very comfortable doing business with him, or he can be difficult."**
>
> STEPHEN SHAPIRO
> WESTSIDE ESTATE AGENCY

"New York became so good" — and the rents so high, first in Manhattan and then Brooklyn and even Hoboken — "that it became impossible to be a unique person, a purple person, and just say, 'Well I'm from the Midwest and people think I'm a weirdo there, but I'm going to get out of here, I'm going to go to New York.' … And I really don't want to see that happen to Los Angeles. But it could."

Weintraub was born into a successful professional family, and he made his own fortune decades ago. Yet he's always considered himself one of the purple people in his own way. It's a description that helps explain his remarkably varied development career, in which he's pursued everything from luxe Westside projects to an Inland Empire mall overhaul to a historic cathedral renovation in Downtown L.A. ("He's a renaissance man," said the broker Aaron Kirman.) It also helps explain Weintraub's latest project: a plan to return the Freeman House, a rundown Frank Lloyd Wright home, to its past glory as an intellectual and artistic salon.

Weintraub pointed out that Wright — who was raised on a Wisconsin farm but nurtured grand ambitions and led a notoriously troubled private life, marked by murder and tragedy — was, in his time, "always kind of a pioneer and an outsider."

"You walk into that house and it's got incredible energy," he said. "And it's just crying for someone to bring it back to life."

## Valley boy

Weintraub is in his mid-50s but looks younger in a very L.A. kind of way, with full cheeks and smooth, nearly unlined skin. Multiple people contacted for this piece

Continued on page 62


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The exterior of the Freeman House

Continued from page 60

described him as "a great guy," a hollow description that also seems true:

He seemed skeptical and reserved at the start of our first interview, then proceeded to happily riff for two hours on everything from the bureaucracy holding up California housing ("We just keep throwing money at things and the problems aren't changing") to the importance of architectural function in places like museums ("Our brains tell us right away what makes us feel comfortable") to antisemitism ("I don't get it … I think we all have so much in common.")

"He's a very charming guy," said Stephen Shapiro, the co-founder of Westside Estate Agency. "He can be disarming to the point where you now feel very comfortable doing business with him, or he can be difficult … He has a way of getting you to agree to what he wants; let's put it that way."

Weintraub grew up in Sherman Oaks, the son of a surgeon father and politically involved mother, Roberta Weintraub, who led the San Fernando Valley's 1970s anti-busing movement and served four terms as president of the L.A. school board. The family would be scarred by trauma — Richard was a teenager when his only sibling, a brother named Michael, died in a car crash — but Weintraub's early surroundings were otherwise idyllic, he said, typified by robust school life and kids riding bikes through safe, tree-lined streets.

"Did you ever see the show 'The Wonder Years?'" he said. "The Valley was exactly that."

Still, Weintraub saw himself as a "very weird" adolescent who was more comfortable around adults than his own peers.

"I wanted to make a lot of money," he said. "Not because I wanted to be rich, but because I wanted to be independent."

Already fascinated by architecture, he went to work at 13 for an uncle who owned commercial properties in DTLA. He then did a stint working for the slick Democratic state senator and developer Alan Robbins, and then worked for George Moss, a commercial developer who made a fortune building along freeway exits. Weintraub was still a baby-faced teenager when he took on his first development, renovating a house in Benedict Canyon around the same time he decided to get his real estate license.

"Because I figured anyone can sell a house," he said. "Like, what's the big deal?"

Soon, he was knocking on the front door of a stately brick Georgian in Beverly Hills, where the owner — a friend of Weintraub's grandmother — was bewildered to find an apparent child trying to convince her to give him the listing.

"You look like you're 12 years old," Weintraub remembers the woman telling him. "You can't sell a house."

He later sold it for around $3 million, he said — above ask.

Weintraub also faced plenty of controversy. He was barely 30 when his Californian on Wilshire project, a high-rise luxury condo, came before the city council for approval. The project was located in the city's 5th District, where his mother, Roberta Weintraub, had recently lost the council race to Mike Feuer, the future city attorney and mayoral candidate.

Feuer opposed Weintraub's project, but Roberta still had plenty of sway on the council — leading to insinuations of nepotism when councilmembers, one of whom mentioned having seen "Richie Weintraub grow and develop since he was a young boy," decided to approve the build.

"I'm not going to try to conjecture as to what might be motivating my colleagues on this," Feuer fumed at the time. "But the outcome is grotesque."

Weintraub still remembers the battle, and calls the nepotism insinuation ridiculous.

"It doesn't feel good," he said of those encounters, but the fights also taught him something. "It's a chess game," he said. "Development is a chess game."

## Bright lights, dark city

Many of Weintraub's projects, or attempted projects, appear to have little in common.

In the late 1990s, he pursued a quasi-spiritual camping resort, complete with Mongolian-style yurts, tucked away in the Santa Monica Mountains. A few years later, he dived into the overhaul of a fashion mall in the desert city of Indio. He's bought a business park in Woodland Hills, a creative loft in West Hollywood and a historic hotel in Palm Springs.

> **"As a developer, sometimes you get to be the judge and jury." —RICHARD WEINTRAUB**

He's best known for his luxe Malibu residential projects, including La Villa Contenta and a 7,200-square-foot beachside mansion he sold in March to the billionaire venture capitalist Marc Andreessen for $45 million. At times, his plans in the wealthy enclave have proved malleable: In late 2014, amid a prolonged permitting saga for an intended resort on 28 acres near Pepperdine University, Weintraub announced he and his partner would instead pursue a high-end ecumenical cemetery.

"I think it was driven by money," said the developer Scott Gillen, who fought Weintraub on the project because Gillen was planning his own compound across the street, "and because they were frustrated because they couldn't put up a hotel."

"It was definitely fiscally driven," Weintraub said recently, but also an attempt to upend conventional cemetery architecture. The idea was for a minimal, scenic space that resembled more of a garden than a graveyard, where visitors would locate burial sites by GPS rather than tombstones. (The plan eventually fell through.)

"Everything's very site-specific," Weintraub said more generally of his development philosophy. "But then again, I guess as a developer, sometimes you get to be the judge and jury."

Weintraub's plans for the Freeman House are decidedly not fiscally driven. Wright designed the Mayan-themed home, part of the architect's "textile block" collection — in which he created an entirely new building style by stacking thousands of patterned concrete blocks together to form walls — in the early 1920s. The three-level house is surrounded by lush landscaping and built into a steep hilltop overlooking Hollywood.

For decades, it served as a cultural hub for an emerging Los Angeles. Clark Gable was an early tenant, and guests included the architect Richard Neutra and the dance pioneer Martha Graham. In 1953, a black-and-white living room photo taken by Julius Shulman immortalized the place, and in the 1980s it was deeded to USC. By then, decades of water damage and block corrosion had taken a toll. Several years later, so did the Northridge earthquake. Weintraub paid $1.8 million for the property in February and will likely spend at least that in renovations, with no plan to recoup the costs.

"It was *that* photo," he said. He had seen it as a kid, he explained, and then came across it again a decade ago, which sparked an obsession.

"L.A.'s a dark city," he continued. "It's all full of brightness and light and optimism, but really underneath it is drugs and prostitution and murder and mafia and Hollywood — I love that. This house, this whole look, I think is the epitome of the symbolism of that."

Weintraub was sitting in the salon depicted in the photo, where the bird's-eye view of Hollywood was the same but a dark tarp was laid over the floor; in the middle of the room was a large table holding stacks of literature and architectural drawings. He had just led a comprehensive tour during which he elaborated on his intentions: He plans to return nearly everything to its original 1920s form, restoring the museum-worthy furniture and the mitered corner glass windows and the white oak kitchen. Then he'll proceed with the real plan: transforming the house into a kind of artist-in-residence where visiting professors or painters or musicians can foster creative ideas while actually living — affordably — in the heart of L.A.

The idea is to create a modern-day homage to the Freemans' bohemian salons, and ignite the kind of freewheeling artistic spirit, Weintraub emphasized again, that needs saving.

"I think we can do that here," he said, standing next to a cracked concrete block. "I know we can do that here." TRD



ALAMY (FREEMAN HOUSE)

# HOW TO STEAL A BUILDI

## An excerpt from *TRD*'s new book, "The New Kings of New York"

**By Adam Piore**


"I'm going to let you be rough with me and push me over. I know you like to play rough. You can knock me out of the way, and you're going to make a ton of money."

Kent Swig was in the room with the head honchos at Fortress Investment Group, trying to convince them to sign non-circumvent agreements — an unheard-of practice for the distressed-debt investing wizards. But Swig thought he had something that might convince them.

Lehman Brothers, the megabank that had become the de-facto ATM for the real estate industry, had just fallen. Backed by Lehman, Swig had gone on an acquisition

> **"I'm going to let you be rough with me and push me over. I know you like to play rough. You can knock me out of the way, and you're going to make a ton of money."**
>
> **KENT SWIG,** SWIG EQUITIES

and development spree for the ages, buying up huge swaths of Downtown and embarking on big-ticket — and some would say ludicrously ambitious — projects such as the condo conversion of the Sheffield, a stately apartment building at 322 West 57th Street.

But now, the music had stopped. And even residential developers that weren't heavily leveraged were likely to feel some pain. Buyers looked for any and all loopholes to get out of their contracts. An analysis by *The Real Deal* found buyers asking for their deposits back on nearly 400 units within 20 buildings. One novel strategy, pioneered by real estate attorney Adam Leitman Bailey, was to sue on behalf of buyers wanting their deposits back if developers had neglected to meet filing and registration requirements mandated by the Interstate Land Sales Full

# NG IN BROAD DAYLIGHT

Disclosure Act. The uncertainty was so great that even those used to preparing for the worst were terrified.

"I wonder how many years that has cut off of all our lives," Fortress's Pete Briger, sitting around a polished conference table at the firm's office, would recall years later.

Fortress was an opportunistic fund built to capitalize on trouble. But this was bedlam. "There were government agencies that were going out of business — Fannie and Freddie," Briger said. "There were banks that were trading for a dollar or two — household names. Lehman Brothers looked like it hadn't been marked correctly. It was a full-on change in actual risk and perceived risk. Anybody that wasn't frightened at that time was just a dope." Doing the homework, even the kind of exhaustive homework Fortress did before entering any deal, was "not so scientific."

"You were sort of trying to put things together and understand what your margin for error was, and we had done a lot of due diligence on these situations, but we felt in all the situations that we had a big margin for error," Briger recalled. "But if the world ended — and there were definitely days when it looked like the world could end — some of the stuff might not be worth what we invested in it. There was no precedent for that."

Swig's initial reaction to the Lehman collapse was one of shock and wonder. "No one knows what is going to happen," he told one reporter. "It's a bloodbath," he told another. "It's extraordinary." In fact, he was now underwater. And his charm, creativity, and connections wouldn't be enough of a life raft.

Years later, Swig would sit in a conference room at 770 Lexington, look back on those weeks immediately after the fall of Lehman and shake his head. Up until that day — the infamous "ice bucket incident" with his partner Yair Levy notwithstanding — he could see a path forward. He just needed a little more time. By July 2008, Swig insisted, he had finished 25 Broad, to "the point where I had little towels on the workout machines with '25 Broad' on them." He had almost a third of the units under contract with deposits, and the buyers had begun to move in — $138 million worth of sales were on the books. All he needed to do was begin the process of closing them. The money was there. He was ready.

But when Swig had called his bankers at Lehman and asked for permission to close — as stipulated by the terms of his loan — he claims they came back with a curious answer.

"We can't give you permission," one told him. "We have to reevaluate everything." "What do you mean 'reevaluate'?" Swig said in response. Swig was still waiting for the situation to be resolved when Lehman declared bankruptcy. And in the subsequent weeks, he insists, he repeatedly attempted to reach his bankers to secure permission to close and convert. No one called him back.

Meanwhile, the money in Lehman accounts used to service his loans was no longer being transferred to 25 Broad. There was no one there to do it. Swig also lost access to the funds he needed to pay his contractors for construction on his Nobu project at 45 Broad. He realized he had no choice but to temporarily shut things down. By late October, the Nobu project had ground to a halt and the sales office at 25 Broad was closed. Swig filed legal summons against Lehman accusing them of "commercially unreasonable conduct and deliberate delay." And then, the New York Post got wind of the ice bucket incident.

The absurdity of the attack — wherein Swig and Levy got into a boardroom brawl and an ice bucket was involved — provided much-needed comic relief amid a deluge of apocalyptic headlines. The incident went viral. The real estate blog Curbed seized on the incident, declaring that the fair-haired mogul so used to being lionized in the media would hence forever be referred to as "Buckethead." As 2009 dawned, the vise around Swig tightened further. Lawyers for Lehman declared him in default of his loans on the two projects, totaling well in excess of $200 million, and prepared to foreclose. By spring, Swig had shuttered the Nobu project, returned all the deposits at 25 Broad, and walked away. Both projects were functionally dead. The bad publicity, meanwhile, prompted some of his other creditors to take action.

Square Mile's Jeff Citrin had been watching the debacle that was the condo conversion of the Sheffield closely, and by the end of 2008 had concluded it was time to protect his investors. The chances of Square Mile getting repaid seemed increasingly slim. With the West 57th Street project way over budget and not close to finished, with liens placed on the property, the partners publicly feuding, and the sales market virtually frozen, it seemed likely that the owners of the senior debt on the project would soon foreclose and wipe out Square Mile's position.

Kent Swig (left), The Sheffield at 322 West 57th Street, and Fortress's Pete Briger

"The project," Citrin said later, "was a disaster."

Eager to be first in line for the personal assets Swig had used to guarantee the loan, Square Mile declared him in default on his Sheffield loan. Then seeing no path to a negotiated outcome, they filed in court to collect.

In April, Citibank declared Swig in default of a $5 million personal loan and sued. That same month, some 100 Sheffield condo owners filed a complaint with the New York Attorney General alleging Swig and his partners had failed to pay $5.4 million in common charges over 20 months, and had improperly withdrawn tens of thousands of dollars from the Sheffield's reserve funds. By then, contractors had placed $6 million in mechanics liens against the units.

After Swig failed to update the condo offering plan with financial disclosures, Andrew Cuomo, then the state attorney general, ordered sales suspended. In May, the Times declared that the Sheffield57 was "already well on its way to being one of the most disastrous condominium conversions in city history." To add insult to injury, after pleading guilty to harassment and receiving a sentence of two days community service, Levy sued Swig, accusing him of "siphoning off $50 million in construction funds for personal or unrelated purposes" instead of putting it into the Sheffield. In late spring, Swig learned that Guggenheim Partners, which held a $76 million piece of the debt on the Sheffield, planned to put that debt up for sale. Swig learned that billionaire Stephen Ross' Related Companies was considering buying the note (a rumor Ross would later confirm had been true).

> **"A lot of human beings would've cracked."**
>
> CHRIS LINKAS, FORTRESS INVESTMENT GROUP

It was the worst possible scenario, since that particular piece of debt, given its position in the "debt stack," could be used as a tool to gain control of Swig's beloved development. The procedure by which this could happen was byzantine. Suffice it to say though that under the laws of real estate finance there were countless ways for sharks to go after the assets held by wounded fish like Swig, and one of the most effective ways was to obtain possession of a strategic piece of the debt on property insiders called "the fulcrum loan," because it could be used as a lever to gain control.

Swig couldn't understand why Guggenheim planned to sell its piece, though he would later learn that JPMorgan had foreclosed on the fund and planned to liquidate it. Since Related understood residential, they would have little use for Swig if they acquired the loan. They would have every incentive to use it as leverage to prevent Swig from doing any closings, force the project into default, and take it over. After weighing his op-

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GETTY IMAGES

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tions, Swig made a decision that would sound shocking to many. Swig turned to the same company that had made Harry Macklowe the catastrophic $1.2 billion loan on the Equity Office deal — the deal that nearly ruined him.

