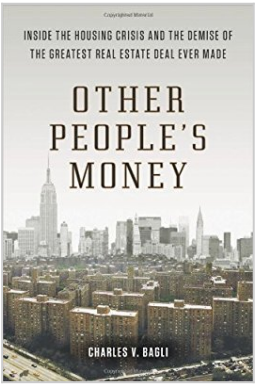

Other People's Money: Inside the Housing Crisis and the Demise of the Greatest Real Estate Deal Ever M ade

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Other People's Money: Inside the Housing Crisis and the Demise of the Greatest Real Estate Deal Ever M ade By Charles V. Bagli Bibliography

- Sales Rank: #35784 in Books
- Published on: 2014-03-25
- Released on: 2014-03-25
- Original language: English
- Number of items: 1
- Dimensions: 7.98" h x .95" w x 5.22" l, .65 pounds
- Binding: Paperback
- 432 pages

Editorial Review

Review
“The reader interested in New York real estate history, its moneyed elites, or even the self-contradictory aspects of social investment should find ample material for reflection and enjoyment in Bagli’s account.”
— *Publishers Weekly*

“Bagli's sourcing is impressive, and readers will welcome his ability to make arcane investment dealings comprehensible.” —*Kirkus*

“*Other People’s Money* delivers one of the great untold stories of the financial crisis—how greed, arrogance, and the distorted incentives of the commercial real estate market helped drive our nation’s economy off a cliff. Told through meticulous reporting of what was arguably the worst real estate deal of all time, in this vitally important book Bagli demonstrates how the well-heeled and well-connected walked away relatively unscathed from the wreckage that they created, leaving a devastated middle class holding the bag yet again.”
—Neil Barofsky, *New York Times* bestselling author of *Bailout: How Washington Abandoned Main Street While Rescuing Wall Street*

“Charles Bagli does for the politics and economics of urban real estate finance what Jane Jacobs did for urban street life. Bagli’s new book, *Other People’s Money*, uses the sale of a major housing complex on Manhattan’s Lower East Side, Stuyvesant Town-Peter Cooper Village, to demonstrate how contemporary real estate speculators deploy international finance and local politics to change the housing options of more ordinary city dwellers. Bagli, a talented journalist, makes the street-level impacts of abstract global finance easily understood.”
—Elliott Sclar, professor of urban planning, Columbia University

“*Other People’s Money* is a terrific book. With remarkable textual clarity and a fine-tuned dramatic sensibility, Charles Bagli has recreated the extraordinarily high stakes poker game that was the largest real estate deal in U.S. history. His characters include the biggest real estate players on the planet as well as middle-class residents desperately holding on by their fingertips to the only housing they can afford. A truly epic tale, one that systematically demonstrates the logic (and illogic) of the real estate bubble that set the stage for worldwide recession and that reveals the wild, unforgiving nature of twenty-first-century capitalism. It’s a powerful story and a great read.”
—Rick Fantasia, coauthor of *Hard Work: Remaking the American Labor Movement* and professor of sociology at Smith College

About the Author
Charles V. Bagli is a *New York Times* reporter who covers the intersection of politics and real estate. He has written about the sale of high-profile buildings, political contributions of the real estate industry, the battle to build a two-billion-dollar stadium for the Jets, bid rigging in the construction industry, payoffs at the tax assessor's office, and a Sutton Place co-op that turned public land into a private park. He has worked for the *New York Observer*, the *Daily Record* of Morristown, New Jersey, the *Tampa Tribune* and the *Brooklyn Phoenix*. He lives with his wife in New Jersey. They have two daughters.

Introduction

The Poster Child of the Real Estate Bubble

October 16, 2006, 5:01 P.M.

Rob Speyer had spent hours pacing the small conference room near his office on the seventh floor of 50 Rockefeller Plaza, trading locker-room jibes and stories about real estate deals with Paul A. Galiano and Fred Lieblich, when the telephone finally rang.

