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LUNCH AT THE TRIBECA GRILL

# A Pioneer in Harlem Real Estate Reaps the Profits

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*Special to the Sun*

His grandfather Morris, a Jewish immigrant from Lithuania, made a fortune selling lights for Christmas trees. His father, Seymour, gained control of the publicly traded Quincy Mining Company and took it private. And Rodney Propp, chairman of Tahl Propp Equities, is helping to reinvent the Harlem housing business.

He's doing so at least partly because his own family was less than encouraging when Mr. Propp joined the family real estate business after a promising career at the now-defunct investment bank Drexel Burnham Lambert. Mr. Propp wanted the family company to acquire more property in SoHo, which was undergoing an enormous transformation in which industrial buildings were being converted for residential and commercial use.

"It was frustrating," Mr. Propp said. "It became clear that as long as I was with the family business, I wouldn't be given anything more than a managerial role. In retrospect, I should have bought every building in SoHo, but I didn't have the financial backing."

Mr. Propp had developed a taste for real estate. He was ambitious. He had pedigree. He possessed an MBA from the University of Chicago. He also studied at Tufts University, the London School of Economics, and the School of the Museum of Fine Arts in Boston. And he'd met a well-connected real estate lawyer, Joseph Tahl, who was counsel to Donald Trump.

So in 1997, Messrs. Propp and Tahl banded together to form Tahl Propp Equities.

They raised $15 million, and bought a portfolio of 16 apartment buildings in Detroit, and a 300,000-square-foot office building in St. Louis.

"We always looked at what could go wrong before what could go right," Mr. Propp said. "That guiding principle has served us well."

The next year, Tahl Propp bought a building at Adam Clayton Powell Boulevard and 115th Street in Harlem.

Why Harlem?

"We didn't like the valuations in other parts of Manhattan," Mr. Propp said. "Harlem was virtually the last Manhattan neighborhood that hadn't been gentrified. As a young firm starting out in New York, we had no competitive advantage. We analyzed the market and asked ourselves, 'Where can we dominate?' The answer was that we'd need to go into neighborhoods that were out of favor. We found that we had the Harlem market pretty much all to ourselves. I was determined not to be sidelined again, as I was in SoHo. So we went out and bought as many buildings in Harlem as we could."

It was a savvy move.

Harlem real estate has since gone into the stratosphere, according to Prudential Douglas Elliman's Manhattan market report, which was prepared by the research company Miller Samuel. Last year, sales of condominiums and co-ops above West 116th Street and East 96th Street accounted for 5.5% of all sales in Manhattan, the report says. That translated into 473 sales, a jump of 165% from the 179 sales in 1995.

> *The 1998 GM Building deal was 'one big interest-rate future. We don't buy buildings, cross our fingers, and hope that interest rates fall.'*

The average price of a Harlem apartment has risen to $358,557, up 36.9% from $261,951 in 2003, and up 333.7% from $82,693 in 1995, according to Miller Samuel.

"Harlem's development has been nothing short of astonishing," Mr. Propp said, adding that if it were to be counted as a city, Harlem would be America's ninth-largest. "Now we have a massive portfolio. And we'll continue to acquire properties, as long as it makes economic sense."

He said that he was uncomfortable saying how many properties Tahl Propp owned in Harlem, but he didn't dispute the number 100.

The returns from those properties have yielded their investors a net average annual return of 28% since 1998. Investors in Tahl Propp include six of the Forbes 400 families. Tahl Propp, which has more than $1 billion in assets and owns 3 million square feet of residential property, and 500,000 square-feet of commercial property, is about to launch its fifth equity fund.

"We never sell our buildings," Mr. Propp said. "We develop them and let their value grow."

One exception is the Normandie, at Lenox Avenue and 119th Street. It is Tahl Propp's first condominium. The vacant building is being converted into 25 apartments, each with four bedrooms. These are selling at between $795,000 and $1.2 million each. In addition, the building has four penthouses. These are being offered at $1.2 million to $1.6 million.

Not all of the company's properties are in Harlem. The company owns several buildings elsewhere in Manhattan, as well as 3 Gateway Center, a half-million-square-foot complex in Newark that is leased in its entirety to Prudential Financial.

Messrs. Propp and Tahl have a "significant personal investment" in each of the properties acquired by Tahl Propp, Mr. Propp said.

"Fortunately, we've never had a meltdown," he said. "We take a balanced approach to our investments."

One great investment he does not regret missing was the 50-story General Motors Building on Fifth Avenue, which Mr. Trump and the Indianapolis-based insurance company Conseco bought in 1998 for $800 million. In June 2003, the building was sold to Macklowe Properties for $1.4 billion.

"Could I have raised the money to buy it in 1998? No. Would I have bought it if I could? No," Mr. Propp said. "At $800 million, the building couldn't service the debt. The deal worked out because of the rapid decrease in interest rates — that deal was one big interest-rate future. We don't buy buildings, cross our fingers, and hope that interest rates fall."

And beyond foresight, of course, what explained his subsequent success in Harlem?

"I suppose luck has a lot to do with it," Mr. Propp said.