

SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

-----X
THE PEOPLE OF THE STATE OF NEW YORK,
by LETITIA JAMES, Attorney General of the
State of New York,

Plaintiff,

SUMMONS

-against-

Index No. _____
IAS Part

DAVID DRUMHELLER and JBD REALTY SERVICES,
LLC,

Plaintiff designates New
York County as the Place
of trial

Defendants.

-----X

TO THE ABOVE NAMED DEFENDANTS:

YOU ARE HEREBY SUMMONED to answer in this action and to serve a copy of your answer, or if the complaint is not served with this summons, to serve a notice of appearance, on the Plaintiff's attorney within 20 days after service of this summons, exclusive of the day of service (or within 30 days after the service is complete if this summons is not personally delivered to you within the State of New York); and in case of your failure to appear or answer, judgment will be taken against you by default for the relief demanded in the complaint.

Filed: May 30, 2019
New York, New York

LETITIA JAMES
Attorney General of New York

By 

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK

-----X
THE PEOPLE OF THE STATE OF NEW YORK,
by LETITIA JAMES, Attorney General of the
State of New York,

Plaintiff,

COMPLAINT

-against-

Index No. _____
IAS Part

DAVID DRUMHELLER and JBD REALTY SERVICES,
LLC,

Defendants.

-----X

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Plaintiff, the People of the State of New York, by Attorney General Letitia James, (“OAG”) respectfully alleges, upon information and belief:

PRELIMINARY STATEMENT

1. The OAG brings this action against David Drumheller (hereinafter “Drumheller”) pursuant to New York Executive Law § 63(12) and her *parens patriae* authority to remedy persistent and repeated fraud, unjust enrichment, and violations of the Rent Stabilization Law and Rent Stabilization Code.

2. Drumheller engaged in a scheme to manipulate the rent regulatory system by abusing a mechanism called “Individual Apartment Improvements” in order to increase improperly the legal regulated rents assigned to rent-stabilized apartments and eventually remove apartments from rent regulation.

3. Drumheller is a real estate professional based in New York City. From 2008 to 2016, he was employed by Newcastle Realty Services, LLC, a real estate investment and operations firm (hereinafter “Newcastle”) that serves as the managing agent for approximately 2,500 apartments in New York City. In February 2012, Drumheller became Head of Operations at Newcastle.

4. While Drumheller was Head of Operations at Newcastle, he provided property management services for dozens of buildings that contained thousands of rent-stabilized apartments.

5. Under the Rent Stabilization laws, owners and their agents may increase legal regulated rents based on a formula that takes into account the purported cost of improvements made to each apartment. Once the legal regulated rent for an apartment reaches a threshold amount set by the legislature, owners and agents may declare that the apartment has been removed from rent regulation (hereinafter “deregulated”). As buildings with deregulated

apartments can charge market rents and are exponentially more valuable than buildings with rent-stabilized apartments, owners and their agents have a financial incentive to utilize Individual Apartments Improvements to increase a vacant apartment's rent above the threshold.

Drumheller schemed to abuse this mechanism in order to claim rent increases in excess of what is allowed by law.

6. Drumheller and other Newcastle employees carried out their scheme in a number of ways, all of which involved manipulating the purported cost of labor for apartment renovations. Among other tactics, they used contractors with professional and personal relationships with individuals at Newcastle (hereinafter "captured contractors") to set labor costs for renovations at artificial amounts designed to maximize claimed Individual Apartment Improvements; they paid contractors to renovate multiple apartments and then allocated the labor costs strategically in order to deregulate as many apartments as possible, without regard to the actual costs incurred for each apartment's renovation; they created false change orders on contractor letterhead in order to claim maximum Individual Apartment Improvements; and they created job proposals on captured contractor letterhead to give the appearance that the captured contractors legitimately bid for the jobs.

7. Through this scheme, Drumheller and other Newcastle employees illegally deregulated hundreds of stabilized apartments and caused great harm to both incoming tenants and the State's interest in providing regulated, affordable housing to its residents.

8. Not content with this scheme to fraudulently deregulate units, Drumheller and another Newcastle employee (hereinafter "Agent 1") accepted more than \$1,200,000 in kickbacks from captured contractors and counted those kickbacks as money spent on Individual Apartment Improvements.

9. Captured contractors paid cash directly to Drumheller and Agent 1; other times, captured contractors paid Drumheller's and Agent 1's bills on their behalf, paying for sports cars, country club dues, au pair services, and American Express bills. By including these kickbacks to Drumheller and Agent 1 in the amount claimed as Individual Apartment Improvements, Drumheller and Agent 1, acting on behalf of Newcastle, illegally inflated the legal regulated rents of hundreds of apartments in New York City, thereby improperly removing many of them from rent regulation.

10. Drumheller also deceived prospective purchasers of Newcastle-managed buildings by creating and verifying documents, including Renovation Checklists, that Drumheller knew falsely stated that the rent increases were legitimate, when in fact, those documents listed inflated labor costs and inflated rents. In addition, Drumheller knowingly failed to disclose that some contractors had paid a portion of those labor costs back to Drumheller and Agent 1.

11. Drumheller signed and approved De-Regulated Rent Riders appended to tenants' leases that claimed that the apartments had been deregulated because of rent increases. These lease riders were fraudulent. Both the De-Regulated Rent Riders and Renovation Checklists were presented to tenants for their signatures prior to moving into their apartments.

12. The OAG brings this action to remedy the years of fraud and repeated illegality committed by Drumheller, to ensure that he is enjoined from repeating the fraudulent and illegal acts, and to secure equitable relief on behalf of the people of the State of New York.

PARTIES

13. Plaintiff, the People of the State of New York, is represented by its attorney, Letitia James, the Attorney General of the State of New York. The Attorney General has her

principal place of business at 28 Liberty Street, New York, New York, 10005, in New York County.

14. Defendant David Drumheller is an individual who resides in Armonk, New York. His principal place of business is 250 West 55th Street, New York, New York 10019.

15. Defendant JBD Realty Services, LLC is a New York limited liability company with a principal place of business located at 95 Horatio Street #510, New York, New York 10014.

JURISDICTION AND VENUE

16. This Court has jurisdiction over the action pursuant to N.Y. Executive Law § 63(12), which authorizes the Attorney General to commence an action in this Court seeking injunctive relief, restitution, damages, disgorgement, and costs on behalf of the People of the State of New York “[w]henver any person shall engage in repeated fraudulent or illegal acts or otherwise demonstrate persistent fraud or illegality in the carrying on, conducting or transaction of business.” N.Y. Exec. Law § 63(12).

17. In addition, as the State of New York’s chief legal officer, the Attorney General brings this action pursuant to her *parens patriae* authority. Where, as here, the interests and well-being of the people of the State of New York are implicated, the Attorney General possesses *parens patriae* authority to commence legal actions for violations of state law. The State of New York has a sovereign and quasi-sovereign interest in upholding the rule of law, in protecting the economic well-being of its residents and, with specific reference to the present action, in ensuring that the marketplace for apartment rentals in New York City and the regulatory system of rent stabilization in New York City function fairly with respect to all persons who participate or consider participating therein.

18. Venue is properly laid in New York County because the Attorney General has her principal offices in New York County and Defendants' principal places of business are in New York County.

REGULATORY FRAMEWORK

I. Deregulation of Rent-Stabilized Apartments

19. In New York City, the laws regulating rent-stabilized tenancies are set forth primarily in the Rent Stabilization Law (hereinafter "RSL"), codified at Chapter 4 of Title 26 of the New York City Administrative Code, and the Rent Stabilization Code (hereinafter "RSC"), Title 9, Subtitle S, Chapter VIII of the New York Codes, Rules and Regulations (hereinafter "N.Y.C.R.R.").

20. The New York Rent Stabilization Code was enacted to ". . . prevent the exaction of unjust, unreasonable and oppressive rents and rental agreements, and to forestall profiteering, speculation and other disruptive practices . . ." 9 N.Y.C.R.R. § 2520.3.

21. Generally, all buildings in New York City with six (6) or more units built before January 1, 1974 are covered by Rent Stabilization. 9 N.Y.C.R.R. § 2520.11.

22. Rent stabilization regulates, *inter alia*, the value of rents chargeable for each accommodation, 9 N.Y.C.R.R. § 2522.5, and the circumstances under which tenants may lose their tenancy rights, 9 N.Y.C.R.R. § 2524.1.