Speyer, a thirty- seven-year-old with a marathoner's lanky build; sandy, close-cropped hair; and a machine-gun laugh, was the heir apparent to Tishman Speyer Properties, an international real estate company that operated on four continents and controlled some of New York City's most enduring icons, from Rockefeller Center to the Chrysler Building. For ten weeks, he and his colleagues had labored over a bid for a property whose size was almost unimaginable in densely packed Manhattan: Stuyvesant Town-Peter Cooper Village, a complex of 110 buildings with 11,232 apartments spread across 80 contiguous acres south of midtown, overlooking the East River.

Galiano, at forty-one years old, was Tishman Speyer's intensely focused co-chief of acquisitions. Lieblich was president of BlackRock Realty Advisors, forty-five years old and a partner in the prospective deal. They had formed a friendship with Speyer as they read the financial history of the rental complex and engineering assessments supplied by the seller, Metropolitan Life Insurance, or as it is known today, MetLife. By noon that day, they submitted their offer. They were up against an international who's who of real estate and finance that had gathered in New York for what promised to be the biggest real estate deal in history. Aside from New York's real estate royalty, like the Durst, Rudin and LeFrak families, there was the emir of Qatar; the Rothschilds and the Safras; the mysterious billionaire investor Simon Glick; the irascible Steve Roth of Vornado Realty Trust; Stephen Ross, a builder active in New York, Florida, Las Vegas and Los Angeles; the government of Singapore; and the Church of England, not to mention the many pension funds and private equity firms that had raised tens of billions of dollars to invest in real estate and other assets. Nearly a dozen rival bidders from around the globe were gathered in similar rooms high above Manhattan waiting to learn whether their multibillion-dollar offers had won the day and if they would spend the night negotiating contractual details of what would be the largest transaction in American real estate history.

The stark white walls of the Tishman Speyer conference room yielded nothing as the hours ticked by. One minute Speyer exuded the cocky confidence of a tycoon who prowled the world making deals, the next he wondered what might have gone wrong as a dark cloud of self-doubt descended over the conversation.

They had spent the afternoon of October 16, 2006, talking about anything but the call they desperately hoped would come. Adrian Fenty, who was running for mayor in Washington, DC, where the Speyers owned more than two dozen office buildings, popped into the room for a minute to say hello. He asked what was going on. Speyer explained it was "a fairly momentous day"; they were waiting to see who had won the bidding war. "I just came from Apollo's office," Fenty said with a chuckle, referring to Apollo Real Estate Advisors, Speyer's primary rival for the property. "They told me the same thing."

Then with the evening shadows gathering over Fifth Avenue, the phone rang a second and third time. Speyer snatched up the receiver and heard the voice of Darcy A. Stacom, the real estate broker conducting the multibillion-dollar auction of Stuyvesant Town-Peter Cooper Village.

Stacom, who was forty-six years old and a rare woman in the testosterone-fueled world of high- stakes real estate deals, quickly got to the point: "C'mon down to Two Hundred Park, now." But she warned, "Don't bring your whole team together. Come in ones and twos in case any reporters have staked out the lobby of the building.” Two Hundred Park housed MetLife’s law firm, Greenberg Traurig, and at the top, MetLife’s ornate, old-world boardroom.

Stacom had not offered him congratulations, but Speyer knew what the call meant: If they could get through what promised to be hours of arguing over the final terms of the contract, Stuyvesant Town-Peter Cooper was his. He let out a yell as he put the phone down, almost simultaneously pumping his fist and hugging Galiano. Speyer turned and embraced Lieblich, who headed the real estate arm for one of the world’s largest investment management firms for pension funds, institutions and high- net- wealth individuals.

Speyer and Galiano took the elevator to the ground floor and marched out the Fifth Avenue doors of the building, past the fifteen-foot bronze statue of a heavily muscled Atlas carrying the world on his shoulders. Speyer was under his own mythic strain and would remember little of the eight-block walk downtown.

