

Control of Stuyvesant Takes Center Stage

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Reuters

New York City's Stuyvesant Town and Peter Cooper Village, foreground, are back up for grabs.

Creditors and potential buyers are scrambling for control of a massive apartment complex in New York after the owners gave up Peter Cooper Village and Stuyvesant Town, once viewed as one of Manhattan's most valuable residential properties.

Tishman Speyer Properties and its primary partner [BlackRock Inc.](#) decided over the weekend to turn over the 56-building complex to creditors rather than pursue other options including potentially putting it into bankruptcy. The move came after the venture was unable to restructure the \$4.4 billion in debt used to help finance its top-of-the-market purchase. The decision means that the owners won't use bankruptcy as a defensive strategy to keep control.

The leading contender to get initial control is CW Capital, a servicer that represents the investors who hold the \$3 billion first mortgage on the property. That mortgage was packaged into commercial mortgage-backed securities known as CMBS. But the property's debt structure is complicated and others are likely to push for control, including possibly the thousands of residents of the more than 50-year-old complex.

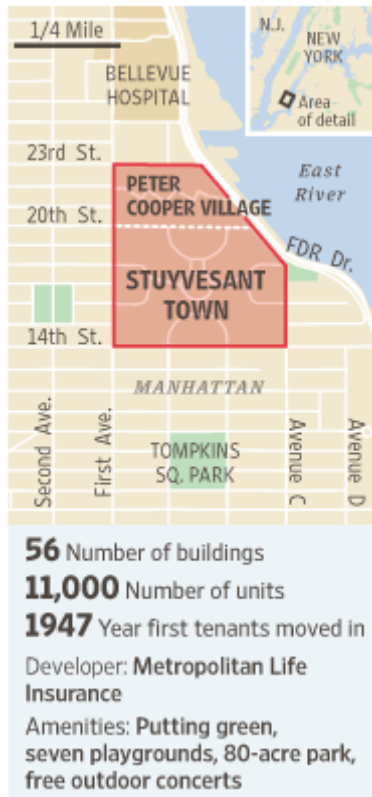
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In addition to the first mortgage, there is \$1.4 billion of junior, or "mezzanine," debt on the property and some holders of that debt have also been maneuvering for control in recent weeks. Some junior creditors may try to replace the Tishman venture as owners by agreeing to pay the debt service on the first mortgage. If CW Capital takes over, the mezzanine investors likely will suffer a big loss.

Now the question is, "who will take the keys on behalf of which level of debt," said Mark Edelstein, head of the real-estate group at law firm Morrison & Foerster LLP. According to a person familiar with the situation, the Tishman venture has reached out to CW Capital to start the property-transfer process.

Meantime, other outside investors have begun to circle the complex. CW Capital has had discussions with real-estate companies including Related Cos. to take over management of the complex, which Tishman said it would give up once it lost control. A CW official didn't return calls and a Related spokeswoman declined to comment.



Also, an executive with LeFrak Organization Inc. said Monday it will pursue a plan to manage and recapitalize Stuyvesant Town in partnership with private-equity firms Centerbridge Partners and W.L. Ross & Co. LeFrak, one of the largest private real-estate owners in the country, and its partners are talking to creditors about its bid to play a role. "I don't think there exists another firm with our capabilities," said Harrison LeFrak, who runs the company with his father and brother.

Another bidder may be tenants of the complex, who bid on the property against the Tishman group and others in 2006. New York City Councilman Daniel R. Garodnick, who lives in Peter Cooper Village, said the tenants would be interested in bidding for the property if it is available for sale. "We're putting together our advisory team and will be ready as the opportunity arises," Mr. Garodnick said.

A buyer might get assistance from [Freddie Mac](#) or Fannie Mae, which together own around \$1.5 billion in the CMBS debt. Fannie and Freddie could consider providing additional financing to a new owner, people familiar with the matter said.

Investors have long coveted the complex, which was developed more than 50 years ago by Metropolitan Life Insurance Co. for servicemen returning from World War II. The complex has 11,000 units and attractive amenities like parks, playgrounds and a putting green in the midst of Manhattan's pricey real-estate market. For decades, rent increases were limited by government rent guidelines. But as the city and state began to ease those restrictions, investors began to calculate the enormous cash flow the apartments would produce if they went to market rents.

That was the plan of the Tishman group, which purchased the complex for \$5.4 billion in 2006, the most ever paid for a single residential property in the U.S. But the group's plan was torpedoed first by the economic downturn that sent rents and demand falling. Apartment rents fell by 5.6% in New York City last year, according to Reis Inc., the largest one-year drop in at least two decades.

The Tishman strategy also was undercut by a court ruling that hindered the landlord's ability to raise rents to market rates. Earlier this month, the Tishman group missed a payment on the first mortgage. The property currently produces about \$5.3 million less in cash flow than what is necessary to service that debt.

The maneuvering among the creditors involves some of the biggest names in finance. A spokeswoman for Freddie said Monday that the company "doesn't expect any losses" because it holds the most senior CMBS tranche.

Holders of the mezzanine debt include the Government of Singapore Investment Corp., or GIC, [Hartford Financial Services Group Inc.](#) and Concord Capital, an affiliate of [Winthrop Realty Trust](#). A group of holders of about \$300 million in the mezzanine debt, including Concord, was turning up the pressure on Tishman threatening to foreclose within 90 to 180 days.

Until the weekend, the Tishman partnership was considering various options including potentially putting the property into bankruptcy protection, according to people familiar with the matter. But on Saturday, the group decided to give it up to creditors. "We make this decision as we feel a battle over the property or a contested bankruptcy proceeding is not in the long-term interest of the property, its residents, our partnership or the City," the venture said in a statement.

Tishman, BlackRock and other investors in the deal including the California Public Employees' Retirement System, a Florida pension fund and the Church of England are likely to lose their \$1 billion investment. "Even God Losing Money on Stuy Town," quipped a headline on Curbed, a New York real-estate blog.

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