Inside the Greek tragedy at the Flatiron Building

New York

A partnership spat, a botched auction and a mysterious outsider who briefly became the most talked-about man in NYC real estate

May 1, 2023, 7:00 AM

By

Keith Larsen

Real estate is high drama playing out on the skyline. But rarely does it rise to the level of Greek tragedy that it has at the Flatiron Building.

After coming out of nowhere to win a live auction for the iconic property in March, then failing to produce a deposit to secure his $190 million bid, a complete outsider, Jacob Garlick, spent the weeks that followed scrambling to show that he had the money.

Even as its owners prepare to restart the auction process that he dramatically derailed, the 31-year-old with zero track record in big-ticket real estate has maintained that he's still in the running to buy the property.

Nobody seems to believe him.

GFP Real Estate's Jeffrey Gural, who has long held a stake in the office building and was the runner-up in the March 22 auction, said there was only one scenario in which Garlick's bid should even be considered: if he wired the entire $190 million into an escrow account.

"Why would you take anything he is saying seriously?" Gural said.

According to Gural, immediately after Garlick won the auction on the steps of the New York County Courthouse — which, unusually, did not require participants to post an upfront deposit or proof of funds — Garlick turned to him and asked if he wanted to partner in the deal. Later, Gural said, Garlick even asked him if he would put up the $19 million deposit in exchange for a 10 percent stake in the vacant building.

"It was such a ridiculous proposal," said Gural. "It concerned me. It was a red flag that he didn't have the money."

In Gural's telling, Garlick's group kept promising that the money was coming. It was to be wired from one bank, then from another. The deadline arrived, but the money never did.

Now the building will be auctioned off again on May 23, on the same courthouse steps in Lower Manhattan where Garlick's 15 minutes of fame began.

Cracks in the facade

Garlick's wild ride only came about because of a partnership spat between the building's owners.

Sorgente Group, GFP Real Estate and ABS Real Estate Partners, who together controlled a 75 percent stake, could not see eye to eye with the remaining 25 percent owner, Nathan Silverstein, about the landmarked property's future.

The majority owners sued, claiming they simply could not go on co-owning the property with Silverstein, who they said had proposed physically splitting up the building. Gural, in court filings, called that idea "preposterous."

> It's highly unorthodox to do an auction without requiring a deposit.
> Greg Corbin, Rosewood Realty Group

"It boggles the mind to suggest that we could nevertheless agree on a plan to physically divide this building into five smaller, independent properties, none of which would be marketable — and then agree on a plan as to how that work would be financed," Gural said.

The building's tenancy-in-common ownership structure, which gave each of the stakeholders veto power over decisions at the property, led to a stalemate.

By that point, the building's longtime anchor tenant, Macmillan Publishers, which occupied all 21 floors, had announced plans to move out.

In 2019, co-working startup Knotel was in talks to lease the entire property, but a deal never materialized. Silverstein blamed Newmark, which GFP Real Estate had split off from only two years earlier, for failing to market the building after Macmillan left and said Gural was negotiating to lease it to Knotel at an "exceptionally low cost." He also claimed in court filings that Newmark CEO Barry Gosin held a large stake in Knotel. The co-working firm filed for bankruptcy in 2021 and was acquired by Newmark.

The majority owners eventually sought a partition sale, which would put the building up for auction but provide them an advantage by allowing them to buy it back using their existing ownership interests as part of a bid.

"I was hoping that we would be able to buy [Silverstein's] interest at a lot lower price," Gural said.

Garlick, who seemed to want the property no matter what, price be damned, spoiled those plans.

Insiders speculated that Garlick was connected in some way to Silverstein. Garlick, the theory went, was there to drive up Gural's bid, giving Silverstein a bigger payday as a minority owner.

Silverstein confirmed to *The Real Deal* that he is a "distant relative" of Garlick, but said he's only ever met him once.

Others involved in the auction said that Garlick's continued effort to seal the deal after flopping on the deposit was news to them. Matthew Mannion, the auctioneer, and Peter Axelrod, the court-appointed referee, both said last month that they were not aware that he was a realistic contender to acquire the building.

Gural added that Garlick could be liable for the deposit regardless.

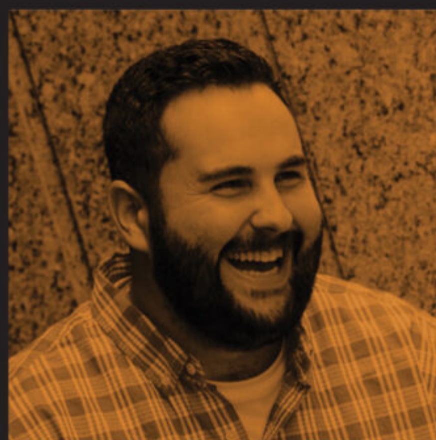
"I hope he has $19 million," he said.

"Highly unorthodox"

WHO IS JACOB GARLICK?

JACOB GARLICK APPEARED TO TEAR UP AS HE WENT down on one knee on the steps of the New York County Courthouse on a mild March afternoon.

The investor was a stranger to most of the Manhattan real estate players around him, but not for long: He'd just won an auction for a bonafide New York City icon, beating out the one of the property's owners, a baffled-looking Jeffrey Gural, with a $190 million bid.



Everyone in the New York real estate world had one question: Who the hell is Jacob Garlick?

Gural said he didn't know him. Others at the auction had no clue. Call after call with developers, real estate attorneys and brokers led to the same dead end: Nobody had heard of Garlick.

