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New York’s upstart investors find big profit

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By Adam Pincus

From left: Jeff Kaye and Rob Morgenstern

As New York City sales began recovering from the paralyzing real estate downturn, scores of investors worldwide launched companies and funds to buy up what they expected would be a windfall of distressed assets here, with billions of dollars of global wealth competing to back them.

But these newcomers faced competition for properties from aggressive, established buyers such as SL Green Realty, Extell Development, Thor Equities and the Chetrit Group.

Still, a few new companies have succeeded in landing significant deals and cobbling together portfolios since the recession. This month, The Real Deal used data from the research firm Real Capital Analytics to identify 10 new players that have spent at least $80 million buying two or more New York properties since 2010.

Some of these new companies have founders with decades of experience in New York City real estate. Jeffrey Kaplan, who launched Meadow Partners, was at the private equity giant Westbrook Partners. And Douglas Eisenberg left Urban American, one of the largest owners of rent-regulated apartment buildings in the New York area, to start A&E Real Estate in 2011.

Others are upstarts hungry to make their mark on the industry. Sam Schneider, 35, and Daniel Glaser, 29, for example, are former Eastern Consolidated brokers who launched Imperium Capital in 2010.

Many of these new firms said their biggest challenge is not finding investors, but sourcing deals in a crowded market.

“There are millions of companies starting,” Schneider said. “The money is not the issue — it’s getting control of the properties.”

To beat the competition, some of these new players seek out off-market deals and focus on properties less than $50 million. Deals that size are “under the radar of the big players,” said Mody Kidon, chairman of three-year-old Alto Investments.

Now, for a closer look at these up-and-coming investors.

Meadow Partners
Founded: 2009
Principals: Jeffrey Kaplan and Timothy Yantz

From left: Jeffrey Kaplan and Timothy Yantz

Jeffrey Kaplan, 47, and Timothy Yantz, 34, left Westbrook Partners in 2009 to launch the opportunistic investment firm Meadow Partners. Meadow closed its first fund, which raised$200 million, in 2009, and is about halfway through raising a second fund with a target of $400 million. Since 2010, the young company has acquired over $530 million worth of New York City assets. In a joint venture with Madison Capital, Meadow bought 655 Fifth Avenue, a prime retail asset fully leased to the luxury store Salvatore Ferragamo. And Meadow partnered with Benjamin Shaoul's Magnum Real Estate Group to buy seven East Village buildings with 115 residential apartments and retail for a total of $25.1 million. In April, they sold the portfolio to a group led by the Kushner Companies for $49 million.

Meadow has an unusually diverse investment strategy, acquiring real estate assets through a variety of ownership structures: as a direct owner, a non-managing equity partner or through distressed debt. That's similar to the wide-ranging approach the principals took at Westbrook, Yantz said, but they're now focused on New York City rather than deals around the world.

"We are taking that institutional background and applying it on a local level," Yantz said.

Because well-publicized deals often attract buyers with access to "cheaper capital than us," Yantz added, Meadow looks for off-market sales. That means "calling everyone from lawyers to title agents to leasing brokers to find deals," he said.

And while Westbrook typically invested in transactions above $100 million, Meadow focuses on deals under $75 million, where there are more opportunities, Yantz said.

At that price point, "the market is less efficient," he said. "A lot of sellers are legacy owners who have not been incented to invest in their property."

Meadow, which is looking to hire its 15th employee, has encountered some challenges. In August 2010, the firm paid Joel Wiener's Pinnacle Group $35 million for a 70 percent interest in an eight-building, rent-regulated portfolio. Meadow then wanted to sell the properties, but claimed in a February lawsuit that Pinnacle was blocking that effort. The suit has been resolved amicably, Yantz said.

A&E Real Estate

Founded: 2011

Principals: Douglas Eisenberg and several others, who were unidentified

Some real estate firms beg for attention from the media. Others, such as A&E Real Estate, do their best to stay under the radar. Its founder, Douglas Eisenberg, declined to comment for this article and has refused to identify the other principals. The firm, which focuses on rent-regulated apartment buildings, doesn't even have a website.

