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Burgess COMMENTARY

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Out With the Poor, In With the Rich: The Landlord's Guide to Gentrifying NYC Steve Croman has spent decades exploiting rent-control laws to bring in wealthier tenants. The state attorney general wants to make an example of him.

Photo Illustration: James B. Hoffman

In the summer of 2002, Sheikh Hamad bin Khalifa Al Thani, the emir of Qatar, bought a couple of adjoined Beaux Arts town houses on East 72nd Street just off Central Park. He paid $26 million for the pair—a vast markup, it might have seemed, from a comparable purchase made earlier in the year. That March, a Manhattan landlord named Steve Croman had scooped up a six-story, 19,000-square-foot manse across the street for only $5.5 million. Croman's town house came with a problem: It wasn't a private home, but an apartment building of 23 below-market units, classified by New York state as rent-stabilized. That meant he could charge his new tenants only gradual, minor upticks in rent. But what might have appeared to be a dead-end investment was in fact an audacious, buy-low proposition. If Croman could get his tenants out, the building's value would soar.

Croman's plan revolved around a little-used clause of the state rent-stabilization code that allows a landlord to evict tenants if he claims a building as a personal home. Almost immediately after buying the property, he served residents with lease termination notices and approached them with buyout offers. Alarmed, the tenants, who were paying as little as $844 a month in a neighborhood where studios tended to rent for three times as much, lawyered up and agitated to stay. Samuel Himmelstein, an attorney who represented several of them, argued at the time that the personal-use clause was meant to cover a few apartments at most. "I've never seen anything on this scale," he told the New York Times. "He tried to close the front door, make everybody go through the basement. He got rid of the super"

As legal proceedings unfolded, 12-14 E. 72nd St. became less and less livable—a tactic, tenants were certain, to get them to capitulate and accept buyouts. Bob Leighton, a criminal defense attorney who lived in the building for 35 years, says Croman tried something new practically every day: "He would remove the washing machines. He tried to close the front door, make everybody go through the basement. He got rid of the super, then had a part-time super who did nothing." Another former tenant forwarded me a 15,000-word document detailing four years of tribulations: No hot water. No cold water. Rodents. Severed phone lines. Holes in ceilings. A fire. "He was taking the building apart, bit by bit," says Malcolm Kirk, a photographer who paid less than $1,000 a month for a third-floor studio he shared with his wife.

By the late 2000s, Croman had the place to himself. The building's last holdouts had accepted buyouts, leaving him free to build a home that would reportedly include 16 bathrooms, two swimming pools, a basketball court, and a koi pond. Fourteen years after he purchased the town house, it remains, mysteriously, under renovation; on a recent visit to the property, workers could be seen hauling debris out the front door. The never-ending gut job has become an object of fascination and irritation on the Upper East Side. Neighbors and former tenants speculate about whether Croman plans to convert the place back into an apartment building, flip it to Gulf royalty, or simply plow ahead with the koi pond. Croman declined to comment on the former tenants' allegations or his plans for the residence.

Steve Croman Steve Croman Courtesy Office of the New York Attorney General

The saga of 12-14 E. 72nd shares a script with many of the more than 140 Manhattan apartment buildings that Croman owns, save for the uncertain ending. For decades he has bought properties, rid them of rent-stabilized tenants, and filled them with more profitable replacements. In May, New York State Attorney General Eric Schneiderman tried to put a stop to these practices, indicting Croman for grand larceny, tax fraud, and falsifying business records. The heart of the case is $45 million worth of loans Croman allegedly secured by falsely claiming certain properties had been emptied of stabilized tenants. If convicted, he faces as much as 25 years in prison. (Croman's mortgage broker, Barry Swartz, was charged, too.) Schneiderman also served Croman with a separate lawsuit alleging harassment and abuse of his tenants. "Having set the stage for surrender, Croman urges tenants to take buyouts as the only way out of the misery he and his company have systematically created," the complaint alleges. (Croman and Swartz pleaded not guilty to the criminal case. Regarding the harassment suit, a spokesperson for Croman's company, 9300 Realty, wrote, "Many of the residential properties we purchase have suffered years of neglect from prior ownership and require substantial upgrade. We have cleared thousands of violations in our properties stemming from previous owners and drastically improved the living conditions for thousands of tenants. … We invest a great deal in our properties, so it is in our interest to maintain long-term relationships with our tenants.")

