

The new kings of Crown Heights

Private equity firms gamble on rent-stabilized housing in Brooklyn, New York, and long-time tenants lose out

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BROOKLYN, N.Y. — For the last 50 years, Nefertiti Macaulay’s family has lived in a one-bedroom apartment at 1059 Union St., in Brooklyn’s Crown Heights neighborhood. The apartment was her grandparents’ first, and after they passed away, it became hers. It was an old building in bad repair, with cracked tiles and mold crawling up the walls. But the rent was cheap and Macaulay liked her neighbors, so she made do.

But last summer the landlord sold the building to BCB Property Management, a private-equity real-estate company located in midtown Manhattan. The tenants were hopeful the sale would mean their apartments would finally get some badly needed attention. Instead, Macaulay received a visitor to her front door. A BCB representative offered her \$30,000 to vacate the apartment. When she declined, the price jumped to \$60,000.

“The message was clear,” said Macaulay. “This apartment is worth more without you in it.”

At \$1,256 a month, Macaulay’s rent-stabilized apartment was substantially below market value in swiftly gentrifying Crown Heights. It seems, she said, that BCB had a strategy of removing older tenants, renovating the units to attract young professionals and then raising the rent substantially.

The aggressive eviction campaign in Macaulay’s apartment building is the latest incarnation of an old tale: [fast vanishing affordable housing in New York City](#). Tenant advocates are calling it “predatory equity,” the practice of acquiring rent-regulated apartment buildings with a plan to convert those units to market-rate rentals, using any means necessary. Owners overpay for the buildings, with the

hope that they can remove long-term residents who pay lower rents and replace them with younger, more affluent tenants. Harassment, buyouts, neglect of much-needed repairs and even [failure to cash rent checks](#), so that they might convince tenants that they can be evicted, are just some of the tactics they use. It's a citywide issue, but Crown Heights, smack-dab in the center of the borough, has gentrified rapidly over the last five years and been hit particularly hard. Regulated apartments in the neighborhood can often rent for less than half the market rate. According to the latest United States census, the [median income for Crown Heights North](#) is about \$41,000. Roughly 38 percent of neighborhood residents are on [some form of government assistance](#).

Macaulay didn't take the buyout. She knew that \$60,000 wouldn't go far in New York's rental market. But BCB persisted. Its representatives went door-to-door, pitting neighbors against each other by soliciting those who had accepted buyouts to spy on others who were still deliberating. The rumor went that some of the residents accepted as much as \$125,000.

"That's a lot of money," said Macaulay. "But let's be real. In the New York City market, that money will slip right through your fingers."

Some of her friends who took the buyout discovered that finding a new apartment nearby was almost impossible. According to Macaulay, many of them ended up in outlying neighborhoods, like Canarsie, paying four times as much rent without the protection of rent stabilization.

Predominantly residential Crown Heights lies to the east of Prospect Park. It's a place where people know their neighbors — kids play jump rope on the street while parents look on from the stoops of brownstones. But it's also a place with a difficult history. In 1991, race riots erupted between blacks and Hasidic Jews, leaving the area with a reputation for violence and intolerance.

Two decades later, the neighborhood has transformed into one of the most desirable places to live in the borough. Today residents are anxiously awaiting their first Starbucks. Hip restaurants and vintage clothing stores cater to an influx

of affluent, young professionals, most of whom are white, creating a new kind of neighborhood tension; it's these newcomers who are causing the gentrification that is leading to the displacement of the long-term residents.

"People move here because it's affordable," explained Joel Feingold, a grad student who has lived in Crown Heights for the last four years. "There are two groups of tenants, but we all have the same landlords, the same brokers and the same people overcharging and displacing tenants."

It was these commonalities that gave Feingold the idea to start the Crown Heights Tenant Union, a grassroots organization of neighbors who have come together to fight predatory-equity real estate companies. More than 700 neighborhood residents have attended meetings and demonstrations, but the core membership is made up of about 50 regular attendees. They're demanding a five-year rent freeze and have targeted predatory-equity owners who they believe are involved in illegal eviction and harassment tactics, including BCB.

"We are working on two major issues that are systematically linked," said Feingold. "The displacement of the long-term working-class communities, especially people of color, and then the overcharging of new residents on apartments. We are all being hurt by the same people."

