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GARY
BARNETT
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STORIES

TALL,
WAREHOUSES
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OLIGARCHS,
AND BLOTS
OUT
THE SUN

BY
DEVIN
LEONARD

PHOTOGRAPHS
BY MARK
PECKMEZIAN

“MOST

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Some 600 fashionably dressed guests arrive at the newly completed Park Hyatt New York hotel, embedded at the base of the tallest operational residential skyscraper in the city. They're greeted by black-garbed receptionists, who scrutinize them closely to make sure they belong. Upstairs, the guests encounter friendlier servers offering flutes of pink Champagne. The visitors admire paintings by Richard Serra and Ellsworth Kelly. They nibble on Petrossian caviar and slices of toast topped with briny sea urchin. One man shows up without a jacket and immediately regrets it. "I'm underdressed," he complains to his companion.

Just before 8 this September evening, the guests are herded into a ballroom with onyx-lined walls, where they're welcomed by wavy-haired Thomas Pritzker, the billionaire executive chairman of the Chicago-based Hyatt Hotels chain. He invites everybody to join him in a toast to his new inn. "We think we have created the finest product in New York," Pritzker says. "I think that's true not just physically, but metaphysically." He had to look up the latter word in the dictionary, he says.

Before Pritzker raises his glass, he acknowledges someone in the audience. "Gary, to you and your team," he says, "thank you so much for all that you have done for us."

Pritzker is gesturing to Gary Barnett, president of Extell Development, the New York real estate company that built One57, the soaring 90-story glass tower that houses the Park Hyatt. Barnett, 58, doesn't quite fit in at this party. He wears a boxy suit that looks as if he bought it off the rack, and his dark hair twists extravagantly over his bald spot, never entirely concealing it. He has the makings of a five o'clock shadow. He looks embarrassed to be singled out. Barnett admits afterward that he doesn't know who most of the revelers are in the building he created. "Beats me," he shrugs. "I'm tired. I want to go home and go to bed."

Just then, celebrity DJ Hannah Bronfman appears onstage in a tiara and starts playing electronic dance music. Some guests begin to sway. That might have been Barnett's cue to make a graceful exit, but he can't leave just yet because it would be impolite. "I'll be around," he says without enthusiasm and disappears into the crowd.

Barnett has become the unlikely arbiter of stratospherically priced real estate in New York. The residents of the 94 condominiums above the Park Hyatt at One57 relieve themselves in German toilets. They can take a traditional shower in their marble-walled bathrooms or enjoy a more relaxing steam shower. The units on the higher floors have breathtaking views of Central Park. Barnett refers indelicately to this feature of One57 as "the money shot." "He has a great sense of the luxury market," says Donald Trump, another developer of tall towers for rich people. "He knows what people want at the high end, and he's been able to provide that."

The Park Hyatt provides Barnett's customers with an extra dollop of comfort. They can order room service at any hour. They can call ahead when they land at the airport and have the hotel stock their refrigerator with goodies. They can get their laundry done by the Hyatt's staff and use the spa. For a certain class of buyers, many of them foreign, these cushy dwellings have been hard to resist. Barnett has sold more than \$1.5 billion of apartments in One57, including the record-breaking sale of the penthouse for \$90 million. (The deal has yet to close.) "He's the

developer of what looks like the most successful condominium in New York," says Daniel Levy, president of CityRealty, a firm that tracks the New York residential market. Five other developers are rushing to complete similarly tall, slender buildings near One57 and hoping to reap similar financial rewards.

Typically, New York real estate developers aspire to emulate their wealthy clients. They buy homes on Park Avenue. They summer in the Hamptons. Barnett lives in a two-story house in middle-class Richmond Hill, Queens, with his second wife, Ayala, who together have 10 children. (His first wife, Evelyn Muller, died of cancer in 1998.) He vacations in the Poconos, a place that advertises its charms on local television. "My kids like it," Barnett says. "It's nice and quiet." People who have worked closely with Barnett say he's more attracted to the cerebral side of his profession. They say he loves assembling land and development rights, often in secret, and using them to construct unexpectedly large and lucrative projects such as One57. Barnett's often working on many of them at the same time. "He's a chess player," says Leonard Steinberg, president of Urban Compass, a real estate brokerage in the city. "He doesn't make one move at a time. He makes multiple moves."

Not everyone speaks admiringly of Barnett. Local politicians and civic leaders say One57 and its imitators are blotting out the sun of the southern end of Central Park, one of the city's most beloved public spaces. Last year, Extell was implicated in a political scandal over the awarding of affordable-housing tax breaks at the tower. (Barnett says Extell has done nothing improper.) He's undeterred. He's plunging ahead with a plan for a second building on 57th Street whose spire could reach 1,775 feet, one foot shorter than One World Trade Center, and loom over One57 and its followers. "It's basically like sticking an Empire State Building right at the bottom of Central Park," says Warren St. John, a former *New York Times* writer who's leading the opposition to the towers. "The shadow will extend over a mile north. It will stretch all the way across the park. That's crazy."

