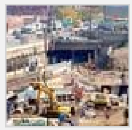

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An Apartment Complex Teeters

High-Profile Tishman/BlackRock Property in New York in Danger of Default

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By LINGLING WEI and CRAIG KARMIN

Brian Harkin for The Wall Street Journal

The giant Stuyvesant Town apartment complex on Manhattan's East Side, shown Tuesday, was developed by MetLife for World War II veterans.

One of the biggest, most high-profile deals of the commercial real-estate boom is in danger of imminent default, say people familiar with the matter, signaling the beginning of what is expected to be a wave of commercial-property failures.

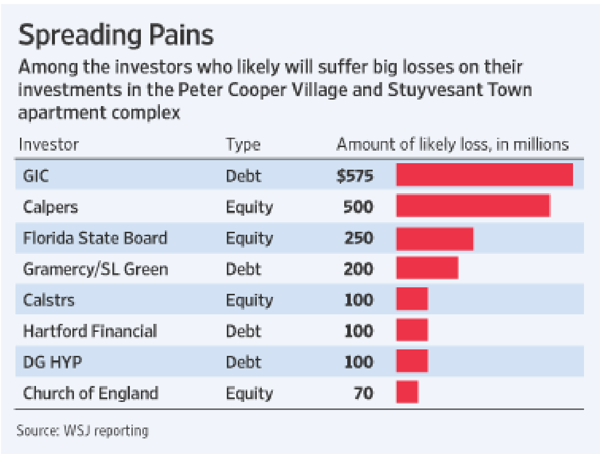
The sprawling Manhattan apartment complex known as Peter Cooper Village and Stuyvesant Town -- acquired for $5.4 billion in 2006 by a venture of Tishman Speyer Properties and a unit of BlackRock Inc. -- is running out of cash. As of the end of September, it had $33.7 million left of the $400 million in interest reserves set up to service its debt, according to the people familiar with the matter. At its current burn rate of about $16 million per month, the reserve could be depleted before the end of the year, the people said. Others have said the venture could avoid default until February.

The spokesman for Tishman Speyer declined to comment on behalf of the partnership.

Video ›

The ownership, which includes a roster of high-profile investors from the Church of England to the California Public Employees' Retirement System, has no current plans to inject more capital into the venture, according to the people. Lenders who financed the deal first projected the complex's net operating income would triple to $336 million in 2011 from $112 million in 2006, according to Deutsche Bank AG. But net income is projected to be $139 million this year, according to Realpoint LLC, a credit-rating agency.

Investors who bought into the deal were confident that real-estate manager Tishman Speyer would be able to greatly boost profits by raising rents in Manhattan's sizzling apartment market. But today, the 56-building, 11,000-apartment property is suffering from a slowing New York economy, a lawsuit that has hindered the owner's ability to convert rent-controlled units to market rentals, and the debt load.



Spreading Pains

Among the investors who likely will suffer big losses on their investments in the Peter Cooper Village and Stuyvesant Town apartment complex

Investor	Type	Amount of likely loss, in millions
GIC	Debt	$575
Calpers	Equity	500
Florida State Board	Equity	250
Gramercy/SL Green	Debt	200
Calstrs	Equity	100
Hartford Financial	Debt	100
DG HYP	Debt	100
Church of England	Equity	70

Source: WSJ reporting

Realpoint estimates that the property is worth only $2.1 billion now, less than half of the purchase price. By that measure, all the equity investors and many of the lenders, including Government of Singapore Investment Corp., or GIC; Gramercy Capital Corp.; and SL Green Realty Corp., are in danger of seeing most, if not all, of their investments wiped out. Hartford Financial Services Group, which bought $100 million of the debt tied to the property, said it has "sufficiently reserved for ths asset in the first half of this year."

Some of the nation's largest institutional investors already consider their investment a failure. The $133 billion Florida State Board of Administration committed $250 million to the equity partnership in 2007. It now counts the value as zero. A spokesman for the pension fund declined further comment.

The failure of the high-profile investment also would further rattle the market for apartments, offices, hotels and other commercial property. The market this year has seen increases in loan delinquencies and property foreclosures, stoking worries that it will drag down the nascent economic recovery.

Commercial mortgage-backed securities -- the kind that financed a chunk of the Peter Cooper-Stuyvesant deal -- are high on the list of concerns. Some $700 billion worth of CMBS were issued during the boom years but they have never been tested by a protracted downturn.

The apartment complex was developed by MetLife for returning World War II veterans and remained a middle-class bastion even as rents in other parts of Manhattan skyrocketed. New York's strict regulations prevented the owners from raising rents.

But New York rent rules were eased over the years. When the Tishman/BlackRock venture purchased the property from MetLife in late 2006, the new owners predicted they would be able to convert thousands of protected apartments to higher market rents.

These projections convinced Calpers and the pension funds of several other states to make large equity investments in the deal. Meantime, the Tishman/BlackRock venture put a $3 billion first mortgage on the property and another $1.4 billion of so-called mezzanine debt.

The new owners ran into a slowing economy and resistance from tenants that battled to

Brian Harkin for The Wall Street Journal

Pedestrians on First Avenue in front of the Cooper Village apartments.

block rent increases. In one of their most successful challenges, tenants groups filed a lawsuit charging MetLife and the new owners with improperly converting rent-regulated units while receiving tax benefits from the city. The appellate division of the State Supreme Court in March ruled in the tenants' favor. The state's highest court is expected to rule on an appeal this month.

But even a victory by the Tishman/BlackRock partnership likely won't save the deal from a default. One indication: a "special servicer" is in the process of taking over the deal's CMBS debt, say people familiar with the matter. Special servicers are experts in dealing with troubled loans. The transfer to the special servicer, CW Capital, could occur as soon as this month, the people said.

Once that happens, the special servicer likely will try to negotiate with the partnership to restructure the debt.

Major players in these talks will likely be Fannie Mae and Freddie Mac, which together own more than $1.5 billion of the most highly rated, triple-A slices of the CMBS debt, according to people familiar with the matter. They would likely benefit from a fast foreclosure because, as senior lenders, they would be paid back first.

A Fannie representative declined to comment. A spokesman at Freddie confirmed its holding of the debt. "We don't expect to incur any losses on these securities," he said.

Another big player in the restructuring talks could be Singapore's GIC. The fund owns a $575 million mezzanine loan backed by the property, according to people familiar with the matter. Also, GIC owns about $100 million to $200 million in equity, the people said.

Both investments might be wiped out unless GIC maneuvers to have more influence in the loan workout process, possibly by buying more senior debt. GIC declined to comment.

—Nick Timiraos contributed to this article.

Write to Lingling Wei at lingling.wei@dowjones.com and Craig Karmin at craig.karmin@wsj.com

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