At a recent meeting, Feingold urged members to call the city to demand a copy of their rent history. In rent-stabilized units, the landlord can only raise the rent by a prescribed percentage each year, as voted on by the city's rent-guideline board annually. If a unit is vacant, the rent can be increased by 18 to 20 percent, substantially more than the usual limit for occupied units. If repairs are made to a vacant unit in between tenants, landlords can increase the rent even more, exceeding the 20 percent baseline bump. A vacant unit can mean a rent increase of hundreds of dollars, assuming the market can support it. Once units exceed \$2,500 a month, they no longer qualify for rent-stabilization and landlords can charge whatever they want. For landlords taking big gambles in neighborhoods

like Crown Heights, the incentive to use any means necessary to raise the rent above \$2,500 is huge, even if their method of doing so is illegal.

If renovations are made in a unit, the owner is supposed to file documents with the New York Department of Homes and Community Renewal, proving the improvements were substantial, such as adding a new kitchen or bathroom. But according to the Urban Homesteading Assistance Board (UHAB), a housing advocacy group that tracks foreclosures and sales of rent-stabilized buildings in New York City, many fail to do so and there is no oversight to ensure that they do. Some tenants have complained that landlords have filed fake documents. If a tenant sees a historical hike in the rent that is larger than what it should be, with no fancy new kitchen to show for it, it can be an indication that no substantial improvements were made. A record of a unit's rent history is often the first indication of an illegal rent hike.

“We have members in this group, new residents, who get their rent history and discover they are paying twice or three times what the last occupant paid,” explained Kerri White, a tenant organizer with the UHAB who also works with the Crown Heights Tenant Union. “These landlords think they can throw up a new coat of paint, intimidate the old tenants into moving out and then rent the units out for more than what the legal rent should be.”

Real-estate speculation is as old as New York City itself. The 2008 housing bust should have provided an opportunity for the market to correct itself. Instead, new speculators are paying more than many New York apartments garnered when the market was at its peak. In the case of 1059 Union Street, BCB has taken out a mortgage for just over \$5 million. But an independent analysis by tenant advocates, factoring in costs and rental income, suggests the building is worth \$1.8 million at most.

“For speculators, the question is, has Crown Heights changed enough in the last five years to make it so you can't overpay for properties, because you can push people out of their homes and cover the debt of the property?” asked White. “We see investors re-speculating on some of the same buildings that just failed.”

To pay back these huge mortgages, landlords must raise the rent, often more than they are legally allowed to in a rent-stabilized unit. If they fail to do so, buildings can fall into foreclosure, and do, perpetuating the cycle of disrepair.

BCB Property Management is a real-estate holding company located on Madison Avenue. The firm is headed by Debrah Lee Charatan, who, according to her bio on the company website, is a “legend in the world of New York City real estate.” She is perhaps better known locally for her marriage to Robert A. Durst, the former real-estate scion turned cross-dressing criminal who made headlines 10 years ago when he admitted to dismembering his former neighbor Morris Black. In the 1980s, Charatan, who has a reputation as an accomplished, if ruthless, broker, made a splash as the leader of an all-woman brokerage firm, Bach Realty. According to The New York Times, the business folded under accusations that [employees did not receive commissions](#).

Today, Charatan and her son head BCB. According to the website, the firm transforms properties through “a combination of efficient management, construction prowess, upstanding principals, and a keen eye for value.”

The firm has purchased just over a dozen rent-regulated buildings in the Crown Heights neighborhood, including 1115 Union St., 15 Crown St. and 991 President St.. Many of these buildings were in extreme disrepair at the time of purchase. Some were so bad that they were placed in the Alternative Enforcement Program (AEP), a city initiative designed to force landlords to make repairs to New York’s worst buildings.

BCB is not the only firm involved in predatory-equity behavior in Crown Heights. In March, according to city records, real-estate giant [Pinnacle Group purchased a 28-building portfolio](#) in Brooklyn, with many of the buildings located within Crown Heights, a move that was unsettling for tenant advocates. Just three years ago, the real-estate company settled a class-action lawsuit against rent-regulated tenants across New York City, who claimed they had been subjected to an aggressive eviction campaign and illegal rent increases. Pinnacle Group was forced to pay \$2.5 million to tenant-rights groups so that tenants could receive

assistance in making legal claims. Some of these tenants are in Crown Heights buildings formerly owned by Pinnacle and are now in the process of seeking individual compensation.

