

# Eli Karp's Hello Living Again Risks Losing Flatbush Project

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New York

## Eli Karp's Hello Living yet again in danger of losing Flatbush project

Arch Companies pursuing UCC foreclosure after buying debt from Madison Realty Capital



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By

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Eli Karp waged a scorched-earth campaign against Madison Realty Capital for attempting to foreclose on his prized Flatbush apartment complex. Now he could have a new enemy.

Arch Companies purchased the senior and mezzanine loan from Madison Realty and is planning a UCC foreclosure sale on the equity interests in the property held by Karp's Hello Living, according to marketing materials.

The sale is being spearheaded by Greg Corbin, a bankruptcy and foreclosure specialist at Rosewood Realty, and is set for Sept. 21. The parcel at 1580 Nostrand Avenue includes a completed 93-unit building and an unfinished development site.

If the UCC sale goes through, it could mark the end of one of the most heated Brooklyn real estate battles in recent memory.

Karp, a Brooklyn developer, bought the site for \$13 million in 2014, betting that the area would become one of the borough's next up and coming neighborhoods.

But he soon ran into trouble, and his lenders alleged he defaulted on his loans. As Karp's real estate portfolio started to collapse, one lender in particular drew his wrath: Josh Zegen's Madison Realty.

Karp filed a rambling lawsuit in New York Supreme Court last summer, referring to Madison Realty as a "pirate" who "manufactured defaults" in order to charge interest rates of 24 percent. Then a website suddenly popped up portraying Zegen as a cartoon villain using a vacuum to suck money out of Karp's buildings.

Madison's lawyers argued that Karp voluntarily agreed to take on the mezzanine debt and when he did not fulfill the terms, Madison took action.

"The exercise of those rights and remedies, is not a 'scheme,' 'bad faith' nor is it 'fraud.' It is simply an exercise of a lender's contractual rights," Madison's lawyers said in a court filing.

A judge ruled in favor of Madison Realty's motion to dismiss the lawsuit. Another judge ruled that Madison Realty could proceed with the foreclosure on the Flatbush site.

Karp staved off the foreclosure in December by putting the project's corporate entity into bankruptcy. Arch Companies then bought the \$6 million mezzanine loan and \$73 million senior loan from Madison Realty in March. In July, a judge dismissed the bankruptcy case.

But the drama did not end there. In August, Arch Companies sued Karp to initiate another foreclosure on the property. In that suit, Arch alleges the project's ownership entity improperly entered into a master lease with a tenant that would defer rent payments for months. Arch Companies' attorneys claim the lease could disqualify the property from the 421a tax break.

"Simply put, borrower and master lessee have colluded in a deceitful attempt to swipe some security deposits and rent during the pendency of the foreclosure," Arch's lawsuit alleges.

Karp's attorney said the lender knew about this master lease months ago.

"In its motion to dismiss the Chapter 11 case, the plaintiff specifically discussed the Master Lease," Karp's attorney wrote in a court filing.

It is unlikely that Karp will be in control of the Flatbush property for much longer. But it's not guaranteed that Arch Companies will be the one initiating the foreclosure.

“Although we are marketing the UCC foreclosure i.e. the membership interests in the LLC, we have been receiving a good number of offers for both parts of the debt,” Corbin said. “If someone buys both parts of the capital stack, they will be stepping into Arch’s shoes with a path to owning the asset itself.”

The Sept. 21 auction will be conducted by Matthew Mannion of Mannion Auctions.

New York-based Arch Companies, led by Jeff Simpson, has a real estate portfolio valued at more than \$1 billion and controls over 5,000 multifamily units, according to its website.

Neither Eli Karp, his attorney, nor Arch Companies returned a request for comment. Madison Realty declined to comment.

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