Eisenberg worked for years as a principal in Urban American, his family's multi-family apartment business. Launched by Eisenberg's father, Philip, the New Jersey–based firm was one of the most active buyers of rent-regulated housing during the mid-2000s.

Douglas left the family firm in 2011, and since then his new company has purchased at least $433 million in apartment buildings in Manhattan and Brooklyn, data from CoStar Group revealed. For example, A&E partnered with AllianceBernstein US Real Estate Partners last year to buy the 113-unit residential rental building 393 West End Avenue in Manhattan for $55.6 million. A few months later, the partners sold it for $68.3 million.

A&E, headquartered at 1065 Sixth Avenue, has typically done deals directly with property owners or through "quiet-brokered" offerings, which have limited marketing. But the firm has also bought and sold apartment buildings through large firms such as CBRE Group.

Imperium Capital

Founded: 2010

Principals: Sam Schneider and Daniel Glaser

Since Sam Schneider, 35, and Daniel Glaser, 29, founded Imperium Capital in 2010, they've completed a string of mostly off-market Manhattan acquisitions totaling $342.5 million, according to RCA. The new firm has also partnered with some of the largest real estate companies in the city, including Laurence Gluck's Stellar Management and the Chera family's Crown Acquisitions.

To do this, Schneider and Glaser have leveraged connections they made while working at now-defunct developer KMG Partners, then later as brokers at Eastern Consolidated.

In fact, Glaser said, working at Eastern Consolidated helped them formulate a broker-like "hunt and peck" strategy for sourcing deals.

"We brought the broker mentality to the principal side of the business," he said.

For example, in May 2012 Imperium partnered with Gluck to buy two Soho office buildings — 16-story 161 Sixth Avenue and 10-story 233 Spring Street — for about $200 million.

Glaser and Schneider had known the owner for years, Glaser said.

"We kept in touch, and for [the seller's] own reasons, he decided it was time to sell," Glaser said. At that point, Imperium brought the deal to Gluck, who they'd talked to about other deals, none of which panned out. This time, Gluck jumped at the chance.

Imperium has also done high-profile retail deals, such as the December 2011 purchase of the Soho Apple store building at 103 Prince Street for $70.85 million. Imperium partnered with Crown and Centurion Realty on the deal.

Imperium, headquartered at 512 Seventh Avenue, now has seven employees.

East End Capital Partners

Founded: 2011

Principals: Jonathon Yormak and David Peretz

Jonathon Yormak, 41, and David Peretz, 34, both worked at Broadway Partners before the aggressive investment firm lost most of its holdings during the recession. In early 2011, the two went out on their own, launching Midtown-based East End Capital. East End has moved quickly since then, snapping up deals in Manhattan valued at $329.8 million.

In each transaction, East End has obtained equity from GreenOak Real Estate, a new Midtown-based investment fund. (Yormak said GreenOak has been a "fantastic partner," but that theirs is not a formal partnership, and East End may do deals with or without GreenOak in the future.)

East End's strategy, like many new investors, is to acquire under-performing assets and reposition them. For example, East End and GreenOak joined with another partner, Aby Rosen's RFR Realty, in December to buy the 550,000-square foot Young & Rubicam building at 285 Madison Avenue. The partners, who paid $189 million for the building, expect to invest another $100 million in rehabilitations and upgrades, then re-lease it after the advertising agency leaves, Yormak said.

"We asset and property manage," Yormak said. "We do everything, soup to nuts."

That strategy worked out well at 256 West 38th Street, a half-empty Garment Center building that East End purchased for $30 million in 2011. After millions in renovations, the company landed women's clothing retailer Caché for a 10-year lease deal in early 2012, bringing occupancy up to nearly 90 percent. East End sold the building late last year for $48.6 million. Yormak said he expects the firm to buy $200 million worth of real estate in New York this year.

Silverstone Property Group

Founded: 2009

Principals: Martin Nussbaum, Joshua Zegen and Brian Shatz

Silverstone Property Group was launched in the depths of the downturn to take advantage of distressed properties. To form the company, Martin Nussbaum, 37, of Atlantic Realty Development, partnered with Joshua Zegen, 38, and Brian Shatz, 37, co-founders of the Midtown-based lender Madison Realty Capital. The companies remain closely affiliated; Silverstone and Madison Realty share an office at 825 Third Avenue, as well as some employees and resources.

