

# CRAIN'S

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**WELCOME TO THE NEIGHBORHOOD:**  
Tenants are skeptical that Bluestone Group principals Eli Tabak, Ari Bromberg and Marc Mendelsohn (from left) will properly rehab their buildings.

## The New Guys

Bronx slum gets third owner in four years.  
Can this one succeed where others failed?

BY DANIEL MASSEY AND AMANDA FUNG

THE WHITE CERAMIC TILES in Martha Castro's Bronx kitchen are now dozens of shattered shards atop a rotted floor so compromised by years of leaks that it gives like a sponge. In her bedroom, the water-damaged floor is bloated, making it impossible to close the door. In the lobby, as if on cue, rats scurried through a recent meeting of tenants who had gathered to discuss the deteriorating conditions in the building.

Ms. Castro has called Apartment B on the ground floor of 1585 E. 172nd Street home for 22 years. Conditions were never perfect, but rats, leaking pipes and frigid, heatless winter nights turned into chronic problems around four years ago, not coincidentally just as

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# The new guys

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the real estate bubble swelled.

That's when a new business model emerged in city real estate, especially in the Bronx. Investors looking for big returns swooped in to buy Ms. Castro's apartment building and others just like it, taking over from traditional landlords who had been content with the steady income produced by the apartments' stabilized rents. Focused on raising rents and making a quick killing, these speculators badly miscalculated. They overpaid, leaving nothing on the table to pay for maintenance and repairs.

Ms. Castro's building has had the misfortune of cycling through two such owners in four-plus years. Now, the little-known Bluestone Group has stepped forward to buy the debt on the building and five others in the same portfolio, forking over an estimated \$10 million. The question on tenants' minds: Will Bluestone prove their savior, or are they destined for another excruciating cycle of neglect? Early indications have them worried.

The saga began back in 2006, at the height of the market, when now-defunct Ocelot Capital Group bought the portfolio—totaling 260 units—for \$16.5 million, including a \$13.15 million mortgage from Dime Savings Bank. Stretched beyond its operational and financial capabilities, Ocelot, which had overpaid for 25 buildings across the Bronx, turned into an absentee landlord, forgoing even routine maintenance.

After two years of neglect, Dime helped facilitate the buildings' sale to Hunter Property Management, which paid face value for the mortgage. Equally challenged, Hunter was no better a landlord than Ocelot—the buildings have 2,936 outstanding violations—and its principal, Sam Suzuki, is languishing in the Manhattan Detention Complex for failing to comply with a judge's order last month that he address conditions in Ms. Castro's building.

## Enter Bluestone

WITH THE BUILDINGS crumbling and the loans designated substandard, Dime put the debt on the market last spring, ignoring pleas from public officials to consider lower offers from experienced affordable-housing developers. The bank reached out to Bluestone, which was formed in 2006 by three real estate brokers who had worked together at GFI Realty Services and wanted to try their hand at purchasing properties themselves.

In the past year, Bluestone has focused on distressed assets, acquiring nine notes, not including the Hunter properties. It now owns and manages five properties in the city. Bluestone put \$1 million down in an all-cash deal funded by "friends and family" of the partners—Ari Bromberg, Marc Mendelsohn and Eli Tabak—that closed earlier this month.

Last week, Bluestone officials be-

gan foreclosure proceedings to gain full ownership of the buildings.

Bluestone has little history of rehabilitating multifamily housing, and Ms. Castro and her neighbors are worried that the new owner has paid such a high price for the portfolio that it will be unable to fund the extensive repair work the buildings need. By contrast, affordable-housing developer Omni New York spent \$5 million in December for the debt on 14 other Ocelot buildings in similar states of disrepair.

"It's all about making dollars," Ms. Castro says. "It's not about the people who want to live decently."

Mr. Tabak and his associates have cleared hundreds of violations in two of the Bronx buildings they recently bought and they say that's an indica-



Martha Castro in her crumbling kitchen. For more photos of the Hunter apartments go to [www.crainnewyork.com/bluestone](http://www.crainnewyork.com/bluestone)

tion of what tenants like Ms. Castro can expect in the Hunter properties.

"All we ask is for tenants to give us 30 to 60 days and then make judgments as to how and why we're different from Sam Suzuki and Ocelot," Mr. Tabak says.

But half a dozen local housing experts surveyed say they do not understand how Bluestone's \$10 million payment for the Hunter debt can work. Units in the stabilized buildings rent for an average of \$850, and at least 20% are vacant.

"The buildings need tons of work," says one real estate executive. "The plumbing, the electrical, they're a disaster, soup to nuts."

Bluestone officials would not comment on how much they plan to put into the buildings, but they told city officials and attorneys for the tenants in Ms. Castro's building that they'll spend about \$5,000 to \$7,000 per unit. By contrast, Omni plans to spend about \$80,000 per unit on renovations in the buildings it bought. And Blue Sea Development, another affordable-housing developer, recently spent about

\$50,000 per unit in renovating a building in Harlem.

"Obviously, if [\$80,000] is what it's going to take, then I overpaid for it," Mr. Mendelsohn says. "We will do whatever it takes to clean up the quality of life and remove violations, but by no means am I turning this into the St. Regis."

Tenant advocates say Bluestone principals told them they bought the debt without visiting the buildings, though Mr. Tabak says they had done a "basic walk-through" before inking the deal and were "pretty comfortable" with their assessment.

"Our biggest concern is they have no real idea of the value of what they bought and no idea of what it's going to take to restore these buildings," says Dina Levy, policy director at the tenant-advocacy group Urban Homesteading Assistance Board. "If they intend to ever make their money back, they're obviously going to have to skimp on renovations, and I don't think these buildings can handle a third go-round of patchwork."

## Awaiting a rehab plan

A CITY Housing Preservation and Development spokesman says officials have met with Bluestone but "have yet to see a detailed plan for the rehabilitation of the properties." Bluestone officials told tenant advocates they weren't familiar with the various tax credits affordable-housing developers tap to renovate properties, though Mr. Mendelsohn says they are looking into them. Tenants argue there's a huge difference between fixing code violations and doing extensive renovations to make a building livable.

Around the corner from Ms. Castro's building, at 1286 Stratford Ave., a 32-year old mother of three struggled last week to get two of her young children up five flights of stairs on a 100-degree day. The elevator has been out of order for at least two years. "It hasn't worked since the time he was born," says the woman, a home health aide who did not want her name used, as her 2-year-old son cried to be picked up.

In her apartment, the bathroom looked like a bomb had hit it. Hunks of plaster dangled precariously from the ceiling. Standing water remained in the tub: "You gotta plunge, plunge, plunge," she says. A 4-foot by 3-foot swath of decayed wood was visible above the bathtub, where white tiles should have been.

The kitchen wasn't any better. Rags lay beneath the ever-leaking sink. The refrigerator broke three months ago, so an Igloo MaxCold cooler lay in its place, necessitating daily runs to the store for ice.

One floor up, in a hallway littered with takeout menus, cigarette butts and profane graffiti, a sign taped to the wall implored tenants to "try to keep a clean building." A rumpled white teddy bear, a green stuffed caterpillar and a poster of President Barack Obama with text from his Election Day victory speech—"While we breathe, we hope"—lay discarded on the floor. ■