

BUSINESS The Chronicle with Bloomberg

Creditors, investors circle for pieces of Lembi empire

Creditors, investors want what's left of Lembi empire

Less than three weeks after **Walter Lembi** died of esophageal cancer in August at age 63, his name appeared in a lawsuit filed in federal court by **Deutsche Bank**.

The suit names Lembi, who commanded San Francisco's largest residential real estate empire, along with other family members and their trusts, saying that as contractual guarantors, they owed the German bank \$23.6 million in unpaid loans dating to 2006.

Last month, the bank filed a petition in San Francisco Superior Court to have an administrator appointed to look for assets in Lembi's trust estate that could help cover

THE BOTTOM LINE

By Andrew S. Ross



Ross continues on E9

Ross from page E1

what the bank says it's owed.

Trouble is, according to the **Lembi Group's** lawyer, **Edward Singer**, all that remains in the estate is of "negative value." In other words, Walter Lembi died not only flat broke, but on the hook for possibly "hundreds of millions" in claims, Singer told me.

So, apparently, is the family patriarch, **Frank Lembi**, 93, who founded the business in 1946. He and his family trust are named in the Deutsche Bank suit and in a \$46 million suit filed by **Bank of America** for other unpaid loans.

"Frank Lembi is 93, he's broke, and he's contemplating bankruptcy," Singer said.

Rise and fall: At its height, in 2008, the Lembis' conglomerate owned more than 300 apartment buildings in San Francisco. As the **Lembi Group's** managing director, Walter Lembi oversaw an estimated \$1 billion, at least, in property investments over the previous five years, most of it borrowed money from all-too-willing banks.

When the Great Recession hit, the Lembis, their properties leveraged to the hilt, found

themselves up the proverbial creek without a paddle — i.e., no one willing to refinance their notes, or buy their buildings.

In January 2009, 51 buildings were handed over to the Swiss bank **UBS AG**, to whom the Lembis owed \$400 million. There followed a veritable tsunami of loan defaults, dozens more buildings going into receivership and foreclosures, and affiliated Lembi companies filing Chapter 11.

Today, the Lembi empire is down to 50 apartment buildings owned, many of them in receivership or under bank management, Singer said.

"His intoxication with the endless streams of capital provided to him from various Wall Street banks clearly led to the downfall of the family business," said **Craig Lipton**, owner of **Maven Investments**, a real estate developer in San Francisco, with whom I talked at the time of Lembi's death.

He also had a reputation for living large and losing plenty. Last year, **Caesars Palace** went after him for \$298,500 in unpaid markers.

Buyers stepping up: Despite the circumstance to which the Lembis

have been reduced, their pipers insist on being paid.

Deutsche Bank's motion for summary judgment is scheduled to be heard Thursday. Singer said he will be seeking to dismiss the motion on the grounds that the loans' guarantors — the Lembis and their family trusts — had previously been released from responsibility for them.

Singer is also representing Frank Lembi and the Frank and Olga Family Trust, listed as guarantors for loans on 16 properties that were foreclosed on in November.

Meanwhile, chunks of the former empire are finding new buyers.

The boutique **Personality Hotels** were acquired by the **Aspen Hotel Group** of Beaverton, Ore., in December.

Tribeca Cos., a San Francisco private equity firm that paid \$31 million for outstanding loans on 12 Lembi apartment buildings repossessed by UBS, sold them for more than \$40 million this month. Nine, containing 155 apartment units, went to San Francisco's **Prado Group**, which last year snapped up other parts of the Lembi-UBS portfolio for a reported \$67.2 million, in a joint venture with New York's **Angelo Gordon**.