At a news conference, Schneiderman called Croman the "Bernie Madoff of landlords." The remark was tabloid-ready but misleading. Croman is accused of preying mostly on ordinary New Yorkers, not the elites Madoff bilked. And rather than harming the rich, Croman's strategy has contributed to the broader luxe-ification of the city. Rent-stabilization laws have their critics, but they account for some of the last sensibly priced apartments in New York City, the second-most-expensive rental market in the country after San Francisco. Schneiderman's cases more accurately cast Croman as a sort of Mad Gentrifier—the archvillain of a narrative that New York has been unable to control. Indeed, Croman's career maps almost perfectly the explosion of real estate markets in high-demand metropolises, and he's perhaps the most cartoonish of a wave of landlords who've helped to usher in a wealthier, more global brand of apartment dweller. But can punishing one bad landlord really do anything to stem the onset of the gilded 21st century supercity?

In 1923, the New York Times published a curious story headlined "Rents in Ancient Rome." It described Marcus Licinius Crassus, a prodigious first century B.C. politician and landlord, trying to charge a fellow senator an eye-popping 15,000 sesterces to rent an "elegant bachelor's apartment." Julius Caesar responded, according to the article, by prohibiting rents of more than 2,000 sesterces a year for Roman villas. Those, the Times mused, were "the good old days."

At the time, New York was in the midst of its first experiment with rent control. After World War I, the city faced a severe housing crunch. Demand was steep, but builders, depleted of resources by the war, weren't building. Rents spiked, and tenants revolted. In 1920 the state responded by banning rent hikes that were "unreasonable," "unjust," or "oppressive." The rules stayed in place until 1929, when occupancy and rents plummeted along with the economy.

The pattern repeated throughout the 20th century. In 1947, facing another postwar apartment shortage, New York state passed a law that froze rents on existing properties with six units or more. By the mid-1970s a new compromise had been struck. The more flexible "rent stabilization" system introduced thousands of postwar buildings to rent regulation while eliminating the hard price caps of rent control. It also seemed designed, in the long run, to phase out regulation altogether: The new regime covered only buildings built from 1947 to 1974, while everything newer would hit the open market. (Pre-1947 buildings remained rent-controlled.) In 1997, the phaseout accelerated when, crucially for Croman, the state introduced loopholes allowing landlords to "decontrol" rent-regulated units with ease.

"We know eventually they'll choose to move, or older ones will pass away or go into nursing homes. When you get that turnover, then you have an opportunity to raise rents"

Decontrol currently works like this: Once the monthly rent of a vacant apartment rises to the figure set by a city board—currently $2,700—the unit is deregulated. It would also convert to market rate if its occupants earned $200,000 or more in consecutive years. There are two ways for landlords to reach $2,700 quickly, both of which offer incentives for them to clear out tenants. First, every time a regulated apartment is vacated, a landlord can charge the next tenant up to 20 percent more. Second, when a landlord renovates a vacant apartment, he can hike the rent by roughly 2 percent of the cost of the improvements. Those renovations, necessary or not, add up. "The way to make money is by improving apartments as they turn over," says Lenny Katz, whose company, Katz Realty Group, owns a portfolio of stabilized buildings in New York's outer boroughs. He says his firm eschews harassment: "We wait 'em out. We know eventually they'll choose to move, or older ones will pass away or go into nursing homes. When you get that turnover, then you have an opportunity to raise rents." And suddenly you're trading in the Dominican lady on the third floor for a lawyer at a white-shoe firm.

This was the kind of turnover Croman sought. A slight man with a hunched bearing, he began his career in anonymity. Raised in the leafy suburbs of northern New Jersey, he graduated from New York University and followed his father, Ed, a suburban mall developer, into real estate. In 1990, at 24, he began brokering apartment sales and rentals in Lower Manhattan. Two years later, he bought his first building, 221 Mott St., in Little Italy, and soon added more there and in other ethnic, bohemian neighborhoods. His timing was perfect: The early-1990s recession was over, and Giuliani-era sanitization had begun. Property values were climbing, and the neighborhoods in which Croman specialized began to gentrify.

Quickly, he identified the significant profit margins tucked away in the city's stock of rent-regulated apartments. But unlike Katz, he wasn't willing to wait for the Dominican lady to enter the nursing home, and he soon developed a reputation for aggressive tactics. At first he might play nice, couriering goodies to tenants and offering them buyouts over coffee. If that didn't work, he'd serve them with lawsuits. In 1998 the Village Voice named him to its "Ten Worst Landlords in New York" list for the first (but not last) time.