Swig decided he needed the guys at Fortress.

He had known Dean Dakolis, who co-headed the real estate group, since the early 1990s. And though he had never done business with Fortress before, he had socialized with a number of the other guys there, including Steve Stuart. Swig knew the Fortress guys to be tough. But he also trusted them, and knew he could speak frankly.

"They had lots of money and lots of brains," Swig said.

As they convened one morning, Swig told Dakolis and other Fortress executives that what he was about to discuss was very sensitive. That was why Swig was asking them to sign confidentiality and non-circumvent agreements, which would prevent them from discussing the information he was about to reveal or use it to do a deal without him.

"Kent, we never, ever sign non-circumvent agreements," Dakolis responded. "I need you to do that, Dean," Swig replied. "Because I'm going to open up all this, it's a great opportunity and I want to be part of it because I control it, and I need you to do this." Dakolis shook his head. "We can't do that, Kent." "Okay I appreciate it," Swig said. Then he stood up, packed up his bag, and walked to the door. "Kent, come back," Dakolis said. "Okay, why would we sign that? Explain it to me." "Two reasons," Swig said. "One, I'm going to make you very happy, and two, it's going to be the most successful deal that you will probably ever do."

"We understand the success part," Dakolis said. "What's going to make us happy?"

"I'm going to let you be rough with me and push me over," Swig replied. "I know you like to play rough. You can knock me out of the way, and you're going to make a ton of money."

Dakolis laughed. Finally, he took the paper and signed it. Swig sat back down and explained why he was so bullish on the Sheffield, and then explained how Fortress might step in, foreclose on Swig and his partners, wrest away control of the project and set themselves up for hundreds of millions of dollars in profits. Swig had paid down the $400 million first mortgage from KeyBank to "nothing" through condo sales — only $32 million remained to be paid, he told them. There was still some work to do on the renovation: The health club still needed to be finished and there were some other common areas that needed to be built out. Yes, some angry tenants remained — they would have to be managed. Even so, the unsold units would eventually be worth far more on the open market than what it would cost to acquire the piece of the mezzanine loan Guggenheim was shopping around.

"Guggenheim, for whatever reason, we don't know what it is, is putting out their loan and selling it into the open market," Swig explained. "Something must be going on in their company, because in probably 90 days, they'd be fully paid. I have $65 million of signed contracts already sitting ready to close. Plus I have a bunch of contracts about to be signed."

Swig said he wasn't in a position to bid for it on his own, but if Fortress were to step in, buy the Guggenheim debt and allow him to retain a piece of the future profits, he would do everything in his power to help them win control of the property and extract the value. He needed a team used to fighting things out, in court if necessary, a team that could move fast and decisively.

> **"I wonder how many years that has cut off of all our lives."**
>
> **PETE BRIGER,** FORTRESS INVESTMENT GROUP

"I want to do it in a venture with you where I'm protected by you inside — I want to be in the Fortress," he told them. "I don't want to be on the outside."

The gambit would rely on a complicated set of procedures laid out in the Uniform Commercial Code. Swig and his partners had bought the building with a total of $400 million — which had been paid down to $32 milion — in a first mortgage, $70 million in equity, and $240 million in mezzanine debt, and had thus sunk roughly $710 million into the property. In the depressed market, of course, the property would never recoup that amount. But Fortress could get it at an extreme bargain. If Fortress were to buy Guggenheim's $76 million senior stake in the mezzanine debt, which it could likely get at a discount, and then help Swig pay off the remaining $32 million on the first mortgage, it would become the next in line to get paid. If Swig were then to default on that debt, Fortress would be the senior remaining lender and be in a position to foreclose on the Sheffield.

It would look bad for Swig — he would get massacred in the press. But he was willing to be the fall guy.

Assuming Swig did not put the asset into bankruptcy — which he would pledge to Fortress not to do — the property would then be put up for auction. If Fortress were outbid, any proceeds from the sale of the Sheffield would go to pay off their $76 million senior stake first. Only then would any leftover money go to pay off the next in line in the mezzanine-debt stack — which consisted of seven more tranches totaling roughly $170 million in additional debt.

The math was easy for real estate wonks to do: If they bid and won the auction, they could obtain a property Swig claimed would still eventually yield hundreds of millions of dollars in condo sales for a fraction of the $710 million Swig and his partners had already put into the project. All the debt junior to them would be wiped out. Any other bidder would have to pay Fortress and all the other mezzanine debt holders in front of them, up to $240 million. Therefore the most likely bidders were JPMorgan, which held a $78 million loan just behind the Guggenheim piece in seniority, and Gramercy Capital, which owned the next tranches in the mezzanine-debt stack, and were thus motivated to at least bid as much as they were owed.

But Fortress had another edge. Only they would know that Swig had promised not to put the asset in bankruptcy. Swig would also voluntarily hand over his condo plan, which would allow Fortress to avoid having to come up with a new one (a process that could take up to 15 months). Swig would not reveal the deal in the media, allowing the perception that the property had been wrested from him to stand. In exchange, Swig would be granted a portion of any future profits — but only after Fortress had made back its money, and then some. Dakolis and his partners were intrigued. They promised to look over the numbers. Within just a few days, Swig had a deal.

The Sheffield auction was held on Thursday, August 6, 2009, at the Midtown offices of Fortress's attorney Kevin O'Shea. In the months following Kent Swig's decision to approach Fortress, his situation had only worsened. One associate remembers Swig looking like he had been "sleeping on couches." By June 2009, Lehman Brothers had filed suit for a $50 million judgment against Swig after he defaulted on $100 million in mezzanine loans at 25 Broad Street, which by then Lehman had foreclosed on and sent into receivership. News reports suggested Swig had personally guaranteed $50 million. In July, a New York State Supreme Court judge granted a $28.4 million judgment against Swig in the Square Mile case. If Swig and Square Mile couldn't reach an agreement, all of Swig's personal accounts would likely be frozen. By then, Square Mile was claiming to have made a shocking discovery in court filings. Swig, they said, had told them he owned 30 percent of the Sheffield, but they had learned from court filings that his stake amounted to just 9 percent. Swig claimed it was a misunderstanding, but Square Mile seemed to be raising the specter of criminal prosecution. Swig's marriage, too, appeared wobbly. Still, Fortress's Chris Linkas said, he put on a brave front.

"A lot of human beings would've cracked," Linkas said. "In his position, at a really important time, he was clear-thinking. He demonstrated a lot of grace under pressure."

To prepare the auction, O'Shea, who had just done a similar auction in Boston for the John Hancock Tower, cleared two large, low-ceilinged, adjoining conference rooms in the Hilton on 55th Street and Sixth Avenue, filled them with rows of banquet chairs and a podium, and hired a fast-talking professional auctioneer used to selling farm equipment to lead the proceedings. O'Shea also instructed the caterers to scour his offices for empty ice buckets, which he lined in formation at the back of the room in a not-so-subtle homage to the Levy–Swig clubbing.

Interest in the auction was high and it drew some 75 people, including Yair Levy's son-in-law, possible buyers, reporters, and a number of industry looky-loos (neither Swig nor his partners on the deal were present). In order to qualify for actual participation, interested parties were required to post a refundable $1 million deposit. And as the proceedings kicked off, it seemed clear that Fortress had only one serious competitor for the spoils, JPMorgan. The auctioneer, David Maltz, was so enthusiastic, O'Shea had to tell him to speak slower so people could understand the rules.

As soon as the auction started, Linkas raised his paddle and offered up an initial bid of $20 million, gearing up for what he expected would be a spirited back-and-forth. But when he looked over at JPMorgan's man, his potential opponent just sat there and "stared straight ahead," and the paddle remained in his lap. When the auctioneer announced that Fortress's bid had won the day, Linkas was "stunned."

For less than $100 million, Fortress had just purchased a building that had sold less than three years earlier for $418 million — a project that Swig was still predicting might eventually yield north of $800 million. Linkas would eventually speak with JPMorgan and learn that the mezz debt was held by two separate funds, and the fund managers could not agree on an auction strategy in time to counter the Fortress bid.

"We stole a building in broad daylight," Pete Briger would later say. TRD

*— An excerpt from* "THE NEW KINGS OF NEW YORK: Renegades, Moguls, Gamblers, and the Remaking of the World's Most Famous Skyline" *by Adam Piore, releasing May 24*

Robert Drain (left) and David Goldwasser

# BANKRUPTCY BEELINE

## How troubled developers from far and wide found their way to a White Plains judge

**By Keith Larsen**

**Research by Christian Bautista**

When Toby Moskovits stood to lose her trendy Brooklyn hotel to foreclosure last year, she charted a course to the suburbs.

Moskovits' Heritage Equity Partners was fighting with its lender, Benefit Street, which claimed the Williamsburg Hotel's $68 million mortgage was in default. Brooklyn-based Heritage turned to David Goldwasser, a fast-talking bankruptcy specialist in Florida who had earned a reputation for exploiting a loophole that allows New York City developers to file for bankruptcy in White Plains.

Big companies in dire straits have been known to lease offices in the quiet city to qualify to restructure there. Historically, they have known which bankruptcy judge they will get, because Westchester County only had one: Robert Drain.

This raised eyebrows last year, when Drain approved the reorganization of OxyContin maker Purdue Pharma, blamed for fueling the opioid crisis. Critics said that Purdue and others were "venue shopping," because Drain is thought to favor debtors.

Suspicion that firms game the system is not new. Sen. Elizabeth Warren has sponsored legislation that would limit companies' ability to pick their court. And late last year, the Southern District of New York — which covers Manhattan, the Bronx and six suburban counties, including Westchester — passed a rule to randomly assign judges to major Chapter 11 bankruptcies filed in the district, though it does not apply to entities with less than $100 million in assets or liabilities.

Drain denies that debtors file in Westchester County to get favorable rulings.

"Any assertion that somehow people chose the venue in front of me to get a particular result is just hogwash and offensive and doesn't stand up," he said in an interview.

Records show, however, that for years, Brooklyn and Manhattan developers flocked to Drain's court — with a hand from Goldwasser.

An analysis by *The Real Deal* found that at least 33 different property LLCs tied to Goldwasser have gone through Westchester County bankruptcy court since 2013. Most of the properties are in Brooklyn or Manhattan, but there's one as far away as Florida.

Besides the Williamsburg Hotel, Goldwasser has helped put other notable properties into bankruptcy in Westchester, including Cornell Realty's Tillary Hotel in Downtown Brooklyn; Chaskiel Strulovitch's 31-building Brooklyn apartment portfolio; and Raphael Toledano's rent-stabilized East Village apartments. All saw their bankruptcy filings go through Drain.

The Boca Raton-based Goldwasser, 40-something and with a toothy smile, describes himself as an expert in restructuring troubled companies and a man who does everything by the book. He said he has filed many bankruptcies in the Eastern District in Brooklyn and denied that he steered clients to Drain's court to get a sympathetic ruling.

Yet he is quick to praise Drain's expertise in handling tricky bankruptcies, calling him "one of the smartest and even-handed judges that most of the people in the country have seen."

Legal experts, however, have raised concerns about the number of Brooklyn projects that developers have managed to get into his court.

"Why do they want to be in White Plains rather than Brooklyn? That's the question," said Adam Levitin, a professor at Georgetown Law School specializing in bankruptcy. "What are they getting by having their cases heard by Judge Drain?"

### Overruled

The Williamsburg Hotel case heard by Drain has attracted scrutiny. A U.S. trustee — essentially a watchdog of the bankruptcy process — claimed that over $1 million was transferred without appropriate oversight and that tracking the funds was impossible because the debtor deleted information in its monthly reports.

As a result, the trustee sought to convert the case from a Chapter 11 reorganization to a Chapter 7 liquidation, leaving a court-appointed representative to control the assets, or to dismiss the case altogether.

When a company files for bankruptcy, it has to open its books and subject its operations and finances to the approval of a judge. The watchdog's allegations suggest that the debtor ignored these basic rules.

"The debtor sought protection from its creditors and accepted the benefits of bankruptcy protection," Greg Zipes, an attorney for the U.S. trustee, wrote in the filing. "The creditors are entitled to the protections afforded by the process as well."

Goldwasser said the trustee misunderstood the situation. The management company made the transactions, he said, and should be allowed to operate freely because it is separate from the property owner.

Drain ultimately ruled against the trustee. The suit is still pending, and the U.S. trustee filed another motion to appoint a Chapter 11 trustee after findings by a court-appointed examiner. Moskovits declined to comment.

"The U.S. trustee has had a very hard time wrapping their arms around the fact that the management company is not in bankruptcy," Goldwasser said.

> **"Any assertion that somehow people chose the venue in front of me to get a particular result is just hogwash."**
> ROBERT DRAIN, U.S. BANKRUPTCY JUDGE

### Tangled web

Filing for bankruptcy in a distant venue might look strange, experts said, but it's legal.

Large corporations and nonprofits do it routinely. The Boy Scouts of America, which is headquartered in Texas, filed for bankruptcy in Delaware by creating an affiliate just months before. Late last year, an HNA Group entity that owns the 245 Park Avenue office skyscraper in Manhattan also filed for bankruptcy in Delaware.

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AMERICAN BANKRUPTCY INSTITUTE, LINKEDIN

## SELECTION OF BANKRUPTCY FILINGS ASSIGNED TO JUDGE DRAIN

| DEBTOR'S NAME | DEBTOR'S ADDRESS | PROPERTY ADDRESS | GOLDWASSER'S ROLE | DATE FILED |
|---|---|---|---|---|
| MY2011 GRAND | 929 EAST 5TH STREET, BROOKLYN, NY | 227 GRAND STREET, BROOKLYN | VP OF THE LLC | NOVEMBER 6, 2019 |
| MESEROLE AND LORIMER | 199 LEE AVENUE, BROOKLYN, NY | 178 MESEROLE STREET, BROOKLYN | VP OF THE LLC | MAY 20, 2019 |
| EMPIRE EQ WGI | 3 COLUMBUS CIRCLE, 15TH FLOOR, NEW YORK, NY | LOT 2, PLAT OF WESTWOOD SECTION 12, TOWNSHIP 24 SOUTH, RANGE 28 EAST, ORANGE COUNTY, FL | MEMBER OF DEBTOR | JUNE 17, 2019 |
| EAST VILLAGE PROPERTIES | 777 THIRD AVENUE, 17TH FLOOR, NEW YORK, NY | 15 ADDRESSES IN EAST VILLAGE | MANAGER | MARCH 28, 2017 |
| AC I INV MANAHAWKIN | 909 THIRD AVENUE, 28TH FLOOR, NEW YORK, NY | 601 WASHINGTON AVENUE, MANAHAWKIN, NJ | MANAGER | JUNE 4, 2014 |
| 96 WYTHE ACQUISITION | 679 DRIGGS AVENUE, BROOKLYN, NY | 96 WYTHE AVENUE, BROOKLYN | CHIEF RESTRUCTURING OFFICER | FEBRUARY 23, 2021 |
| 85 FLATBUSH RHO HOTEL | C/O GC REALTY ADVISORS, LLC 3284 N 29TH COURT, HOLLYWOOD, FL | 85 FLATBUSH AVENUE EXTENSION, BROOKLYN | CHIEF RESTRUCTURING OFFICER | DECEMBER 18, 2020 |
| 73 EMPIRE DEVELOPMENT | 116 NOSTRAND AVENUE, BROOKLYN, NY | 73 EMPIRE BOULEVARD, BROOKLYN | MANAGER | FEBRUARY 21, 2019 |
| 53 STANHOPE | 116 NOSTRAND AVENUE, BROOKLYN, NY | 31 ADDRESSES IN BROOKLYN | VP OF THE LLC | MAY 20, 2019 |
| 232 SIEGEL ACQUISITION | 679 DRIGGS AVENUE, BROOKLYN, NY | 232 SIEGEL STREET, BROOKLYN | MANAGER | JULY 14, 2020 |

NOTE: DEBTORS ARE CORPORATE LLCS THAT CONTROL THE PROJECTS. SOME OF THE DEBTORS' ADDRESSES ARE TIED TO P.O. BOXES AND GOLDWASSER'S OFFICES.
SOURCE: CHAPTER 11 BANKRUPTCY PETITIONS FOUND IN PUBLICLY AVAILABLE COURT RECORDS

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"Bankruptcy venue rules are very, very permissive," said Levitin, the Georgetown professor.