Barnett didn't always frequent galas at five-star hotels; he wasn't even always Gary Barnett. He was born Gershon Swiatycki, the son of a Talmudic scholar. He grew up on the Lower East Side, eventually getting a graduate degree in economics at Hunter College. Then, in 1980, while on vacation in Florida, he met Muller, daughter of the founder of a Belgian diamond company, S. Muller & Sons. Barnett married her and entered the family business in Antwerp, where he worked for 12 years as a trader of precious stones.

Isaac Mostovicz, a former Muller chief executive officer, says Barnett was good at his job but clearly had higher ambitions. "He is a wizard with numbers," Mostovicz says. "He can read an Excel spreadsheet better than anyone else, although he is totally computer-illiterate. The only thing that he does with his phone is to place calls and to listen to voice mail."

In the early 1990s, still living in Antwerp, Barnett started investing in American real estate

with money from his wife's family. He stayed up late, managing his properties by telephone. He became one of the largest commercial landlords in Wichita. To hear Barnett tell it, he was just messing around. "I didn't know anything about anything," he says. After several years, Barnett got serious and moved back to New York. By then he had changed his name to Gary Barnett. He sold most of his Midwest buildings in 1998 for \$350 million to a Canadian real estate investment trust.

Armed with the cash, he started buying in his hometown.

One of the first properties Barnett purchased was on 57th Street. "It was a decrepit building," he says. "It was vacant, obsolete." But it gave Barnett a foothold in Midtown Manhattan. Carnegie Hall was across the street. Central Park was two blocks away. Barnett says he originally thought he would construct "a plain-vanilla residential building." But he could make more money if the inhabitants of the upper floors could see the foliage in Central Park, so he started quietly purchasing surrounding buildings to expand his footprint. He also cut deals with property owners on the block to acquire the unused development rights above their buildings. In New York real estate parlance, these are known as "air rights."

Myers Mermel, CEO of TenantWise, a commercial real estate advisory firm, has searched city records and found that Barnett spent a total of \$260 million on six property deals and 12 air-rights deals on the block—some of which involved gnarly negotiations, not just with building owners but with numerous individual condo dwellers. Mermel says he's never seen a skyscraper builder with such an appetite. "Most developers will never be able to do a deal with this complexity in their lifetime," he says. "This is Jedi Master stuff."

At the same time, Barnett was busy elsewhere in Manhattan. He built the W Hotel in Times Square, which opened in 2001. He erected luxury residential buildings, marketing them to Wall Street traders, among others, who needed a place to relax after a tumultuous day of swapping subprime mortgage bonds. Occasionally, Barnett encountered unfriendly neighborhood groups. He shocked residents of Manhattan's Upper West Side in 2005 with a plan for two glass towers at 99th and Broadway that dwarfed everything in the area.

Real estate broker Miki Fiegel organized unsuccessful protests to halt the Extell project. "You can see them all the way from New Jersey,"

she says. "You can see them from the Bronx. They're so hideous!" Fiegel and her supporters later persuaded the New York City Council to pass a law that restricted the height of buildings in the neighborhood.

It was about that time that Barnett decided to move ahead with One57. Around the corner, brothers Arthur and William Zeckendorf had recently completed 15 Central Park West, attracting such buyers as Sting, Alex Rodriguez, Denzel Washington, former



▲ The view

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“I heard a lot of chatter from seasoned brokers saying, ‘Who the hell is going to pay those prices on 57th Street?’” Steinberg says. (To some, the Midtown block is in no man's land between tony uptown and hip downtown.) “The skeptics changed their tune as soon as they saw those views.”

By the following May, the company had sold \$1 billion of apartments, including the \$90 million penthouse purchased by a group of investors including Bill Ackman, the hedge fund manager. It helped that Barnett had his building under way before any of his rivals. “He was the first one to get his building up and test the market,” says Paula Del Nunzio, a broker at Brown Harris Stevens, who has represented several buyers at One57.

Barnett also benefited from the flood of new money into New York from rich foreigners who need a haven for their cash. George Constantin, president of Heritage Realty Services, represents a wealthy European family that paid \$30 million for an apartment on the 59th floor. He says his clients, whom he declines to name, plan to use it as a *pied-à-terre* during their periodic trips to the U.S. He says they intend to take full advantage of

Citigroup CEO Sandy Weill, and hedge fund manager Daniel Loeb, who's said to have spent \$45 million for his apartment. “It is the most outrageously successful, insanely expensive, titanically tycoon-stuffed real estate development of the 21st century,” the author Michael Gross writes in *House of Outrageous Fortune*, his recently published book about the building.