Although not nearly as glamorous as Rockefeller Center, Stuyvesant Town held a pride of place in the minds of many New Yorkers. Stuyvesant Town, and its sister complex Peter Cooper Village, was unlike the real estate properties that seemed to trade like pork bellies on a daily basis in cities from Atlanta to Los Angeles, Boston to Dallas and Seattle during what was now a five-year-old real estate boom like no other in its intensity. Stuyvesant Town-Peter Cooper Village covered eighteen blocks of some of the most valuable real estate in the world.

The two complexes, which were erected by Metropolitan Life in what was once known as the Gas House District, were an urban version of Levittown, an inspiration for housing in the 1950s and 1960s that broke up the street grid rather than conformed to it, while keeping city life affordable to the middle class.

In the 1960s, Stuyvesant Town begat LeFrak City, a complex of ten eighteen-story buildings on forty acres in Corona, Queens, and Co-op City, a sprawling complex of 15,372 units in 35 high- rise towers and seven clusters of town houses spread across 320 acres in the Baychester section of the Bronx. Architecturally it was a failure. The red brick buildings were uniformly plain and looked more like the low-income housing projects nearby, the Jacob Riis, Lillian Wald and Alfred E. Smith Houses. But the buildings occupied neatly landscaped real estate on the East Side. In 2006, there were not eighty, or even twenty, contiguous acres available anywhere else on the thirteen-mile-long island of Manhattan, no matter what the price.

And Stuyvesant Town-Peter Cooper Village, despite its blandness, had been a safe, leafy oasis for thousands of middle-class firefighters, nurses, union construction workers, civil servants, writers, police officers, secretaries and even a few judges for nearly sixty years. For many New Yorkers, the complex had become a cherished landmark akin to the Empire State Building, the Statue of Liberty and Rockefeller Center. Early in their careers, Mayor John V. Lindsay, sportscaster Howard Cosell, reporter Gabe Pressman and presidential adviser David Axelrod had made their homes there. So had author Frank McCourt, mystery writer Mary Higgins Clark, actor Paul Reiser, operatic soprano Beverly Sills and Knicks basketball star Dick Barnett.

In 2006, hundreds of original tenants, many of whom had moved to Stuyvesant Town when it opened in 1947, were still living there. Thousands more had grown up in those twelve-and thirteen- story buildings and were now raising their own families in Stuyvesant Town-Peter Cooper Village.

“It’s one of the most unique assets in the city,” said Lieblich, who had himself lived in Stuyvesant Town when he was a MetLife executive in the 1990s. “A lot of people know of it. There’s a lot of fond memories.”

As Rob Speyer entered 200 Park Avenue, a fifty-eight-story skyscraper looming over Grand Central Terminal that had once been known as the Pan Am Building, he paused, noticing a handmade sign Scotchtaped to a storefront window promoting a sale. Tishman Speyer had bought the tower from MetLife eighteen months earlier for $1.72 billion, the highest price ever paid for an office building. The makeshift placard was just the kind of seedy thing that he had been trying to eliminate since taking control of the property. Shake it off, Rob said to himself, focus on the task at hand. He was up against eight other buyers who, in preparation for a bidding war, had collectively lined up a staggering $50 billion from money center banks, insurance companies, pension funds and private investors.

Every day seemed to bring another record real estate deal somewhere in the country and the prospect of windfall profits. The December 2004 sale of the 110-story Sears Tower in Chicago for $835 million had set a local record, despite the building’s sizable vacancy. Maguire Properties, a publicly traded real estate investment trust, paid $1.5 billion for 10 office buildings in the Los Angeles area, thereby doubling the size of its portfolio and solidifying its position as the top landlord for first-class office space in Southern California. In the biggest retail deal of 2005, a joint venture of Regency Centers Corporation and Macquarie CountryWide Trust paid $2.7 billion for 101 shopping centers in 17 states and the District of Columbia.

Buyers jostled in line for bulk purchases of hotels, shopping malls, casinos, office buildings, apartment complexes and raw land. Prices accelerated far faster than rents, even as profit margins got thinner. Expectations were that prices would climb still higher. It was as if the markets had broken loose from their tether to the boom-and-bust nature of capitalism. At least that is the way the lenders acted, as well as the rating agencies whose job it was to judge the viability of the financial architecture underpinning the deals. And nowhere was the real estate market as hot as it was in New York.