23. Housing accommodations that are presumptively rent-stabilized may exit Rent Stabilization (and therefore become deregulated) in a number of ways. Relevant to this complaint, an owner may deregulate a rent-regulated apartment based on "high-rent vacancy." This occurs when, upon vacancy of the prior tenant, the monthly legal regulated rent for a housing accommodation reaches a threshold value set by the Rent Stabilization Law (hereinafter "deregulation threshold"). RSL § 26-504.2. Currently the deregulation threshold is \$2,774.76

per month for the accommodations at issue. During the time period described in this complaint, the deregulation thresholds for the accommodations at issue were as follows:

Time Period	Deregulation Threshold
Before 6/24/11	\$2,000
6/24/11-6/14/15	\$2,500
6/15/15-12/31/17	\$2,700
1/1/18-12/31/18	\$2,733.75
1/1/19-present	\$2,774.76

24. Because rent-stabilized tenants retain their statutory protections even when their legal regulated rents increase beyond the threshold, high-rent deregulation can only occur when there is a vacancy. Upon a vacancy, owners are automatically entitled to increase the legal regulated rent by as much as 20% of the prior legal regulated rent. 9 N.Y.C.R.R. § 2522.8. This is commonly referred to as the “vacancy allowance.”

II. Individual Apartment Improvements

25. In addition to the automatic vacancy allowance, Section 2522.4(a)(1) of the RSC allows owners to collect extra rent increases when there has been new equipment installed or improvements made to a housing accommodation. Owners may increase the legal regulated rent based on the cost of these improvements, commonly referred to as “Individual Apartment Improvements” (“IAIs”), without first obtaining approval from the New York State Division of Housing and Community Renewal (“DHCR”).

26. Under Section 2522.4(a)(4) of the Code, owners are allowed to increase the legal regulated rent by a fraction of the total cost of the IAI. The value of that fraction is as follows:

Time Period	IAI Rent Increase
Before 9/24/2011	1/40th cost of IAI
9/24/11 to present	1/60th cost of IAI: buildings with 35+ units 1/40th cost of IAI: buildings with 35 or less units

27. Thus, owners use IAIs to deregulate apartments through high-rent deregulation because they can obtain a permanent increase in the legal regulated rent for a rent-stabilized unit in an amount equal to a fraction of the cost of an IAI without obtaining any approval by a regulating agency. Indeed, as the facts alleged herein demonstrate, this system allows owners to fraudulently set IAI values at amounts that are not tied to the true cost of the improvements undertaken for the purpose of reaching the deregulation threshold.

FACTUAL ALLEGATIONS

I. Newcastle Realty Services' Role in Deregulating Rent-Stabilized Units

28. Newcastle describes itself as a “highly-acclaimed, full service real estate investment and operations firm in New York City” and a “strong leader in the NYC multi-family market.” *See* https://www.newcastlenyc.com/#_services. Newcastle “uncover[s] value for our investors” by managing “value-add luxury apartment renovations, building rehabilitation, historic renovations, and ground-up construction.” *Id.*

29. Newcastle serves as managing agent for approximately 2,500 apartments throughout New York City. While some of these apartments are owned by Newcastle-controlled single purpose entities, most of these apartments are or have been owned by single purpose entities controlled by others, including Sentinel Real Estate Corporation. As managing agent,

Newcastle receives, or is entitled to receive, rent for the use or occupation of the owners' apartments.

30. Newcastle has "uncovered value" in rent-stabilized apartments by, among other things, undertaking IAs in order to deregulate vacant units using high-rent deregulation. In New York City, where there is a shortage of affordable housing that drives up rents, multi-family residential buildings with a large share of rent-stabilized apartments are not as valuable as buildings with very few rent-regulated apartments, as market-rate apartments bring in greater rental income. Thus, some owners and investors make it a business practice to target rent-stabilized properties with low rents in neighborhoods where there is market potential for higher rents, purchase those properties at low prices, obtain tenant vacancies, use IAs to deregulate vacant apartments, and then realize the increased value of the building through collecting higher rents, or selling the buildings for a substantial profit. Newcastle was critical to this practice and facilitated it for owners that employed this business model.

31. Drumheller began his employment at Newcastle in 2008 as a property manager. In July 2010 he became senior property manager, and then in February 2012 was promoted to Head of Operations, which position he held until he left the company in June 2016.

32. As Head of Operations, Drumheller was critical to Newcastle's practice of deregulating rent-stabilized units. He was responsible for, *inter alia*: implementing a strategy for securing vacancies of occupied rent-stabilized units; determining, in collaboration with others, the cost of improvements necessary to achieve high-rent deregulation of vacant units; and overseeing renovations to vacant units, including memorializing the expenditure of money on IAs. He also prepared and verified documentation, including Renovation Checklists and De-

Regulated Rent Riders that were given to prospective purchasers and incoming tenants in an attempt to justify the purported deregulation.

33. Drumheller was also responsible for overseeing the submission of information to DHCR regarding Newcastle-managed apartments. These submissions included rent registrations to the DHCR representing to that agency the legal regulated rents for Newcastle-managed apartments and whether any units had been deregulated.

34. At Newcastle, Drumheller developed a deep knowledge of the rent stabilization rules governing high-rent deregulation. He used this knowledge to arrange for and oversee the deregulation of hundreds of rent-stabilized units.

II. Drumheller Participated in Persistent Fraud and Illegality in Carrying Out Individual Apartment Improvements

35. Acting as an agent of the owners of rent-stabilized properties, Drumheller participated in a fraudulent scheme to manipulate the regulatory system and deregulate hundreds of rent-stabilized units by claiming false costs for labor associated with apartment renovations and using those costs to improperly raise rents above the deregulation threshold. This scheme continued until June 2016, when he left employment at Newcastle; however, the effects of the fraud remain, as owners of the properties Drumheller managed continue to rely on Drumheller's representations regarding the rent-regulated status of their apartments, and tenants moving into those apartments are deprived of rent-stabilized rights, including potentially being overcharged.

36. Drumheller repeatedly and persistently committed fraud and violated Rent Regulation laws in the following ways: using captured contractors to set labor costs for renovations at artificial amounts designed to improperly inflate claimed IAIs; paying contractors to renovate multiple apartments and then allocating the labor costs in order to deregulate as many apartments as possible, without regard to the actual costs incurred for each apartment's

renovation; creating job proposals on captured contractor letterhead to give the appearance that the captured contractors legitimately bid for the jobs; creating false change orders on contractor letterhead in order to increase IAIs; and collaborating with another Newcastle employee to solicit and accept a combined total of over \$1,200,000 in kickbacks from contractors who renovated apartments managed by Newcastle and including those kickbacks in the purported cost of IAIs.

A. Drumheller Used Captured Contractors to Set Labor Costs at Artificial Amounts

37. The vast majority of IAIs undertaken by Newcastle consisted of major renovations to apartments, including removing and replacing flooring, installing new appliances and countertops, installing new bathrooms, and painting.

38. Newcastle used a handful of contractors to perform the labor for these renovations. Many of these contractors had close ties to individuals at Newcastle, including Agent 1 and Drumheller. Individuals at Newcastle knew these contractors, socialized with them, and hired them to perform work their personal residences, as well as their family members' residences. One contractor was a former employee of Newcastle.

39. Most captured contractors derived the vast majority of their income from Newcastle jobs. For example, A&V Renovation Corp., a/k/a AVM Design, relied on Newcastle to provide nearly all of its business income. Without Newcastle work, A&V Renovation Corp. would not stay afloat.

40. In addition, Contractor 1 was a landscape design firm that had no prior apartment renovation experience before Newcastle hired it. Agent 1 hired Contractor 1 to perform dozens of apartment renovation jobs, and Contractor 1 relied on income from Newcastle to pay its employees during the winter months, when landscaping work was in short supply.