Barnett was sure that he would do just as well. He couldn't build a tower as wide as 15 Central Park West, but he

had amassed enough air rights to construct the tallest residential building in New York. Early in 2008, he persuaded two Abu Dhabi-based government investment funds, Tasameem Real Estate and Aabar Investments, to put up most of the equity in the \$1.3 billion project.

Extell was shaken by the real estate downturn in 2008, but Barnett had taken on less debt than other developers and was able to press on with One57. He leased the bottom 25 floors to Hyatt for \$375 million—\$125 million less than he originally asked. In October 2011, Extell received a \$700 million construction loan from a syndicate led by Bank of America. He began courting the brokerage community, throwing a party on a wintry day where Extell showed off pictures taken by drones of the views from his yet-to-be-constructed tower.

One57

is the city's

tallest

residential

skyscraper—

for now.

More are

coming



BOTTOM: JAMES EWING/OTTO



“WE’RE

their apartments and immediately put them on the market at substantially higher prices.

Along with the views, Barnett tempted buyers at One57 with something else: a tax break. In its condominium offering documents, Extell told buyers they would receive a 10-year abatement because the tower qualified for an affordable-housing tax exemption. Strange as it sounds, the city had for years allowed developers of luxury buildings to purchase tax-savings certificates from builders of actual affordable housing. The luxury developers could then use them at their shimmering towers. Extell told its customers that this would be wonderful for them: The buyers of the six-bedroom, six-bathroom penthouse duplex on the 89th and 90th floors, for example, would see their annual real estate taxes fall in the first year from \$205,883 to \$18,415. Barnett concedes his clients can afford to pay the full sum, but he says the abatement is invaluable when he’s trying to close his deals. “What I’ve found is that wealthy people are willing to put down a lot of money,” he says, “but they don’t want to have that constant payment out. They’re very, very focused on carrying costs. It matters psychologically.”

There was only one problem. Barnett says he was stunned to discover after he’d begun selling units that the abatements no longer applied. They’d been phased out in 2007 as part of an effort by then-Mayor Michael Bloomberg to end the subsidies in many parts of the city where the real estate market was booming. (He is the founder and majority owner of Bloomberg LP, which owns *Bloomberg Businessweek*.)

That put Barnett in a bind. Extell told buyers that it would reimburse them for the abatements if they were no longer available. But the company had good news: The New York State Assembly was considering a bill that would restore the abatements. In January 2013, Governor Andrew Cuomo signed a bill that reestablished them at One57 and the luxury buildings of four other developers. He did so shortly after his reelection campaign committee deposited two checks totaling \$100,000 from companies sharing addresses with Extell affiliates.

New York State Senator Liz Krueger, a Democrat who represents Manhattan’s East Side, says she had little choice but to vote for the abatements. They were tucked into a larger bill that enjoyed broad support because it amended the regulations governing the state’s less expensive loft apartments. Still, she lambasted the tax breaks for Barnett’s condo owners on the Senate floor. “They’re being purchased by foreign oligarchs who won’t even live here,” Krueger says. “They’re just buying these apartments as investment property. We’re building these billionaire towers in the sky that will sit empty.”

There were others who were uncomfortable with the tax relief at One57. In July 2013, Cuomo appointed a commission under the state’s Moreland Act to investigate government corruption. The commission subpoenaed Extell and raised questions about the events leading to the bill’s passage in a yearend report: “The combination of very large campaign contributions and very narrowly targeted benefits to those same donors creates an appearance of impropriety that undermines public trust in our elected representatives.”

In March, Cuomo disbanded the Moreland Commission, insisting it was no longer needed. Preet

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Bharara, U.S. attorney for the Southern District of New York, soon began investigating Cuomo’s decision. Barnett says Extell did nothing wrong and that he gave money to Cuomo simply because he supports his policies.

Meanwhile, Barnett had other things to worry about. One57 had reached its full 1,004 feet in July 2012. That fall, St. John took his daughter to a playground in the southern part of Central Park. It was 3 p.m. “All of a sudden, it got dark and chilly,” St. John says. “Parents started packing up. Everyone was going home. And then I realized, ‘Oh, gosh, it’s not a cloud or sunset. It’s a shadow from this very strange new building.’” A year later, St. John says, he noticed the same phenomenon—this time, about 15 blocks farther north.