That summer, Beacon Capital Partners, in partnership with Lehman Brothers, outbid thirty rivals when it paid $1.52 billion for 1211 Avenue of the Americas, a thirty-three-year-old, forty-four-story office tower whose prime tenant was News Corporation, the mass media conglomerate headed by Rupert Murdoch. At $800 per square foot, analysts expected Beacon to lose money, at least in the short term, because the mortgage payments were likely to exceed cash flow from the building. But Beacon, like many investors, was supremely optimistic about the future and it was determined not to lose out again. Previously, Beacon had been an also- ran in the bidding for twenty-three-story 522 Fifth Avenue, at Forty-Third Street, a prize captured by Broadway Partners with a bid of $420 million.

Speyer and Galiano settled into a small fifteenth-floor conference room off the main reception area at Greenberg Traurig, soon to be joined by Tishman Speyer’s lawyer, Jonathan L. Mechanic, and two associates. Stacom, whose blond hair floated halfway down her back and who had a fondness for dangling costume jewelry and Technicolor clothing, was already present with her partner William M. Shanahan, the numbers specialist for the duo. In a conference room down the hall sat Robert R. Merck, a senior managing director and chief of MetLife’s real estate investment unit; David V. Politano, who oversaw MetLife’s real estate investments in the Northeast; and their coterie of lawyers. The insurer was selling the sister complexes as a single real estate asset.

Much of the contract had been marked up and completed in the course of the bidding, but now the lawyers would take over, hammering out language that would cover every possible contingency. The shuttling between the two rooms went on through the night, as lawyers for Tishman Speyer and MetLife inserted clauses to protect their clients against any possible trouble.

In between, Speyer, Lieblich, Galiano and other executives in the conference room debated the latest revisions. During the prolonged interludes, they played poker, five-card draw. One of the young associates from Mechanic’s law firm cleaned up, even as the others teased him about how his skinny black suit and tie made him look like a member of the late-1970s New Wave group Devo.

Finally, at about nine thirty in the morning on October 17, they finished. Speyer had a $400 million nonrefundable deposit wired to MetLife for the biggest real estate deal of all time. He and his partners agreed to pay an astounding $5.4 billion—$70 million more than the number two bidder—for a single asset.

But that was not the total price tag. When all the acquisition costs were tallied, the sum would total $6.3 billion. Ultimately, the money would come from banks, foreign and domestic pension funds, a foreign government and the Church of England. A tiny fraction of the money would come out of the well-lined pockets of Tishman Speyer or BlackRock. Both firms traditionally bought property with what is known in the business as OPM (other people's money). They largely made their money on fees—asset fees, management fees, partnership fees, construction fees—while putting up only a sliver of equity, if that. Of course, no pension fund or wealthy family would invest with Tishman Speyer or BlackRock simply for the privilege of paying fees if the firms did not consistently generate annual returns on the order of 20 percent. Of the total cost of $6.3 billion, Tishman Speyer put up only $56 million of the firm's own money, less than 1 percent of the winning bid, with another $56 million coming from their longtime partner, the Crown family of Chicago.

The deal immediately created a media storm of headlines around the world, generating editorial comment from the Agence France-Presse, the *International Herald Tribune*, National Public Radio and Bill Maher at HBO.

The *New York Post* put it succinctly: "$5.4 Bil Stuy Town Deal Shatters Record." Rob told the tabloid that "the opportunity to buy 11,000 units in Manhattan is what you live for."

Elated but tired, Rob called his father, the real estate magnate Jerry I. Speyer, to deliver the news in a voice scratchy with fatigue. The elder Speyer congratulated him, heaping praise on a son who had forsaken a career in journalism to join his empire a decade earlier. Now his son was debuting on a very public stage.

