

MODERNIZATION A Special Issue

What turned this
vintage building
into such a hot
property? 6



David Teitelbaum and his consortium

FIGHTING THE FINANCIAL SQUEEZE

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At the time of an unprecedented housing shortage in New York City, one real estate report has estimated the housing potential of the hundreds of obsolete and under-occupied commercial or light manufacturing buildings—many of them in financial difficulty—to be over 100,000 persons in the borough

"THE RENOVATION of 111 Fourth Avenue would have never been possible without

PHOTO BY JERRY SUKAT



the expertise and connections of our consortium," says David Teitelbaum of Teitelbaum Holdings, Ltd. "Each one did more than his share and gave a little extra." The results of the consortium's efforts will be unveiled this month when model suites open.

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of Manhattan alone. Despite maximal interest on the part of numerous entrepreneurs wanting to take on potential projects, interest has been minimal on the part of the financial institutions which normally provide the funds for such construction, thus blocking any recycling potential.

Also, a lack of experience in this kind of work by many architects, managers, engineers and contractors, has been another source of difficulty, even though the projects may have passed the scrutiny of the lenders and reached the actual construction stages.

Frustrated by the problems of obtaining financing, one individual, David Teitelbaum, has taken matters into his own hands and, possibly uniquely, arranged his own all-cash financing through private European investors for the operations of his firm, Teitelbaum Holdings, Ltd.

Well "suited" project

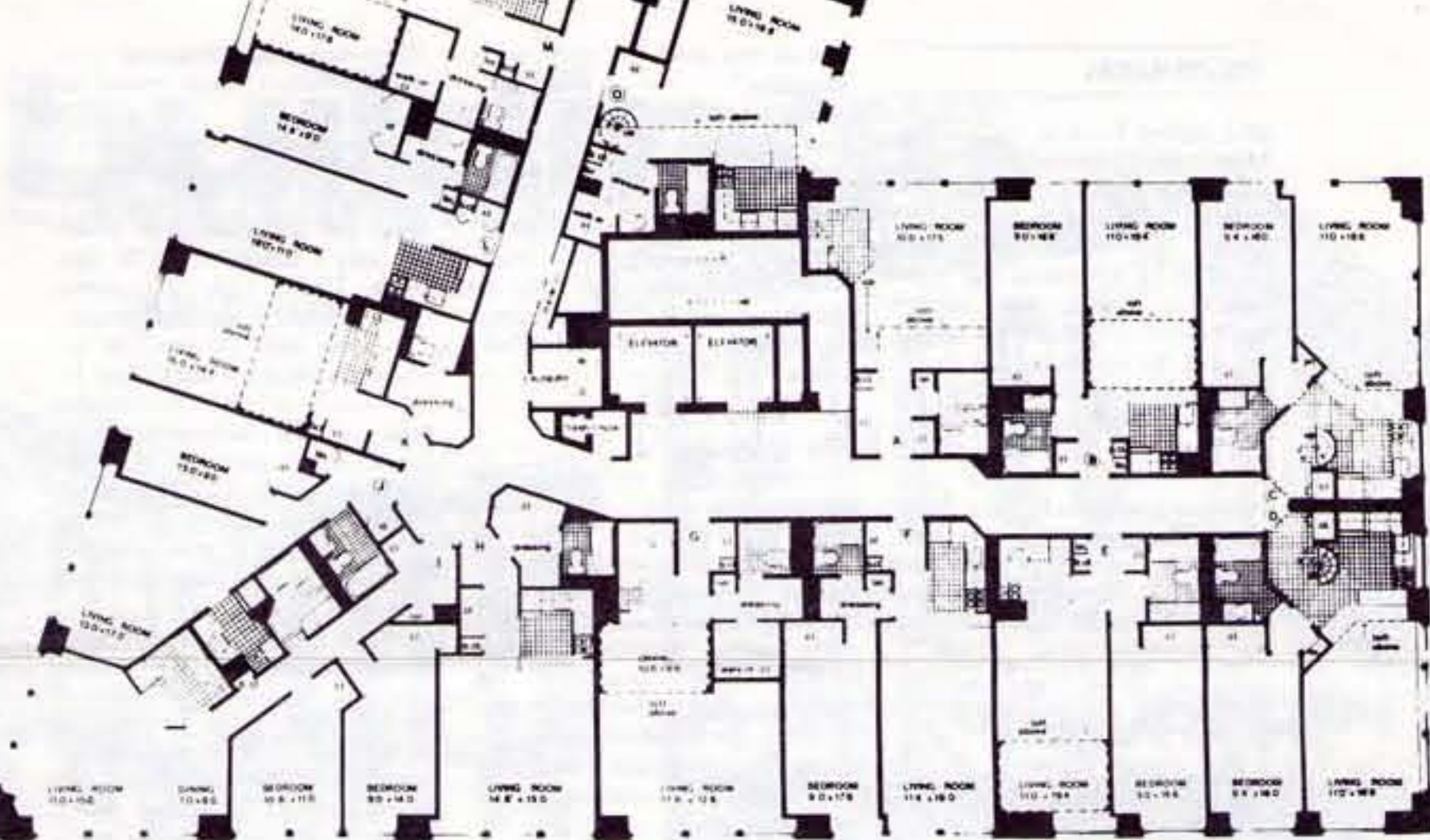
Currently, the firm is involved in four projects, including serving as consultant or joint-venture partner on two conversions of office buildings to apartment houses, and the complete renovation of the old Barbizon Hotel on Manhattan's upper East Side. But perhaps the most unusual—and ambitious—of Teitelbaum's projects, is the \$6.5 million conversion of 111 Fourth Avenue in lower Manhattan, first put up for a mail-order suit company 55 years ago, into a 180-unit residential apartment building.

