OWNERS (TRY TO) GIVE BACK KEYS

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By Adam Pincus

Clockwise from top left: Bronx landlord Sam Suzuki; 621 Manida Street in the Bronx; Ocelot Capital Group partners Mo Vaughn (right) and Eugene Schneur; and 1271 Morris Avenue in the Bronx

The setup

Some owners know when it's time to walk away from a distressed property, but it's not always easy to do. It took Ocelot Capital Group three exasperating years to get rid of a portfolio of prewar Bronx apartment buildings. Thanks to political pressure and a severely discounted loan, former Major League Baseball slugger Maurice "Mo" Vaughn and his partner (backed by an investment firm) were finally able to take over.

FROM DISTRESSED TO HEALTHY

The saga started in 2006, when Ocelot bought this 14-property portfolio -- including the 56-unit 621 Manida Street in Hunts Point and the 16-unit 1271 Morris Avenue in East Concourse -- and took out loans for $23.8 million. The firm, which was founded in 2005 by Manhattan attorney Rachel Arfa and her husband, Alexander Shpigel, partnered on the project with Israel-based real estate and development firm Eldan-Tech. Ocelot would be a minority partner, with the promise of a percentage of the upside if the buildings later sold above a certain target price. They expected to smoothly rehabilitate the rent-regulated units and raise rents, but the sinking economy changed all that.

Dealing with distress

Even before the financial crisis, in late 2007, Eldan and Ocelot wanted to sell -- in part because of staggering maintenance costs at the aging buildings, Ocelot's attorney David Katz said. A year later, controversial real estate operator Sam Suzuki signed a contract to buy the portfolio along with other Ocelot-owned properties. A condition of the sale, which was expected to close by the end of 2008, was that lender Fannie Mae would have to accept or reject Suzuki's group as the new borrowers. It looked like it was going to be an easy out for Ocelot and Eldan. But Fannie Mae dragged its heels on a decision for months as the properties deteriorated, Katz said. Meanwhile, Suzuki had taken over management of the portfolio in anticipation of owning it and fell behind on mortgage payments. That prompted Fannie Mae and the other lender on the portfolio, Deutsche Bank, to initiate the foreclosure process against Ocelot (which still technically owned the property) in March 2009. The move blindsided Ocelot, which was in a Catch-22, unable to sell and unable to walk away, according to Katz.

Batter up
In early April, Fannie Mae rejected Suzuki as a buyer, but Ocelot, which was being pilloried in the press for allowing conditions at the properties to deteriorate, was still unable to sell because of the foreclosure. That summer, court receivers were installed in each of the 14 properties. And in August, Fannie sought to sell the notes through an online auction site, DebtX. That's when Omni New York, the firm led by Mo Vaughn and Eugene Schneur, first heard about the portfolio. But the DebtX auction was aborted after sharp criticism from housing advocates, who worried that an irresponsible highest bidder would swoop in and then neglect the properties. Making matters worse, Ocelot's Arfa was personally named in a criminal contempt case that claimed the properties were not being well maintained.Those charges were dismissed in July 2010. (note: clarification appended)

Identifying the deal
A chastened Fannie Mae arranged a second auction, this one with the bidders vetted both by the city's Department of Housing Preservation and Development and by housing advocates. This time, Omni stepped in. The firm, which was cofounded by Vaughn and Schneur in 2004, owns about 5,200 mostly outer-borough residential units. And it has had a good track record with the city and a reputation for keeping housing affordable. So, it figured it would have a far better chance of winning this bid than the online debt auction.

Home run
In December 2009, Omni was picked to take over the portfolio with a bid of approximately $5 million plus an agreement to spend $1 million in emergency repairs -- a discount of some 75 percent off the $23.8 million note. Omni supporters lauded the steep discount, which came after political pressure from elected officials and housing advocates, noting that the low price would leave Omni with enough money to rehab the buildings. Yet some real estate brokers and owners said Fannie Mae accepted too little.

Closing the deal
What Ocelot had hoped would be a straightforward process to unload the buildings had become a multiyear ordeal. Furthermore, in order to actually transfer the portfolio deeds to Omni, they needed to go through a foreclosure auction. That was held at the Bronx Courthouse in July 2010. Omni easily won with its credit bid, although several bidders sought to buy a few of the properties independently. Omni closed on the deal in November 2010.

COMMENTS

Anonymous

Take all the Rent Stabalized dwellers and kick them to the street, charge market rent, and BAM u have a fair market and the properties would be fixed up and the area inproved for EVERYONE. RS people just hurt EVERYONE but themselvs.

Comment #1 Posted By: Anonymous 08/19/11

Anonymous

Well... we live on planet Earth, and on this planet tenants dictate L&T laws.

Comment #2 Posted By: Anonymous 08/19/11

Anonymous

in NYC

Comment #3 Posted By: Anonymous 08/19/11

carmen

i love the fact that omni took over our buildings because we where living like animals thank to ocelot.victory is ours

Comment #4 Posted By: carmen 08/21/11