

Fighting the Landlords from Stuy-Town to Detroit

August 18, 2013

Books reviewed:

Charles V. Bagli, *Other People's Money: Inside the Housing Crisis and the Demise of the Greatest Real Estate Deal Ever Made* (Dutton, 2013).

Laura Gottesdiener, *A Dream Foreclosed: Black America and the Fight for a Place to Call Home* (Zuccotti Park Press, 2013).

In October 2006, the New York City-based real estate firm Tishman Speyer won the right to pay \$5.4 billion for the sprawling Stuyvesant Town-Peter Cooper Village complex on Manhattan's East Side, where more than 11,000 apartments — then mostly rent-stabilized — housed more than 25,000 residents. Add \$240 million in acquisition costs and \$650 million in reserve funds for contingencies and the total \$6.3 billion cost for the iconic near-waterfront property was the biggest residential fish ever landed. The price alone made it a trophy, and the bidding war that took place for the property offers a prime example of the Grand Casino temper that pervaded the real estate industry on the eve of the Great Recession.

The sale also illuminates the risks to existing tenants of a threatened conversion of affordable housing to market rates. On top of that, it underscores the dangerous absence of a sane national housing policy in a context where homelessness is rife and even middle-income renting tenants — the schoolteachers, nurses, police, firefighters, young families and the elderly who traditionally populated the complex — are at risk.

Within 18 months of the purchase, the complex's value had plummeted by half and Tishman Speyer was paying more on mortgage repayment than it was receiving from rents. After eating through its reserve funds by January 2010, Tishman Speyer defaulted on the mortgage, making it the largest commercial mortgage default in U.S. history. It avoided bankruptcy by handing the complex to its creditors, and in the process, lost nothing.

As *New York Times* reporter Charles V. Bagli writes in *Other People's Money: Inside the Housing Crisis and the Demise of the Greatest Real Estate Deal Ever Made*, it was what the trade calls OPM, or other's people's money, that was lost, mostly in investments from pension funds that were then bundled and sold as mortgage-linked securities. With many mortgages shaky, these securities made for a toxic stew, and that practice nationwide fed the housing collapse and the onset of the Great Recession in late 2007. Bagli's book is key not only in charting the decline of middle-income housing in New York City, but also for laying bare how shabbily the real estate game is played and how socially irresponsible the players are.



The deal, as Bagli shows in detail in this example of the still-fresh utility of long-form journalism, could only have worked through another trade slogan: “aggressive management.” That would mean evicting rent-subsidized tenants, who were ostensibly subletting illegally but were in many cases the legitimate renters, and turning the property into market-rate housing. Building towers on the green spaces, themselves among the complex's signatures, was another part of the plan.

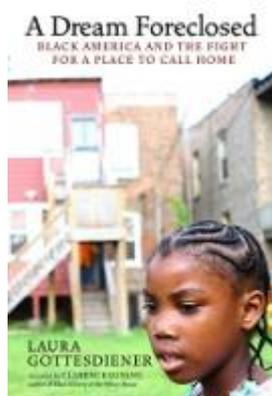
But among the impediments to the grand scheme was a strong tenants association. Add to that the dubiousness of marketing the complex — which lacks doormen, and for the Stuyvesant Town component, two-bathroom apartments — as luxury rentals. It also presupposed no interruption in the then-booming housing market.

As Bagli writes, “Wall Street lenders were willing to lend 70, 80, even 90 percent of the property’s value, making a bet that the real estate boom would continue. The change in approach on underwriting fueled a surge in prices. Why not? The mortgages quickly dropped off their balance sheets, after being combined with other loans into a security and sold to other investors. On the first day a new landlord took over [the complex] the rental income wouldn’t even cover the debt service. But buyers, lenders and investors imagined that revenues would increase quickly in an ever-rising market.”

When in October 2009, the state Court of Appeals ruled in a lawsuit initiated by the tenants that MetLife, the seller of the complex, and its new owners were double-dipping by charging market-rate rents for thousands of apartments while taking special tax breaks from a city housing program meant to keep rents affordable, Tishman Speyer walked away from the properties.

With the complex under new management and efforts by the tenants association to buy the property underway, the tenants are secure for the moment. However, the underlying problem of debt outstripping rental income remains.

While Bagli mostly focuses on the big players in the housing market, Laura Gottesdiener writes in *A Dream Foreclosed: Black America and the Fight for a Place to Call Home* about the grassroots side of it. Focusing on the epidemic of homelessness caused by the ruin of formerly stable low-income communities through foreclosures, evictions, gentrification and the leveling of public housing, she pays specific attention to four families in Sanford, N.C., Chattanooga, Tenn., Detroit, Mich. and Chicago, Ill. The latter is the scene of a burgeoning anti-eviction movement.



While her case studies may seem different from Bagli’s, the context is the same. Gottesdiener’s is a wrenchingly effective and brilliantly informed tone poem — one only awaiting orchestration — about the consequences of the housing crisis on the poor, the psychic harm done to people without a home and the power that comes from fighting back. Where Bagli shows the systematic stupidity of those involved in the mammoth New York deal, Gottesdiener demonstrates the deceitfulness of the mortgage industry, its predatory lending practices and racial steering not only of property but of mortgage rates at a time when all levels of government are moving away from supporting — if not sabotaging — public housing.

Like Bagli’s, Gottesdiener’s book is thoroughly researched, including extensive interviews and use of material from the invaluable Center for Responsible Lending. Unlike Bagli, she focuses on the families themselves and how they transformed from being powerless objects of a fraudulent system into active agents and even leaders in a series of fightbacks.

With all of their rich detail, neither book is obviously prescriptive. While Bagli portrays the tenants’ leaders and local officials — especially Councilmember Dan Garodnick, a lifelong Stuyvesant-Town Peter Cooper resident — as bullheadedly determined to give the tenants voice in any management decision, he leaves much of it at the level of voicing legitimate tenant dissatisfaction, including the well-founded suspicion that any improvements in the property would come at their expense. His recounting of the failed attempt to make a tenant-backed counteroffer and the ongoing push of activists to effect legislation and enforcement of strong rent-regulation laws is rich in detail. Yet it’s

hard to find strategic lessons in his work, at least when the case is made so well that the impetus for the sale was in retrospect a kind of hubristic madness abetted by a feral political economy. In the best of circumstances, the sale's success was a long shot, which Bagli masterfully shows.

Gottesdiener, whose writing is informed by her commitments as an Occupy activist (the book is one of a handful of small works by the start-up Occupy-inspired Zuccotti Park Press) emphasizes "land reclamation" and direct action as the outcome of the work of those she profiles so well. She is better at imagining a just future in the corrupted present than in framing the mechanics of building those bridges to the future. These aren't necessarily weaknesses in books by authors who cover their topics so well. Both lay excellent groundwork for readers and are plainly key texts for anyone looking to understand why housing in the United States is in crisis today and will likely continue absent mass upsurges for housing justice. It's the strategic getting there that's the tricky part.

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