"It's a dream come true," confided the elder Speyer, whose powerful reach extended from his company to the Federal Reserve Bank of New York, the Council on Foreign Relations, the Museum of Modern Art and the New York Yankees. He helped Michael R. Bloomberg successfully clear the legal and political hurdles to run for a third term as mayor in 2009 and both he and his son were close to Andrew Cuomo, who would become governor in 2010. "I expect he'll be far more successful than I was," Jerry Speyer said of his son. "He has great vision, wonderful people skills, and above all, he loves what he does."

The two men quickly divided up a list of courtesy calls, with Jerry taking Mayor Michael R. Bloomberg and Rob reaching out to Daniel R. Garodnick, a lifelong resident of Stuyvesant Town-Peter Cooper Village and a newly elected city councilman. Rob assured Garodnick, "There will be no dramatic shifts in the community's makeup, character or charm."

But Garodnick did not greet the news with the same breathless enthusiasm as the *New York Post*, Wall Street, city hall and the Speyers' fellow private equity moguls, who never seemed to want for cash for the next deal. Sure, MetLife would make $3 billion after taxes, fourth-quarter profits would soar and its stock would hit a fifty-two-week high. Mayor Bloomberg would endorse the Speyers' takeover and Robert White, founder of Real Capital Analytics, a research and consulting firm, would declare Stuyvesant Town an "irreplaceable property," saying, "It would be impossible today to get a property of that scale in an urban location."

Garodnick, a smart, handsome, dark-haired lawyer who had grown up in the complexes, was not concerned about corporate profits. For nearly sixty years, Stuyvesant Town-Peter Cooper Village represented a relatively affordable opportunity for construction workers, firefighters, designers, small-business owners and others to live in ultra-expensive Manhattan and raise their children. But all that seemed to be in jeopardy during this real estate boom in 2006. The "average" two-bedroom, one-thousand- square-foot condominium in many Manhattan neighborhoods was selling for more than $1. 2 million. Residential life in the borough was drifting increasingly outside the grasp of middle- class families.

Garodnick worried that the extraordinary price paid by the Speyers would force them to oust longtime residents in favor of younger, more well-heeled tenants willing to pay rents that were 30, 40 or 50 percent higher. He was at his office at 250 Broadway, across from city hall, when Rob Speyer called. The two men had never spoken before.

Unlike the other bidders, Speyer had not contacted the tenant association or Garodnick prior to buying the complex. Speyer was both cordial and polite, telling the councilman that Tishman Speyer had no plans to make radical changes in the way Stuyvesant Town was run. He assured Garodnick that his intention was to be a proper steward of the property and to do right by the twenty-five thousand current residents.

Garodnick was encouraged. Tishman Speyer, after all, had a well-burnished reputation and might be a better landlord than some of the other bidders. But after an exchange of pleasantries, he asked about specific terms. He asked what his plans were for preserving the long-term affordability of the complexes. He felt Rob avoided the question other than to say he was open to any ideas.

"I thought, 'This is going to be a problem,' " Garodnick recalled. "I wanted to hear their plan for long-term affordability, and he didn't have one. Their plan was the opposite of long-term affordability. He said there wouldn't be any major changes, but when we saw him raining legal notices on tenants we realized we were in for a struggle."

Rob Speyer's relationship with Garodnick would be a source of endless frustration. The son of a lawyer and a public school teacher, Garodnick's life and career were inextricably bound to Stuyvesant Town, where legions of MetLife security guards shooed children off the carefully cropped grass, while the playgrounds offered seemingly endless rounds of kick ball, punch ball, basketball and baseball. As a teenager, one neighbor in his building taught him gin rummy and another tutored him in Spanish. He couldn't imagine a better place to grow up.

There was, however, an original sin in the creation of this idyllic community back in the 1940s. After razing an entire neighborhood of hundreds of tenements, factories and shops, MetLife by 1947 displaced more than ten thousand city residents, most of whom were forced to seek shelter in substandard housing elsewhere in Manhattan because they could not afford even the reasonable rent at the new complexes. Moreover, MetLife very publicly refused to rent apartments to African-American and Hispanic families. A remarkable group of tenants and their supporters battled MetLife's discriminatory policies in the late 1940s, disrupting the regimented environment established by the insurance company. But it would be more than twenty years before more than a handful of minorities could call it home.