Shortly after BCB purchased 1059 Union St., Macaulay noticed her floor was moving beneath her feet. Her downstairs neighbor had taken the buyout and BCB was hard at work converting the one-bedroom apartment into a three-bedroom with two bathrooms, a common tactic used by predatory-equity firms to charge higher rents. Macaulay noted that all the construction in the crumbling building was focused on empty units. Occupied units were left in dismal condition. Macaulay said no permits for the renovations on the downstairs apartment were posted, and calls to 311, the city's housing-complaint hotline, confirmed that the renovation was illegal. When asked about the lack of permits, BCB had no comment.

"The whole building started to shift," said Macaulay. "I mean, the ceiling was literally crumbling. It was scary. I thought, is this building going to fall down?"

Since then, Macaulay reports, BCB has been busy making repairs to her unit that are up to her standards. But she insists this was only after repeated calls to 311, the city's housing complaint hotline.

BCB claims it has made substantial improvements to all of its buildings since acquisition. "We believe our priority as a property management company is to provide a safe and habitable environment for our tenants," wrote Bennat Berger, who is the co-founder of the company alongside his mother. That is why "we treat programs such as AEP with utmost seriousness and grave concern." He lists the improvements made at 1059 Union St.: a new roof, an overhauled boiler, new sidewalks around the perimeter of the building and improved plumbing. Some tenants have even received new kitchens and bathrooms, but it is unclear who they are and whether they are in recently vacated units designed to attract affluent tenants.

Just a few blocks away is 1159 President St., another recent BCB acquisition. Donna Mossman has lived in the building with her mother for 37 years. Just after BCB purchased the building, it was placed in AEP.

“We thought things might get better after BCB took over,” explained Mossman. “Instead we went for 10 days without heat and hot water this winter. Do you remember how cold this winter was?”

The lack of heat seemed to be a result of a failed boiler, which has since been replaced. Berger pointed to the 500 housing violations the company has removed from 1159 President St. and 1059 Union St. in less than a year. These repairs have prompted all BCB’s apartments to be removed from AEP.

But even as the company worked to improve the buildings, it continued to offer tenants buyouts. Berger would not comment on the motivation or size of these offers.

Mossman was offered \$70,000 to leave her unit. She declined. Her downstairs neighbor Bob Fugger also received a buyout option. He too declined, but instead of subsequent larger offers, as BCB had made with most of his neighbors, the real-estate company went quiet on him. For a long time, he thought nothing of it. Then in April he received his new lease. The rent had increased, from \$1,072 a month to more than \$1,900.

“I kept staring at the lease in disbelief,” recalled Fugger. “I mean, it’s a rent-regulated apartment. How was this possible?”

At the urging of the Crown Heights Tenant Union, Fugger looked up his rent history and discovered that his previous lease had been given to him at a preferential rate, with a much higher rent rate filed with the city. This tactic is sometimes employed when the landlord wants to continue to raise the legal rent on the unit but not charge the tenant accordingly. It allows the landlord to increase the maximum possible rent of the unit, so, for instance, when the tenant

finally does move out, they can charge the new one much more than the usual rent increase between tenants would allow.

But preferential rates must be revealed to the person who holds the current lease. Fugger read and reread his documents — as a Xerox repairman, he was meticulous about record keeping. Nowhere in any of his previous leases was there any mention of preferential rates.

He's challenging the case in court.

"I'm hoping I win the case," said Fugger. "If I lose, I don't know where I will go."

At 1059 Union St., Macaulay is busy getting to know her new neighbors. About eight new tenants have moved in. She said they told her they are paying between \$3,200 and \$4,500 a month in rent.

"Their rent is about four times what most tenants here pay," said Macaulay. "I guess that's how our landlord is going to pay back that giant mortgage."

According to city records, BCB paid \$8.2 million for the building.

But its renovated units are not without problems. One new tenant reported leaks that dripped from the third floor into his first-floor unit. Repairs have been almost impossible to obtain. As it turns out, old and new tenants have more in common than they might like.

"We don't mind change," said Macaulay. "But there has to be unity between the old and the new. If it happens to one it's going to happen to another."