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Real Estate

A 450% Rent Hike Hangs Over One of the Last Affordable Buildings on Billionaires' Row

Monthly costs at Carnegie House in Midtown are set to skyrocket, thanks to the wealthy real-estate moguls who now own the land beneath the building. It's 'basically death,' one resident says

By Katherine Clarke / Photographs by Zack DeZon for WSJ
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Richard Hirsch, 61, likes to joke that he lives on Thousandaires' Row. For decades he has made his home at Carnegie House, a midcentury brick building on West 57th Street in Midtown Manhattan. From his doorstep, Hirsch can see the ghostly outlines of the gleaming Billionaires' Row supertalls that tower above Central Park.

Hirsch and his wife, Jill Strauss, paid about $400,000 for a two-bedroom co-op unit at Carnegie House in the 1990s. They have watched in awe over the past decade as developers built skyscrapers around them, homes for the global superrich. The development boom caused property values in their neighborhood to explode, and is now threatening to drive them out of their longtime home.

Like thousands of co-op owners across New York City, the residents of Carnegie House own their apartments, but not the land beneath. This type of arrangement, known as a long-term ground lease, originated in the 1950s to make homeownership accessible to middle-class New Yorkers. Now, ground leases have turned treacherous for many residents as wealthy landowners hike the rent they charge co-ops, looking to capitalize on increasingly valuable land.

"When we signed the ground lease years ago, the land value and the neighborhood were entirely different," said David Jordan, an 83-year-old retired engineer and builder who has owned a unit at Carnegie House for about 20 years. "None of us, even the professionals who were advising us, could have foreseen the kind of explosive land inflation that's happened."

On July 18, an independent arbitration panel announced a ruling that would increase the annual rent at Carnegie House 450%, from $4.36 million to roughly $24 million, following an

arbitration process triggered by failed negotiations between the landowner and the co-op. For Hirsch and Strauss, the ruling means their monthly costs could spike from around $5,000 to roughly $13,000, Hirsch said.

The ruling is based on the value of the land and still has to be confirmed by a court. If enacted, the increase could push many residents to the brink and force the building into default, causing the owners to lose all their equity in their homes, according to the co-op board.

Residents expected the rent to go up, but never this much, said Hirsch, a marketing consultant for the healthcare industry and president of the Carnegie House co-op board. He described the increase as "basically death."

Many residents said they suspect the landowner—a limited liability company tied to real-estate magnates Rubin Schron and David Werner—hopes to drive them out, tear down the building and build a new supertall.

James Yolles, a spokesman for the landowners, denied that they have redevelopment plans. Residents were aware of the potential rent increase when they bought their homes, he said, and got a better deal on their apartments as a result of the ground-lease structure. "We remain open to good-faith discussions with Carnegie House residents should they wish to approach us," Yolles said.

Carnegie House is one of many co-ops in similar circumstances. More than 25,000 New Yorkers own co-op apartments in ground-lease buildings, according to the Ground Lease Coop Coalition, an advocacy group. Many of these leases are now expiring or reaching reset thresholds, the coalition said. The Carnegie House battle underscores the constant threat to affordable housing in New York City—and across the country—as land values climb.

"These co-ops are time bombs," said Geoffrey Mazel, an attorney who has worked on a number of ground-lease negotiations.

In a July 18 letter, the Carnegie House co-op board told residents that it is preparing to challenge the rent increase "through all available legal channels."

"We're going to fight as much as we can against what we think is a really unfair and inappropriate and wrong situation," Hirsch said.

A win-win?

As demand for housing soared after World War II, steep prices for land in New York City made it difficult to build new homes. In the face of these conditions, developers struck deals to build residential co-ops on land owned by third parties, including churches and schools. In exchange for a lower purchase price, co-op owners would pay rent to the landowner along with their monthly fees. In theory, it was a win-win.

But over time, the model has revealed significant flaws. Most ground leases allow the landowner to renegotiate the lease terms—with rent increases based on the value of the land—at predetermined intervals and again at the expiration date, usually after 50 or 99 years. As the land prices have soared, developers and private-equity firms have purchased ground leases and started charging much higher rents.

In a prominent example, Cooper Union college owns the land beneath the iconic Chrysler Building. The college took control of the office tower last year after a partnership led by Aby Rosen's RFR Holding missed millions of dollars in ground-rent payments.

Constructed as a rental building in the 1960s, Carnegie House was converted to co-ops in the late 1970s. At the time, 57th Street wasn't a luxury thoroughfare; it was populated by thrift stores and souvenir shops. Hirsch recalled the now-defunct diner across the street, where he and his wife used to split diet cream sodas and pastrami sandwiches.