41. Drumheller and other Newcastle employees exploited the relationships with these captured contractors by dictating the prices Newcastle was willing to pay for jobs without any competitive bidding and without consideration of the actual cost of the labor (a practice hereinafter referred to as “price fixing”). When Newcastle wanted to claim a large IAI in order to push an apartment’s rent to the deregulation threshold, it meant a windfall for the captured contractor—a price for labor far higher than the contractor would have proposed for the job had there been bidding. Occasionally, when a large IAI was not needed to deregulate a unit, Newcastle required captured contractors to accept jobs that paid far less than the actual cost of the work

42. The mechanics of the scheme were simple. Once a Newcastle-managed apartment became vacant, Drumheller, in consultation with others, determined what budget was necessary to achieve high-rent deregulation. Drumheller then worked with others at Newcastle to determine how to make a plausible representation that it had spent that budget.

43. Because Newcastle generally purchased identical materials, including flooring, countertops, and appliances for its apartment renovations, the principal variable in all IAIs was the price of labor. Drumheller repeatedly engaged in price fixing before even determining a scope of work or discussing the job with the contractor. Drumheller was involved with others in calculating the price of labor necessary to achieve high-rent deregulation through an IAI and setting that price without any input or bidding from captured contractors.

44. For example, in August 2012, Drumheller and others at Newcastle set a price for labor of \$52,500 for the renovation of a one-bedroom apartment—Apartment 6K—at 921 Washington Avenue, in Brooklyn. The price was set without any input from a contractor and was not tied to the actual cost of the labor. Newcastle gave the job to A&V Renovation Corp.,

one of the captured contractors, without bidding. The scope of work was the same as scopes of work for all such renovations. The principal of A&V Renovation Corp. did not understand why Newcastle was willing to pay so much for the job, as he needed significantly less to cover his expenses for this renovation. The windfall that the contractor enjoyed was based solely on the fact that Drumheller and other Newcastle employees had to spend more on labor to successfully deregulate the apartment. The IAI, plus a vacancy increase, pushed the legal regulated rent for the apartment to \$2,512.01—only \$12.01 above the high-rent deregulation threshold at the time. Therefore, the owner, Drumheller, and Newcastle claimed the apartment was deregulated. Had A&V Renovation Corp. received what it would have actually spent for the job, the IAI would not have been sufficient to deregulate the apartment.

45. As another example, in 2012 Drumheller and others at Newcastle set a price for labor of \$38,000 for the renovation of a one-bedroom apartment—Apartment F3—at 612 West 144th Street, in Manhattan. The price was set without any input from a contractor was not tied to the actual cost of the labor. Robola Contracting Corp., another one of the captured contractors, was given the job without bidding. The scope of work was the same as scopes of work for all such renovations. As a result of that pre-determined price of labor, and an additional \$4,500 for plumbing work that, as discussed in paragraph 68 below, was never undertaken, Drumheller claimed an IAI that led to a rent increase of \$1,237.10. This IAI, plus a vacancy increase, pushed the legal regulated rent for the apartment to \$2,502.60—only \$2.60 above the high-rent deregulation threshold at the time. Therefore, the owner, Drumheller, and Newcastle claimed the apartment was deregulated.

46. In contrast, in 2015 Drumheller set a price for labor of \$24,000 for the renovation of a one-bedroom apartment—Apartment 3C—at 86 Fort Washington Avenue in Manhattan.

The price was set without any input from a contractor and was not tied to the actual cost of the labor. Robola Contracting Corp. was given the job without bidding. The scope of work was the same as scopes of work for all such renovations, including Apartment F3 that Robola Contracting Corp. had renovated three years earlier, and the size of Apartment 3C was equivalent to that of F3 at 612 West 144th Street, yet Newcastle paid Robola Contracting Corp. \$18,500 less. The difference was that the legal regulated rent for Apartment 3C was already high before the renovation (\$1,817.20), and thus Drumheller budgeted less for an IAI. The IAI increased the legal regulated rent to \$2,903.72.

47. In or around 2015, Drumheller assumed greater responsibilities at Newcastle in managing and overseeing rent-stabilized properties. Around this time, Drumheller began routinely meeting with Agent 1 and instructed him to award certain renovation jobs to particular contractors and told him what to pay each contractor for the work. Drumheller did this because, as discussed in subsection E below, certain contractors were paying Drumheller kickbacks for receiving Newcastle jobs. He also did this because to support the practice of spreading out jobs between captured contractors so as to keep them dependent on Newcastle for income. Drumheller engaged in this conduct continuously until June 2016.

48. Drumheller knowingly and intentionally participated in the practice of setting prices for labor based on deregulation and without regard to the work actually performed persistently starting in 2012 and continuing into June 2016.

49. From 2012 and continuing into June 2016, Drumheller fraudulently used the falsely inflated labor costs assigned to renovations of the low-rent apartments in order to raise the legal regulated rents above the deregulation threshold.

B. Drumheller Falsely Allocated Labor Costs Across and Between Multiple Apartments

50. Starting in 2012 and continuing into June 2016, Drumheller repeatedly committed fraud and violated Rent Regulation laws by falsely allocating labor costs of multiple jobs across and between Newcastle-managed apartments, thereby assigning costs not actually associated with renovations in the individual apartment in order to deregulate apartments through high-rent vacancy decontrol (a practice hereinafter referred to as “cost splitting”).

51. On many occasions, Newcastle hired a contractor to provide labor for simultaneous renovations of multiple apartments managed by Newcastle. Though the contractor agreed to a lump-sum cost for all labor associated with these renovations, Drumheller and other Newcastle employees divided that cost among apartments in order to attribute excessive labor costs to low-rent apartments and to attribute minimal labor costs to deregulated apartments or high-rent apartments. As such, there was no relationship between the work performed in a unit and the cost allocated to that unit by Newcastle for deregulation purposes. This practice occurred repeatedly.

52. For example, in 2012 at 336 Fort Washington Avenue in Manhattan, Drumheller oversaw the deregulation of multiple units based on purported IAIs. One contractor provided the labor for all the improvements undertaken, and that contractor had one integrated contract with Newcastle for work on nine apartments and the basement. The scopes of work for renovating all nine apartments were identical, yet rather than attribute the costs evenly across all nine apartments, as they were in fact incurred, Drumheller calculated the total price of labor required to bring the rent for each unit to the deregulation threshold and then applied that price to each apartment, regardless of the actual cost of labor for each apartment. Accordingly, in this example of cost splitting, Drumheller claimed that one high-rent one-bedroom apartment

experienced \$14,500 in labor costs for a gut renovation, whereas a low-rent studio apartment that was smaller experienced \$95,000 in labor costs for a gut renovation. In fact, the labor cost for both apartments was roughly equivalent and the claimed labor costs had no basis in the actual labor costs.

53. Drumheller knowingly falsely represented that all units renovated as part of this integrated contract had been deregulated.

54. As another example, in 2012 at 974 St. Nicholas Avenue in Manhattan, Drumheller oversaw the deregulation of rent-stabilized units based on purported IAIs. Hausmann Service Corporation, one of the captured contractors, was hired to provide labor for renovations to two apartments and was paid \$70,000 by Newcastle. Rather than allocate the labor costs as actually incurred by the contractor, Drumheller and employees at Newcastle insisted that Hausmann write two proposals, one claiming \$65,000 in labor costs for Apartment 2A and another claiming \$5,000 in labor costs for Apartment 5F. The principal of Hausmann, who “d[id]n’t know where they get these numbers from,” agreed to prepare the proposals as instructed.

55. In addition, on more than one occasion, Drumheller and other employees at Newcastle used the claimed labor cost of one apartment renovation to apply towards a contractor’s work on other projects throughout the Newcastle portfolio. In these instances, Drumheller knowingly claimed a labor cost for the purpose of an IAI on one apartment that really covered work done to multiple apartments.

56. For example, in August 2013 Drumheller suggested that Newcastle give out an apartment renovation job at 652 West 189th Street in Manhattan with a “massive budget – probably around \$100K” to one contractor and to have the contractor use that payment to do

work on other apartments, including renovations at 114 Perry Street, 25 Hamilton, and 1090 St. Nicholas Avenue. Thus the IAI claimed for the apartment at 652 West 189th Street actually included the cost of labor performed on other apartments.

57. In claiming an IAI for one apartment at 652 West 189th Street, Drumheller therefore knowingly used a dollar amount for labor that actually was used for renovations on other apartments and applied labor costs to the units that were not based on actual labor costs.

