Private equity firms snap up debt on small NYC rental buildings

NYC follows national buying trend, but city's real estate firms focus on violation-laden buildings

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Private equity firms such as Stabilis Capital Management, Madison Realty Capital and Onex Real Estate Partners have been buying debt on small, often severely distressed rental properties in secondary neighborhoods in New York City with little fanfare over the past year. The acquisitions resemble activity during the height of the market when private equity firms, often in partnership with local operators, purchased large portfolios of rent-regulated apartment buildings. Yet this post-boom trend is different in two significant ways: The properties are much smaller, and the buyers are seeking to gain control of them by buying the debt, instead of directly buying the buildings.

The trend to buy debt on small properties in New York City mirrors a na are buying distressed single-family homes and converting them to rent

In New York City, firms are targeting the non-performing debt on renta violations because the in-place owner cannot cover the mortgage and is cutting back on maintenance, several real estate professionals involved in this practice said.

Ocelot Capital Management — to fall into disrepair.

To some housing advocates, the investments seem curious, yet it appears to be too early to draw any conclusions.

“It is hard to tell what the strategy for the buyer would be here, because it requires very close and very careful management to eke any profit out of these [small] buildings, let alone the kinds of returns you would expect a major private-equity fund would be looking for,” Harold Shultz, a senior fellow at the Citizens Housing and Planning Council, said of the UHAB data.

Some examples of such purchases include the following: in February, Stabilis Capital, headquartered in the General Motors building in Midtown, bought the note on six, six-unit buildings in Queens, including 1894 Cornelia Street. Last fall, Madison Realty Capital bought the debt on 12 buildings with a total of 237 units, such as 974 St. Nicholas Avenue in Washington Heights; and in December, Onex Real Estate Partners bought the debt on five buildings with a total of 131 units, including 100 Audobon Avenue in Washington Heights.

In addition, last June Waterfall Asset Management through its Waterfall Victoria Master Fund, bought the notes on two Bronx properties with a total of 15 units, including 852 East 213 Street and 674 St Anns Avenue; and Richard Maidman’s Townhouse Management between March 2011 and January 2012 bought the notes on five properties — including 735 Bryant Avenue in the Bronx — with a total of 133 units, the survey from UHAB shows. (These totals are preliminary, and the funds may have acquired additional mortgages, UHAB said.)

Dina Levy, director of organizing and policy at UHAB, said her group needed to study further the debt levels and see if the housing code violations rise or fall over time, but the purchases have suggested that buyers may be ramping up prices for another cycle of over-leveraging.

“We know that private equity tends to expect short-term, high-value returns and we firmly believe rent-regulated housing — particularly if it is physically distressed — is not the place to realize those kinds of profits,” Levy said, adding that it was too early to know what the outcome of the these recent acquisitions would be.

Principals at some of the firms said this time private investors were going to be more careful.

Thomas Capasse, a principal with Waterfall Asset Management, which he said manages a $2 billion national portfolio, is targeting small-balance, non-performing commercial loans, through its Waterfall Victoria Master Fund. He said, “The new breed of private equity seems to be a lot more focused on the property, [unlike] the bubble era when private equity tried to increase [net operating income],” by vacating tenants and raising rents.

Waterfall, he said, is spending money to remove violations, both to imp… slap a building with an Emergency Repair Program charge, which puts …

The firm’s strategy is to stabilize a property and then either work with … gain control of the deed and then sell the building. The process takes a…

Combined, the note acquisitions over the past year have been significant, but not yet anywhere near the level of the boom, when private equity firms purchased about 90,000 rent-regulated apartment units in New York City.

But even knocking down code violations is under scrutiny from the city. Speaker Christine Quinn in her annual State of the City speech in February said she wanted HPD to have the power to force landlords to fix underlying conditions, and not just make cursory repairs.

"If you buy it at the right price and don't overpay," the units can be profitable, Cohen said. "A lot of the people who are having difficulty bought at the height of the market and mortgaged [the buildings] to the hilt."

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