Goldwasser acknowledges that he is sometimes questioned about venues by other parties.

"They are like, 'Why are properties in Texas filing in Brooklyn?'" said Goldwasser. "When you file in a different physical district than they want you to, they are going to complain."

In general, a company can file for bankruptcy in its principal place of business, where its principal assets are located or where it is incorporated, Levitin noted. But it can also file where an affiliated company's bankruptcy case is pending, he said. A trustee or creditor is allowed to challenge the venue.

It is unclear exactly how Goldwasser got his cases into Westchester, but in his filings he often claimed a case was affiliated with another pending case in the county.

The Williamsburg Hotel bankruptcy wound up in front of Drain after Goldwasser claimed it was affiliated with four other cases in Westchester County involving other properties owned by Moskovits' firm.

Strulovitch's Brooklyn bankruptcy likely got to White Plains in 2019 by being attached to another case. Goldwasser put the project through bankruptcy after lender Maverick Real Estate Partners alleged that $40 million in loans it acquired were in default. Kasowitz Benson Torres' Jennifer Recine, who represented Maverick, declined to comment.

The affiliation in many of these cases was not the developers but Goldwasser himself: He either managed the companies through bankruptcy or had a stake in them.

Toledano's case, for example, involved a Manhattan landlord, a Manhattan portfolio and a Manhattan lender, Madison Realty Capital. (It did not end well for Toledano: Madison got the East Village properties. Separate from the bankruptcy, Toledano was banned from the industry in New York for five years.)

Long before that, Goldwasser had managed the East Village portfolio. A filing in 2017 claimed that Goldwasser's firm GC Realty Advisors held a 49 percent equity position in the corporate entity, which listed a Manhattan address.

Under New York's local bankruptcy code, debtors in Manhattan or the Bronx are assigned to a judge in Manhattan. If the debtor is in Rockland County or Westchester County, the clerk should assign the case to Westchester.

There is a caveat, however, that "cases involving debtors that are affiliates shall be assigned to the same judge."

The Toledano portfolio filing claimed the bankrupt corporate owner was "affiliated" with six pending cases in Westchester County, all tied to Goldwasser. One dated back to 2014 and involved the bankruptcy of a Jersey Shore shopping center in Manahawkin, 120 miles away, that somehow made it to Drain's court.

The chain gets even more convoluted.

Goldwasser related the 2014 shopping center case to another one filed in Drain's court in 2013 where Goldwasser was listed as a manager. That was affiliated with the Goldwasser-managed bankruptcy of a Bronx property in 2012. The Bronx case, in turn, was related to one in Drain's court in 2011 in which the debtor had an address in Rockland County.

Seven additional entities tied to Goldwasser were related to the Toledano portfolio. In one, the corporate entity of the 174-key Tillary Hotel, owned by Isaac Hager's Cornell Realty, filed for bankruptcy in 2020, claiming an affiliation with the East Village case. Goldwasser was the restructuring officer.

The filings show Goldwasser could get a case into Drain's court by loosely relating it to one years before.

For his part, Goldwasser said it makes sense to have numerous cases in one courtroom.

"It might sound funny, but when you have three or four cases in front of the same judge at the same time," he said, there are "economies of scale of being able to schedule hearings on the same day as status conferences."

Lenders battling with Goldwasser's clients occasionally bring up a dark incident from his past: In 2003, he pleaded guilty to one count of criminal bank fraud in Westchester County and was sentenced to 27 months in prison and required to pay $3.3 million in restitution. As a condition of his release, he was, for a time, not allowed to be a fiduciary.

"Concerns of fraud and dishonesty infecting the debtors' management are heightened by Goldwasser's involvement," a lender's filing in the Strulovitch case asserted.

But Goldwasser said the fiduciary ban applied only when he was on supervised release and ended years ago.

"It's been brought up because people are uneducated," said Goldwasser. "Attorneys like to throw stuff. When that comes up in a filing, I say, 'Great, they have nothing, because this is what they are throwing.'"

### Exit plan

Unlike the credentials of some judges who finagle their way onto the state bench through an insider-driven political process, Drain's are unquestioned.

After graduating from Columbia Law School, he rose to partner in the bankruptcy department at the white-shoe New York law firm Paul, Weiss, Rifkind, Wharton & Garrison. In 2002, Drain was appointed to the U.S. Bankruptcy Court for the Southern District of New York's court in Lower Manhattan; he moved to the White Plains courthouse in 2009.

He has presided over huge, complicated bankruptcies such as that of Sears Holdings, and earned a name as one of the top bankruptcy judges in the country, though his critics say he is partial to debtors — a notion Drain rebuts.

"If you look at the results [of] cases that have been filed before me, some have been favorable to the debtor, some have been unfavorable, some have been in between," he said. "And I hope and trust it's all because of the merits."

Levitin called Drain knowledgeable and hard-working, but said filers have concluded that low-level, "drive-through bankruptcies" do not grab his attention.

"These judges aren't chosen for their expertise," he wrote on his blog. "Instead, they're chosen because debtors believe that they will rubber stamp their plans."

Drain announced last year that he would retire in June, despite a term limit of 2030. "I'm going to be 65 in June," he explained. "I've been on the bench for 20 years."

Goldwasser said Drain's departure will not have much impact on his business because he has numerous bankruptcies in other courts, and restructurings often get resolved outside of court.

But that doesn't mean he won't miss Drain.

"Yes, it is sad to see him go," said Goldwasser. "But everyone has their time." TRD

Clockwise from top: Broker Miguel Pinto with developers Toby Moskovits and Harvey Hernandez, who all have projects planned in Greater Downtown Miami

# A DANGEROUS GAME

## As land prices soar in Miami's hot market, developers risk getting burned

**By Katherine Kallergis**

Chaim Cahane bought a development site in Miami's Wynwood neighborhood for $6.4 million in December. Three weeks later, a broker called him with an unsolicited all-cash offer: Flip it for 75 percent more.

Then, in March, Cahane's Forte Capital partnered with investor Jon Krasner to buy a separate Wynwood site from East End Capital for $10.8 million. After closing, they turned down an offer to flip it for a 30 percent gain.

"Every day I'm getting calls to sell," Cahane said. "It's ridiculous."

The cost of land and the pace and volume of deals are soaring in South Florida.

The market is so hot that major multifamily sales have become a dime a dozen, and single-family homes are referred to as collectors' items. At the same time, developers are rolling out dozens of new projects, and selling or leasing them up quickly. Wealthy out-of-staters have "discovered Miami," pumping up prices of commercial and residential real estate. To those buyers, the city is still a bargain, brokers say.

Miami's urban core, including Edgewater, Wynwood, the Arts & Entertainment District, downtown and Brickell, has recorded more than $1 billion in land sales over the past two years, according to Real Capital Analytics data provided by Colliers International South Florida. In Edgewater, eight development sites traded for more than $185 million last year. That marks a 529 percent increase in sales volume compared with 2020, and a 141 percent increase compared with 2019.

While industry experts are quick to point out that oversupply isn't yet a concern, record pricing coupled with rising interest rates and inflation could send the market into a tailspin, they say.

"This bubble is about prices getting too high," said Craig Studnicky, CEO of Aventura-based brokerage ISG World. "What's happening with prices is obnoxious. How do young people move here? They can't afford to anymore."

### Sticker shock

In 2019, prior to the pandemic, 24 development sites in Greater Downtown Miami sold for more than $315 million, or about $16 million per acre, according to the Colliers data. Last year, 34 properties traded for over $808 million in the same area, for a price per acre of about $19 million.

"A lot of people believed [prices] would hit a wall and not continue to escalate, but all we see are continual new highs for sales of properties," said attorney Keith Poliakoff of Government Law Group.

"If we can't get [costs] under control, if the rents don't catch up, and people's incomes don't catch up... We may be entitling projects three years from now, which happened before when the economy collapsed in 2009," Poliakoff said. "A lot of those projects we approved just sat in building departments and didn't move until the economy picked up again."

When the pandemic first hit South Florida, there was an immediate slowdown in commercial real estate — until demand quickly returned last year.

Take the sale of the Midas store at 2140 Northeast Second Avenue in Miami's Edgewater neighborhood. Prior to Covid, the listing broker, Miguel Pinto, said he "had a really, really hard time" trying to sell it.

"I couldn't give it away," said Pinto, the owner of Apex Capital Realty. Then, in February, Toby Moskovits' Brooklyn-based Heritage Equity Partners paid $6.3 million for the property, with plans to tear it down and build an apartment tower on the site. Land costs typically account for 10 to 15 percent of a project's budget.

It traded for $283 per square foot. Today, Pinto said it could "very easily flip" for over $400 per square foot.

"There's been a crazy appetite from developers wanting to enter the market," who are betting on rents and demand for housing continuing to rise, he said.

Some local developers are selling land on which they planned to build because the offers are just too good to pass up.

On Fisher Island, an exclusive residential enclave accessible only by boat or helicopter, developer Heinrich Von Hanau is in contract to sell the last condo development site on the island. The buyer is a partnership led by the Related Group and billionaire Teddy Sagi, paying what is expected to be a record price, according to sources.

The thinking: Prices are still on the rise, and if a developer passes on a purchase, it could eventually sell for 20 percent, 25 percent or 30 percent higher, said Colliers broker Mitash Kripalani.

"Most of the buyers paying top dollar are a lot of new-to-market developers," Kripalani added. "If you're a local buyer who was buying in Miami five to 10 years ago, you're experiencing sticker shock."

> **"Every day I'm getting calls to sell. It's ridiculous."**
>
> CHAIM CAHANE, FORTE CAPITAL

Developer Harvey Hernandez locked in a price for the Brickell site of his three-tower residential project prior to the pandemic, and closed on the $50.5 million acquisition in October. He said he could sell it for more than double that in today's market.

"Developers coming into this market are paying for speed and paying for premium pieces" Hernandez said. "If you're coming from New York, Chicago, Los Angeles, you might see [Miami, where] you can sell for $1,200 a foot as a huge bargain."

Brokers are using that in their sales pitches.

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APEX CAPITAL REALTY, SASHA MASLOV (MOSKOVITS), ISTOCK

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"All day long, we're knocking on doors, we're cold-calling people," Kripalani said. "We're chasing our sellers who we know haven't transacted in a while."

## Enormous risk

The party line for developers is that they are monitoring construction costs (up 30 to 35 percent, depending on whom you ask) and supply chain issues. They say they are locking in pricing on appliances and materials wherever possible, and so far those increases have been offset by gains in rents and home prices.

"The price of steel and wood varies dramatically," Poliakoff said. "What I get worried about is construction prices haven't seemed to hit the top."

Interest rate spikes are beginning to slow deals. Buyers who were bidding on 10 properties are now bidding on two, said lender and broker Aaron Kurlansky, principal of Sheridan Capital and FM Capital. Rent-growth projections are also being adjusted. Even on the residential front, some sellers of single-family homes are reducing their prices.

"It takes a lot of people out very, very quickly," Kurlansky said. "We've definitely seen a little more prudency in the market."

But developers are optimists who will push the market to its limits before pulling back.

In some cases, buyers are closing on land without taking the time to understand a site's zoning. And because costs have surged, developers looking to increase the density of their projects have flooded law firms specializing in land use, zoning and entitlement work, Poliakoff and other attorneys say.

> **"While developers can profit handsomely, it also has enormous risk."** KEITH POLIAKOFF, GOVERNMENT LAW GROUP

"To be able to pay the higher prices, [developers] have to seek government approval to increase the density of these properties to spread out that purchase price," Poliakoff said. "Long gone are the days where you could pay $25,000 to $35,000 per door for a new development site."

He cited an example of a property owner who obtained entitlements for a 55-unit apartment project on a site two years ago in order to increase its appeal. A prospective buyer recently told the owner that if the density could not be increased to 85 units, the numbers wouldn't work and the deal wouldn't happen, Poliakoff recounted.

New Yorkers and other out-of-state developers are lured by few regulations and the lack of state income tax in Florida, but once they arrive, some are in over their heads, unfamiliar with the building materials that should be used and how local governments work, attorneys say.

Government Law Group's developer clients are all seeking more density on $2.5 billion worth of projects, Poliakoff said, pointing out three projects backed by New York–based real estate investment trusts that are developing for the first time in South Florida.

"All three are paying more than I have expected someone to pay, but in all instances they feel that the market will continue to go up, and as such they see that the rent today is not going to be the rent when they finish construction two years from now," Poliakoff said. "I always say that while developers can profit handsomely, it also has enormous risk."

Major multifamily landlords, who have arrived in South Florida in droves, are now moving into ground-up development because the investment sales market is overheated.

"All of them today have told us the deals they would normally buy are so overpriced, they are unable to make their numbers work," Poliakoff said.

Pinto of Apex said that buyers have to pay less for land unless construction costs fall.

Institutional buyers have inundated the market, attracted to huge gains in rent growth. Miami led the country in rent hikes during the pandemic, with the median monthly apartment rent rising 58 percent since March 2020 to nearly $3,000, according to a recent report from Realtor.com.

Multifamily rents in Edgewater are at about $3.50 per square foot, according to Pinto. And buyers are underwriting deals with rents at $5 a square foot, two to three years from now.

"Will it get to that point? Maybe. I think people are playing a dangerous game," he said, referring to rising rates, construction costs and inflation. "There's a huge demand, and then a culmination of things from a macro perspective that can make the whole sentiment go south." TRD


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Marc Roberts at E11even Miami

# E11EVATED

## The fall and rise of nightclub and condo impresario MARC ROBERTS

By Francisco Alvarado

Photograph by Sonya Revell

From the second floor VIP lounge of E11even nightclub in downtown Miami, Marc Roberts gazed down at a parking lot he bought in the city's Park West neighborhood. It was late in the afternoon on a recent Thursday, hours before hordes of YOLO partygoers were set to pack Roberts' lucrative nightlife venue for an early start to the weekend.

"I don't do any other real estate business except here in this neighborhood," Roberts said. "There is enough money [to be made] here for me and my family. Thank God, this club does great."

For more than two decades, Roberts, 62, has bobbed and weaved through South Florida's real estate world like the big-name boxers he used to represent. In the late 1980s and 1990s, he made his bones as a sports agent and manager whose client roster included then-heavyweight champs Ray Mercer and Shannon Briggs.

In the early 2000s, he left the sports arena and stepped into the real estate ring by doing condo conversions in three states and teaming up with Miami Worldcenter master developer Arthur Falcone to assemble more than 25 acres for the massive $4 billion mixed-use project that today features condos, apartments, office and retail.

However, the 2008 real estate and stock market crash nearly knocked Roberts out of contention. The next three years were marred by a nasty breakup with a longtime mentor and friend whose credit he used to finance close to $100 million in loans used for real estate investment projects, including land purchases tied to Miami Worldcenter, according to court records.