58. Drumheller and other Newcastle employees routinely engaged in cost splitting with units intended for building staff (commonly referred to as “super’s units”). Under the RSC, apartments that are owner- or employee-occupied are typically exempt from rent stabilization. Drumheller and Agent 1 awarded renovation jobs to a contractor to renovate multiple apartments, including a super’s unit, then understated the amount spent on renovating a super’s unit in order to overstate the amount spent on renovating rent-stabilized units.

59. Similarly, Drumheller and other Newcastle employees routinely engaged in cost splitting with commercial units in a building. Under the RSC, commercial units are exempt from rent stabilization. Drumheller and Agent 1 awarded renovation jobs to a contractor to renovate multiple apartments, including a commercial unit, then understated the amount spent on renovating a commercial unit in order to overstate the amount spent on renovating rent-stabilized units.

C. Drumheller Used False Job Proposals

60. Starting in 2012 and continuing into June 2016, Drumheller was aware of and participated in a scheme to use false job proposals prepared by other Newcastle employees using contractor letterhead in an attempt to legitimize inflated labor costs of IAIs.

61. For example, Drumheller knowingly used job proposals that employees of Newcastle created using letterhead of Robola Contracting Corp. that were not prepared by

Robola Contracting Corp. to give the appearance that Robola Contracting Corp. was submitting an estimated price of work for a given job. In the case of the jobs described in paragraphs 45 and 46, *supra*, Newcastle employees created the job proposals, including the scopes of work and the price listed on the proposal. Newcastle employees then instructed the principal of Robola Contracting Corp. to initial the job proposals.

62. Drumheller used these Newcastle-created job proposals to substantiate claimed IAIs—in other words, as proof that the contractor bid for and/or proposed the amount to be charged for labor.

63. Drumheller included these job proposals among documents provided to prospective purchasers of Newcastle-managed buildings.

64. Drumheller submitted these job proposals to regulating agencies to support the price of labor claimed by Newcastle.

65. Drumheller knowingly used these false job proposals to substantiate claimed IAI costs.

D. Drumheller Used False Change Orders

66. Starting in 2012 and continuing into June 2016, Drumheller knowingly used false change orders prepared by other Newcastle employees purporting to claim additional labor costs for fictitious work.

67. In certain instances, Newcastle's budgeted renovation costs—including costs for labor—were not enough to substantiate an IAI that would lead to high-rent deregulation of a unit, often because of mathematical error or unexpected low costs for materials. In these instances, Drumheller and Agent 1 knowingly used false change orders, prepared on contractor letterhead, purporting to seek more money for additional work. In fact, the contractor did not request a change order and the additional work was not required.

68. For example, Robola Contracting Corp. began renovating Apartment F3 at 612 West 144th Street on August 27, 2012. Agent 1 and Robola Contracting Corp. later signed a change order for plumbing work to “[i]ninstall new hot and cold water lines from the main riser to connect to our new branch lines[,]” though Robola Contracting Corp. did not do such work. In fact, Robola Contracting Corp. is not a licensed plumber. On November 14, 2012, Robola was paid \$4,500 for the work.

69. The Renovation Checklist for Apartment F3 shows that the new legal regulated rent after the renovation (including the cost of the change order) was \$2,502.60—just a few dollars above the deregulation threshold.

70. Agent 1 submitted the change order in November 2012, after all renovations were complete, solely for the purpose of increasing the legal regulated rent of Apartment F3 above the deregulation threshold.

71. Drumheller repeatedly oversaw the preparation of other such false change orders and used them to justify IAIs.

E. Drumheller and Agent 1 Accepted Kickbacks from Newcastle Contractors and Included Them in the Cost of Renovations

72. As described above, Drumheller participated in an illegal scheme to inflate rents and deregulate apartments by using captured contractors to set labor costs at artificial amounts; by engaging in cost splitting; and through the use of false job proposals and change orders. But not content with engaging in this fraud, Drumheller sought to enrich himself by accepting kickbacks and to further manipulate the system of rent stabilization.

73. Starting in 2009 and continuing into 2017 (after he left employment at Newcastle), Drumheller and Agent 1 repeatedly and persistently solicited and accepted kickbacks from contractors and other individuals who renovated apartments managed by

Newcastle and who provided materials for the renovation of apartments managed by Newcastle (a scheme hereinafter referred to as the “kickback scheme”). In total, Drumheller and Agent 1 received more than \$1,200,000 in kickbacks during this time.

74. Under the kickback scheme, contractors and other individuals paid Drumheller and Agent 1 in exchange for being awarded work on Newcastle-managed apartments.

75. Contractors made payments to Drumheller and Agent 1 in various ways, including in cash; in checks made out directly to Agent 1 or Drumheller; or in checks or credit card payments to third parties on behalf of Agent 1.

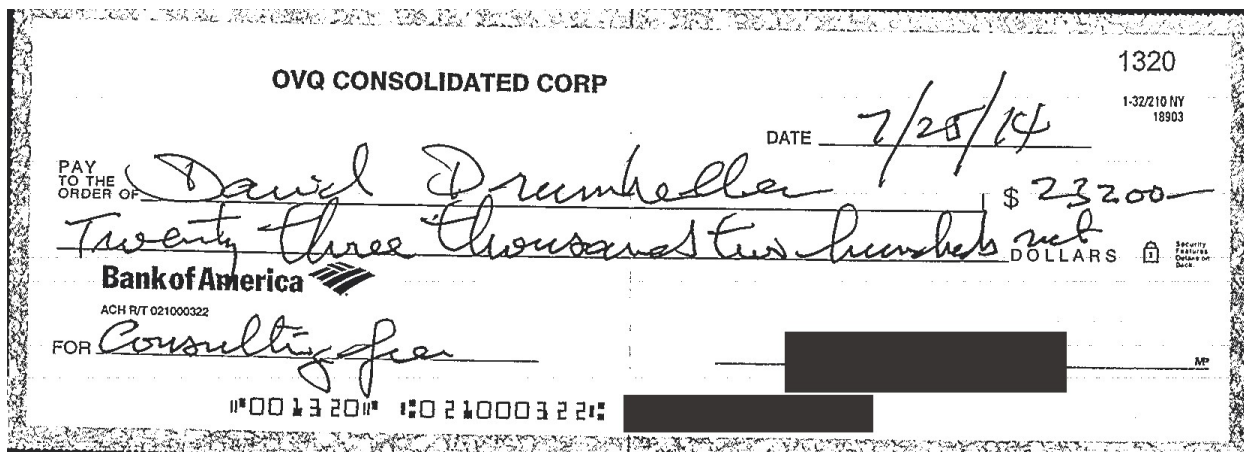
76. By accepting kickbacks, Drumheller and Agent 1 were not just lining their own pockets. Drumheller and Agent 1 included amounts paid to them by contractors in the amount Newcastle claimed was spent on IAIs. In so doing, Drumheller and Agent 1 furthered their scheme to increase the rents of rent-stabilized apartments fraudulently and illegally and, in many cases, bring those apartments out of rent regulation.

i. Drumheller Received More Than a Half-Million Dollars in Kickbacks from Newcastle Contractors

77. While working at Newcastle, Drumheller developed a close working relationship with the principal of the general contracting businesses OVQ Consolidated Corp. and KKA Consolidated Corp.

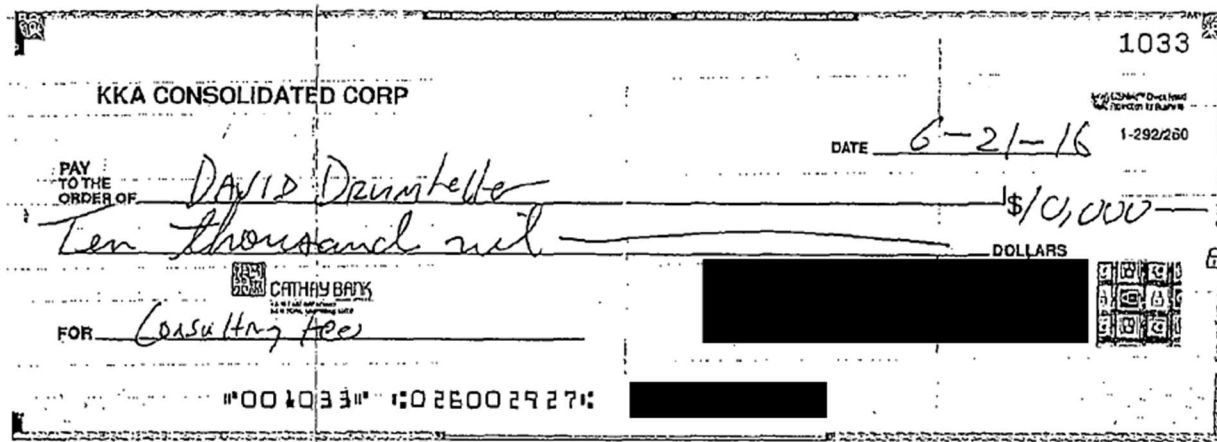
78. Drumheller and Agent 1 initially arranged a meeting with this principal to discuss being retained by Newcastle to perform apartment renovations. At the meeting, Drumheller offered the principal the opportunity to be hired by Newcastle to renovate apartments; however, as part of the kickback scheme, Drumheller told the principal that he expected ten percent back on every job he received from Newcastle. The principal agreed and began making kickback payments to Drumheller.