Now, thanks to the construction of the supertalls, apartments on 57th Street routinely trade for tens of millions of dollars. Two blocks north of Carnegie House, an apartment at new condo 220 Central Park South sold for $240 million in 2019, setting a U.S. record.

Numerous residents of Carnegie House told The Wall Street Journal they were aware of the ground-lease when they bought their apartments. Many consulted with attorneys and were advised that the ground lease, which had long been held by the local Sharp family, was unlikely to dramatically spike in cost. Indeed, a previous rent increase in 2004 was more reasonable, Hirsch said. The owners of the building's retail and garage spaces also contribute to the cost of rent.

"I relied on my lawyers to look at this," he said. "It's not like I had a ton of experience. No bank was saying this was an issue."

But in 2014, the land was purchased for $261 million by an entity led by Werner and Schron's companies. In marketing materials, real-estate brokerage CBRE said that the site offered "unique future potential to construct a luxury retail, hotel and condominium tower."

It soon seemed likely that a large rent increase would be on the way once the lease reset in 2025. Major banks stopped issuing mortgages in the building, given the uncertainty of the future costs of living there. That, in turn, has dragged down values. A one-bedroom apartment on the 19th floor is currently on the market for $189,000; it last sold for $535,000 in 2015, property records show.

The uncertainty has also made some homeowners wary of investing in maintenance. Sandy Dell, a 70-year-old former actress and model, has lived in the building since 1998, when she purchased her apartment for about $150,000.

"I desperately need to paint and replace the carpeting," Dell said. "But I'm afraid to spend money on anything like that, because I don't know what's going to happen with the apartment."

Lou and Barb Grumet bought their Carnegie House apartment for roughly $780,000 in 2011. Barb, who worked in higher education, and Lou, a former executive director of the New York Society of Certified Public Accountants, are in their 80s and live on fixed pensions.

They were drawn to the building in part because it was handicap-accessible and close to hospitals, now a critical feature since Barb uses a wheelchair.

“We were going to live here till we die,” said Lou. “We calculated that we could absorb a reasonable, or even a slightly unreasonable, rental increase, and it wasn’t a big deal.”

Instead, their monthly costs are slated to jump from around $3,700 to about $9,000. “No one dreamed of the craziness that’s happened here,” Lou said.

If Carnegie House fails to make the payments and its ground lease is terminated, the building would convert back into rent-stabilized apartments, and the owners would see their equity dissolve. Those who have mortgages would still have to pay them, even if they no longer own shares in the building.

Because these deconversions are so rare, what would happen next is in dispute. The landowners argue that they could set the rent following a negotiation with the tenants, but tenant advocates say that would violate rent-stabilization laws.

A powerful foe

The Carnegie House co-op board, along with the Ground Lease Coop Coalition, has appealed to lawmakers for help.

State Sen. Liz Krueger and Assemblywoman Linda Rosenthal introduced joint legislation in 2024 to limit what landowners can do once a ground lease expires, including capping increases in rent and building expenses. But the bill didn’t advance during the 2024 legislative session.

A narrower version of the bill was considered by the legislature this year; it removed the rent-cap provision and instead aimed to ensure that residents in deconverted buildings would be offered fair rents. The bill passed in the Senate and the Assembly housing committee, but didn’t get a full-floor vote before the end of session.

The Real Estate Board of New York, the industry’s powerful trade organization, opposed the bill. The group argues that contracts should be honored, and that the government intervening in the ground-lease agreements would be like an umpire changing the rules of the game in the ninth inning. The group also said co-op owners in some Manhattan ground-lease buildings are wealthy and rent their units out for tens of thousands of dollars a month.

Yolles also said not all Carnegie House residents are people of modest means. Some wealthy individuals bought into the building over the last few years at rock-bottom prices with the goal of seeing the values skyrocket if legislation mandating rent caps is passed, he said.

“Unconstitutionally meddling in longstanding contracts for the benefit of a small handful of largely wealthy homeowners and real-estate speculators in Manhattan is bad public policy amid a housing crisis—or anytime,” REBNY’s Zachary Steinberg said in a statement.

Krueger disagreed, saying laws should change to adapt to the needs of the public. “It hasn’t been a problem until now, so now we have to intervene,” she said.

The debate is unfolding against a backdrop of the New York City mayoral race, in which affordable housing has emerged as a pivotal issue. Democratic front-runner Zohran Mamdani, a state assemblyman who co-sponsored the ground-lease bill, has framed housing as a fundamental human right and warned that unchecked displacement could erode the city’s social fabric.

Dell worries not just about the value of her home, but getting priced out of the city altogether. “Losing the equity is the least of my problems,” she said. “It’s finding another place that I can afford at this point in my life.”

There is nowhere in the world she wants to live other than Manhattan, she said. “I lived here way before this was Billionaires’ Row. I hate that it’s called that.”