In 2009, Harvey Silverman, a Wall Street trader, filed lawsuits in Palm Beach Circuit Court and New York federal courts that accused Roberts of embezzlement and other chicanery. Roberts countersued Silverman in Miami federal court for leaving him holding the bag on the $100 million in debt they owed several banks.

"2008, 2009 and 2010 were very stressful," Roberts said. "I lost $50 million in equity and owed the banks $100 million. I went through a lot of sleepless nights."

Today, Roberts with his business partner, Miami Beach real estate investor Michael Simkins, co-owns 3.5 acres in Park West, including the E11even site. He also owns other downtown Miami properties primed for redevelopment with Los Angeles real estate investor Romie Chaudhari and Titan Capital's Ira Saferstein.

Since opening in 2014, E11even has become a global brand in the world of late-night entertainment. The baseball hats featuring the nightclub's distinctive logo have become ubiquitous throughout South Florida and other party spots around the country.

"We have probably sold $10 million worth of hats," Roberts said. "The cash flow is great and amazing but if you can build a big brand, you can build a billion-dollar business."

That's why Roberts and his partners are betting that deep-pocketed condo buyers want to live and breathe the E11even brand. These days, Roberts is posing for photos with celebrities buying units at E11even Hotel & Residences and E11even Residences Beyond, a pair of 65-story towers that will rise across the street from the nightclub. The projects are a joint venture between Roberts, Simkins and Kevin Maloney's Property Markets Group.

The condo-hotel is already fully sold out, while the second condominium is roughly 75 percent sold out, Roberts and PMG principal Ryan Shear said.

"This neighborhood is where all the big boys play," Roberts said. "To go up 60, 70 stories, you have to have a lot of money. This is going to be a 24-hour district like Times Square. That's why I stay in this area where I know and believe in."

### Drunk on Kool-Aid

Silverman met Roberts in the late 1980s when Roberts was a boxing promoter and manager, according to four lawsuits *The Real Deal* reviewed for this story. At the time, Silverman, a trader with Spear, Leeds & Kellogg, invested $60,000 in Roberts' sports agency, Triple Threat Enterprises. Silverman also helped Roberts get a $250,000 unsecured line of credit that he partially used to cover personal expenses. When Triple Threat went public, Roberts paid off the credit line and Silverman made a profit from his investment, court records state.

By 1995, the pair's friendship blossomed into a "father-son relationship" and Silverman provided Roberts with a credit line of $600,000 when he started another sports agency, Worldwide Entertainment and Sports. When the company went public, Silverman received stock as consideration for the $600,000.

In 2000, Roberts left the sports representation business and got into real estate investing. He again partnered with Silverman, who used his creditworthiness to obtain bank loans that were going to be used to purchase land Roberts identified and for which he cut deals. Both men were 50/50 partners even though Roberts did not put in any money and Silverman's credit financed the debt, court records show.

Between 2000 and 2007, the partnership flourished as Roberts teamed up with Falcone to assemble the land for Miami Worldcenter. At the same time, Roberts also had a company called Sunvest that was converting apartment buildings to condominiums and flipping units to individual buyers. Sunvest bought properties in Florida, Arizona and Nevada, according to court records.

"We converted more than 10,000 units," Roberts said. "My partners and I made $40 million. I didn't know 2008 was going to interrupt the party."

In hindsight, he should have seen the crash coming, Roberts admitted.

"I was getting guys with no income verification buying two, three condos from me," he said. "I had Countrywide and Wells Fargo in my office. There would be lines of buyers out the door. They would get loans

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in 30 days. Looking back, I am an idiot for drinking the Kool-Aid."

The crash also spelled the end of Roberts' relationship with Silverman. According to a 2009 federal lawsuit in Miami that Roberts filed, Silverman allegedly confided that he would not be able to live up to his promises because his net worth went from more than $300 million to "probably insolvent" due to losses from the stock market collapse. Roberts alleged that Silverman told him that he suffered significant losses and that he would have to pull out of their partnership. As a result, Roberts faced lawsuits by every bank, including Deutsche Bank and Citigroup, that had provided them with credit lines totaling $100 million.

Also in 2009, Falcone left Roberts and his ownership entities with only 1 percent share of the Miami Worldcenter land assemblage, according to sources familiar with their dealings.

"Art and I did a lot of restructuring," Roberts said. "The moral of the story is not to be saddled with debt. You learn your lessons and pick yourself up."

Falcone declined to comment for this story.

But Roberts still had to contend with Silverman, who slugged him with three lawsuits the same year in Palm Beach Circuit Court and New York federal courts. Silverman accused Roberts of committing "persistent and flagrant acts of self-dealing, gross and willful mismanagement, including the steady embezzlement of millions of dollars in funds and financing intended for the development projects."

The fallout from the Silverman lawsuits and foreclosure actions against Roberts led to a string of negative press. A 2009 Forbes story with the headline, "Down and Out in Miami," summed up the former partners' troubles as "another indication of the kind of reckless commercial real estate lending that might be lurking on the balance sheets of big banks."

In his lawsuits, Silverman alleged Roberts raised credit lines at the banks without his knowledge and forged signatures, allegedly diverting some of the cash to "support his lavish and excessive lifestyle." Silverman claimed Roberts allegedly used partnership funds to buy homes, a Hawaii honeymoon and a Bentley.

In his lawsuit, Roberts countered that Silverman was fully aware that he was withdrawing money from the joint venture for personal expenses. He also denied embezzling any funds and forging signatures, the lawsuit states.

Roberts filed for Chapter 7 bankruptcy in 2010, but two years later he withdrew his petition and the case was dismissed. At the time, he listed liabilities of $266 million and assets of $3.3 million.

Three of the lawsuits were dismissed administratively due to lack of action by either party, court records show. A lawsuit Silverman filed against Roberts and one of the financial institutions, First Bank, was dismissed in 2011 after all parties agreed to drop the litigation.

When reached by phone, Silverman, now 81, said he didn't want to rehash his dealings with Roberts.

"It was about two people who were supposedly fruitful, good and honest with each other," he said. "It didn't work out that way. Our association has been over for many years and it is something I would like to forget. I don't really care what he does."

## Off the mat

By 2011, Roberts found a compatriot who shares his vision for future redevelopment in downtown Miami's Park West, a neighborhood populated by gritty industrial warehouses that is the city's only designated 24-hour nightlife district.

Roberts partnered with Simkins, president of Miami Beach–based real estate firm Innovate Development Group, to buy up 3.5 acres in Park West, including the land where E11even was built, for a combined $19.5 million during a three-year span. Records show Roberts also bought a 6,250-square-foot nightclub space at 60 Northeast 11th Street for $800,000 during the same time period.

The pair met in 2012 when he and his brother, Ronald Simkins, were eyeing new investment opportunities in downtown Miami, Simkins said. By then, Miami Worldcenter was back on track and Wynwood, the trendy arts neighborhood currently going through a development boom, was starting to gentrify, he recalled. Sandwiched between both, Simkins saw development potential in Park West.

He was aware of Roberts' financial troubles and the legal tussles with Silverman. "I heard anecdotally about what happened with Harvey and I know Marc was dealing with it," Simkins said. "But it never impacted me. After spending time with Marc, I quickly understood what a great person he is, what a great network he has and what a hard worker he is."

He and Simkins bought the E11even property from the family of Jack Galardi, a smut kingpin who owned more than 50 adult cabarets across the country and who died shortly before the deal closed in December of 2012, Roberts said. At the time, the property was home to a one-story building that housed the Galardi-owned Gold Rush strip club. The transaction included Gold Rush's operations, which came with a 24-hour liquor license, Roberts explained.

"Within a week of buying the place, I met with all the big-strip club owners," Roberts said. "I met the owner of Scores, the owner of Hustler, the owner of Rick's Cabaret. The first thing they all asked me, 'How did you get it under contract? Jack promised he was going to sell it to me.'"

The strip club owners also offered similar terms to let them run Gold Rush involving $5 million in renovations, about $100,000 in monthly rent and a 50 percent share of the profits, Roberts claimed. "They came fast and furious," he said. "One after the other, telling us the same thing. Finally me and Simkins looked at each other and said, 'Let's do this ourselves. There's more cash flow than we thought.'"

After less than a year of operating Gold Rush, the duo decided to tear the building down and replace it with E11even, a three-story party palace at 29 Northeast 11th Street. They brought in a third partner, Dennis DeGori, to run the venue as a hybrid nightclub and adult cabaret. The rooftop terrace is currently being remodeled into a new restaurant. There's even a little Cirque du Soleil flair featuring performances by aerialists, acrobats and contortionists. And for big-money spenders looking for a little more privacy, E11even offers VIP "whale rooms" with reservations costing several thousand dollars.

> **"If you can build a big brand, you can build a billion-dollar business."** MARC ROBERTS

"People thought we were nuts," Roberts said. "And knock on wood, E11even is the most profitable nightclub per square foot in the world, for sure."

## No sleep, no problem

Roberts' progression from a land-assembling nightclub mogul to condo developer kicked off over drinks at E11even with PMG's Ryan Shear. "One night when I was here, someone came up to me and said that Ryan wants to say hello," Roberts said. "He came over to my table and we started talking."

Shear said the E11even encounter evolved into serious discussions over several meetings with Roberts and Simkins to build a branded tower. Across South Florida, luxury brands such as Fendi, Armani, Bentley, Bulgari and Porsche have partnered with local developers for brand-name condominiums that have been built or under construction in the last decade.

"Marc is a fun guy and he doesn't sleep," Shear said. "Like all good relationships, it has evolved. We started talking about doing a deal together and it went from there."

In January, PMG, Roberts and Simkins unveiled plans for E11even Hotel & Residences, a 375-unit tower at 29 Northeast 11th Street. That's the parking lot that Roberts and Simkins paid $6 million for in 2013, records show. Designed by Sieger Suarez, the proposed project's units will range from studios to two-bedrooms, plus a penthouse collection, all fully furnished.

A virtual metaverse tour by ArX Solutions takes prospective buyers through the multi-level E11even Day Club and pool. It's a Las Vega–style amenity spanning 20,000 square feet and featuring cabanas, temperature controlled plunge pools and a 2,200-square-foot party pool. A DJ spins music from a two-story head sculpture. The building will also have a private members' club, a wellness center and sports lounge.

In November, after selling out the first tower, the partnership announced plans for E11even Residences Beyond, a 461-unit condominium on the same block. The buildings will connect via a sky bridge and a path on the ground level behind the properties, according to plans. Units in both buildings start in the $300,000s. Social media influencers Jake and Logan Paul are each buying penthouses in the second tower, while WNBA player Candace Parker, ESPN co-host Sage Steele and MMA fighter Luke Rockhold are purchasing units in the first building.

"We decided to risk a couple of million bucks doing marketing and sales," Roberts said. "Right from the start, we sold units like hotcakes. I've probably sold 300 directly and indirectly. Almost every athlete is mine. I could tell you some other big names who have bought, but they have not allowed me to use their names."

Shear said that he expected it would take a year to sell out E11even Hotel & Residences, but only 10 units in the second tower remain. "Both towers are essentially sold out and it took half the time frame," he said.

Roberts isn't done reimagining Park West. In 2018, he teamed up with L.A.-based investor Chaudhari to buy a warehouse at 90 Northeast 11th Street where they want to open the first medical-marijuana dispensary in Miami. Roberts and Chaudhari have a pending lawsuit against the city because Miami officials refuse to issue them a permit by claiming cannabis retail stores are prohibited by federal law even though medical marijuana is legal in Florida.

In another deal, Roberts partnered with Titan Capital's Saferstein to buy a one-acre site within the Miami Worldcenter footprint for $26.7 million in 2020. The purchase brought Roberts full circle to where he began his real estate hustle.

Now 14 years removed from the crash, Roberts said he's not afraid of bottoming out again. He's a big believer in cryptocurrencies, which are a volatile investment vehicle. E11even the nightclub and the E11even real estate projects accept payment in digital coins that are immediately converted to fiat money, Roberts noted.

"For one, there are no mortgages [encumbering the land,]" Roberts said. "And we have a nice cash flow [at E11even]. The club could make one-fifth of what it is making now and I will still be able to carry the land. If I gotta go through a cycle, I can do it."

Like a grizzled prizefighter entering the 12th round, Roberts carries the scars of the financial crisis, but isn't done being a contender.

"It's been a rough 20 years," he said. "We've had a lot of good luck." TRD

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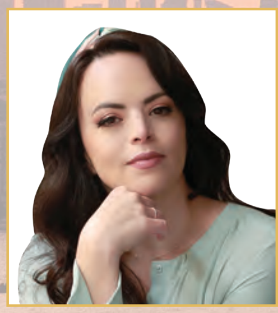
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The AllaWay magazine cover with AllaWay Creative Director Maria Galli, Editorial Director Jenny Starr Perez and Publisher Lissette Calderon

# DEVELOPER, GLORIFY THY NEIGHBORHOOD

## Lissette Calderon takes a literary approach to boosting Miami's Allapattah

By Francisco Alvarado

**HOW DO DEVELOPERS MARKET THEIR** projects and neighborhoods to boost interest? Lissette Calderon is going the literary way.

Calderon launched a luxury lifestyle magazine about Allapattah, the once gritty Miami neighborhood where she is spearheading three apartment projects.

AllaWay's target audience includes people interested in living in Allapattah and business owners looking to establish a base in the neighborhood, Calderon said. However, during AllaWay magazine's premiere party last month, she insisted that the new publication isn't intended to be a self-promotional vehicle, even though the inaugural issue's main feature is on Calderon.

"We felt Allapattah was such a hidden gem, and it was such an untold story, we wanted to tell everybody the story of Allapattah," Calderon said. "At first, it was a guide to Allapattah, and it just started evolving into a lifestyle magazine because of the character and the authenticity of Allapattah."

Calderon, president and CEO of Neology Life Development Group, built No. 17 Residences, a 192-unit Allapattah apartment building that opened in April of last year and is fully leased. She's also developing The Julia, a 14-story, 323-unit multifamily project, and Allapattah 14, a 237-unit rental building with ground-floor retail space.

For her publishing venture, Calderon tapped Jenny Starr Perez, former editor-in-chief of Indulge Magazine, as AllaWay's editorial director. And Neology's creative team, led by lifestyle photographer and Creative Director Maria Galli, is in charge of the magazine's design.

The inaugural 36-page issue features interviews with restaurateur Andreas Schreiner, who owns the restaurant Leku at the Rubell Museum — the scene of the launch party — and Shantelle Rodriguez, director of experiential art centers at Allapattah museum Superblue Miami. Other pages are dedicated to quick blurbs about local businesses, including sneaker repair shop The Cobblers and thrift store Lotus House. Miami historian Paul George contributed a piece about Allapattah's history.

The issue also includes a story about, well, Calderon, and why she's developing in Allapattah, written by Perez.

"That was definitely not me," Calderon said. "Jenny felt very strongly that the person that was most passionate about the story of Allapattah and being at the forefront is me. I did push back. The compromise was to tell various peoples' stories. I wanted to make sure Allapattah wasn't just seen through my eyes."

Calderon, Perez and Galli began working on the first issue near the end of 2021 with a spring publishing deadline. "Our first run was about 5,000 copies or so," Calderon said. "At first, we thought maybe we will do it semi-annually. But given the incredible reception and interest so many people are expressing, we are possibly looking at doing it quarterly." TRD





NEOLOGY LIFE DEVELOPMENT GROUP

Brimstone's Cody Finke (left) and Hugo Leandri with Bill Gates

# HOW WE MAKE CEMENT ISN'T SET IN STONE

## Brimstone Energy raises $55M from Bill Gates and others to produce zero-carbon cement

By Hiten Samtani

**BRIMSTONE ENERGY IS TAKING ON A** challenge of biblical proportions: producing mass-market, zero-carbon Portland cement, a key building material. If it succeeds, the implications for the real estate and construction industries are so enormous that investors have poured $55 million into the startup before it has made a single dollar.