79. Until May 2016, this principal paid Drumheller through an entity he controlled called OVQ Consolidated Corp.



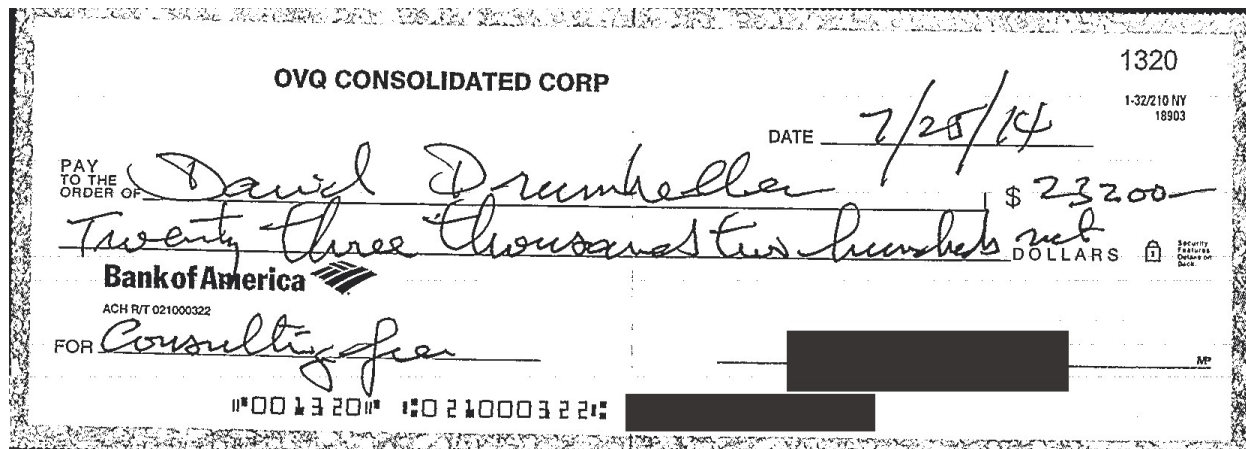
80. Starting in June 2016, the principal paid kickbacks to Drumheller using the entity KKA Consolidated.

81. Many checks from the principal to Drumheller stated "Consulting Fees" in the memo line, but in reality, the check was a kickback in exchange for his receiving work.



82. The principal also paid kickbacks to JBD Realty Services, LLC, an entity controlled by Drumheller. JBD Realty Services, LLC was formed in part as a vehicle for Drumheller to manage a portfolio of apartments he personally managed but also was a conduit for Drumheller's acceptance of kickbacks. JBD Realty Services, LLC repeatedly and

persistently accepted kickbacks from the principal as well as other contractors.



83. Drumheller continued accepting kickbacks from the principal and other captured contractors even after he left his employment at Newcastle. Drumheller and Agent 1 routinely talked on the phone after June 2016. On multiple occasions, Drumheller asked Agent 1 if Agent 1 had more Newcastle work Agent 1 could award to the principal of OVQ Consolidated and KKA Consolidated. Additionally, on multiple occasions, Agent 1 told Drumheller that Agent 1 had some more work to award to that principal, knowing that it would mean additional kickbacks to Drumheller.

84. Between July 2014 and December 2017, the principal of OVQ Consolidated and KKA Consolidated paid Drumheller at least \$527,000 in kickbacks in exchange for receiving apartment renovation jobs from Newcastle as part of the kickback scheme.

85. Drumheller also solicited and received more than \$100,000 in kickbacks from other contractors performing apartment renovation work for Newcastle as part of the kickback scheme.

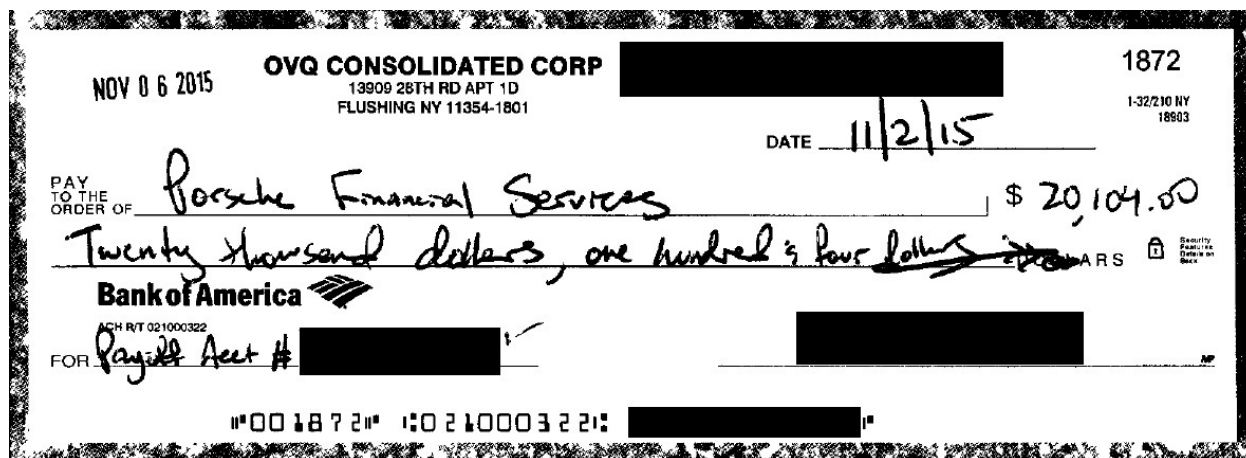
86. A spreadsheet listing 292 examples of transactions representing kickbacks the OAG has identified that were accepted by Drumheller and Agent 1 between 2009 and 2017 is

attached hereto as Exhibit A. This spreadsheet is not an exhaustive list of all kickbacks accepted by Drumheller and Agent 1 through the kickback scheme.

87. Drumheller and Agent 1 actively worked to conceal the existence of their kickback scheme and never reported the existence of the kickback scheme to any tenants, to anyone else at Newcastle, to any of the owners of Newcastle-managed buildings, or to any purchasers of Newcastle-managed buildings.

ii. Agent 1 Accepted Hundreds of Thousands of Dollars in Kickbacks, in Concert with Drumheller

88. With substantial assistance from Drumheller, Agent 1 also regularly accepted kickbacks from a number of contractors as part of the kickback scheme. For example, on November 2, 2015, OVQ Consolidated Corp. wrote a check for more than \$20,000 to Porsche Financial Services to pay off the balance of the loan on Agent 1's Porsche.

