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Rent strike is latest wrinkle in delinquent Veritas debt saga

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Todd Johnson | San Francisco Business Times

Yat-Pang Au, CEO of Veritas

As bids come due for \$1 billion in debt tied to a third of the Veritas multifamily portfolio in San Francisco, a small group of tenants have announced plans to stop paying rent in an attempt to influence the sale process.

"This is an effort to say, 'Look, we're not just going to sit idly by as you as you decide the fate of our homes that you've been mismanaging,'" said Brad Hirn, a lead organizer with the San Francisco Housing Rights Committee, a citywide tenant counseling clinic. "The tenants want to assert that they want a different landlord. They want the ability to negotiate how this goes."

Eastdil Secured, a brokerage tapped by the lenders and special servicers behind the delinquent loans, is collecting final offers on the debt June 6. The buyer of the loans, secured by 95 buildings containing 2,452 units, would likely buy the loans at discount and foreclose on the Veritas affiliates, taking over the properties.

The Veritas affiliates tied to the loans have also indicated they may attempt to buy the loans, as first reported by The Real Deal. A source with knowledge of the effort says it could include Baupost Group, which was the capital partner that worked with the affiliates to secure the loans.

Kurt Altvatar, a senior vice president with the National Loan & Portfolio Sale Advisors at CBRE Capital Markets, said that "borrow participation in loan sale process is rare, but it's not uncommon" with non-recourse debt, meaning that the lender can only pursue collateral in the event of a default. It would require a borrower to be in good standing with the lender, and if "they participate that they would have no advantage over a third party," he said.

"They would participate if they see the value in the long-term, even though today the value of the property might be less than the loan amount...and they have the resources or equity that can come in and purchase this loan at a discount," Altvatar said.

Hirn said tenants in two buildings with a total of 49 units are withholding rent to maintain leverage in the process. He said other buildings may join the rent strike later.

The city has previously expressed interest in purchasing a Veritas portfolio that was marketed for sale, but those talks were derailed once the pandemic hit.

A spokesperson for Veritas said Thursday that the company had "not been notified of any residents withholding rent in any of the buildings we manage." Veritas affiliates owned about 6,500 units in

the city as of last year, making Veritas the largest landlord in San Francisco. The company was founded by CEO Yat-Pang Au in 2011.

The rent strike and attempts to influence the sale are just the latest public dispute between tenants at Veritas-managed buildings who accuse the company of poor conditions and displacement and Veritas, which maintains its operates its buildings as required by city and state regulations.

A San Francisco broker who specializes in structuring debt and equity capital and spoke to me on the condition of anonymity to maintain business relationships said a rent strike will not likely impact Veritas, but could potentially impact the value of the bids from external buyers.

"I imagine any buyer for these loans is going to turn around and foreclose," he said. "So I think that the strike part of this is obviously not good news. The bigger news for Veritas essentially is that if this loan gets sold, they're likely getting foreclosed on and there's really not much Veritas can do unless they come in with significant cash equity to do the deal."

Bidders will vet the potential income from the properties tied to the loans, and delinquencies — in the form of a strike or otherwise — will be factored into their valuations.

In their latest release announcing the rent strike, the tenants group highlighted issues with the two buildings. Throughout the pandemic, a number of liens were recorded for 709 Geary St., owned by a Veritas affiliate since 2011, citing delinquent water and utility tax charges and unpaid or delinquent garbage bills. The building has also come on the radar of the Department of Building Inspection, which issued a notice of violation in April to force the landlord to address a broken elevator.

A Veritas affiliate has owned 320 14th St. since 2016. DBI issued a NOV for that property in January after finding it to be in violation of the city's Mandatory Soft Story Retrofit program, which is required to ensure earthquake safety. The violation has yet to be addressed, public records show. On Thursday, the department sent a final warning letter to Veritas regarding the noncompliance issue.

In May, a second NOV was issued for unaddressed dilapidated conditions in the building's common areas.

"Veritas meets regularly with duly formed tenant associations and works with them collaboratively to find common ground where we can ensure that our residents feel heard and their concerns are addressed. We always encourage residents who have concerns or issues to contact their property manager immediately. We are proud of our record in responding to our residents to ensure the safety, comfort, and enjoyment of their premises," the Veritas spokesperson said in a statement on Thursday.



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