Bill Gates' Breakthrough Energy Ventures and DCVC co-led the Series A round, with participation from Fifth Wall's climate tech fund, Amazon through its Climate Pledge Fund and other investors. A source familiar with the startup said the round, which closed last month, was oversubscribed, with almost $200 million of interest.

The company did not disclose a valuation, but confirmed that it had not hit unicorn status.

The deal is notable not just for its size — among the biggest Series A rounds for materials-science startups — but for where the company is in its evolution: It just raised a $5 million seed round in November, and is still pre-revenue.

Commenting on the lead investors, Brimstone CEO Cody Finke said the combination of Breakthrough — set up by Gates with the express intent of tackling climate change — and DCVC — known for its go-to-market success — sent a strong signal.

"It says that not only are we a cleantech company, but that there is a real path to market," Finke said in an interview with *The Real Deal*. CNBC reported on the fundraise earlier Thursday.

The Oakland-based Brimstone will use a chunk of the funds to build a pilot plant outside of Reno, Nevada — it just closed on a site — and is looking to partner with a real estate developer on a signature project.

Because developers buy concrete rather than cement, a core ingredient in concrete, the conversations will likely involve concrete suppliers and construction and structural engineering firms, Finke said.

Brimstone has raised the funds at a time of heightened scrutiny of the real estate industry's culpability in the climate crisis. Many major developers and contractors are taking a closer look at their supply chains and stepping up efforts to decarbonize, and regulators are breathing down the necks of public companies, asking for greater disclosure about their climate change risks and exposure.

As a result, startups focused on decarbonizing the built world are gaining attention, and money.

The concrete-cement industry is responsible for at least 8 percent of global $CO_2$ emissions, about the same as cars. Ordinary cement manufacturing heats limestone, which has heaps of embedded $CO_2$. Brimstone, however, produces its cement through a process that uses calcium silicate rocks without any embedded $CO_2$.

As the pressure to decarbonize grows, Brimstone is betting that its zero-carbon product will stand out, especially if it costs about the same.

Finke, who founded Brimstone at Caltech in 2019 with Hugo Leandri, also hinted at a potentially massive expansion market for the company: carbon negativity.

Brimstone's process, he explained, creates a magnesium compound that can permanently sequester — that is, remove — and mineralize $CO_2$.

"Some companies have been selling carbon credits," he said. "We can make carbon credits." TRD

# CUSHMAN MUST PLAY BALL IN TRUMP PROPERTY PROBE

## CRE giant questioned about its appraisals on 40 Wall, others

By Holden Walter-Warner

**LETITIA JAMES HAS GOT CUSHMAN &** Wakefield in a corner.

The New York Attorney General announced that a court ruled the commercial real estate giant needs to comply with her office's investigation into Donald Trump and the Trump Organization. The decision comes weeks after James went to state court to compel Cushman to comply with her subpoenas for her civil inquiry.

Cushman will have until May 27 to turn over documents to James' office. In a statement to CNBC, the company acknowledged the ruling, while claiming suggestions that the company hasn't responded in good faith to the investigation are "fundamentally untrue."

"Once again, Cushman & Wakefield affirms that we stand behind our appraisals and appraiser," the company added.

The judge's decision was the second made in James' favor on Trump-related cases. Manhattan Supreme Court Judge Arthur Engoron also held the former president in contempt for failing to comply with another subpoena from James. Trump has been ordered to pay $10,000 per day in penalties until he turns over the requested documents.

A lawyer for Trump plans on appealing the judge's ruling.

James said Cushman appraised several Trump properties in the past, including 40 Wall Street in Manhattan and the Seven Springs estate in Westchester County. Both properties are part of James' civil probe into whether the Trump Organization misstated real estate values for tax benefits or more favorable loan terms.

Former president Donald Trump, Cushman & Wakefield's Brett White and Attorney General Letitia James with 40 Wall Street

Earlier this year, she claimed investigators "uncovered significant evidence" suggesting misleading or fraudulent asset valuations were used to woo lenders, insurers and the IRS.

At 40 Wall, for instance, James alleged that when Trump sought to refinance the property in 2015, his statement of financial condition estimated a $735 million valuation of the property, but one lender valued it at only $257 million.

On April 27, Engoron wrote in his order that he had determined that Cushman bent its own rules when it came to the Trump Organization.

"This court has reviewed numerous documents in camera demonstrating that C&W was not consistent in adhering to its internal quality control practices when conducting appraisals on behalf of the Trump Organization," he wrote, according to the Daily Beast.

Trump and the Trump Organization continue to battle against the allegations in the civil probe, as well as an ongoing criminal investigation being led by the Manhattan DA. TRD



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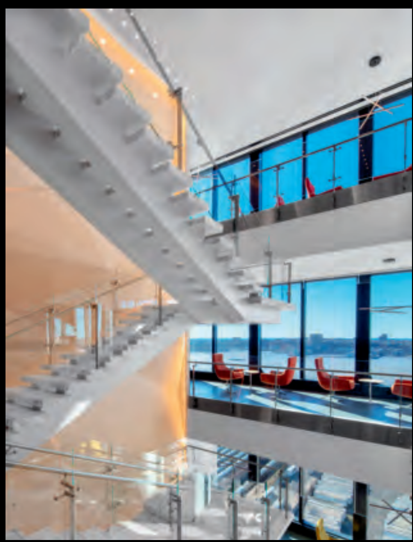

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| RANK | GENERAL CONTRACTOR | TOTAL REPORTED COST | # OF PERMITS |
|---|---|---|---|
| 1 | LENDLEASE (U.S.) CONSTRUCTION | $301.8M | 16 |
| 2 | POWER CONSTRUCTION | $214.4M | 62 |
| 3 | EXECUTIVE CONSTRUCTION | $188.3M | 46 |
| 4 | TURNER CONSTRUCTION | $126.9M | 17 |
| 5 | LR CONTRACTING | $123.6M | 7 |
| 6 | PEPPER CONSTRUCTION | $111M | 35 |
| 7 | ONNI CONTRACTING (CHICAGO) | $103.5M | 7 |
| 8 | HUNT CONSTRUCTION GROUP | $99M | 3 |
| 9 | JAMES MCHUGH CONSTRUCTION | $98.9M | 13 |
| 10 | SKENDER CONSTRUCTION | $93.7M | 63 |

SOURCE: *TRD* ANALYSIS OF CHICAGO BUILDING PERMITS OPEN DATA ON REPORTED COSTS ON NEW BUILDING AND RENOVATION/ALTERATION PROJECTS STARTED BETWEEN JAN. 1 AND DEC. 7, 2022.

**JUST HOW MUCH HAS CHICAGO'S CONSTRUC**tion market slumped? The city's top five contractors collectively fell short of $1 billion of work last year — the same amount that just two firms accomplished in a year-long period ending in 2018.

The city's top contractor last year was Lendlease, even as it underperformed its historical average, according to an analysis by *The Real Deal* of reported costs on building permits for projects started between Jan. 1 and Dec. 7 last year.

The down year hasn't crushed the optimism of Ted Weldon, who runs Lendlease's development branch in Chicago and remains bullish on his hometown.

"People are flowing out of Illinois, but into the central business district," Weldon said in an interview. "We expect the next five years of continued growth, and of the tech sector especially, into Chicago, bringing more jobs in. We see that as an opportunity for more multifamily."

Multifamily projects accounted for the two most expensive building permits issued: the $150 million, 503-unit Cascade apartments at 455 Waterside Drive in Lakeshore East, and the $130 million, 440-unit apartment and condo structure Reed at Southbank at 234 West Polk Street in the South Loop. Lendlease developed both of them, partnering with Magellan on the Cascade, and oversaw construction on each as general contractor.

Normally, in-house contracting work makes up 30 percent of Lendlease's business, while the rest are jobs awarded by third-party developers, Weldon said. That mix shifted in 2021 as the two residential towers accounted for more than $280 million in reported costs — out of $302 million in total work performed by Lendlease across all its permits.

Life sciences projects also accounted for a bigger portion of the total than usual, as some developers turned to lab and related facilities from traditional office developments. A project in Sterling Bay's Lincoln Yards pulled a $64.7 million permit for Power Construction at 1229 West Concord Place.

Although that permit ranked as the eighth-priciest of the year, it was the biggest construction start for anything that could be remotely considered a conventional workplace. That's a big change from 2020, when the city's top two construction permits were for the $476 million BMO Harris Bank tower near Union Station and the $360 million Wolf Point South tower.

Chicago-based firms took most of the top 10 spots, and Power Construction's $214 million led the way among locals. It landed 62 permits, more than all but one other firm in the top 10, Skender Construction, which ranked 10th at nearly $94 million across 63 permits.

Power Construction's largest contract in 2021, the life science lab at 1229 West Concord Place, is the first building in the $6 billion Lincoln Yards megadevelopment on the North Side.

Even as downtown Chicago offices outside Fulton Market emptied during the pandemic, contractors found big jobs for office renovations. More than $2.3 billion went into all types of renovations and alterations last year across more than 6,000 permits, compared with $1.8 billion of new construction on fewer than 1,000 permits.

Gardner Construction, which finished 14th, won Chicago's biggest office renovation project for just under $62 million on the eight-story building at 801 South Canal Street. Executive Construction, which placed third, landed the second-largest office renovation: $55 million on a first-time tenant buildout at 433 West Van Buren Street.

Expectations for a recovery are tempered, though signs have emerged that it has already begun. Residential projects will keep expanding their market share this year, as will infrastructure work, while the commercial market share is on pace to slip a little less than 1 percent after dropping 7.8 percent last year, according to research firm Cummings. The overall market is forecast to grow 3 percent.

"We came into 2021 with a very low backlog," said Executive's Dave Hetrick. "Work that had been lined up was canceled or postponed. We have seen a strong rebound in the tenant interior market in Chicago, though, and the forecast for the next six to 12 months looks strong in that market."

*— Sam Lounsberry*

*Research by Matthew Elo*

# SAN FRANCISCO'S LARGEST BROKERAGES BY HEADCOUNT

| RANK | BROKERAGE | TOTAL SALESPEOPLE |
|---|---|---|
| 1 | COMPASS CALIFORNIA II | 692 |
| 2 | SIDE | 241 |
| 3 | COLDWELL BANKER | 222 |
| 4 | VANGUARD PROPERTIES | 215 |
| 5 | EXCLUSIVE LIFESTYLES DBA CORCORAN GLOBAL LIVING | 203 |
| 6 | SOTHEBY'S INTERNATIONAL REALTY | 163 |
| 7 | TCGSF DBA KELLER WILLIAMS | 114 |
| 8 | EXP REALTY OF CALIFORNIA | 102 |
| 9 | JONES LANG LASALLE AMERICAS | 84 |
| 10 | CBRE | 80 |

SOURCE NOTE: DATA CURRENT AS OF 03/14/22. FILTERED BY "SALESPERSON" AND "BROKER ASSOCIATE." TOTALS INCLUDE AGENTS WHO HAVE AN SF COUNTY ADDRESS ONLY. FOR THE PURPOSE OF THIS STUDY, UMBRELLA AND SUBSIDIARY FIRMS WERE NOT CONSOLIDATED.

**THERE MAY BE A SHORTAGE OF HOMES** for sale in the Bay Area, but there is no shortage of agents to sell them.

*The Real Deal* analyzed data from the California Department of Real Estate as of March 14 to determine which firms had the most licensed salespeople or associate brokers registered with a San Francisco County address.

Compass ranked first, with its California II San Francisco branch's 692 agents giving it a firm lead over the rest of the field.

Side slid in at second place, with 241 agents. Co-founder Guy Gal's upstart white-label brokerage was recently valued at $2.5 billion after Tiger Global Management invested $50 million in a late-2021 fundraising round.

Realogy-owned Coldwell Banker followed Side with 222 agents, narrowly ahead of Vanguard Properties' 215 agents.

Rounding out the top five was Corcoran Global Living, also owned by Realogy, which continued its expansion across the Bay Area after merging with Thrive Real Estate in February.

Also appearing in the top 10 were Realogy's Sotheby's International Realty, with 163 agents, and Keller Williams with 114. Cloud-based brokerage eXp California, which placed third in *TRD*'s Los Angeles headcount ranking, took the eighth spot in San Francisco with 102 agents, while two commercial brokerage giants rounded out the list: JLL and CBRE, with 84 and 80 agents, respectively.

*— Joseph Jungermann*

Comings & Goings

The industry's biggest mergers, acquisitions, hires and departures

# CELEB BROKER TAKES NYC BUSINESS TO COMPASS

## LA-based Carl Gambino brings team over from Modlin Group

Carl Gambino and 33 Greene Street

**CARL GAMBINO, A LOS ANGELES**-based broker with a track record of celebrity deals, is taking his New York business from Modlin Group to Compass.

Gambino's departure from the boutique brokerage marks a shift in focus to Manhattan, Brooklyn and the Hamptons for the broker, whose sales volume totaled $325 million across Los Angeles, Miami and New York, according to Compass.

Gambino first joined Compass on the West Coast in 2020, jumping from Westside Estate Agency. His 11-person team expanded into Miami last year, where Gambino in March sold a $21.3 million Fisher Island condo to Patrick Dovigi, a former professional hockey goaltender.

Gambino netted $145 million in sales volume in 2019, the same year he represented Nick Jonas and Priyanka Chopra's purchase of a $20 million Encino home. He was also the buying agent for Joe Jonas and Sophie Turner's $14 million home three miles away in the San Fernando Valley. Gambino has also worked with celebrities including Alex Rodriguez and Jennifer Lopez.

News of Gambino's New York move came the same week the broker sold a co-op at 33 Greene Street in Soho for $10.9 million, according to a Compass spokesperson, who did not identify the buyer.

As Gambino joins the firm, a team of Compass brokers is headed to Brown Harris Stevens, where they will focus on a troubled Upper East Side condo project.

Jeffrey Stockwell, Jill Bernard and Alan Shaker of the Stockwell Bernard Team will be selling the Hayworth at 1289 Lexington Avenue, a 61-unit new development condo bought out of foreclosure by Zeckendorf Development in February.

Zeckendorf Development bought the Carnegie Hill building for roughly $250 million in February from the U.K.-based lender Children's Investment Fund, which took it over in January after Ceruzzi Development defaulted on its construction loan.

Ceruzzi's late founder and former president Louis Ceruzzi spent about a decade assembling the property. It launched sales during a market slowdown in 2019, two years after Louis Ceruzzi's death at age 64.

The deal marks the first time BHS is selling a Zeckendorf building, CEO Bess Freedman said.

The Stockwell Bernard Team said in a release they've sold more than $1.5 billion worth of real estate over the past two decades. *The Real Deal* data show the trio handled $67.4 million in sell-side transactions in Manhattan last year.

"Change is always scary and disruptive, but we're excited," Stockwell said. "We like the size of Brown Harris Stevens very much because it's large enough to have scale but it's not so large you might feel a little lost."

The team had been with Compass since its 2019 takeover of Stribling & Associates.

*—Harrison Connery*

# MARCUS & MILLICHAP POACHES CBRE BROKERS FOR AUCTION SALES

**MARCUS & MILLICHAP IS GETTING** into the auction business.

The California-based commercial brokerage hired Adam Sklaver and Phil Kates from CBRE to lead commercial real estate auction sales in a move announced last month. Both Sklaver and Kates are based in Miami, according to their LinkedIn profiles.

