THE REAL DEAL ONLINE

"Ringing in" a new era

Will a legal battle unravel the coveted Ring portfolio?

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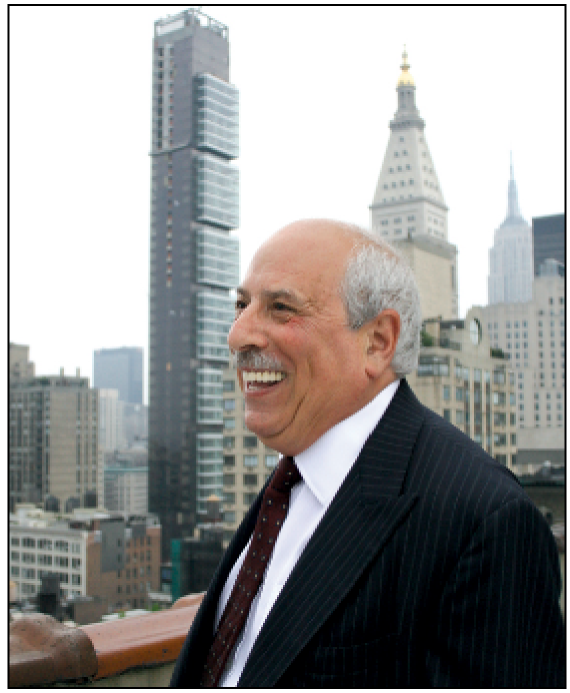
By Adam Pincus

For a year now, real estate investor Michael Ring has been locked in a legal dispute with Joseph and Eli Tabak, who are trying to wrest control of the 14-building Manhattan portfolio that Ring has long co-owned with his only brother, Frank.



Frank Ring, who heads day-to-day operations for F.M. Ring Associates.

In early 2011, Michael decided to sell the Tabaks a portion of his stake in the roughly $460 million portfolio, which has notoriously sat nearly vacant for years.

Michael, however, changed his mind at the last minute. The ensuing legal drama has been closely followed by owners and leasing brokers, many of whom covet the Rings' valuable slice of prime Manhattan real estate.

But until now, little has been known about what prompted Michael to sell a share of the 1 million-square-foot portfolio and about what the Tabaks — who've recently scored some legal victories in the case — could do with the properties if they ultimately win them.

Michael Ring

This month, The Real Deal sifted through court documents to piece together the backstory of a dispute that could finally transform this largely empty collection of sought-after buildings, and bring more than half a billion dollars worth of residential condominiums, hotel rooms and rehabilitated office space to the thriving Midtown South market, the tightest office market in the country.

The situation came to a head in 2011, court records show, when F.M. Ring Associates was on the verge of losing its largest remaining tenant, the Gay Men's Health Crisis. The departure of that tenant at the end of 2011 caused the firm's rent roll of just over $5 million to drop by nearly half.

Court records indicate that the portfolio, which had been treading financial water for years, is now a money-loser as maintenance expenses and real estate taxes surpass income. Several sources put the Rings' projected losses for 2012 at over $1 million, even as other buildings in Midtown

South are seeing a boost in rental rates and a drop in available space, due to increasing demand from technology firms like Apple and Yelp.

According to a little-known but sweeping 2010 valuation of the portfolio conducted by Cushman & Wakefield for Michael Ring, the brothers could be raking in $40 million or more in rent per year if their buildings were at full capacity.

With that analysis in hand, Michael was anxious to reposition the portfolio to improve the bottom line.

“Frank Ring and I were in disagreement,” Michael said about his brother in a little-noticed affidavit filed in New York State Supreme Court last year. “I wished to invest more heavily in upgrading and renovating the properties in order to attract top-tier tenants, whereas Frank Ring preferred to leave the properties in their current deteriorating condition.”

Brothers divided


Eli Tabak, principal at the Bluestone Group, was approached by Michael Ring about investing in the family portfolio.

The Ring brothers, who each own 50 percent of the family portfolio, have always operated under a cloud of mystery.

Their father, Leo, ran a brokerage and property management company, and began accumulating Manhattan office properties in 1943. When he passed away in the 1980s, Frank began managing the F.M. Ring Associates portfolio. But until The Real Deal profiled the company in 2009, Frank had never been interviewed by any major media outlet.