The twenty-five thousand tenants ranged from the now- elderly residents who moved into the complexes on opening day in 1947, to second- generation families, workers from nearby hospitals and newcomers with tots in tow, as well as recent graduates of New York University. The vast majority of residents were protected by the city's rent regulations, which limited rent hikes in any one year. That was what made Stuyvesant Town affordable for a middle- class couple raising children in Manhattan. In 2006, rent regulations were the fiercely guarded salvation of the original residents, many of whom lived on fixed pension and social security benefits.

While many of his contemporaries were playing basketball at Playground 9 or rounding the bases during a Little League game, Garodnick had spent hours in the smoky rooms of the Jefferson Democratic Club on East Twenty-First Street, across First Avenue from Stuyvesant Town-Peter Cooper Village. His desire to run for public office was born in those rooms on open- house nights, when local residents would arrive desperate for help with problems large and small. He recognized that his political ambitions were tightly woven into the complex, whose residents voted in large numbers and almost always Democratic.

In the days after buying the complex, Rob Speyer also put in a call to Alvin D. Doyle, the tall, burly man with a salt-and-pepper brush mustache who headed the Stuyvesant Town-Peter Cooper Village Tenants Association. Like Garodnick, Doyle was a lifelong resident of the complexes. His mother and father, a newspaper reporter and a returning World War II veteran, were among the complex's original tenants.

Doyle's friends sometimes kiddingly called him "Fidel." He did not get the nickname because he delivered fiery, three-hour diatribes on the tenants' inevitable triumph over powerful landlords. It was simply a reference to his sixteen-year tenure as president of the tenants association, no easy task in a complex with 25,000 residents and perhaps 25,001 different opinions. But his calm, cautious and soft-spoken demeanor inspired trust and gave him the ability to bridge the gap between militant and more timid tenants.

He and Garodnick formed a Mutt and Jeff team on behalf of the tenants, with Doyle towering over the smaller Garodnick, who was nonetheless the more voluble character in this duo. On a brilliant fall afternoon a couple of years ago, Garodnick had stood next to a card table covered with leaflets on the grassy oval at the center of Stuyvesant Town, answering questions from dozens of tenants about the fate of the complex. As Garodnick patiently responded to every query, Doyle sat on a bench fifty feet away, consciously avoiding the spotlight. "I try to avoid it," Doyle explained. "I always thought you could get more done behind the scenes than you can get done in the spotlight."

Garodnick and the tenants association, its ranks ballooning with residents' fears of rent hikes and evictions, had enlisted support from New York's political establishment, including United States senators Charles Schumer and Hillary Clinton, Congresswoman Carolyn Maloney and city council speaker Christine C. Quinn. Their political muscle helped the tenants association submit its own $4.5 billion bid for the property, despite MetLife's initial desire to lock them out of the sale process.

In a city of renters, the real estate boom in the early 2000s was prompting not only poor and working-class but also middle-class New Yorkers to wonder how much longer they could afford to make their home in one of the five boroughs. The real estate titans who had spent billions grabbing glamorous landmarks like the General Motors Building in New York and the Sears Tower in Chicago or building glassy condominium towers had turned their attention to brick, "meat-and-potatoes" tenements, unabashedly paying previously unheard of prices to unlock future profits as they accumulated thousands of apartments and boosted rents from New York to Chicago and San Francisco. In 2006, Mayor Michael R. Bloomberg would declare that MetLife had every right to sell Stuyvesant Town to the highest bidder, despite the very real public investment in the project by an earlier mayor, Fiorello H. La Guardia.

But many others decried the fact that easy credit and the real estate boom had turned a valuable urban resource, housing built with a sizable public investment for the middle class, into a commodity no different than corn futures. "Stuyvesant Town was a national model for middle- class people in an urban setting," said John H. Mollenkopf, director of the Center for Urban Research at the Graduate Center of the City University of New York. "It wouldn't have happened without eminent domain and favored tax treatment. It's disingenuous to say there's no public interest in what happens to housing."