Sklaver and Kates were previously with CBRE's capital markets group, where they led auctions for properties under $20 million, according to CBRE's website. Before CBRE, the duo both worked at Ten-X, a CoStar-owned commercial real estate exchange.

Kates started his real estate career at New Urban Properties and eventually worked for Auction.com's commercial division. Before Ten-X, Sklaver worked at Reis, a commercial real estate data firm that was acquired by Moody's in 2018.

The duo will use Marcus & Millichap's own property marketing system to provide auction services to clients throughout North America, according to the announcement.

Distressed properties, such as those up for foreclosure, make up a large portion of auctioned properties. Many commercial brokerages have an auction services — or "accelerated marketing sales" — team. CBRE launched its own auction service in 2010.

Properties in the $3 million to $5 million range tend to be the "sweet spot" for auctions, Victor Gutierrez, Ten-X's head of platform operations, told LoopNet in 2020.

*—Isabella Farr*

# BLACKSTONE MAKES $13B BET ON STUDENT HOUSING

**BLACKSTONE'S YEARLY REPORT** card will feature a larger stake in student housing after the firm's biggest move in the sector yet.

The company agreed to acquire American Campus Communities in a deal that values the student housing provider at $12.8 billion, including debt, the Wall Street Journal reported. The Austin-based company is the nation's largest publicly traded student-housing owner and developer.

Blackstone is paying $65.47 per share to buy the company, a 14 percent premium from its April 18 closing price, the Journal reported. The firm plans on taking ACC private through its Blackstone Real Estate Income Trust and Blackstone Property Partners.

ACC owns 166 student housing buildings in the U.S., including some on or near large campuses like Arizona State University and Cal-Berkeley. Approximately 25 percent of the properties are situated directly on a campus.

Blackstone plans to build more properties under the ACC banner to meet the demand for student housing across the country.

Student housing showed resilience in the wake of the pandemic, which didn't hurt rent collections as much as expected. As more students return to campus and housing construction remains limited, the sector has attracted renewed interest from investors.

Landmark Properties, one of the country's ten largest student housing managers, said in March that it had formed a $1 billion venture with a unit of the Abu Dhabi Investment Authority to buy and operate student housing properties.

"We think student housing is a compelling sector because it's performed through cycles and has been really quite resilient over time," said Nadeem Meghji, Blackstone's head of real estate for the Americas.

Shares of ACC ended last year at an all-time high of $57 and have managed to largely maintain that level ever since, despite its net income falling by more than half last year to $36 million.

*— Holden Walter-Warner*



GAMBINO GROUP, STREETEASY

# MORE LAYOFFS HIT ONLINE MORTGAGE LENDERS

## Better.com, Blend Labs, Movement Mortgage implement cuts as rising rates hurt business

**ONLINE MORTGAGE LENDERS CONTINUE** to shed employees as a historic surge in mortgage rates tamps down applications.

Blend Labs is letting go about 200 employees, or 10 percent of its staff, to shed $34.5 million in annual payroll, according to a regulatory filing first reported by Inman last month. Company leadership previously forecast cost-cutting measures as interest rates climbed and the industry braced for a dive in mortgage applications.

Rising rates means less refinancing and fewer employees needed to process applications. Fannie Mae analysts said in April that they expect lenders to refinance $889 billion in mortgages this year but only $558 billion next year, which would represent an 80 percent drop from $2.8 trillion in 2020.

Home sales are also slipping because of a drop in listings, which has resulted in fewer mortgages. A rise in the number of cash buyers has also whipped up headwinds for the mortgage industry.

Layoffs have swept the sector in recent months, most visibly at Better.com, where waves of poorly handled cuts have generated unwanted publicity.

That online mortgage startup circulated a memo on April 19 announcing another "substantial cut" to its workforce, the Wall Street Journal reported. The exact number of employees to get the ax couldn't be confirmed, but employees affected by the layoffs include members of the sales team, real estate business and mortgage operations.

"This is not the measure we wanted to take," Richard Benson-Armer, Better.com's chief people, performance and culture officer, wrote in the memo. "But, this is both prudent and necessary for the health of our business."

Laid-off workers will receive between 60 and 80 days of severance pay, as well as health coverage through the end of July, according to the Journal, more or less in line with what the company was reportedly offering in voluntary separation plans floated earlier last month.

Better.com's headcount after the latest round of layoffs — its second in as many months — is unclear, but employee numbers seem to be dwindling quickly at the company, which was founded in 2016 as a "digital-first homeownership company," offering mortgage, title and homeowners insurance services.

In March, the New York-based company laid off 3,000 workers in the U.S. and India, reducing its headcount by more than a third. Some of those let go in that round reportedly learned of the cuts before they were announced, after Better.com accidentally rolled out severance payments prematurely.

CEO Vishal Garg took a temporary leave of absence in December after laying off more than 900 employees on a Zoom call and accusing some in an anonymous online post of being unproductive and stealing from the company.

The handling of that round of layoffs triggered an internal review and led to the resignations of several executives. The faltering mortgage industry was cited in the memo as one reason for the latest cuts.

South Carolina-based Movement Mortgage has also faced struggles, laying off around 170 employees, HousingWire reported in early April. Employees in the processing, underwriting and closing departments were most affected by the cuts, according to the report.

Co-founded in 2008 by former NFL player Casey Crawford, the company's CEO, Movement Mortgage has more than 775 locations across the U.S. and employs upwards of 4,500 people, according to HousingWire.

Movement Mortgage originated $33.1 billion in 2021, a jump of 10.7 percent over 2020, but activity appeared to plateau towards the end of the year, with originations falling 0.7 percent from the third quarter to the fourth.

*— Ellen Cranley and Holden Walter-Warner*


Richard Benson-Armer and Vishal Garg

# NYC VOUCHER DISCRIMINATION UNIT LEFT UNSTAFFED

**A SHRINKING CITY UNIT FOCUSED ON** voucher discrimination can't do much good for would-be renters, as it has reportedly been sapped of all staff members.

The last employee of the New York City Human Rights Commission's (CCHR) Source of Income Unit resigned at the beginning of April, City Limits reported. The departed attorney hasn't been replaced, leaving the unit without a single staffer.

The anti-discrimination unit has slowly been bleeding out. Three years ago, there were six employees in the unit, but that dropped to only three last year, according to City Limits. By March, there was only one staffer left, despite a spending plan designed to add 10 people to the unit's dwindling headcount this year.

The SOI unit plays a vital role in enforcing the effectiveness of housing vouchers. The office records complaints, intervenes and sometimes files lawsuits when prospective renters are discriminated against due to a government subsidy, such as a Section 8 or CityFHEPS voucher. Without the unit in place, landlords and brokers may have an easier time discriminating on the basis of subsidies.

According to CCHR reports, discrimination on the basis of government subsidies is the most common form of illegal housing bias in the city.

CCHR Deputy Commissioner JoAnn Kamuf Ward has said the agency will still intervene in cases of voucher discrimination. According to City Limits, some staffers and attorneys in other units of the agency had already started taking on cases as the SOI unit faded.

The unit's decline comes as complaints have ticked up from previous years. The unit filed 27 complaints on behalf of tenants in fiscal year 2020 and 28 in fiscal year 2021. From this past July through March, the unit has filed 29 complaints, according to City Limits.

Nonprofits are stepping up as the government loses resources to combat voucher discrimination. The Housing Rights Initiative and the Fair Housing Justice Center are among those who have sued major companies like the LeFrak Organization, Corcoran Group and Compass for alleged voucher discrimination.

Compass recently settled a voucher discrimination lawsuit brought by HRI, agreeing to incentivize agents with bigger commissions on Section 8 leases and to provide additional training for brokers on the voucher programs.

*— Holden Walter-Warner*

JoAnn Kamuf Ward

GETTY IMAGES, ISTOCK, CORCORAN GROUP, LINKEDIN, TWITTER/JOANNKWARD

# MATHRANI SUCCEEDS CLAURE AS WEWORK CHAIR

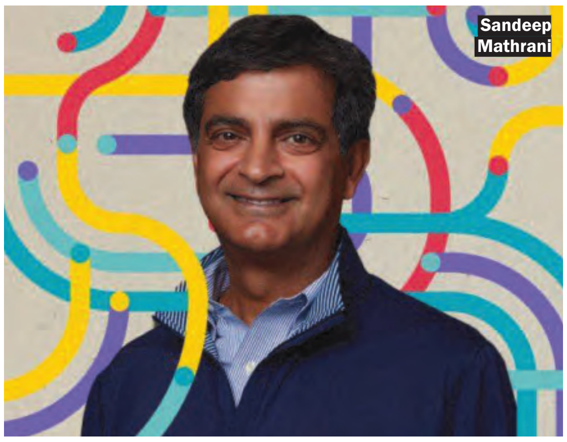
## Co-working firm also adds Softbank partner Saurabh Jalan to its board

**WEWORK CEO SANDEEP MATHRANI IS** taking on the additional role of chairman at the co-working company, a position held by Marcelo Claure until he left WeWork and Softbank earlier this year after a reported disagreement over compensation. Claure was said to be seeking $2 billion from the Japanese investment company.

WeWork also appointed Saurabh Jalan, a partner at SoftBank, to its board, filling a seat that had been held by Claure. Jalan oversees SoftBank's stakes in WeWork, T-Mobile US and Deutsche Telekom AG, among other companies.

Mathrani, the former CEO of the retail giant GGP, was appointed CEO of WeWork in February 2020 and helped take the co-working company public through a special-purpose acquisition company, or SPAC, last year.

Claure, who led SoftBank's Latin American investment fund, was at odds with the firm over his responsibilities in addition to his compensation, a person familiar with the matter previously told *The Real Deal*. The person said the scope of assets that Claure oversaw was shrinking and that it had become a point of contention.




Claure worked closely with SoftBank chairman and CEO Masayoshi Son, who tapped him to fix WeWork's issues after providing a golden parachute to the co-working company's co-founder and former CEO Adam Neumann in exchange for his resignation in September 2019.

*—Keith Larsen*

# SF POL CREDITS ELECTION TO PRO-HOUSING STANCE

**SHORTLY AFTER HIS DECISIVE WIN IN A RUN-**off election to represent San Francisco's eastern half in the state assembly, Supervisor Matt Haney was still tweeting out the pro-housing message he's been repeating throughout his campaign: "Progressives should be for more housing. Period."

Then he sent one that seemed to be aimed at his defeated opponent, former Supervisor and current vice chair of the California Democratic Party David Campos: "And progressive candidates should not be Nimbys. Period."

Housing policy was the defining factor in a hard-fought race that began last year when Assemblymember David Chiu resigned to become San Francisco City Attorney.

Haney represents the city's Tenderloin and South of Market neighborhoods, though his support was spread throughout the city's eastern half, according to election data. He won the assembly seat with 63 percent of the vote.

"I was really surprised how [Campos] ran the NIMBY-left playbook — and that is not what San Francisco is," said Todd David, executive director of the Housing Action Coalition, which supported Haney.

SF YIMBY and the California Association of Realtors were also among Haney's supporters, and he raised $1.5 million for the campaign, compared with about $950,000 for Campos, who pledged not to accept corporate donations.

David said he is "dubious to curious" to see how Haney's housing votes in the state legislature will align with his pro-housing rhetoric during the campaign.

"We know through years of polling that housing approvals in San Francisco are incredibly popular," he said. "When you ask, 'Do we need more market-rate?' The answer is, 'Yes.' Affordable? Yes. Mixed-use? Yes. We need more of all of the above."

Campos' decision to back the Board of Supervisors' rejection last year of a nearly 500-unit residential building on a department store parking lot in SoMA, which had a 24 percent affordable component and was approved by the city's planning commission, appears to have been a turning point in the campaign.

Haney came out strongly in favor of the construction, which is in his district, and also repeatedly pointed out that most of the housing built in the city recently has been in his district as well.

"The board handed Haney a political gift on a silver platter," said David. "When he grabbed the mantle of pro-housing, the race was over."

*— Emily Landes*

OBITUARY

# REAL ESTATE LITIGATOR WARREN ESTIS DEAD AT 73

## Veteran attorney co-founded one of NYC's largest real estate law firms

**WARREN ESTIS, THE VETERAN LITIGATOR** who co-founded the practice that bills itself as New York City's largest real estate-only law firm, died April 13. He was 73.

As a founding partner of Rosenberg & Estis, the attorney served as the lead litigator in cases for the city's developers and property owners.

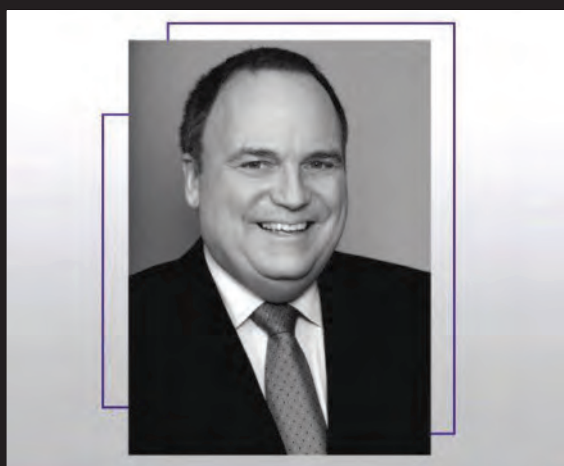
"Warren was a distinguished member of New York City's legal community and he will be remembered for his wit, intellect and tireless advocacy for the real estate industry," the firm's other co-founder, Gary Rosenberg, said in a statement.

Estis and Rosenberg founded their eponymous firm in 1975, representing owners of rent-regulated buildings. The company had grown to 85 attorneys by 2019, according to a count of the largest real estate practices by *The Real Deal*. That placed it third in New York City, behind Fried, Frank, Harris Shriver & Jacobson and Clifford Chance, which are all much larger, multidisciplinary practices.

Estis trained the firm's litigators and oversaw that side of the business. Among his largest clients were the Related Companies, Rockrose Development, TF Cornerstone, J.D. Carlisle and Somerset Partners.

Rosenberg & Estis' notable work included negotiating the joint venture between the Durst Organization and the Port Authority of New York and New Jersey to build and lease One World Trade Center. It also represented Durst in a joint venture with Bank of America to develop One Bryant Park.

A veteran of nasty squabbles, Estis knew how to take a punch as well as deliver one.



In 2012, the controversial restaurateur Joe Bastianich published a book, "Restaurant Man," in which he called Estis "the fucking antichrist of landlord-tenant lawyers."

Estis took the barb in good humor, telling Commercial Observer that he considered it a compliment.

"It is an honor to be in the prestigious club of those slammed by Bastianich," he said in 2012. "To have him mention me by name years after the case shows that I represented my client very well, and in many ways it is great marketing."

Estis was still handling cases as recently as last summer. In August, he represented ABS Partners in a rent dispute with one of its office tenants at 270 Madison Avenue.

*—Rich Bockmann*



WEWORK, ISTOCK

# SIGNS POINT TO FAMILIAR FOE IN DEAL FOR HADID'S PRIZED PARCEL

## Preservationists claim win in long-running LA land dispute as buyer remains mystery

Ronald Richards, Mohamed Hadid and Franklin Canyon

**DOCUMENTS IN A BANKRUPTCY CASE** offer signs of prominent businessman and socialite Alex von Furstenberg's involvement in the sale of a controversial 66-acre site in Beverly Hills that was for years controlled by spec developer Mohamed Hadid.

The sale was approved by a bankruptcy judge in March after an auction produced a single offer that valued the property at roughly $34 million. A fair value, one lawyer for Hadid said months ago, was north of $130 million.