The trio thought forming a brand new company would make them more nimble than established investors, who would need to manage the troubled pieces of their portfolio.

"We had the opportunity to work fresh and spend 100 percent of our time working with new assets," Nussbaum said.

Silverstone, which now has 25 employees, has acquired 15 properties worth some $273 million since 2010. Most of its holdings are mid-size apartment buildings in Manhattan and Brooklyn.

The firm has had at least one home-run sale so far. In January 2011, Silverstone purchased 157-159 Suffolk Street on the Lower East Side, an apartment building with ground floor retail, for $8.8 million. Then it sold the 33-unit building for $18 million last December, doubling its original purchase price in less than two years.

Buying buildings has since become more difficult, now that "the market is getting a little bit more expensive," Nussbaum said.

"We like Manhattan in general and Brooklyn in general," he said, "but we are definitely more cautious in the way we underwrite."

Stone Street Properties

Founded: 2011

Principals: Robert Morgenstern and Jeffrey Kaye

As the city recovered from the recession, residential broker Robert Morgenstern and Gotham Organization vice president Jeffrey Kaye figured apartment buildings would be coming to market, and thought it was a good time to start buying them. Since the two launched Stone Street Properties in January 2011, RCA shows that the Midtown-based firm has spent some $229 million to buy 29 Manhattan and Brooklyn buildings containing nearly 800 apartments.

Morgenstern, 38, and Kaye, 40, decided to stick with what they know, so Stone Street focuses on acquiring and managing residential apartment buildings, handling rentals in-house.

Rather than buying these buildings individually, Stone Street has purchased several portfolios, twice with Meadow Partners (see above). Stone Street has also partnered with the White Plains–based $5.6 billion investment fund Rockwood Capital and H.I.G. Realty Partners, the real estate arm of the global investment giant H.I.G. Capital.

They were a bit surprised at how quickly they were able to acquire properties, Morgenstern said.

"We did not expect to get this quickly to this phase," he said.

And Stone Street has its eye on even more properties: The 13-person firm expects to buy another 400 Manhattan apartment units by the end of the year, Kaye said.

Trevi Retail

Founded: 2011

Principal: Johnny McCarthy

Trevi Retail has made quite a splash since it entered the New York retail market in 2011.

Founded by former Vornado Realty Trust executive Rockie Gajwani, Trevi stayed under the radar at first, but slowly gained attention as it snapped up small and medium-size retail locations in Manhattan. With the financial backing of Iowa-based Principal Financial Group, Trevi completed 17 transactions in Manhattan last year, acquiring $162 million worth of retail properties, according to RCA. The properties are widely scattered among the borough's shopping districts, with concentrations in Chelsea, Greenwich Village and the Upper East Side.
But in March, the firm placed Gajwani on administrative leave after allegations that he pilfered money from a subsidiary of Principal Financial; he is no longer with the firm.
Despite the accusations against Gajwani, the firm is plowing ahead on deals and maintains its relationship with Principal, according to Johnny McCarthy, the firm's chief investment officer and current head.
"We are currently focused on continued growth," McCarthy said, though he declined to comment about Gajwani.
Trevi is in contract to buy a property priced from $10 million to $15 million, he said, adding that the deal should close within the next two months.
Gajwani could not be reached for comment.

Walnut Hill Group
Founded: 2010
Principals: Albert Hwang, Jimmy Park and Stephen Yang