For years, commercial brokers approached the Rings with potential tenants, and investors have been making unsolicited purchase offers — all to no avail. One source said that in addition to management work, Frank “probably spends all day fielding calls from people who want to buy.”

Michael, meanwhile, had spent 40 years at landlord and brokerage Helmsley Spear before becoming chairman at the Midtown-based financial firm the Broadsmoore Group in 2011. According to court documents, he suggested that they pour money into the properties to bring them back to life. When Frank rejected that suggestion, Michael approached Eli Tabak, principal of the opportunistic investment firm the Bluestone Group, in January 2011 to gauge his interest as a partner.

Tabak — a hands-on owner-operator — agreed and reached out to his brother, Joseph Tabak, who heads up Princeton Holdings and specializes in larger, institutional-style deals, to join them as an investor.

Like Michael, the Tabaks — who have both made small fortunes by buying, owning and flipping New York properties — wanted to heavily invest in the buildings. The parties moved quickly, and drafted an agreement in February. After revisions, the agreement stipulated that Princeton Holdings and the Bluestone Group, along with two other investors (including Michael's son, David Ring) would pay $112.5 million for a controlling 56.3 percent interest in Michael's half of the portfolio.

For tax reasons, that money would be paid to Michael as a loan — albeit one he does not have to pay back. Under the agreement, however, he would simultaneously invest $55 million of that $112.5 million back into the Princeton/Bluestone company as preferred equity. So in the end, he would pocket $57.5 million and retain ownership of 43.7 percent of his half of the portfolio. He will also own an interest in the Princeton/Bluestone share through his $55 million investment.

The Tabaks agreed to put in about $49 million. The other investors, including David Ring, would put just over $6 million into the Princeton/Bluestone entity. If all of that comes to pass, the new entity will own just over a quarter of the Rings' portfolio.

But in May 2011, Michael got cold feet, according to court documents, and attempted to back out because he was unhappy with the progress of negotiations.

Then later that month, Joseph Tabak sued to force Michael to stay at the table. The case went to arbitration, and in April 2012 the arbitrator sided with the Tabaks, saying Michael could not back out of the contract, and the sides should "proceed to a closing."

The two sides are going back-and-forth now in court over the next steps, but ultimately will have to hammer out a deal that either confirms the partnership agreement or pays the Tabaks to walk away.

Despite the disagreement over rehabbing their buildings and the possibility of future litigation between them, the brothers have not turned on one another in any public way.

Michael said in court records, "I maintain a cordial relationship with Frank Ring."

Meanwhile, Frank, through his attorney, denied the two were estranged. "Frank will neither initiate nor participate in exchanges with Michael in the media as they have much more effective and direct means of communication," the lawyer said.

Still, the agreement between Michael and the Tabaks outlines a potential legal strategy in which they might sue Frank for monetary damages for mismanaging the portfolio.

Michael Ring did not respond to requests for comment. Eli Tabak declined to comment, while Joseph could not be reached.

Time for Tabaks?

If the Tabaks do successfully win control of Michael's half of the portfolio, they will still have to get past Frank in order to start renovating the properties.

But they have a plan: to invoke a little-used state law to gain control from Frank, according to court records.

The long-standing law can be used when there's a tenant-in-common ownership structure in place and dates back to farming days, when it was often used to settle disputes between heirs over property rights. The tenant-in-common structure allows joint property owners to sue to force a partition or a judicial sale of an entire property.

Since individual buildings cannot be physically divided, the court orders an auction, in which one side buys out the other, or a third party buys out both owners. For the Tabaks, buying out Frank would likely cost hundreds of millions of dollars, and could take three or four years in court.

One New York real estate figure has already blazed a legal trail for the Tabaks. Gary Barnett, head of Extell Development Company, won control of 20 West 47th Street from the Rings, who were partial owners, in 2011 after filing such a suit in 2008.

When, and if, the Tabaks get control of the Ring portfolio, their history indicates that they'll either flip the properties or reposition them in a grand fashion.

Joseph Tabak, 50, got his start in the 1980s with outer borough multifamily apartments.

In 2003, he made a large institutional-style investment with the Lightstone Group — headed by billionaire David Lichtenstein — when it bought a national portfolio of malls called Prime Retail for $638 million, and sold it in 2010 for $2.3 billion.

Then, in 2004, Joseph partnered with Joseph Chetrit and Arbor Realty Trust CEO Ivan Kaufman to purchase a stake in the office building at 450 West 33rd Street for $171.5 million.

