

## Tishman Speyer reaches deal to stabilize Stuy Town

Daniel Geiger

12/14/2009

### Agreement will reinsert 4,400 units back into rent stabilization

Tishman Speyer reached an agreement with tenants to lower market rate rents at Stuyvesant Town and Peter Cooper Village back to stabilized levels.

The reductions, which were reached last week in an ongoing court case involving rental overcharges at the 11,000-unit complex, will bring down rates for around 4,400 apartments for the months of January and February 2010 while a more definitive appraisal process is conducted.

After that, the complex's lenders will need to approve a rental reset that will all but assure the property's default.

Tishman Speyer purchased Stuyvesant Town and Peter Cooper Village in 2006 for a record \$5.4 billion.

In September the Appellate Division of the State Supreme Court ruled that the company, along with the previous owner of the complex, MetLife, had improperly deregulated rent stabilized apartments while participating in a tax abatement program that should have barred them from charging market rents for the units.

According to that decision, Tishman Speyer must put the market rate units back into the city's rent regulation program.

The agreement, which was announced jointly by Tishman Speyer and the tenant group today, reveals consensus between the two parties regarding how that revaluation process should be conducted.

In a sense, what it prescribes changes little for the landlord.

Since March, the court has allowed Tishman Speyer to collect only a portion of the market rate rents it was receiving from the deregulated units, with the balance accruing in an escrow account awaiting the outcome of the case.

According to today's plan on how to bring the apartments back into the stabilization program, market rate tenants will now pay only that reduced amount and the escrowed funds will be reimbursed. A source involved in the case said that the escrow account has grown in excess of \$10 million.

A roughly two-month appraisal process will be conducted to produce a more thorough determination of what each among the 4,400 market rate apartments being converted back into stabilized units should charge in rent.

People familiar with the case say that the reduced rental rate set in March was only a preliminary estimate of the stabilized rental rates that should be assessed for each of the units in the question. The upcoming analysis will

produce a more accurate rate these people say because it will take into account a more detailed review of past rental records for the apartments and what improvements the landlord has made.

Lender approval is then needed to adopt the reductions. The current agreement to revalue the apartments includes a provision that allows it to be extended until June to receive that consent.

Dov Treiman, a residential real estate attorney with the firm Adam Leitman Bailey P.C., said that lenders might be prompted to approve the rental reset sooner rather than later because the stabilized rates determined by the appraisal process will likely be higher than the reduced rents that Tishman Speyer has been receiving since the March escrow agreement.

“The court documents outline what information will be sought to calculate the rent for the apartments and, because it’s asking for things like what improvements have been made to the apartments, one could guess this process may yield the healthiest rental rates that can be achieved under the rent stabilization guidelines,” Treiman said.

Still, the agreement appears to bring the complex another step closer to default.

Already struggling with falling rental rates amid the recession as well as what in hindsight now appears to be overly optimistic income projections for the complex, resetting the rents to stabilized levels appears to be the final blow to Tishman Speyer’s plan to replace the property’s vast tenant roster with higher paying renters.

There have been numerous written reports and assessments by agencies that rate securitized debt tied to the property that Stuyvesant Town and Peter Cooper Village could enter into default within weeks.