Senator Charles Schumer sounded a similar theme when he addressed a tenant rally on the steps of city hall before the first bids were submitted. “When MetLife hung the ‘for sale’ sign on the doors of Peter Cooper Village and Stuyvesant Town, all New Yorkers, particularly those in the middle class, should have been troubled by the news,” he said. “We need to do everything to preserve this vital stock of affordable housing.”

The speculators and their Wall Street financiers, however, turned even their plain brick buildings into another commodity ripe for speculation. Perhaps the stage was set not long after MetLife converted in 2000 from a mutual company owned by policyholders to a corporation owned by stockholders with a keen eye on the bottom line. It was then that a plaque commemorating the vision of Frederick H. Ecker disappeared from the oval at the center of Stuyvesant Town. Ecker was the MetLife chairman who led the effort to build Stuyvesant Town and tens of thousands of other apartments in New York, Virginia and California for the middle class. The plaque’s inscription harkened to a bygone era when Ecker and MetLife conceived of a project where “families of moderate means might live in health, comfort and dignity in park-like communities and that a pattern might be set of private enterprise productively devoted to public service.”

So after a visit to see Rob Speyer at Tishman Speyer’s impressive offices at Rockefeller Center, Doyle experienced as ominous a feeling as Garodnick had about the future of Stuyvesant Town and the tenants. Speyer asked Doyle and several other tenant leaders who were at the meeting to put aside their misgivings. “In another year, you guys will be happy how we turned things around,” he said. “We pride ourselves on service.”

Although Speyer exuded the confidence of a successful businessman, he did not allay their fears. “Other than saying he would turn the place around, he did not make any comments about searching for ways to keep the place affordable,” Doyle recalled years later. “He really couldn’t do that because he had to make the mortgage payments. We were cognizant of that fact.”

From the beginning, Rob Speyer and the tenants were locked in a battle in which neither side ever spoke the same language as the greatest real estate deal of all time devolved over three years into one of the biggest business failures of all time. The tenants would file lawsuits, attack Rob Speyer for trying to evict what he claimed were unlawful tenants and even scorn his $19 million beautification program that introduced more trees, shrubs and perennials to the grounds.

At the same time, as tenants died or moved away, Speyer and his partners converted previously rent-regulated apartments to market rents, thus generating desperately needed revenue. They could not, however, convert enough apartments fast enough to cushion the crushing debt they had placed on the property. The legal battles, the landscaping and the conversions, which required more than $50,000 per apartment for installing granite countertops, stainless steel appliances and other renovations, all cost money, lots of it.

Instead of appreciating rapidly as his business plan predicted, the estimated value of Stuyvesant Town-Peter Cooper Village plummeted. In October 2006, Tishman Speyer and BlackRock valued the properties at $6.3 billion. Within two years, it was valued at $1.9 billion after the collapse on Wall Street in September 2008. The subsequent recession wiped out billions of investors’ dollars. Rob Speyer and other moguls who bought and sold properties between 2005 and 2008 blame their gut-wrenching troubles on one of the most severe recessions in the country’s history and a sharp 20 percent decline in the average rent in Manhattan.

After all, Tishman Speyer was in good company with other commercial and residential landlords who expanded rapidly in this period only to default on tens of billions of dollars in loans. Maguire Properties, once a dominant developer in Southern California, was crippled by the demise of the subprime mortgage industry in Orange County. In New York, the real estate mogul Harry B. Macklowe lost seven office towers he bought from Blackstone, along with the General Motors Building and much of his empire, after he was unable to refinance the $7 billion in short-term, high- interest debt he used to buy them. Well-regarded companies like the Extended Stay Hotels chain and the national shopping center developer General Growth Properties, which owned the South Street Seaport in New York, the Faneuil Hall Marketplace in Boston and Ala Moana Center in Honolulu, tumbled into bankruptcy under the weight of their recently accumulated debts.