In October 2013, St. John wrote an op-ed piece in the *New York Times* decrying One57. He reminded readers that in the early 1990s, the Municipal Arts Society mounted an extensive campaign, including protests by celebrity demonstrators such as Jacqueline Kennedy Onassis, Walter Cronkite, Henry Kissinger, and Bill Moyers, in an attempt to derail developer Mort Zuckerman’s plan to build two enormous, sunlight-inhibiting towers on Columbus Circle. Zuckerman, a social striver, was vulnerable to such pressure. He went to the same parties as his elite detractors and encountered some on weekends in the Hamptons. He eventually dropped his plan, and another developer took over the site, erecting the somewhat less imposing Time Warner Center.

St. John succeeded in prodding people into action. In December, the society released a study with computer-generated illustrations showing the extent to which One57 and its competitors would darken Central Park. “It’s not one shadow,” says Margaret Newman, the society’s executive director. “It’s five shadows.”

In February, Newman appeared with St. John at a town hall meeting at the New York Public Library to discuss the supertall structures and what to do about them. The organizers invited Barnett to attend. To their surprise, he accepted. He showed up in a black turtleneck sweater, holding a tall Starbucks coffee, and listened as various people assailed One57. Brad Hoylman, a

Democratic state senator, called for a special tax on its residents. “They are oligarchs,” he said. “I think we need an oligarch tax in New York City. The truth is, they don’t pay income taxes.”

If the anti-Extell crowd at the library thought they could cow Barnett into scaling back his second tower, they were disappointed. At first, he seemed uncomfortable sitting onstage with people who didn’t care as much for his shiny towers as he did. But as the evening wore on, Barnett loosened up. When it was his turn to speak, he was self-effacing. “Hi, my name is Gary I’m-a-Glutton-for-Punishment Barnett,” he said. The audience laughed.

Barnett argued that his detractors were exaggerating the impact of his buildings. After all, he said, there were plenty of other things obscuring the sun in the park. “Most of the south end of the park is also covered with beautiful trees, which provide shade,” he said. He promised that his towers would create jobs and generate tax revenue for the city. And he scolded those who vilified his customers. “I was a bit disappointed to hear all this talk about how these buildings are going to be occupied by rich foreigners, monarchs, and oligarchs,” he said. “America has always been a very welcoming country. We welcome the poor and the downtrodden, but we also welcome the wealthy.”

Since then, the complaints about Extell’s tall buildings have waned. “I think we defused it a little bit,” Barnett says. “People

realize it’s not that big a deal.” This might also be attributed to Barnett’s unmistakable desire to move ahead no matter what anyone says—and he has the approvals to do so. “The horse is out of the barn on Central Park South,” says Mitchell Moss, a professor of urban policy and planning at New York University. Now Barnett just needs the real estate market to cooperate. He acknowledges that sales have slackened at One57 because of all the towers rising around it, with just two deals going into contract from January to June. He isn’t worried. “The first six months were quite slow,” he says. “It’s picked up since.”

The only thing that seems to concern Barnett is Hoylman’s “oligarch tax” idea, which he introduced as a Senate bill on Sept. 29. It would raise rates on homes and apartments in the city valued at more than \$5 million that are not used as primary residences. Hoylman cites a U.S. Census Bureau estimate that 30 percent of apartments in one 42-block zone are vacant 10 months a year and says his tax would raise \$650 million annually.

Barnett on the 80th floor of One57

“It’s incredibly self-defeating,” Barnett says. “It’s a terrible, terrible idea. It would actually damage revenue for the city, not increase revenue.”

His detractors were up in arms again in August when the city gave Extell permission to create a building with a separate entrance for affordable-housing residents in an Upper West Side complex he’s constructing. The anti-Extell forces call it a “poor door.” It’s nothing new. Other developers in New York have built them with relatively little controversy. “Your luxury people would prefer that,” Trump says. “It’s no big secret. Whether it’s politically correct, I couldn’t care less.”

But Barnett has become a lightning rod. He can’t do anything quietly anymore. He says he constructs dual-entrance residences for a simple reason: He would have to give some of his most desirable units to lower-paying customers if he allowed them to enter through the same portal. “That’s the rule,” he sighs. “You can’t just cherry-pick the studios and the one-bedrooms with no views.”

New York Mayor Bill de Blasio has said he will try to amend the city’s laws to do away with poor doors. Barnett expects the mayor will come up with the right solution. He speaks highly of de Blasio, whom he supported in last year’s mayoral race. Naturally, he contributed to de Blasio’s campaign. “I’m a Democrat,” he says. Meanwhile, Barnett continues to take full advantage of the current rules. He’s seeking approval to build a luxury development on the Lower East Side, the part of town he grew up in. This one segregates the affordable-housing tenants under a separate roof. “We’re not getting a poor door,” says Susan Stetzer, district manager of the local community board. “We’re getting a poor building.” —With Freeman Klopott



For a virtual tour of One57, go to businessweek.com/14/One57