

Eli Karp's Hello Living Near Death as Madison Realty Eyes Foreclosure

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New York

Hello Living faces end as Madison Realty pursues foreclosure

Developer Eli Karp says lender “wiped him out”



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Eli Karp's Hello Living may have to say goodbye to its East Flatbush apartment complex — and the rest of its portfolio.

A judge ruled that Madison Realty Capital can go after interests in the developer's luxury rental building through a UCC foreclosure sale.

The New York Supreme Court judge denied Karp's attempt to stop the sale of equity interests in 1580 Nostrand Avenue. That allows Madison, the project's mezzanine lender, to proceed with the sale and likely take over the property.

Karp's legal filing was a Hail Mary to save one of his firm's most prized assets. In an interview, Karp said Madison "wiped him out" and forced him out of business.

"I can't get around how this happened," said Karp. "I have lost everything."

A spokesperson for Madison said, "We are pleased with the court's decisive final ruling in favor of Madison. The facts of this case speak for themselves. It is unfortunate that Mr. Karp has a pattern and practice of frivolous litigation against lenders and partners to further his agenda."

Karp received a glimmer of hope in August when the court temporarily halted a foreclosure sale scheduled for Sept. 2. But after hearing arguments from both sides, the judge ruled on Oct. 19 that Karp failed to show the "likelihood of success."

Karp founded Hello Living in 2005, according to its website, and developed 10 buildings under the brand. Six more are in the pipeline, the site says.

But Karp said in the interview that he has only two buildings left — 271 Lenox Road and 1357 Flatbush Avenue, both in Brooklyn — and is planning to sell them, essentially liquidating Hello Living. He blamed Madison, and its co-founder Josh Zegen in particular, for its demise.

According to Karp, Madison bought the loans on a number of his projects, jacked up interest rates so he could not pay, then offered him more loans purportedly to rescue him but actually to wrest control of the portfolio.

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However, past coverage of Karp points to problems that did not involve Madison, including fight with partners and a messy dispute more than a decade ago that Karp blamed on his investors.

In a lawsuit filed in New York Supreme Court, Karp refers to Madison as “pirates” and “predatory lenders” who “manufactured defaults” on his loans 1580 Nostrand Avenue in order to charge millions of dollars in default interest at a rate of 24 percent.

He alleges that Madison forced the loan into a forbearance plan that required him to take out a \$8.3 million mezzanine loan of which \$4.5 million went to pay default interest. Madison then filed the UCC notice on the mezzanine debt.

In a court filing, Madison’s lawyers call Karp’s allegations baseless. Madison’s lawyers argued that Karp voluntarily agreed to take on the mezzanine debt and the terms of the loan. When he did not meet those 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.

According to Karp, in 2019 Madison purchased loans tied to the Nostrand project that were originated by Prophet Mortgage in 2017, and that Madison purchased loans for his apartment complexes at 271 Lenox Road and at 1520 Fulton Street.

Karp’s Hello Living bought the East Flatbush property for \$13 million in 2014, according to city property records. At the time, it filed plans to construct a 23-story residential building, but eventually scaled it down to six stories.

Of the 210 units planned at Nostrand Avenue, 95 are completed, a marketing brochure for the property shows.

Greg Corbin, a bankruptcy and foreclosure specialist at Rosewood Realty, has been spearheading the UCC foreclosure sale.

Madison, led by Zegen, Brian Shatz and Adam Tantleff, is among the more active lenders in New York City’s commercial real estate market, and known to play hardball. The firm recently moved to start the foreclosure process on Real Estate Equities’ leasehold interest at 1 St. Mark’s Place in the East Village.

UCC foreclosures are ticking up across the New York area. Traditional foreclosures are still banned under a statewide moratorium, but in a UCC action, the lender takes control of indirect equity interests in a property, not the property itself. That remains legal.

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