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About 1,700 Below-Market-Rate Apartments in Three Boroughs in Foreclosure Proceedings

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By LAURA KUSISTO

Nov. 12, 2013 9:42 p.m. ET

A portfolio of roughly 1,700 below-market-rate apartments across three boroughs is in foreclosure proceedings, in what could be the biggest blow to New York City's low-cost housing stock since several huge apartment groups ran into money problems immediately after the financial crisis.

The so-called Three Borough Pool includes more than 40 buildings in northern Manhattan, Brooklyn and the Bronx. At some of the buildings, tenants have complained about leaks, vermin and the security. The management said in court documents it has worked hard to maintain a challenging group of buildings.

The owners include high-profile buyers of apartment complexes during the boom years: Normandy Real Estate, Westbrook Partners, Vantage Investors and David Kramer.

The group failed to pay back a \$133 million loan in May 2012, according to federal court records. LNR Partners, the special servicer for the loan, took it to court this spring to foreclose on the property.

Housing groups have homed in on the financial problems of apartment portfolios such as the Three Borough Pool in part because buildings in foreclosure proceedings often fall further into disrepair.

The owners expect to settle the foreclosure case this week and are working on a refinancing of the portfolio that would return it to stability and change the management, according to people familiar with the prospective deal. The units would also be expected to remain affordable, according to one person familiar with that deal.

The ownership group's troubles demonstrate the pitfalls of an investment strategy common during the residential real-estate boom: buy up large amounts of apartment complexes filled with rent-stabilized and government-subsidized tenants, make

### Candidates for Repair

Maintenance has been an issue at a group of more than 40 apartment buildings facing foreclosure. Numbers of city open building-code violations by building:



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renovations or buy out tenants and increase the rent. Cases in point include the 551-unit Milbank portfolio in the Bronx, the 11,200-unit Stuyvesant Town complex on Manhattan's east side and the 1,802-unit Savoy Park complex in Harlem, which all experienced extreme financial problems in 2009 and 2010.

Several years after the mortgage boom and bust, there are still weak points in the city housing market, housing advocates said. "A lot of people in New York were lulled into this sense that we're past the foreclosure crisis," said Kerri White, director of organizing and policy at the Urban Homesteading Assistance Board, which helps tenants organize. "We just can't predict what else is out there and what else might fall."

In the first half of 2010, apartment buildings containing nearly 16,500 units were in foreclosure in New York City—largely due to the Stuyvesant Town foreclosure—compared with about 3,200 units in the first half of 2013, according to New York University's Furman Center for Real Estate

and Urban Policy.

Loan documents suggest the financial ambition of the investors behind the Three Borough Pool. One 2007 document said the portfolio's value in March 2007 was just more than \$158 million, but with the completion of tenant buyouts and renovations the value was expected to rise to \$173.5 million.

In court documents, Mr. Kramer, who manages the Three Borough Pool, said the investors were stung by rising oil prices and the recession. He cited as a factor the end in 2011 of the Work Advantage Program—a form of government assistance that gave rental subsidies to the formerly homeless. The termination of that program—by Gov. Andrew Cuomo—ultimately led to about 300 eviction proceedings in the portfolio, he said.

Keeping the buildings in the Three Borough portfolio properly maintained can be a challenge. "The size of it is daunting. It is the first foreclosure of its size since Stuy Town. Unlike Stuy Town—which is one giant complex—it is spread out," Ms. White said.

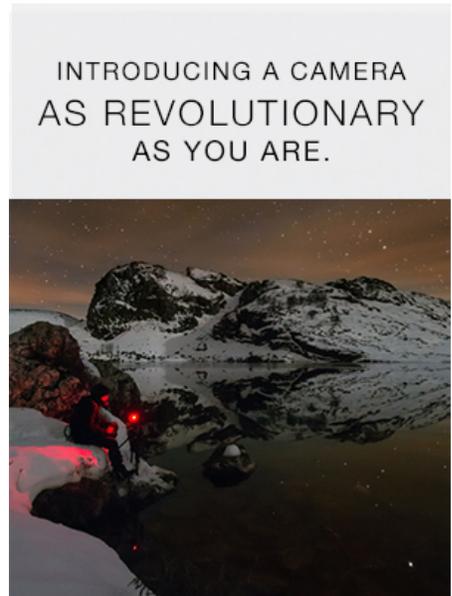
On a recent visit to one of the buildings, at 1229 Franklin Ave., in the Claremont area of the Bronx, the front security door was unlocked, the walls of the lobby were covered in graffiti and the elevator smelled of urine. The building has 135 current housing code violations, public records show.

Delbra Garcia, 24 years old, moved into the building in July with her husband and 2-year-old daughter. They pay \$1,100 a month for a one-bedroom unit.

Ms. Garcia, who works at Target, said when she first moved in, the electrical panel on the wall was exposed and a hole in her heating pipe let hot steam escape, though the latter was recently fixed. "If I had known this before I had come here I wouldn't have come at all, but I'm stuck now," she said.

In court documents, Mr. Kramer outlined the care that management has taken in managing its properties, which range from a 17-unit Brooklyn walk-up to a 223-unit complex in the Bronx.

He said he has built relationships with the superintendents who care for the properties, and tenants. He said security is a serious concern in managing the buildings, and they have connected with local police precincts, neighborhood watch groups and tenant associations



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to keep them safe.

Ms. White's group wants the city to help facilitate a transition to an operator who would commit to keeping the buildings as low-cost housing. A spokesman for the city Housing Preservation and Development Department said there have been some preliminary discussions with advocacy groups and it is in the early stages of assessing the situation and options.

Write to Laura Kusisto at [laura.kusisto@wsj.com](mailto:laura.kusisto@wsj.com)

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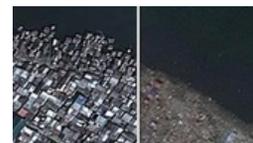
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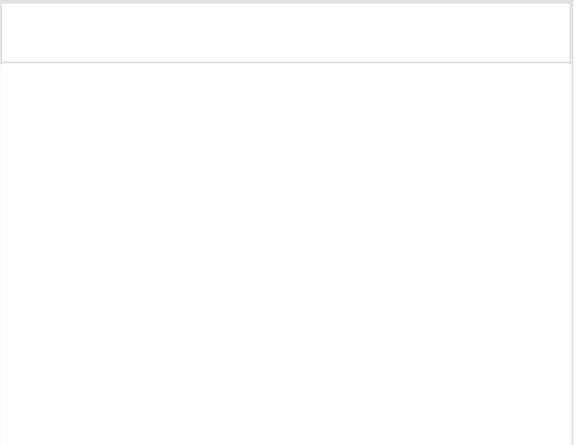
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