The approval marked an apparent end to one of L.A.'s longest-running and highest-profile land use battles: Hadid intended to build an extravagant luxury compound on the choice hilltop site, which intersects with Franklin Canyon Park, but his plans prompted a wave of opposition from residents who advocated for continued public access.

The fight began more than a decade ago, and for over a year the hopes of preservation — and a bitter bankruptcy court feud — have centered around an entity called Give Back, which emerged as the primary creditor after buying more than $30 million of the property's debt.

Give Back is managed by high-powered attorney Ronald Richards, who repeatedly promised that his client was only interested in maintaining the land for nature and public use.

Hadid did not respond to a request for comment, although in March the developer, who was recently embroiled in a protracted fight over another project, the now-demolished spec mansion known as Strada Vecchia, told *TRD* he was turning his attention abroad.

The buyer was revealed in court documents as a Delaware entity, Castle Real Estate.

The individual or people behind the corporation remain undisclosed, but legal filings suggest the involvement of von Furstenberg, a wealthy investor who is on the board of the digital media holding company IAC. The 52-year-old von Furstenberg is the son of fashion icon Diane von Furstenberg and her first husband, the late German Prince Egon von Furstenberg. He is also the stepson of Barry Diller, the billionaire who chairs IAC.

Von Furstenberg, who lives in the area, first surfaced as an alleged player in the land saga last year, when Hadid, as part of a civil suit, claimed he had reneged on a deal.

Hadid claimed von Furstenberg was interested in conserving the land, and the two met to discuss a possible deal. According to Hadid, von Furstenberg agreed to pay $20 million for a portion of the land for preservation, only to renege and form Give Back, in alliance with Richards, in an attempt to wrest control of the whole property.

Hadid's civil suit, which accused von Furstenberg and Richards of orchestrating "a malicious, fraudulent scheme" to "essentially steal" the land, was later dismissed.

Give Back has never disclosed its funding, and von Furstenberg's possible involvement was never clarified. Court documents show that Castle Real Estate's manager is the Beverly Hills attorney Michael Eisner, who has represented von Furstenberg. In a filing, the court-appointed trustee, while asserting that the buyer is acting in good faith, also indicates the buyer's connection to Give Back.

"Out of full and completed disclosure," an attorney for the trustee wrote in part, "the Trustee is informed that various entities that have indirect economic interests and ownership interests in the Buyer also have indirect economic and ownership interests in Give Back LLC."

Eisner did not respond to an interview request, and von Furstenberg could not be reached.

Richards said he did not know who the members of Castle Real Estate are and had not been in talks with the buyer.

Under the terms of the deal, the buyer is paying $1.7 million in cash and assuming $555,000 in property taxes. The buyer, critically, is also taking on the debt obligations, which include a $33 million claim from Give Back. That claim, Richards emphasized, now effectively secures the long-touted goal of preserving the land, even if the entity buying it has not disclosed its intentions or revealed its backers.

"They're not going to watch me beat Hadid and win this case to then have a new fight to develop the property," Richards said. "That would make no sense." TRD

*— Trevor Bach*

# KATERRA EXECS SANK FIRM WITH SELF-DEALING: SUIT

**WHILE KATERRA FLOUNDERED, ITS** executives diverted the firm's business to their other companies and used its funds for private jet rides and basketball games, according to a new lawsuit.

The suit, filed by the bankrupt construction startup and some of its creditors, accuses ousted CEO Michael Marks and others of "self-dealing and self-interested transactions." The complaint points to Katerra building apartments for the Wolff Company at a low cost while Wolff was owned by Paxion Capital, a firm run by Katerra co-founders Marks, Jim Davidson and Fritz Wolff. Marks also allegedly "rubber-stamped" acquisitions of companies that benefited him or other executives, who in some cases owned stakes in the firms being acquired.

The complaint also accuses executives of using company money for personal perks, including a private box at Golden State Warriors games and rides on a private jet. In one case, the company paid $12,500 each month to lease a house for one of its senior executives, according to the lawsuit.

A spokesperson for Marks told The Information that the lawsuit contains several inaccuracies and that the former CEO is "confident in our case against these meritless claims — demonstrating that Michael always acted in the best interest of the company." The Information first reported the lawsuit.

*The Real Deal* previously highlighted some of the Katerra founders' business arrangements, including those involving Paxion and the investment fund Kandle, and how they potentially raised conflict-of-interest concerns akin to those that ensnared another SoftBank-backed company, WeWork.

Ex-Katerra CEO Michael Marks

Katerra filed for bankruptcy in 2021, following a meteoric rise fueled in part by nearly $2 billion from SoftBank. The company launched in 2015, billing itself as a tech-first construction management firm. It opened its own factories to manufacture innovative building materials — such as cross-laminated timber and modular building components — and rapidly acquired more than 20 other companies.

But the firm was plagued by cost overruns, allegations of construction defects, factory closures and changes in leadership. Despite repeated public assurances from executives that profitability was around the corner, Katerra hemorrhaged capital and filed for Chapter 11 protection in June of last year. TRD

*— Kathryn Brenzel*



ISTOCK, RONALD RICHARDS, ILLUSTRATION BY KEVIN CIFUENTES/*THE REAL DEAL*; GETTY IMAGES

# FAULTY ELEVATORS BESET SETAI MIAMI BEACH

## Luxury condo-hotel and Kardashian hangout plies stranded unit owners with champagne

The condo-hotel at 2001 Collins Avenue and 101 20th Street; Ralph, Joe and Avi Nakash

**CAN A LITTLE BUBBLY FIX THE AGGRAVATION?** For more than a year, malfunctioning elevators at the Setai Miami Beach have angered residents and guests, resulting in multiple code violations, a visit from firefighters to free trapped occupants and a lawsuit over a nearly $55,000 unpaid repair bill.

The luxury condo-hotel's staff has handed out glasses of wine and champagne to long lines of people waiting in the lobby as an apologetic gesture, according to a unit owner and a tenant at the Setai who spoke on the condition of anonymity.

Residents said they are afraid the owners of the Setai's common areas and hotel operation will cut off their access to amenities in retaliation for speaking about the elevator problems.

The faulty elevators are in the 40-story residential tower at 101 20th Street, behind the Dempsey-Vanderbilt Hotel. Connected via a courtyard, both buildings are part of the Setai Miami Beach.

The Nakash family, founders of the Jordache Jeans brand and owners of several high-profile South Beach properties such as the Versace mansion, bought the Setai's hotel components for nearly $90 million in 2014. Avi, Joe and Ralph Nakash also own eight units in the Setai's 164-unit condominium, which has been a favored hangout for the Kardashian family.

Shaul Nakash, chief marketing officer for Nakash Holdings, and Vice President Ariel Nakash did not respond to emails requesting comment. Setai General Manager Alex Furrer, who is being sued for defamation by a female resident with whom he had an affair, also did not respond to requests for comment.

Miami Beach Fire Department personnel responded to an emergency call about four people trapped in one of the elevators on March 24, according to a city incident report.

Firefighters had to drop down 20 feet and open an emergency hatch, according to the report, which added, "We then set up a rope system to bring the occupants up and out, safely."

Since December 2019, the Setai has been hit with seven $250 code violations for operating an elevator with an expired certificate of use, most recently on March 29, according to Miami Beach's code compliance department.

The unit owner, who pays $4,000 a month in maintenance fees, said the elevators have been a problem for at least a year. "I got stuck in one last winter," the unit owner said. "It has gotten progressively worse."

In April, Lake Worth-based Fiji Elevator Company sued Setai Hotel Acquisitions, the Nakash ownership entity, for failing to pay $54,857 for parts and labor. Fiji also placed a lien on the property, court records show.

According to the lawsuit, the Setai hired Fiji in January to repair the elevators. Invoices attached to the complaint show Fiji billed the Setai about $103,000.

Fiji CEO Isaac Puentes told *TRD* he needed to speak with his lawyer before commenting. Fiji's lawyer, Michael Friedman, did not respond to requests for comment.

In an April 11 email, Setai lawyer Allan Reiss told *TRD* that his client has "paid Fiji Elevator in excess of $400,000, disputes the current invoicing, and looks forward to its day in court."

The same day, Setai General Manager Furrer emailed unit owners a first-quarter newsletter updating them on several projects, including the hiring of a new maintenance company "with high expectations for an improvement of the elevators."

Two days later, on April 13, Reiss emailed *TRD* again. "Please be advised that all elevators in the residential tower are running," he wrote. "As of today, there are no violations pending with the city of Miami Beach concerning the elevators in the residential tower. Finally, all elevators in the residential tower have valid certificates."

On April 15, two of the main elevators and the service elevator stopped working, according to a text from the anonymous tenant. "Only one elevator works," the text said. "I cannot. LOL." TRD

*— Francisco Alvarado*

# STRIP CLUB OWNER ALLEGES REAL ESTATE CONSPIRACY IN $100M SUIT


Robert Gans, 533 West 27th Street and Eli Tabak

**WHEN COVID CLOSED THE DOORS ON A** Manhattan strip club, it opened a window for lenders to fight for control of a real estate portfolio allegedly worth over $200 million.

Scores, the notorious Chelsea gentlemen's club that inspired the 2019 film "Hustlers" but was shuttered by the pandemic, is one of several properties owned by investor Robert Gans. In a lawsuit filed last month, Gans alleges a "sweeping and predatory scheme" on the part of his lender, Eli Tabak's Bluestone Group, to turn a $5 million equity loan into an epic windfall.

Gans seeks $100 million in damages on claims that several companies "controlled by members of the Tabak real estate family" have "conspired with each other" to sell his portfolio out from under him. Eli Tabak did not respond to requests for comment.

Gans' assets include the building that houses Scores on West 27th Street, a retail property in Soho and 32,000 square feet of industrial property in Queens. But the jewel of his portfolio is a 57,700-square-foot assemblage between West 45th and West 46th streets on 11th Avenue in Hell's Kitchen.

Gans also owns a smaller parcel across 11th Avenue with 150,000 square feet of development potential.

Bluestone's quest for leverage over Gans culminated in mid-April, according to court documents, when it bought the senior loan on his portfolio for $148 million. The deal followed a flurry of lawsuits brought by Bluestone against Gans' former senior lenders, Mack Real Estate Credit Strategies and Axos Bank. Mack had initiated a foreclosure on a refinancing loan tied to the portfolio in October.

Bluestone provided a $17 million mezzanine loan as part of the Mack-led refinancing in 2018, but the Tabak family's strategy to seize his portfolio kicked off later, Gans claims, when Bluestone called in a separate $5 million preferred equity agreement at a time when the pandemic had cut off Scores' revenue. The agreement allowed Bluestone to foreclose if the equity investment wasn't repaid.

In an allegedly coordinated gambit last August, Bluestone sued Gans' senior lenders in an attempt to void its mortgage, positioning it to purchase the loan at a "significant discount," Gans claims. A judge dismissed Bluestone's effort to void the senior mortgage in March, ordering it to pay the other side's legal fees.

Gans wants $100 million in damages from Bluestone, alleging that its maneuvers have muddied the financial waters and prevented him from selling his properties and reconciling his debts. TRD

*— Orion Jones*



SETAI MIAMI BEACH, ISTOCK, ROBERT'S STEAKHOUSE, GOOGLE MAPS

# DIRTY


## HOCHUL'S NO. 2 RESIGNS OVER DEVELOPER DONATIONS

### Lt. Gov. Brian Benjamin faces charges of fraud, bribery

**HOURS AFTER FEDERAL PROSECUTORS** unveiled charges of fraud, bribery and falsification of records against New York Lt. Gov. Brian Benjamin, the state's No. 2 politician, resigned.

Benjamin surrendered to authorities on the morning of April 12 and Gov. Kathy Hochul announced that evening that she had accepted his resignation.

Federal prosecutors allege that Benjamin steered state money toward a Harlem real estate investor in return for donations — some of them illegal — to his past campaigns for state senate and New York City comptroller.

Benjamin, a former Manhattan senator and developer of market-rate and affordable housing, pleaded not guilty to five total charges. Nonetheless, he stepped down from office with just a couple months until New York Democrats will choose their nominee for governor.

Benjamin's scandal made his resignation inevitable, and he probably would not have lasted until 5 p.m. had a subway shooting not consumed Hochul's attention earlier in the day.

"While the legal process plays out, it is clear to both of us that he cannot continue to serve as lieutenant governor," Hochul said in a statement. "New Yorkers deserve absolute confidence in their government, and I will continue working every day to deliver for them."

In November, prosecutors charged Harlem developer Gerald Migdol with wire fraud in connection to fundraising activity for Benjamin.

Prosecutors accused Migdol of making unauthorized donations to Benjamin's 2021 comptroller campaign under other names, including those of his associates and two-year-old grandchild. The donations helped Benjamin pull in tens of thousands of dollars in public matching funds.

Benjamin's Senate campaign fund received $25,000 from Migdol, but not in the developer's name. Two $10,000 checks came from the developer's relatives and one $5,000 check from an LLC he controlled, according to the indictment.

Benjamin previously represented Harlem and some surrounding neighborhoods in the state Senate. Hochul appointed him lieutenant governor after former Gov. Andrew Cuomo resigned in August.

*—Kathryn Brenzel*

## LA LANDLORD AVOIDS JAIL FOR BLAST THAT INJURED FIREFIGHTERS

**A DOWNTOWN LOS ANGELES BUSINESS** owner who faced up to 68 years for charges related to a building fire that injured 11 firefighters will not spend time behind bars.

Steve Sungho Lee — who was hit with 163 criminal misdemeanor charges stemming from the May 2020 explosion in an East 3rd Street building containing a smoke shop and vaping supplier — will enter a judicial diversion program instead, the Los Angeles Times reported.

Los Angeles Court Commissioner Elizabeth Harris granted Lee's request to enter the program for two years. If Lee and his companies obey the law and maintain the buildings, all charges will be dismissed.

As part of the diversion, Lee and his companies must pay $125,704 for the fire investigation, comply with building inspections and cooperate with Fire Department training.

The explosion in Downtown Los Angeles' Little Tokyo sent 11 firefighters to the hospital, with many suffering severe injuries that have left them physically scarred. Only two have been able to return to work, a Los Angeles Fire Department spokesperson said.

Captain Victor Aguirre was so badly burned he lost the use of both hands and was hospitalized for more than two months while undergoing 25 surgeries. He has sued the owners of the building and businesses.

The explosion occurred on the edge of Skid Row, in a district dubbed "bong row" because of its many businesses that sell vaping, cannabis and tobacco supplies.

An investigation by the Bureau of Alcohol, Tobacco, Firearms and Explosives found the blaze was sparked under a storage rack at 327 Boyd Street. The buildings involved are owned by Lee and were occupied by three businesses — Smoke Tokes, Green Buddha and Bio Hazard. A surveillance camera showed a worker with a lit cigarette ducking into the ignition area for 14 seconds.

The ATF could not eliminate the smoker as the cause of the fire and deemed it "accidental," the newspaper reported.

The owners of Smoke Tokes and Green Buddha struck deals agreeing to pay more than $100,000 for the investigation and to cease operating in the Boyd Street area.

Los Angeles City Attorney Mike Feuer, who had pledged to hold Lee and the business operators accountable, opposed the diversion ruling. Instead, his office had pushed for probation.

"The City Attorney's Office objected to diversion based on the severity of the fire and the alleged failure of the defendant to take steps which could have mitigated the extent of the blaze, and the injuries suffered by [the] L.A. firefighters," Feuer said.

*—Dana Bartholomew*

## RENTAL SCAMS ON THE RISE IN CHICAGO

**THE CHICAGO AREA IS FACING AN INCREASE** in scams that cheat renters out of their money and property owners out of income.

Scammers are breaking into vacant and foreclosed buildings, replacing the locks and renting out the homes before the real owners notice, according to a report in the Chicago Sun-Times.