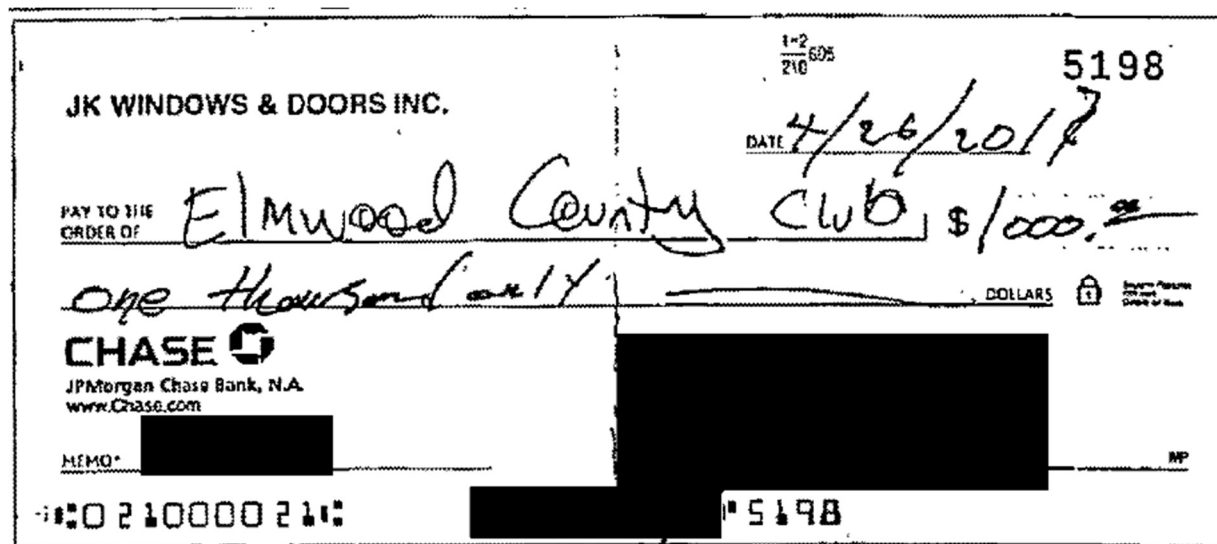


89. Agent 1 also solicited and accepted kickbacks from the principal of JK Windows and Doors Inc. ("JK Windows"), the window contractor which provided *all* windows for every major renovation of an apartment managed by Newcastle.

90. Agent 1 regularly met the principal of JK Windows at his van on the street outside of Newcastle's offices to receive cash kickbacks as part of the kickback scheme.

91. The principal of JK Windows also repeatedly paid Agent 1's personal American Express bill as part of the kickback scheme.

92. The principal of JK Windows also wrote a check paying Agent 1's country club dues at the Elmwood Country Club as part of the kickback scheme.



93. Agent 1 took other in-kind kickbacks as part of the kickback scheme. For example, in October 2015, Contractor 1 wrote two checks each for \$16,500 to Neave Pools to pay to install a gunnite pool at Agent 1's residence.

94. Drumheller repeatedly funneled kickbacks he received as part of the kickback scheme to Agent 1 in furtherance of the scheme.

95. In addition to paying money directly to Agent 1 in furtherance of this scheme, Drumheller also repeatedly paid Agent 1 a portion of the kickbacks he had received by covering

personal expenses of Agent 1, such as an au pair service for Agent 1's children.

0	DAVID A. DRUMHELLER JENNIFER W. DRUMHELLER 95 HORATIO ST., APT. 510 NEW YORK, NY 10014-1531	$\frac{1-2}{210}$ 210	538
CHASE PRIVATE CLIENT		DATE <u>7/15/17</u>	
PAY TO THE ORDER OF	<u>Cultural Care Au Pair Inc</u>	<u>\$ 6,395.00</u>	
	<u>Six thousand three hundred ninety five</u>	<u>00/100</u>	
JPMorgan Chase Bank, N.A.			
Acct # [REDACTED] Ref: [REDACTED]		<u>[Signature]</u>	
MEMO			
⑆02100002⑆	[REDACTED]	538	

96. Drumheller repeatedly made payments to Agent 1 from the joint checking account Drumheller held with his wife, Jennifer Drumheller.

97. Dozens of examples of Drumheller making payments to Agent 1 and to pay Agent 1's expenses in furtherance of the kickback scheme are included on Exhibit A.

98. Conversely, Agent 1 repeatedly funneled kickbacks he received as part of the kickback scheme to Drumheller by giving him cash.

99. Agent 1 also accepted kickbacks from other contractors, including Carson St. Equities, C&D of New York, Hausmann Service Corporation, and Robola Contracting Corp. as part of the kickback scheme.

100. Drumheller knew that Agent 1 was accepting kickbacks from those contractors in exchange for awarding those contractors apartment renovation jobs from Newcastle.

iii. Drumheller and Agent 1 Counted Kickbacks as Funds Spent on Individual Apartment Improvements, Illegally Inflating Rents and Bringing Apartments out of Rent Regulation

101. In taking kickbacks from contractors, Drumheller and Agent 1 took part in a wide-ranging scheme to illegally inflate the rents of hundreds of rent-regulated apartments managed by Newcastle in New York City. This scheme continued until at least December 2017.

102. As part of their duties at Newcastle, Drumheller and Agent 1 were responsible for recording the costs of materials and labor that Newcastle counted as IAIs. When recording the costs of labor incurred for renovations performed by contractors participating in the kickback scheme, Drumheller and Agent 1 knowingly recorded only the amount of money that Newcastle paid those contractors without subtracting the sums that had been funneled back to Drumheller and Agent 1 as kickbacks. Thus, the recorded labor costs for such contractors was inflated.

103. A key aspect of this scheme involved the preparation of Renovation Checklists. For each Newcastle-managed apartment being renovated, Drumheller or Agent 1 prepared a Renovation Checklist, which purported to show, among other things, the prior legal regulated rent of the apartment being renovated, an itemized list of renovation expenses, the total renovation cost, the rent increase allowance, and the new legal rent.

104. The purpose of a Renovation Checklist was to document the cost of renovating an apartment in case the building was sold or if the rent was ever challenged in an overcharge proceeding by a tenant.

105. However, in reality, Drumheller and Agent 1 repeatedly and persistently prepared Renovation Checklists that listed an inflated costs of labor incurred by general contractors participating in the kickback scheme. As Drumheller and Agent 1 never subtracted from those costs the amount of money funneled back to them via the kickback scheme, those Renovation Checklists contained a false calculation of IAIs, leading to illegal regulated rents.

106. Drumheller knew that he and Agent 1 were receiving kickbacks from contractors participating in the kickback scheme in exchange for those contractors being awarded renovation jobs from Newcastle. Thus, when Drumheller prepared Renovation Checklists identifying those contractors as the general contractor for apartment renovations, Drumheller knew that the cost attributed to the general contractor on the Renovation Checklist was false in that it was inflated to include kickbacks paid to himself and Agent 1.

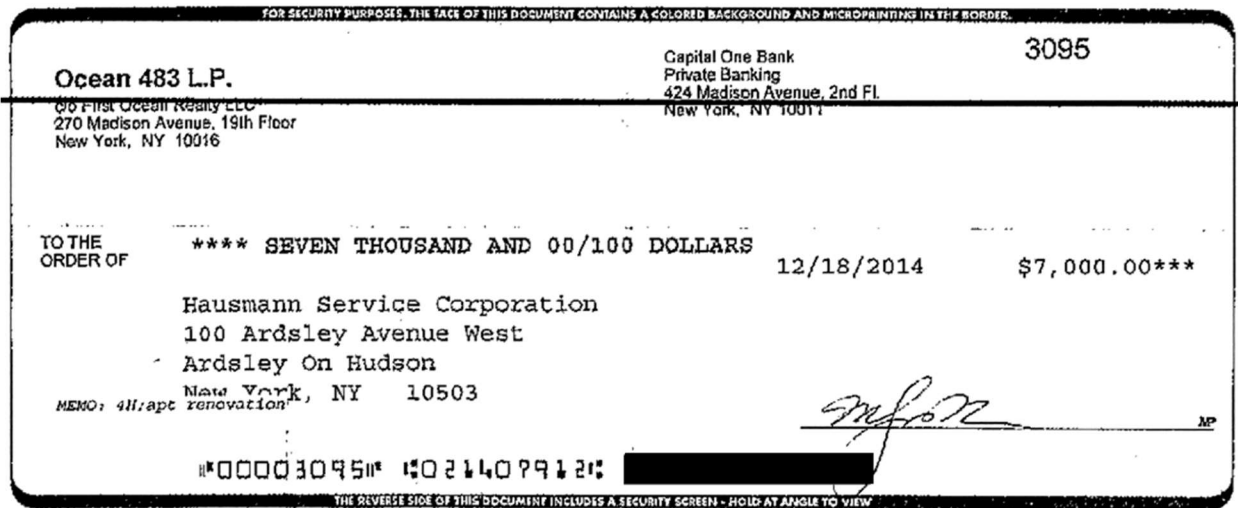
107. Drumheller and Agent 1 knew that Newcastle employees regularly presented the Renovation Checklists to new tenants when those tenants took occupancy of renovated apartments. Drumheller and Agent 1 also knew that new tenants were then asked to sign the Renovation Checklists containing the false statements concerning IAI costs (including, in the case of the contractors participating in the kickback scheme, inflated labor costs).