In 2005, the three bought 200 Fifth Avenue and 1107 Broadway, known as the Toy Buildings, for $355 million. They sold the properties separately in 2007 for a combined $715 million.

Meanwhile, Eli Tabak, 38, is the more public of the two. His Bluestone Group has made high-profile and controversial investments in multifamily properties in the city, as well as in more mundane real estate assets, such as a retail property in the Bronx. The company has been active over the past two years, and insiders say in that period it has purchased more than $200 million in nonperforming debt.

David Lichtenstein, head of the Lightstone Group

Sources say the Tabaks are being advised by Eastdil Secured broker Doug Harmon in the Ring case.

Capturing potential

The Ring buildings in question are in some of the most prime areas of Manhattan — a fact that was stressed in the analysis Michael commissioned from Cushman as he was considering how to proceed with the properties.

Cushman evaluated 13 of the Rings' buildings; a 14th was not included because it was partially owned by another company. Of those, Cushman suggested seven would be most valuable as residential condo conversions, four would ideally be converted to hotels, one could have office rehab potential, and another small building could be sold for development rights.

The largest building in the portfolio — the 184,000-square-foot 212 Fifth Avenue at 26th Street — could be sold to a condo developer for as much as $123 million, the analysis said.

With a price tag of $123 million, 212 Fifth Avenue could be sold to a condominium developer

Other buildings Cushman identified as potentially valuable to residential developers are 17 West 60th Street, between Broadway and Columbus Avenue; 331 Park Avenue South, between 24th and 25th streets; and 155 West 23rd Street, between Sixth and Seventh avenues.

Yitzchak Tessler, CEO of Tessler Developments, who has converted eight office buildings to residential in the city, said a number of the buildings seemed to be good candidates for condos.

He liked the ones near Park Avenue South, in part because of the location. Tessler, who has no connection to the portfolio, said they are also attractive because "the way the buildings are built."

Plus, he noted, some of them are not efficient for office tenants because the floor plates are too small.

In the hotel sector, Cushman noted that the 80,030-square-foot 142 West 24th Street, between Sixth and Seventh avenues in Chelseta, could earn an average daily room rate of $325. Two of the other potential hotel buildings — 19 West 24th Street and 45 West 27th Street — could fetch average daily room rates of about $260. The Cushman report noted that 45 West 27th Street is near the popular Ace and Nomad hotels, and "since the property is relatively small, it would likely convert to less than 100 compact rooms, lending itself to limited service brands such as Hampton Inn or Comfort Inn."

Vijay Dandapani, president and COO of Apple Core Hotels, said these projected revenue numbers seemed high, even with the current strong demand for hotels from investors.

“Limited-service hotels do not average [revenue per available room] in the $260 range year round, which is what [the Cushman study] is proposing,” he said. “They are closer to $200.”

While some may see the Cushman estimates as optimistic, the report expressed little doubt that refilling the buildings with office tenants was not the best use. In fact, it suggested just one of the buildings — the second largest in the portfolio — should remain with that use.

That building, the 150,000-square-foot 119 West 24th Street, could earn rates of about $42.50 per square foot and rake in as much as $6.4 million a year in rental income, the report said.

The 150,000-square-foot 119 West 24th Street could be raking in as much as $6.4 million a year.

“Creative tenants and nonprofits continue to fuel demand for office space in Chelsea,” the Cushman study said, noting that “119 West 24th Street would be ideal for a user seeking a desirable Chelsea headquarters location.”

Michael T. Cohen, president of the tri-state region for Colliers International, suggested that 212 Fifth Avenue, too, should remain an office building, though Cushman suggested that it be converted to condos, perhaps with a hotel. Yet he acknowledged it might be difficult to get financing for an office rehab because lenders these days want to make their money back quickly. The fastest way to do that would be to rehabilitate the building and sell it as condos, he said.

“While it would make a fabulous long-term investment as an office building, most of the money out there [for redevelopment] is not long-term,” he said.

Long-time leasing agents in the Midtown South market, who have seen the Ring buildings slowly lose tenants over the past decades, realize that almost any new use would make a lot of money, given that there is just over $4 million in debt on the buildings now.

“I wish I could make as much money as Frank Ring has lost,” said Sam Stein, director of leasing at Justin Realty, which has a concentrated portfolio in Midtown South.