Croman's strategy wasn't exactly new. Among others, Donald Trump famously spent half of the 1980s trying to oust the longtime residents of a rent-regulated building at 100 Central Park South so he could replace it with a high rise. Doormen were ordered to stop accepting packages. Mushrooms were found growing on carpets. At one point, Trump threatened to fill the building with homeless people. The battle raged in the tabloids and in the courts, until, in 1986, the tenants won the right to stay.

Croman stood out from the pack thanks to the scale of his operation. By the mid-2000s he owned about 70 buildings, and his social profile had appreciated alongside his portfolio. He and his wife, Harriet, sent their sons to Columbia Prep, claimed membership at Temple Emanu-El on Fifth Avenue, and were regulars on the Upper East Side/Hamptons gala circuit.

Around that time, corporate investors began to see potential in rent-stabilized properties. In 2006, Tishman Speyer joined with the investment firm BlackRock to purchase Stuyvesant Town/Peter Cooper Village, the historic working-class Manhattan housing complex that sprawls along the East River, for $5.4 billion. Each company spent only $112 million of its own money, attracting outside investors by promising that within five years the property's rental income would triple and its value would balloon to $7 billion. Their logic was simple: At the time of purchase, 73 percent of the complex's units were rent-stabilized. All they needed to do was destabilize them.

Similar deals were being struck in less desirable neighborhoods. In the years before the housing crash, according to Benjamin Dulchin, executive director of the nonprofit Association for Neighborhood and Housing Development, about 100,000 rent-stabilized units—a tenth of the total—were financed by private equity. And equity needed huge returns. "A natural rate of turnover for a stabilized building is 3 percent, 4 percent a year," Dulchin says. The corporate lenders backing the deals needed that number to increase significantly—by as much as 30 percent, according to underwriting documents studied by Dulchin's group. That level, he says, "is utterly inexplicable unless you're planning on harassing the hell out of these guys."

Had the housing crisis not intervened, the strategy, which tenants' groups dubbed "predatory equity," might have worked for the big firms. They'd already underestimated the difficulty of emptying their buildings, and the weaker market prevented them from filling vacated units with higher-paying tenants. Several companies sold their buildings after only a few years. In 2010, with Stuytown's value a lackluster $1.8 billion, Tishman Speyer and BlackRock defaulted on their debt and sold off their stakes. It was the largest commercial mortgage default in U.S. history.

Croman kept his momentum, in part because his small walkups were easier to turn over. By the 2010s he owned more than 100 buildings, and he and his family had become local celebrities. The New York Post's Page Six started covering the debauched B-list parties he and Harriet threw in the Hamptons. They bought a Sagaponack manse, adding to their stable of residences in Manhattan and Westchester County, and paid for Ariana Grande and Amar'e Stoudemire to headline their son Adam's bar mitzvah at the American Museum of Natural History.

In March 2016 came broader notoriety, when Croman's eldest son, Jake, a University of Michigan student whose LinkedIn profile lists him as an "associate" at his father's firm, was filmed verbally abusing an Uber driver in Ann Arbor. "There's 50 of you and there's one of me here who spends the most money here, you little f---," Jake says, flanked by fellow Tau Kappa Epsilons. "Minimum-wage faggot. Go f--- yourself. See you later. Go pick up another f---. You working all day? Guess what? I'm gonna go sit on my ass and watch TV." Virality ensued. Jake, who later claimed the driver had provoked him with anti-Semitic remarks, has kept a low profile of late. According to a family friend, he can be seen stalking around Sagaponack puffing on an e-cigarette.

Steve Croman soon joined his son in the spotlight. Schneiderman's harassment case, which relies on, among other evidence, a trove of internal e-mails, text messages, and employee testimony, alleges that Croman pursued a three-pronged strategy to oust rent-stabilized tenants: First, file frivolous lawsuits to bleed tenants' cash and break their spirits. Second, hire an ex-cop named Anthony Falconite to stalk and intimidate them. Third, plunge their apartments into squalor while performing often illegal and unsafe construction on other units. According to depositions from current and former Croman employees, he offered bonuses to those who got tenants to leave—something he seemed to obsess over. "The only time me and him were communicating was if [he said], 'Oh, do you have a buyout? What are you working on with regard to buying people out?' " said one ex-staffer in her deposition.