108. JK Windows participated in the kickback scheme by making multiple payments to Agent 1 in exchange for receiving jobs from Newcastle. Thus, the Renovation Checklists repeatedly and persistently listed inflated costs of materials provided by JK Windows for every renovation, as those costs did not include the kickbacks to Agent 1.

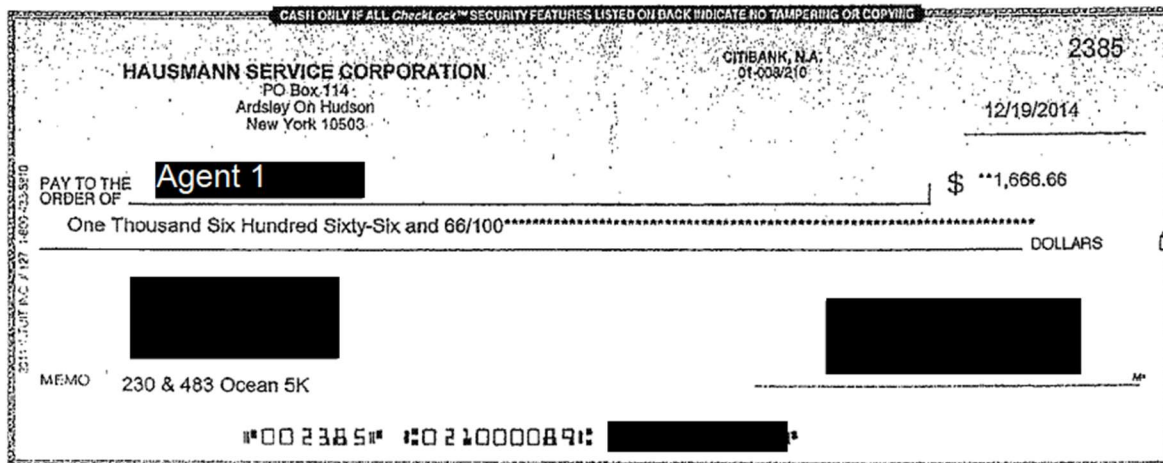
109. Other costs claimed on the Renovation Checklist were inflated. For example, one of Newcastle's Renovation Checklists purports to show that Hausmann Service Corp. was paid \$21,000 (and then another \$4,500) as the general contractor for renovating Apartment 4H at 483 Ocean Parkway, Brooklyn, New York.

110. The Renovation Checklist stated that the prior legal rent was \$1,539.23. Following renovations, it stated that the new legal regulated rent was \$2,507.71—just a few dollars above the deregulation threshold of \$2,500.

111. Newcastle typically paid contractors in thirds, paying one-third up front, one-third during renovations, and one-third at completion of renovations. In the case of Apartment 4H, Newcastle paid Hausmann Service Corp. \$7,000 (the first third of the \$21,000 payment) on December 18, 2014.



112. The next day, on December 19, 2014, Hausmann Service Corp. turned around and paid Agent 1 a kickback of \$1,666.66.



113. Just as Newcastle paid Hausmann in thirds, Hausmann in turn paid Agent 1 its kickbacks in thirds, in this instance for a total of \$5,000 (that amount is referenced on the check's memo line, reading "230 & 483 Ocean 5K").

114. Hausmann thus received a net sum of only \$16,000 of the \$21,000 listed on the first line of the Renovation Checklist, yet the Renovation Checklist claimed general contractor costs of \$21,000, including the \$5,000 kickback in calculating the IAI.

115. If the IAI had been calculated excluding the kickbacks Hausmann paid to Agent 1, the new legal regulated rent at 483 Ocean Parkway, Apt 4H would have been only \$2,424.38. Thus, not only would the new rent have been lower, but even if all the other expenses listed on the Renovation Checklist were legitimate which, as detailed above, they were not, the rent still would have been below the deregulation threshold, thus preventing high-rent deregulation.

116. From 2012 and continuing until June 2016, Drumheller and Agent 1 repeatedly prepared Renovation Checklists calculating new legal regulated rents of apartments that counted money funneled to either to Agent 1 or to Drumheller as money actually spent on IAIs.

117. A compilation of 18 representative Renovation Checklists approved by Drumheller is attached hereto as Exhibit B. This is not an exhaustive list of Renovation Checklists approved by Drumheller.

118. Drumheller and Agent 1 knew that Newcastle employees justifiably relied upon them to calculate the legal regulated rents of Newcastle-managed apartments and to determine whether apartments were subject to rent regulation. Drumheller and Agent 1 also knew that Newcastle employees listed the legal regulated rents they calculated in leases offered to and signed by tenants.

119. Appended to many leases offered to tenants moving into apartments that had been deregulated via high-rent deregulation were riders entitled "De-Regulated Rent Rider," which falsely stated that the apartments had been deregulated.

120. A compilation of 64 representative De-Regulated Rent Riders executed by Drumheller is attached hereto as Exhibit C. This is not an exhaustive list of De-Regulated Rent Riders approved by Drumheller.

121. Drumheller knew that Newcastle justifiably relied on the false Renovation Checklists in defending the rent-regulated status of Newcastle-managed apartments and the rents charged to new tenants, including in rent overcharge proceedings before the DHCR.

122. On at least one occasion, attorneys for Newcastle submitted a Renovation Checklist to DHCR as part of a sworn Petition for Administrative Review of a DHCR order setting the rent for Apartment 5H at 483 Ocean Parkway. The Renovation Checklist stated that captured contractor Robola had been paid \$39,000 as a general contractor but failed to disclose that Robola had been paying Agent 1 cash kickbacks.

123. Based on the illegal and fraudulent conduct of Drumheller and Agent 1, Newcastle illegally inflated the legal regulated rents of hundreds of apartments that it managed.

124. Continuing into June 2016, when Drumheller left Newcastle, Drumheller and Agent 1 met at least weekly, and sometimes multiple times a week, to discuss, debrief, and advise each other on their respective uses of price fixing, cost splitting, false job proposals, false change orders, and the kickback scheme.

125. Drumheller, Agent 1, and other employees at Newcastle routinely worked together in a scheme to illegally increase the rent of rent-stabilized apartments and illegally deregulate apartments through the use of price fixing, cost splitting, false job proposals and false change orders.

126. Because of Drumheller's fraudulent and illegal activities, Drumheller caused harm to the State's interest in providing regulated, affordable housing to its residents.

127. Because of Drumheller's fraudulent and illegal activities, tenants suffered harm in the form of inflated rents and deprivation of the legal protections of rent-regulated status in their apartments through to the present. Tenants suffered this harm from the moment they signed a lease with Newcastle, and those tenants still residing in Newcastle-managed apartments continue to suffer from rent overcharges and the loss of protections guaranteed by rent stabilization.

F. Drumheller Defrauded Purchasers of Newcastle-Managed Buildings

128. As described above, part of Newcastle's business model was "uncover[ing] value" in rent-stabilized apartments by, among other things, undertaking IAIs in order to deregulate vacant units using high-rent deregulation.

129. Once the apartments were deregulated, the owners of Newcastle-managed buildings sold many of the buildings they purchased. Buildings with deregulated, market-rate apartments are more expensive to purchase than comparable buildings with rent-stabilized apartments.

130. Before purchasing a building, prospective purchasers of Newcastle-managed buildings conducted lease audits, reviewing leases and related documents as part of their due diligence. Drumheller repeatedly met with prospective purchasers of Newcastle-managed buildings during lease audits and provided them with leases, De-Regulated Rent Riders and Renovation Checklists containing information about the legal regulated rents of units in those buildings and the rent-stabilized status of apartments in those buildings. Drumheller failed to disclose, however, that in many cases those rents were illegally inflated through the inclusion of funds kicked back to Drumheller and Agent 1; through cost splitting; through price fixing; and through use of false change orders, and that as a result, many of the apartments had not in fact been deregulated.

131. Drumheller repeatedly attended closings for the purchases of Newcastle-managed buildings to provide background information and assistance regarding issues concerning rent stabilization in the buildings at issue.