His company's website is vague. His Twitter account is suspended. A good chunk of his LinkedIn activity consists of engagement with videos of Gary Vaynerchuk.

Some speculated that he was a straw buyer for a family office or a wealthy investor, since the building, at 175 Fifth Avenue, is completely vacant and requires a major renovation that will be unlikely to produce any returns for several years.

"It was a lot of money. You still have to spend $100 million to renovate the building," Gural said. "When you are all done, you are going to own a building that is $1,500 per foot."

DESK JOCKEY

Garlick's firm, Abraham Trust, is headquartered in northern Virginia and invests in private equity buyouts, mergers and acquisitions and venture capital, according to its website. It claims to have advised, reviewed and syndicated over $30 billion worth of M&A since its inception in 2014, though there's very little press coverage about any of those deals.

Outside of the bare-bones website that lists no phone number, little additional information about Abraham Trust exists on the internet. Venture-capital tracker Crunchbase lists just one investment made by the firm: It participated in a $2.5 million funding round raised last June by a startup called FitFighter, which sells an oddly shaped free weight that was once featured on ABC's "Shark Tank."

Garlick started his career in 2009, working on M&A for a South Florida-based multifamily office called Abraham Commercial Investments, which according to its website held a $5 billion portfolio in real estate, private equity and venture equities. State corporate records show that Garlick was the registered agent of Abraham Commercial Investments, based in Boca Raton.

His big break came in his early 20s, when he joined mHelpDesk, a company that developed office management software for service and repair businesses. In an interview about investing uploaded to YouTube last year, Garlick said mHelpDesk led clients to replace "their clipboards with iPads."

Garlick was not a founder of mHelpDesk, but he came in as a partner, he said in the interview, where he appears seated in front of a framed black-and-white photo of the Flatiron Building. *— Keith Larsen*

The fracas Garlick set off might never have been possible without a key lapse in the proceedings: Bidders were not required to put down any deposit before participating in the auction, according to court filings.

"It's highly unorthodox to do an auction without requiring a deposit," said Greg Corbin, a bankruptcy specialist at brokerage Rosewood Realty Group. "Over the past 15 years of conducting distressed asset auctions, only once have we allowed people to bid without providing funds up front."

"I've never seen that before," said real estate attorney Adam Leitman Bailey, who noted that he generally asks for proof of funds before an auction.

Those present at the auction said Garlick, wearing a charcoal suit with a patterned tie and pocket square, stood just a few feet from the auctioneer, like a prizefighter steeling himself for a title bout. He rarely broke eye contact, calmly raising his paddle to outbid Gural until the price hit $190 million.

Garlick told NY1 on the scene that owning the historic building had been his “lifelong dream since I’m 14 years old.”

“I’ve worked every day of my life to be in this position,” he said.

That night, he had a celebratory party at the Ritz Carlton in NoMad with the same entourage that had accompanied him to the auction, according to witnesses.

Reality came knocking two days later, when Garlick failed to cough up the $19 million deposit. As runner-up, Gural had the option to buy the building at his final bid of $189.5 million, but declined to make the deal at that price.

The building, which Gural estimates needs a $100 million renovation, is now set to be auctioned again unless a deal can be made with Silverstein to buy out his stake.

“I’m not Nathan’s favorite person,” said Gural. But “the reality is, we have an empty building.”

THE TROUBLE WITH TICS

THE OWNERS OF THE FLATIRON BUILDING WERE AT an impasse, and it was costing them hundreds of thousands of dollars each month.

The deadlock led to an auction, at which an outsider, Jacob Garlick, swooped in with a winning bid. The outcome remains uncertain, but the episode underscored the risk of the building's outdated form of ownership.

Known as tenancy-in-common, it gives multiple owners of a building equal control over it, no matter the size of their stake. The arrangements vary, but the same factors turn many of these marriages into unhappy unions.

A tenancy-in-common is often a family affair: When a stakeholder dies, their share in the building goes to their designated heirs.

That means some owners can suddenly find themselves tethered to someone with whom they do not get along. In some cases, any owner can also go to court to force a sale of the entire building.

Like much else in the real estate industry, one person's headache is another's opportunity. For potential buyers, the TIC structure can allow them to take control of a property with difficult owners. Extell Development's Gary Barnett famously took over 14 Midtown buildings known as the Ring portfolio in part by purchasing stakes in them and forcing partition sales.

TICs are far less common than they once were. Investors prefer limited liability companies or limited partnerships, said Richard Dolan, an attorney who represented Extell on the Ring properties as well as the majority owners at the Flatiron Building.

"In investment property, it is a very unwieldy thing," he said. "You tend to only see it as a legacy of something that was seen long ago."

Newer tenancy-in-common structures have been modernized to include provisions to waive owners' ability to force a sale, said Janice Mac Avoy, a partner at Fried Frank's real estate department.

Such provisions are necessary for owners of TIC properties to defer capital gains taxes on their sale by immediately investing proceeds from one asset sale into another. Most TICs are now structured with these 1031 exchanges in mind, said Louis Tuchman, partner and chair of Herrick's tax department.

Generally, owners can sell their stake or borrow against it without permission from the other owners, though finding a lender to provide such financing can be challenging.

But even modern TICs come with risks. Because each owner is considered a direct owner, they can act independently, hurting the others. Different ownership structures do a better job shielding a property from the whims of a rogue partner, Tuchman said.

"By and large, there is an algorithm by which you make decisions about the property," he said.

"Although somebody could get into financial trouble, they can't encumber the property directly."

— Kathryn Brenzel

New York