The founders of Walnut Hill Group all left more established companies to launch the San Francisco–based real estate investment firm. Albert Hwang, an attorney, decamped from the law firm Troutman Sanders; Jimmy Park had been at private equity firm Beacon Capital Partners; and Stephen Yang came from Square Mile Capital Management, also a private equity firm.
The four-person firm has made two mid-size investments in Manhattan since 2011, both with partners. First, in an off-market transaction, it paid $43.8 million to buy an interest in the Holiday Inn Express hotel at 13-15 West 45th Street from an investor that wanted to sell its stake.
Then last July, Walnut Hill and an unnamed equity partner from Hong Kong paid $65 million for a 143,000-square-foot office building at 31 West 27th Street, in a deal brokered by Studley, Hwang said. The seller was Sharif El-Gamal's Soho Properties.
Walnut Hill is looking at several New York City deals now in an effort led by Yang but does not have anything under contract. The firm has acquired properties in California as well, yet about half of its investment value so far has been in Manhattan.
"I don't think of it as a disadvantage," Hwang said of the firm's West Coast location. "We are out there [in New York] once a month; we keep our nose in New York's business, for lack of a better phrase."
In fact, he said, some clients prefer their outsider status, especially their close ties to the technology industry in San Francisco. "A lot of sellers like us because we are not New Yorkers," he said. "We [are] the buyers from Silicon Valley, investing in Silicon Alley."

ClearRock Properties
Founded: 2009
Principals: Doug Winshall and Steve Grant

Tishman Speyer alum Steve Grant and Taconic Investment Partners' Doug Winshall teamed up to form ClearRock Properties in 2009. Based at 1221 Sixth Avenue in Midtown, the investment firm focuses on repositioning under-performing office buildings in New York City and throughout the Northeast.
This is not the first venture Winshall and Grant have launched together. In 1997, they founded the first New York office of landlord Trizec Properties, building a portfolio of 8 million square feet in just two years, before Grant moved to Tishman Speyer and Winshall headed to Taconic.
This time around, however, they don't expect to rush into a huge portfolio. In fact, it took some three years before they closed on their first New York City purchase: In February, ClearRock

paid Yeshiva University $87.5 million for two Manhattan office buildings, at 920 Broadway and 9 East 38th Street. Grant said his five-person firm beat out competing bidders in the deal because it approached the transaction somewhat differently than others. Yeshiva was selling a larger package of buildings, he said, and ClearRock offered to buy all of them at one time as a way to "minimize [Yeshiva's] transaction risk."

But while ClearRock closed on its portion of the deal, which was brokered by Massey Knakal Realty Services, it sold the contract to another firm, which bought the balance of the buildings, a source familiar with the transaction said.

"You hope to see something that others don't, that leads to a more creative approach about how to structure the transaction," Grant said.

He added that the firm is looking around for other acquisitions. "We have our eyes on many" properties, he said.

Alto Investments

Founded: 2010

Principals: Mody Kidon and Yaniv Melamud

Another retail-focused firm is Alto Investments, founded by Israel natives Yaniv Melamud and Mody Kidon.

Both have extensive experience in finance. Kidon spent 17 years investing in real estate in Israel. Melamud was head of private equity at Israel-based Harel Insurance Investments and Financial Services.

In 2010, the two launched Alto. Initially Kidon, 58, and Melamud, 40, raised money for acquisitions from private Israeli investors, then started a small fund.

The six-person company, headquartered in Tel Aviv, focuses on retail assets in the U. S., though it owns a few properties in other countries.

Alto looks for retail properties with vacancies, which allows the firm to buy them at a discount, fill them with triple-net-lease tenants, and then sell at a profit. For example, Alto partnered with an operator from New Jersey, Jacob Klein's Klein Group, to buy a retail condo at 200 West End Avenue for $31 million in July 2011. Two years later, the condo is fully leased, and the partners are in contract to sell the asset for $51 million, the company said.

Kidon said he is keenly aware of Alto's status as a newcomer, which has made him proceed with caution.

"I am just another [buyer] that is coming to the big city," he said. "I must be very modest, and understand there are a lot of huge players that know the game very well."

The firm has also purchased, by itself or with partners, three other Lower Manhattan retail properties — 111 Fulton Street, 20 Pine Street and 261 Broadway. Alto is now planning a second fund, with $100 million to $150 million, to buy properties in New York City, as well as metropolitan areas nationwide such as Chicago and Boston. The new fund, to be based in the Cayman Islands, will raise money from investors worldwide, Kidon said.

Alto plans to stick with retail but could branch into office properties. The company is now in the process of hiring a head of acquisitions for the U.S.