A video that went viral on TikTok shows a local woman who learned she was the victim of a scam when she was evicted from an apartment that turned out to be owned by a bank rather than the fake landlord she'd been dealing with.

Matthew White, a process server in Chicago who uploaded the video and blurred the woman's face, said he shared it on Tik Tok to raise awareness of the practice.

This type of rental scam has increased in frequency during the pandemic, thanks to a rise in vacant properties, many of which aren't being watched. A fake landlord will break into an empty home or apartment building, switch the locks and advertise the property online under a fake business name. A tenant will move in, sign a lease and begin payments, only to find out their money had not gone toward rent.

White told the Sun-Times that he encounters this type of fraud eight to 10 times a week in this work.

*—Miranda Davis*



GETTY IMAGES, LAFD

# DEEDS

## FEDS AIM TO SEIZE MIAMI-DADE PROPERTIES TIED TO FOREIGN BRIBES

### Former Ecuadorian anti-corruption official was arrested in March on money-laundering charges

1902 Southwest 22nd Street in Miami and Carlos Ramon Polit Faggioni

**A CORAL GABLES CONDO IS AMONG THE** properties linked to an alleged bribery scheme involving an embattled former government official in Ecuador.

Carlos Ramon Polit Faggioni, former comptroller general of Ecuador, allegedly took $8 million in bribes from Brazilian construction conglomerate Odebrecht from 2010 to 2014. In exchange, he used his high-ranking government post to benefit the company, according to a federal indictment filed in Miami. Polit was arrested by U.S. authorities on March 28, several days after the indictment was filed.

Odebrecht itself is infamous for its implication in massive bribery schemes throughout Latin America between 2001 and 2016. The company, which agreed to pay multiple fines worth millions of dollars, has since rebranded as Novonor.

According to the indictment, Polit worked with an unnamed relative to funnel Odebrecht bribes through 14 Florida shell companies that then laundered the funds by buying or renovating properties in Miami-Dade County. To distance the money from Polit, his relative allegedly registered the Florida companies in the names of associates, often without their knowledge.

Polit had told the Odebrecht official that the relative would "make the cash 'disappear,'" according to the indictment.

Ecuador created the comptroller general's office to prevent and investigate fraud and corruption tied to public funds. Polit, who held the post from 2007 to 2017, used his influence to prevent the imposition of fines on Odebrecht's construction projects in Ecuador in exchange for the bribes, the indictment alleges.

Authorities are seeking the forfeiture of three properties allegedly tied to the bribe money: unit 702 at Merrick Manor at 301 Altara Avenue in Coral Gables, a Miami office building at 1902 Southwest 22nd Street and a vacant site at 1010-1030 Northwest Ninth Court, north of the Miami River.

JC Funds LLC paid $482,900 for the 1,107-square-foot Gables unit in 2019, the year Merrick Manor was completed, property records show.

The 12,961-square-foot, four-story office building was built in 1972 on 0.3 acres, according to records. The entity 1900 Office Building LLC bought the property in 2016 for $2.7 million. The indictment says that $1.4 million was transferred from one of the Florida shell companies to an escrow account for the purchase in May 2016.

It's unclear whether the limited liability companies in the property records were the Florida shell companies allegedly used in the scheme. The indictment does not name the entities.

Two other properties were allegedly tied to the scheme but are not under forfeiture proceedings. Polit and his relative, through the shell companies, paid $2.6 million for an unidentified Coral Gables office building in 2016, the indictment says.

And they allegedly bought a two-story, five-bedroom house on a 0.4-acre lot with a pool at 7233 Los Pinos Boulevard in the Gables' high-end Cocoplum neighborhood. More than $3.6 million was transferred from an escrow account into one of the shell companies for the transfer of the house in 2017, according to the indictment.

The allegedly ill-gotten money also was used to buy restaurants, a dry cleaner and other businesses. When Odebrecht asked to pay Polit by wired payments instead of cash, the money went through three Panamanian companies, prosecutors say.

Aside from Odebrecht, Polit also allegedly accepted $500,000 from an unidentified Ecuadorian businessperson in exchange for helping him obtain contracts from Ecuador's state-owned insurance company Seguros Sucre, prosecutors say.

This is not Polit's first charge in connection to alleged Odebrecht bribes. The 72-year-old was tried and convicted in absentia in his native Ecuador. He escaped sentencing because he fled to Miami before his 2018 trial.

*— Lidia Dinkova*

## MITCH KOSSOFF DISBARRED AHEAD OF SENTENCING

**MITCHELL KOSSOFF, THE REAL ESTATE** lawyer who pleaded guilty in December to swindling millions of dollars from his clients, has been disbarred in New York.

An appellate court ruled that Kossoff, who is awaiting sentencing after admitting he misappropriated over $14 million from at least 35 people and companies, could no longer practice law in the state.

The ruling was expected by his defense team, which told Reuters that Kossoff had resigned from the bar about a year ago. The appellate court added that neither Kossoff nor his defense team replied to the motion to disbar him.

The scandal came to light in April of last year when Kossoff — who represented major landlords including Steve Croman and Larry Gluck — suddenly vanished along with millions of dollars from escrow accounts he controlled.

The disappearance of the prominent real estate attorney, known in Manhattan for his encyclopedic knowledge of the state's byzantine rent stabilization and loft laws as well as the spin classes he hosted at the New York Sports Club near City Hall, prompted clients' panicked inquiries over the whereabouts of the money he was entrusted to hold.

Mitchell Kossoff

But Kossoff reappeared in New York County Supreme Court in December, when he pleaded guilty to three charges of grand larceny and one for scheming to defraud.

According to the report, Kossoff started moving funds from his clients' accounts in 2017, then used the money to prop up a family business and for personal use — including an average of $16,000 on monthly credit card bills and $19,000 a month in rent.

The 68-year-old faces between four-and-half and 13-and-a-half years in prison. His sentencing is scheduled for later this month.

*—Vince DiMiceli*

GOOGLE MAPS, GETTY IMAGES

Continued from page 98

**Where's your favorite place to get a bagel now?** That's easy: Goldberg Bagels. That's my cousins'. They own them on the South Fork and the North Fork. I used to like Tal Bagels on 86th Street, but I haven't had a bagel in New York City in so long I wouldn't even know what would be a good one.

**It sounds like you're a natural born salesman.** Well, I grew up in a house of entrepreneurs. I think that was always in my DNA.

**How did you end up owning your own law practice?** After law school I took a job at a large firm and then left during the dot-com era, went in-house for a little bit. My lawyer when I was in the bagel business had wanted to retire. He goes, "Why don't you take over my practice and I'll retire over time?" So I did that, and while that was still going on I started investing in real estate. I wasn't a stock market investor, and I felt that this would be a great way to create wealth and create retirement assets.

**I'm surprised that real estate hadn't come up to this point. Especially with a brother in the business.** One of my dad's closest friends growing up was a huge real estate developer: William Achenbaum. He did the Gansevoort. When we were kids, he was the wealthiest man we'd ever seen. My father took us to his house for a barbecue, and my brother's eyes and my eyes opened up. We were like, "Wow, what does he do, Dad?" He said he was a real estate developer. I think that stuck in the back of our heads.

**And how did you get started?** I met someone in the park where I was pushing my kid on a swing. He was a small real estate investor my wife knew, and we bought our first deal in Harlem together.

It was $35,000, which was just an incredible sum of money to us back in. I literally emptied my bank account. We were in a rent-stabilized apartment on East End Avenue and we had to wait for our paychecks to cash before we could pay the rent that month. It was my brother, myself and a bunch of friends who chipped in to buy this building.

At that time, I thought we'd pay down the mortgage over time and I'd hold it forever and have this great annuity stream.

**Did you consider that it was possible to be constantly buying and selling?** I always felt that the way you made real money was you had to buy the real estate, invest in it long-term and not sell. It was just that the market got so aggressive that we were like, "Wow, it'll take 15 years for us to make this money. We're better off selling it."

**It almost sounds easy. You were out there buying buildings, and people were beating down your door to buy them from you.** Anyone that does multifamily real estate should never ... It's not easy. It's a tough business. I think that it's a lot harder than people realize. It's not just about raising equity and buying a building. It's the execution. If I make it sound easy, it's not.

**How does that play out in the business now?** I like to think that because of the way we're capitalized, I can allow our team to fail. We can make mistakes and it's not going to be fatal.

**Steve Siegel is another partner. How did he come into the business?** Steve and my brother worked together at CBRE. When we started out Steve had heard what we were doing and he reached out to my brother and said, "I'd like to join you guys. And I'll help you with finding deals and raising equity."

**And the Caiola deal has an interesting back-story.** Everyone had heard about the Caiola deal. It was a huge deal that was going around. My recollection was Joe Sitt had put it under contract and he was having a problem coming up with the money to close. We had heard it was a busted deal. Someone told Blackstone that we were in the process of tying it up, and Blackstone really wanted the deal. They came in very aggressively with us. Literally, before we even signed anything, they came in and partnered with us on the deal from hour one.

**You say it's not that easy. But here you are tying up a deal and Blackstone comes knocking on your door and says, "Hey, we've got a bunch of money."** It wasn't exactly that. A broker who knew where we were on the deal had been speaking to Blackstone, and said, "You guys should talk to one another." I would say that was more luck than anything else. Tying up the Caiola deal was not luck; that was a lot of hard work that we did to get that deal and make the family comfortable. And then we got Blackstone comfortable. That was the hard work. At that time, no one knew who we were, really, and you're talking about a huge deal that Blackstone had to get comfortable with us on.

> **"I found one little thing wrong in a deal, I would overemphasize the risk. That caused us to miss out on tremendous opportunities. Now I understand risk a lot more."**

**How did you go from scraping money together from friends and family to building a business?** In '08, we really refocused again and said, "Wow, we're going through a disruption period." A family office that we had partnered with sporadically earlier on deals said, "I think there's real opportunity right now if we can invest quickly."

Some of that stuff we still own and some of that we did sell, but the business plan was to be long-term holders. I think we're back to that now, especially with the affordable assets. I don't think we'll ever sell.

**Are you comfortable with risk?** Unfortunately, for most of my life, I was way over-risk-averse — didn't understand it. It was the family office that really taught me how to evaluate risk, because they're experts in it. When we were buying a bunch of early deals, I terminated a ton of contracts because if I found one little thing wrong in a deal, I would completely overemphasize the risk. That caused us to miss out on tremendous opportunities. Now I understand risk a lot more.

**Tell me about the Dawnay Day deal.** It was 52 buildings in Harlem. Six-story walkups, which is interesting. When you think about walk-ups, you think about five-story. But the thing about a six-story walkup is it's very hard to keep the entire building rented. No one wants to walk up and down six stories, so you very often have issues with your sixth floor.

The properties were originally owned by the Kessner family, and they sold it to the Dawnay Day group. It was a highly levered real estate deal, and it blew up. Steve had a relationship with the special servicer on the deal, C3, and we worked to buy out the mezz and restructure the senior loan. We took over the property, paid off the senior very quickly, and then we ultimately sold it.

**How much does luck play into success?** I think that there's always a little bit of luck in things we do. But I think that hard work, smart people and making good decisions is probably 95 percent of it.

**How did you meet your wife?** CSI 215 at SUNY Albany. It was one of the required classes to get into the business school. She sat one row in front of me to the left. So we've been married for 30 years and together for 37.

**Do you splurge on anything?** I do have a 1996 Porsche convertible that I bought when I turned 50. But no, I don't [normally] splurge.

**How has Will Blodgett's departure affected the company?** I think in some ways change is good. Will was involved in almost everything, but he was mainly dealing with acquisitions and with staffing. Now myself and others have taken that over.

**Where do you see the firm in 10 years?** I think we're going to look to do more ground-up, public-private partnerships and really utilize our strong people and knowledge base.

We're in 18 states right now. By the end of the year, our pipeline will bring us into 25 states.

Within the next five years, I want to be at 50,000 units. TRD

# JEFF GOLDBERG

| BORN | MARCH 7, 1964 |
|---|---|
| HOMETOWN | PORT WASHINGTON, LONG ISLAND |
| FAMILY | MARRIED, THREE CHILDREN |

**BY RICH BOCKMANN**

**PHOTOGRAPHY BY STUDIO SCRIVO**

*Jeff Goldberg's Fairstead Capital — the multifamily investment firm he founded with his brother, CBRE's Andrew Goldberg, in 2014 — is a family business. It's just not* the *family business.*

*"My entire family, all my cousins, everyone owns bagel bakeries. That's the family thing you do," said Goldberg, who, in deference to the bloodline, ran his own bakery in the Meatpacking District in the 1990s before heading to law school and then real estate.*

*Today, Fairstead is one of the country's largest apartment landlords, with a portfolio of properties stretching across 18 states and counting some 16,500 units valued at $6 billion.*

*In New York City, the company's made blockbuster deals for portfolios with proper names — the kinds of holdings that are the talk of the town for multifamily insiders.*

*Take the Dawnay Day portfolio, the collection of 1,200 East Harlem apartments that became synonymous with the now-defunct British firm it was named after and its spectacular 2008 collapse.*

*Fairstead (when it was named SG2 Properties) teamed up with E+M Associates in 2009 to buy the portfolio out of foreclosure for an undisclosed price.*

*The company also bought the 1,000-unit Caiola portfolio for $690 million with Blackstone Group in 2015 and the 1,800-unit Savoy Park portfolio in Central Harlem for $315 million in 2016.*

*Goldberg serves as CEO at Fairstead, which he owns with his brother and CBRE's Stephen Siegel. (Another founding partner, Will Blodgett, left the company late last year to start his own shop.)*

*The firm is at an inflection point. Last year, it secured a $500 million equity investment to expand its portfolio. It's starting to get into ground-up development, and Goldberg has his sights set on growing the business to 50,000 units over the next decade. That would have it contending to be among the 20 largest landlords in the country.*

*"We have 650 employees at this time. Every Monday, we have onboarding that goes on, and I try to introduce myself to everyone that starts," he said. "I don't remember a day when there weren't at least five starting."*

The Real Deal *caught up with him at his Midtown office in April to talk affordable housing, megadeals and where to get the best bagels.*

**You've been doing a lot of deals lately.** Affordable housing is such an in-vogue area of real estate right now. That's helped us. So has the fact that we've gotten to our scale. We have our own general contractor, construction management, sustainability, innovation, asset management, property management, communications department and development. That gives us a real opportunity to be nimble and do deals.

**Are you from the city?** I was born in Staten Island, and in second grade I moved to Long Island. My grandfather was in the bagel business. He had four sons who went into the bagel business. My dad was in the bagel business when I was a kid. I ran a bagel maker around 14th Street.

**Did you learn the art of making bagels from your dad?** When I was in elementary school, I wanted to buy a boat. My mother said, "You got to get a job. You can save money for it." I asked my dad for a job. On Saturdays and Sundays, I started working there.

> **"My grandfather was in the bagel business. He had four sons who went into the bagel business. I ran a bagel maker around 14th Street."**

**Did you buy the boat?** By the time I actually saved up enough money to get a boat, I was a year away from being able to drive. I decided to use the money to buy a car. I bought a black Camaro. It was great.

**Tell me about your bakery.** I owned a bakery on 14th Street between Ninth and Tenth avenues, prior to the whole Meatpacking District becoming this hot area. Literally, the day I graduated college, I started working there. We were the first tenant down there that was not a butcher.

**Did you cook?** I knew how to be a short-order cook on anything from soups, eggs ... things that you would get when you go to a bagel bakery today. I do not want to cook for a living, but I do very much enjoy cooking for my friends and family.

Continued on page 96