

Snatching buildings new way isn't easy

Hidrock scores by buying mortgages

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Late last month, Hidrock Realty Inc. took control of a 16-story office building at 960 Fifth Ave. the new way—buying up a distressed mortgage at a discount and then foreclosing on the borrower.

It may sound simple, but it's not. In fact, hundreds of real estate investors are trying to duplicate the success achieved by Hidrock and a few others but are struggling to overcome a series of unexpectedly high barriers.

Contrary to widespread forecasts, few distressed mortgages have come up for sale, and the limited supply has driven up prices. Additionally, there is very little public information on the properties that the mortgages are financing, and foreclosing on an owner can mean years of expensive legal wrangling.

"Buying a building through foreclosure is not a day in the park," says Robert Knakal, chairman of Massey Knakal Realty Services.

It's no wonder investors continue the hunt. Hidrock bought its prize at a 62% discount to what the previous owner paid in 2007 and a 33% discount to what Hidrock estimates the property is worth today.

Banks taking a hit

With hundreds of financially distressed buildings in New York, many investors thought pickings would be plentiful as lenders, eager to get soured loans off their books, flooded the market with defaulted mortgages. Instead, regulators failed to pressure banks to unload the mortgages. Banks have held on, hoping the borrowers will be able to pay.

Recently, however, banks have been offering to sell more mortgages. Lenders' strengthening balance sheets mean they are able to take more of a financial hit, while the improving real estate market means the hits aren't so large, since prices are increasing.

Still, investors may have trouble learning about the few buildings whose loans are coming up for sale. In a traditional building sale, the owner offers bidders reams of information. Banks, on the other hand, typically don't update information on properties they finance. All they can offer potential mortgage buyers are statistics from when a loan was made that may not reflect changes to a building's rents or occupancy. Meanwhile, distressed-property owners certainly have no incentive to help anyone trying to buy a building out from under them.

In fact, many distressed-building owners may wage expensive legal battles to hold on. For example, when SL Green Realty Corp. moved to take over 100 Church St. last year, owner The Sapir Organization quickly filed a lawsuit to block the effort. SL Green ultimately prevailed. Currently, the developer is in a court fight to wrest control of 510 Madison Ave. from The Macklowe Organization.

"Buying [a distressed mortgage] is so much more complicated than buying a building outright, since there are many more unknowns," says Abraham Hidary, president of family-owned Hidrock. "This was difficult to do, but I'd do it again."

Keeping a close watch

For Mr. Hidary and other real estate executives who know the local market intimately, that is an easier decision to make. Hidrock already owned six buildings in the area around 960 Sixth Ave. Even better, the company had bid on the tower in 2007, and Mr. Hidary had watched the building undergo extensive renovation in 2001 from the window of his office.

"I've had my eye on that building for a long time," says Mr. Hidary.

That's why Mr. Hidary says he was comfortable paying \$40 million to France's Société Générale for the note—a sum many saw as too high for an all-but-empty office building in the middle of a depressed real estate market. Today, he estimates it would take \$3.5 million to upgrade his new building for office tenants. He's also considering turning it into a hotel, which he calculates would cost about \$20 million and take a year. He expects to make a decision within the next month that could also involve an office/hotel combination.

According to published reports, the building's former owner, Italy-based Statuto Group, also toyed with the idea of turning the property into a hotel after purchasing it for \$105 million. Others said the company planned to charge \$60 a square foot for office space—a rate it never achieved.

Statuto's lawyer declined to comment, and the company could not be reached.

Unable to keep up with its loan payments, the company put up little resistance to Mr. Hidary's foreclosure action.

"The folks in Italy recognized the reality of the situation," says Neil Tucker, Mr. Hidary's lawyer.



IN THE HUNT: Abraham Hidary and his father, Jack, have had success in a tricky real estate game.