In May, I visited several aggrieved tenants to get a glimpse of the notorious Croman experience. Tomasa Rivera has lived for almost 40 years in a modest $700-a-month stabilized apartment on West 103rd Street near Central Park. Shortly after Croman bought the building, in 2013, one of his employees showed up at her door with a buyout offer. "I had the lady tell me, 'Wouldn't you like to go to Puerto Rico?' " Rivera recalls. "She was saying, 'For what you can get for this place, you could have a mansion in Puerto Rico.' And I literally just look at her and say, 'F--- would I want to go to Puerto Rico?' "

Several of her neighbors took buyout offers, though, and within months her apartment was permeated with vast quantities of white dust from renovations of the vacant units. Initially, Rivera was concerned mainly for the family members living with her: her adult son, who's asthmatic, and her daughter's two young children, who have muscular dystrophy. By December she was having trouble breathing herself. The following year, a city inspector ordered Croman to abate elevated levels of lead dust in the apartment, prompting Croman to send an inspector of his own. Rivera says the inspector swabbed the apartment, reported normal lead levels, and didn't return. (According to text messages quoted in Schneiderman's complaint, the same inspector conspired to doctor reports in other Croman properties. In one building, the city health department found lead dust levels to be 65 times the legal limit.) A U.S. Department of Housing and Urban Development employee wound up performing the abatement. Rivera's grandchildren left to live with their mother in the Bronx.

A couple of days after visiting Rivera, I met Cynthia Chaffee, who in 2007 formed an activist group called the Stop Croman Coalition (not to be confused with the Croman Tenants' Alliance or croman-realty-sucks.blogspot.com). Chaffee, a longtime tenant, devotes the better part of her life to chronicling the landlord's sins, administering an exhaustively researched website and occasionally composing Seussian diss tracks. Sample lyric: "Your heart's an empty hole, you were born without a soul, Mr. Cro-man. And that includes your uber-turd son, Jake." In a $5,200 unit, "The joke is: Everything is pretty, but nothing actually works"

Chaffee and her husband have a one-bedroom walkup that rents for $860 a month on East 18th Street, just a few blocks from Stuytown. Sitting in her living room, surrounded by boxes of research and legal documents, she spins horror stories for two hours. No gas for 55 consecutive days in 2011. No overhead electricity for 56 consecutive days in 2013. Mold. Water damage. The removal of a railing, which she says resulted in her breaking a leg. Still, she and her husband resisted Croman's buyout offers. Once it became clear they wouldn't change their minds, Chaffee says, Croman began serving her with eviction threats and debt collection letters, claiming she hadn't paid her rent. E-mails obtained by the attorney general make clear that Croman's office was aware as early as 2012 that Chaffee was paying in full. Yet into 2016, he was still demanding that she pay him $26,000 he'd already received.

As a refusenik, Chaffee is in the minority. After Croman purchased her building and two others on the block, 25 rent-stabilized tenants accepted his buyout offers. (According to a Croman spokesperson, 11 tenants remain, 4 passed away, and 32 units were vacant at the time he bought the properties.) This ratio jibes roughly with an analysis by the housing coalition Stabilizing NYC, which found that in the past five years, Croman has deregulated 390 units. That's a lot for one guy, but it's part of a broader trend that speaks to the recent erosion of rent-regulated housing in New York. By 2014 more than a million units—47 percent of the city's rental housing stock—remained rent-regulated. But according to NYU's Furman Center for Real Estate and Urban Policy, in the previous three years, 85,000 units had either been deregulated or had become unaffordable to low-income renters. "It is about the loss of New York," Chaffee says. "This place—we knew all our neighbors. We had a Greek family, Spanish families, we had old Italian ladies. They're gone."

A Croman defender might argue that, in the long run, landlords like him improve neighborhoods by boosting property values—that he's the opposite of a slumlord (something he's frequently called). As he told the New York Observer in 2013, "We restore older buildings and make them beautiful." Yet the claim strains credulity. Midway through my conversation with Chaffee, a young woman in a sundress knocks at the door. She gives her name as Sophia. An NYU drama major who lives upstairs, she explains that she forgot her key and asks if she can crawl up the fire escape to her apartment. "Is he the worst?" she asks when I mention her landlord. "Aren't there, like, articles written about him or something?"

Sophia offers me a brief tour of her formerly stabilized apartment, telling me that she and her two roommates pay $5,200 a month. The place has been renovated—wine fridge, exposed brick—but in a cheapo, Ikea way. "We just had someone in here fixing our shower," she says. "We have a dishwasher that's been broken since we've moved in here. Our dryer is, like, total shit. You have to dry things, like, 84 times." She pauses. "The joke is: Everything is pretty, but nothing actually works." Croman at his arraignment in June.