But the Stuyvesant Town-Peter Cooper Village deal became the poster child for the first great economic bubble of the twenty-first century, a period in which tens of billions of dollars from insurance companies, pension funds and sovereign funds poured into real estate deals in every part of the country with the expectation that prices and values would soar forever, or at least until the property could be sold at a fat profit.

The collapse of the Stuyvesant Town-Peter Cooper Village deal and a legion of other celebrated deals from that era were brought on by far more than the vagaries of the real estate market.

Buyers were indiscriminate. They wanted trophy office buildings, see-through glass apartment towers designed by starchitects, shopping centers, golf courses and even a bunch of red brick tenement- like buildings at Stuyvesant Town.

The $6. 3 billion acquisition, like so many at the time, required a financial leap of faith and a total disregard for worst-case scenarios by buyers, lenders and investors. Buyers once priced properties based on a multiple of existing cash flow. By that calculus, real estate experts said that the two Manhattan complexes would have generated a $3 billion or even $3. 5 billion price. But buyers were operating in the Wall Street casino.

Buyers were looking to the future, building models of anticipated cash flow. Tishman Speyer and BlackRock's winning $5.4 billion bid, and even the tenant association's own $4. 5 billion offer, reflected the new math. They did not expect a profit for years to come. The business plan projected that income would triple to $330.9 million by 2011, mainly by converting rent-regulated apartments to market rents. But almost every single assumption in their pro forma calculations proved wrong. Net income amounted to only $138 million in 2009, less than half the $284.4 million in annual loan payments on the $4.4 billion in debt ladled onto the property.

Wall Street was only too happy to fuel a speculative deal that required lenders and investors to believe that everything would go according to plan. Everyone was in on it. For a fee, the banks provided billions of dollars in mortgages for property with cash flow that did not even begin to cover the payments on interest-only loans. Instead of holding the loans on their balance sheets, Goldman Sachs, Lehman Brothers, Merrill Lynch, Wachovia and other banks bundled a set of individual mortgages and transferred them to a trust, which issued bonds or securities. The securities, in turn, got a seal of approval from Fitch Ratings, Moody's Investors Service and Standard & Poor's, bond rating agencies paid by the banks, and were sold to investors for still more fees. With no stake in the mortgage, the banks had little financial incentive to ensure that the deal made sense and the borrower could repay the debt. Instead of profits, the biggest real estate deal in history ended in default, which, if you were objectively looking at the deal at the time it was made, was the most likely outcome by far.

The apartment complexes, hotels, shopping centers and golf courses financed and refinanced during the boom ultimately changed hands after emerging from bankruptcy court. But deals like the one at Stuyvesant Town-Peter Cooper Village also tore at the social fabric of cities like New York, where working and even middle- class tenants increasingly found themselves priced out of a market as longtime affordable havens became targets of speculation. The pension funds that poured money into Stuyvesant Town-Peter Cooper Village essentially cooperated in displacing residents who were very much like their own pensioners: municipal clerks, teachers, police officers and small-business owners. The tenants in New York and investors from Florida to California, England and Singapore would feel the consequences from a roller-coaster ride in real estate values that would rival anything at a Coney Island amusement park. The losses by public employee pension funds would ripple into city budgets and the lives of retired teachers whose retirement funds faced life-altering shortfalls.

The story of New York City throughout the centuries is by and large the story of real estate. Even the epic social history of Stuyvesant Town-Peter Cooper Village and the extraordinary financial deal of 2006 fit into that story line. But, as we shall see, the Wall Street financiers and many deep-pocketed investors could be a forgiving bunch. Especially when the deals are done with other people's money. Even as Jerry and Rob Speyer wrote off their $56 million investment in Stuyvesant Town-Peter Cooper Village and walked away from the property in 2010, their company had already raised over $2 billion for a new real estate fund. A company spokesman was emphatic: the default had no effect on Tishman Speyer. Their partner also came out unscathed. By the last quarter of 2010, BlackRock, the world's largest asset manager, reported record earnings.

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