In the absence of willing bank

lenders, Teitelbaum put together a consortium of individuals and organizations, and, based on their excellent qualifications, secured the necessary financing of \$20 million from nearly 200 European investors. "Rather than total financing through banks, which is difficult when not impossible, we went to Europe where the idea of recycling is not new, and is less uncertain," Teitelbaum says. "By rounding up money from businesses and individuals, we avoided the traditional debt financing approach to buy the property and pay for construction, and are using 100% cash instead." The balance of the money not needed for the Fourth Avenue conversion will be used on other projects in the future, he adds.

Assembling the team

But Teitelbaum didn't stop there. To overcome the traditional "lack of experience" problem, he went ahead to utilize the consortium of highly respected professionals with diverse backgrounds, sound financial backing, and outstanding expertise to proceed with conversion. "Most of the renovation/recycling efforts are small, have limited experience, work on a non-union basis, and have limited bonding capacity," Teitelbaum points out. "By assembling the most qualified team possible, we have been able to attract capital from other than usual sources in order to turn dying buildings into vibrant, innovative and inexpensive housing." Included in the consortium is the entire pack-



age of builder, manager, architect, zoning expert, attorney, engineer, and financial consultant.

First to join the consortium was Danforth Toan, AIA, of Warner, Burns, Toan & Lunde, who handled all design specifications. For zoning, Teitelbaum had the counsel of Milton M. Glass, AIA, of Glass & Glass, and formerly chairman of the New York City Board of Standards and Appeals. Jerome Steicker, senior vice president of Sonnenblick - Goldman, came on board for mortgage financing. Legal counsel was provided by Robert Bell and Michael Beckman & Kee. As plans progressed, Val Lehr of Lehr Associates was added to the team to provide engineering expertise; Richard Ravitch of HRH Construction, brought the crews to 111 Fourth Avenue;

111 FOURTH AVENUE had everything necessary to qualify for a J-51 tax abatement program: Exposure on all sides on upper levels, good transportation, a neighborhood on the upswing, self-service elevators, and a reasonably attractive facade.



TEITELBAUM

and Robert Korn of J.H. Taylor Management contributed overall management expertise.

Now, only six months after taking title in January, the building is well into the construction phase, with model apartments scheduled for showing this month, and first occupancy planned for October. In all, the 140,000 sq. ft. building will include 72 studio units, 96 one-bedroom, and 12 two-bedroom apartments, plus 7,000 sq. ft. of commercial space on the ground floor. Rents are projected at \$300-400/month for studios, and \$400-500/month for one bedroom units. Either a health club with pool or paddle tennis club will be located in the rear of the building.

The rental success of the project is all but assured. Teitelbaum feels. Besides the 13-1/2-ft.-high ceilings in the apartments, and 10 x 15-ft. windows, there are quarry-tiled kitchens and corridors, wall-to-wall bathroom mirrors, wooden kitchen cabinets, and above-standard kitchen appliances in an effort to use "reasonable standards

but in the most creative ways possible."

Says Teitelbaum: "The apartment building we are putting together on Fourth Avenue will be an important asset to the community. It is a high quality building, and we don't want to do things with it; we want to do things with it to enhance its already worthwhile features."

Just the beginning

Following the completion of construction and rental operations, Teitelbaum plans to enter the local mortgage market again—this time however, with a completely renovated and fully rented building with a Certificate of Occupancy and tax abatement under New York's program for residential conversions. This mortgage, combined with some small portion of private investment, will then be used to repay the European investors who made it all happen initially, Teitelbaum says. "Should it still be impossible to obtain a mortgage for some reason, the consortium can continue to hold the property itself," Teitelbaum explains.

"However, the financial premium for this route would be high."

Upon receipt of the city's Certificate of Occupancy, Teitelbaum will be eligible to apply for tax abatement under the city's innovative J-51 program. Under J-51, the owner is permitted a 12-year exemption from any increase in assessed valuation that can be attributed to the "reasonable cost" of the conversion from commercial space to a prime multiple-family dwelling. Also, additional abatement of up to 90% of the cost of the work may be taken for a period of between nine and 20 years.

While the J-51 provision was doubtless a factor in the undertaking of the conversion project by Teitelbaum, the law expires at the end of 1978, and the future investment incentive of the J-51 provision is limited since projects do not qualify until completed. "Thus, few projects just beginning will be finished in time to qualify under the present law," he explains. But despite the numerous shortcomings, such as no "standbys" or tentative advance approval by the city to encourage investment by lending institutions, J-51 has served as a powerful catalyst to the recycling undertaken in recent years by individuals such as Teitelbaum.

Strong future potential

"Many good office buildings offering space at 1950's and 1960's rentals of between \$3-6/sq. ft., will rent for the equivalent of \$8-10/sq. ft., if converted to residential use," Teitelbaum says.

"Given conditions here, the opportunities for adaptive use of buildings are many," he says in summarizing the New York housing situation. "The cost of new apartment construction from scratch is much higher than recycling an existing building, given proper coordination of all of the many complex aspects, and use of the finest people available as part of the project team."

That, David Teitelbaum seems to do very well. □

WHEN FIRST OCCUPANCY begins in October, 111 Fourth Avenue will offer 140,000 sq. ft. of renovated space, including 72 studio units, 96 one-bedroom units, 12 two-bedroom, and 7,000 sq. ft. of ground floor commercial space.