Croman at his arraignment in June. Photographer: Louis Lanzano/New York Times/Redux

To get Croman's side of the story, I call more than two dozen of his friends, but no one will speak with me. Frank Ricci, the government affairs director of the Rent Stabilization Association, New York's misleadingly named landlord lobby, doesn't rush to Croman's defense. "Look, he's a bad apple," Ricci says. Croman declines to speak with me, but a reputation management professional representing him, Jane Hardey of Marathon Strategies, promises to connect me with two of his friends and his rabbi. Eventually she balks, instead forwarding me the names of three ostensibly pro-Croman tenants, only one of whom turns out to have sued him. (She won.) The other two, Upper West Siders, didn't report any problems with Croman.

In late June, I show up at the criminal branch of the New York State Supreme Court in Lower Manhattan, where Croman is scheduled for arraignment. Just after 9 a.m., he appears, alone, and slips calmly into a security line. A dozen protesters, oblivious to his arrival, wield anti-Croman signage outside the courthouse. (Chaffee arrives a little later.) After the proceeding, I buttonhole his attorney, Ben Brafman, who also has represented infamous Hotel Sofitel patron Dominique Strauss-Kahn and pharma "bro" Martin Shkreli. I plead for access to Croman or his inner circle, arguing that it might behoove him to attempt some positive spin. Brafman just shrugs and says, "It's going to be a negative story no matter what."

Few can recall a case of this stature against an individual landlord in New York. Himmelstein, the lawyer who represented the 72nd Street tenants, speculates that Croman will spend time in prison: "I'm thinking he's probably going to be living upstate somewhere. They really want to make an example out of him."

Croman's epigones include Raphael Toledano, a 26-year-old yeshiva dropout who has bought up a substantial chunk of the East Village, and is, as he put it to the real estate magazine the Real Deal in June, "worth a f---load of money." Last year he reportedly paid $1 million to settle with a group of stabilized tenants he was accused of harassing. "When you go from zero to 60 in three seconds," he said, "sometimes you exceed the speed limit." And then there's Jared Kushner, the developer, Observer proprietor, and son-in-law of Donald Trump. Over the past four years, Kushner has bought roughly 50 buildings in the East Village, including one where Allen Ginsberg once lived. According to rent-stabilized tenants in that building, Kushner served them with eviction notices and—in the tradition of his father-in-law's Central Park South building—let the property fall into disrepair. (Kushner's company claimed in court that tenants weren't paying rent or weren't even eligible for their rent-regulated apartments.)

To Dulchin, of the Association for Neighborhood and Housing Development, Croman and his spiritual heirs are almost beside the point. The movement they started has outgrown them. "Something's really shifted in the way the landlords are now understanding their properties," he says. "Market rents have gone up so much around the city that increasingly even the non-awful landlords have taken a very aggressive stance and pursue any vacancy they can." At a Brooklyn real estate summit in June, a lawyer and self-styled buyout guru named Michelle Maratto Itkowitz addressed the new status quo in a presentation on "de-tenanting" apartments. "Tenants have gotten the memo," read a pamphlet she distributed to the audience. "If they move, the owners make way more money."

Sending one landlord to jail won't turn New York City into a communitarian paradise, of course, but the attorney general's case against Croman suggests the state is at least eager for gentrification to proceed legally. The city has maintained rent freezes on one-year leases for stabilized apartments for the past few years. Mayor Bill de Blasio has called for the repeal of decontrol loopholes (though the state is unlikely to accede), and has overhauled the zoning code so that many new residential buildings must set aside units for low-income tenants.

But such measures will do nothing to address the seemingly inexhaustible demand from privileged undergrads and Qatari emirs for well-appointed New York apartments. There are those, too, who argue that rent control isn't worth fighting for—that it artificially suppresses housing supply and creates opportunities for bad actors such as Croman to exploit. The two priciest markets in the country, after all, are Manhattan and San Francisco, which has even stricter rent-control laws than New York. But rents have also soared in Boston since Massachusetts abolished rent regulation two decades ago. What do these three cities tell us about the efficacy of rent control, if anything? Economists will continue to debate that. In the meantime, average New Yorkers are left to resist the Cromans, Toledanos, and Trumps —who, even when they lose, often seem to win in the end.

That might be said of 100 Central Park South, at least. Despite failing in the 1980s to replace the property with a shiny high rise, Trump decided to hang on to it. Then, as real estate values rose during the 1990s, he renamed the building Trump Parc East and turned it into a condominium, selling vacated, decontrolled $1,000-a-month apartments for millions of dollars, while allowing existing rent-stabilized tenants to stay. Some of those who had once fought him became his ardent supporters, but Trump left no doubt who he thought had prevailed. "A great deal," he later told the New York Times. "It was a long battle, but it was a successful battle. As usual, I came out on top." Manhattan Apartment Sales Drop 20%