132. Drumheller knew that prospective purchasers of Newcastle-managed buildings justifiably relied on the falsely-inflated legal regulated rents and the claimed rent-regulated status of units in deciding whether to purchase a Newcastle-managed building and how much to pay for said building.

133. Under the RSC, apartments that were illegally removed from rent regulation remain rent-stabilized, regardless of whether the illegal deregulation occurred prior to a subsequent purchaser purchasing the building. Accordingly, entities that purchased Newcastle-managed buildings containing illegally deregulated apartments have suffered damages in overpaying for such buildings, losing the economic benefit of owning a deregulated, market-rate apartments and potentially being liable for overcharging tenants.

**FIRST CAUSE OF ACTION
VIOLATION OF EXECUTIVE LAW § 63(12):
REPEATED AND PERSISTENT ILLEGAL ACTS**

134. Plaintiff repeats and re-alleges paragraphs 1 through 133 and incorporates them by reference herein.

135. New York Executive Law § 63(12) authorizes the Attorney General to bring an action when any person or entity engages in repeated illegal acts or persistent illegality in the conducting of business.

136. Drumheller has engaged in repeated illegal acts and persistent illegality in the conducting of business as Head of Operations at Newcastle, as described in paragraphs 1 through 133.

137. By engaging in repeated conduct that violated the RSC and RSL, including 9 N.Y.C.R.R. § 2522.4(a), Drumheller has engaged in repeated and persistent illegal conduct in violation of Executive Law § 63(12).

**SECOND CAUSE OF ACTION
VIOLATIONS OF EXECUTIVE LAW § 63(12):
STATUTORY FRAUD**

138. Plaintiff repeats and re-alleges paragraphs 1 through 133 and incorporates them by reference herein.

139. New York Executive Law § 63(12) authorizes the Attorney General to bring an action when any person or entity engages in repeated fraudulent acts in the conducting of business.

140. Fraud under Executive Law § 63(12) is broadly defined to include “any device, scheme or artifice to defraud and any deception, misrepresentation, concealment, suppression, false pretense, false promise or unconscionable contractual provisions.”

141. Drumheller and JBD Realty Services, LLC have engaged in repeated fraudulent acts in the conducting of business, as described in paragraphs 1 through 133.

**THIRD CAUSE OF ACTION
VIOLATIONS OF EXECUTIVE LAW § 63(12):
COMMON LAW FRAUD**

142. Plaintiff repeats and re-alleges paragraphs 1 through 133 and incorporates them by reference herein.

143. New York Executive Law § 63(12) authorizes the Attorney General to bring an action when any person or entity engages in repeated fraudulent acts in the conducting of business.

144. Drumheller knew of the falsity of the material misrepresentations contained in the De-Regulated Rent Riders, Renovation Checklists, and leases he signed and/or prepared concerning: (i) the cost of IAIs (which was inflated through Drumheller's and Agent 1's price fixing, cost splitting, false change orders and kickback scheme); (ii) the legal regulated rents of apartments; and/or (iii) the rent-regulated status of an apartment.

Common Law Fraud:
Against Tenants

145. New tenants justifiably relied on the Renovation Checklists, the leases, and the De-Regulated Rent Riders to inform themselves of the cost of IAIs prior to them taking possession of their apartments; the new legal regulated rents of their apartments; and the rent-stabilized or market-rate status of their apartments.

146. Because of Drumheller's material misrepresentations, tenants suffered damages in the form of inflated rents and deprivation of the legal protections of rent-regulated status in their apartments through to the present.

Common Law Fraud:
Against Newcastle and the Owners of Newcastle-Managed Buildings

147. Newcastle and the owners of Newcastle-managed buildings justifiably relied on the Renovation Checklists, the leases, and the De-Regulated Rent Riders to inform themselves of the IAI cost attributed to a given apartment (which Newcastle justifiably assumed was not inclusive of kickbacks that Drumheller and Agent 1 were accepting through the kickback scheme).

148. Because of Drumheller's misrepresentations, Newcastle and the owners of Newcastle-managed buildings suffered damages in the form of overpaying for apartment

renovations and in having funds Newcastle believed were being spent on apartment renovations actually go to Drumheller and Agent 1 in the form of kickbacks.

Common Law Fraud:
Against Purchasers of Newcastle-Managed Buildings

149. Drumheller knew that prospective purchasers of Newcastle-managed buildings justifiably relied on the falsely inflated legal regulated rents and the rent-regulated status of units in deciding whether to purchase a Newcastle-managed building and how much to pay for said building.

150. Accordingly, purchasers of Newcastle-managed buildings containing illegally deregulated apartments suffered damages in overpaying for buildings containing illegally deregulated apartments and in losing the economic benefit of owning a deregulated, market-rate apartment.

151. Drumheller engaged in repeated fraudulent acts meeting the elements of common law fraud.

FOURTH CAUSE OF ACTION
UNJUST ENRICHMENT

152. Plaintiff repeats and re-alleges paragraphs 1 through 133 and incorporates them by reference herein.

153. By soliciting and accepting hundreds of thousands of dollars in kickbacks from contractors in exchange for those contractors being awarded apartment renovation jobs for apartments managed by Newcastle, Drumheller and JBD Realty Services, LLC have unjustly enriched themselves, at the expense of: (a) Newcastle and the owners of Newcastle-managed buildings, who were deprived of the money they believed were being spent on apartment renovations; and (b) tenants in New York City, who paid inflated rents and were deprived the legal protections of rent-regulated status in their apartments.

**FIFTH CAUSE OF ACTION
AIDING AND ABETTING VIOLATIONS OF EXECUTIVE LAW § 63(12):
COMMON LAW FRAUD**

154. Plaintiff repeats and re-alleges paragraphs 1 through 133 and incorporates them by reference herein.

155. New York Executive Law § 63(12) authorizes the Attorney General to bring an action when any person or entity engages in repeated fraudulent acts in the conducting of business.

156. Agent 1 engaged in repeated fraudulent acts meeting the elements of common law fraud.

157. Agent 1 knew of the falsity of the material misrepresentations contained in the Renovation Checklists and leases he signed and/or prepared concerning: (i) the cost of IAIs (which was inflated through Drumheller's and Agent 1's price fixing, cost splitting, false change orders, and kickback scheme); (ii) the legal regulated rents of apartments; and/or (iii) the rent-regulated status of apartments.

**Common Law Fraud:
Against Tenants**

158. New tenants justifiably relied on the Renovation Checklists and the leases to inform themselves of the cost of IAIs prior to them taking possession of their apartments; the new legal regulated rents of their apartments; and the rent-stabilized or market-rate status of their apartments.

159. Because of Agent 1's material misrepresentations, tenants suffered damages in the form of inflated rents and deprivation of the legal protections of rent-regulated status in their apartments through to the present.

Common Law Fraud:
Against Newcastle and the Owners of Newcastle-Managed Buildings

160. Newcastle and the owners of Newcastle-managed buildings justifiably relied on the Renovation Checklists, the leases, and the De-Regulated Rent Riders to inform themselves of the IAI cost attributed to a given apartment (which Newcastle justifiably assumed was not inclusive of kickbacks that Drumheller and Agent 1 were accepting through the kickback scheme).

161. Because of Agent 1's misrepresentations, Newcastle and the owners of Newcastle-managed buildings suffered damages in the form of overpaying for apartment renovations and in having funds Newcastle believed were being spent on apartment renovations actually go to Drumheller and Agent 1 in the form of kickbacks.

Common Law Fraud:
Against Purchasers of Newcastle-Managed Buildings

162. Agent 1 knew that prospective purchasers of Newcastle-managed buildings justifiably relied on the falsely inflated legal regulated rents and the rent-regulated status of units in deciding whether to purchase a Newcastle-managed building and how much to pay for said building.

163. Accordingly, purchasers of Newcastle-managed buildings containing illegally deregulated apartments suffered damages in overpaying for buildings containing illegally deregulated apartments and in losing the economic benefit of owning a deregulated, market-rate apartment.

Aiding and Abetting

164. Drumheller had actual knowledge of Agent 1's fraudulent activity, as the two routinely met to discuss this activity.

165. Drumheller provided substantial assistance to Agent 1's fraud, in assisting Agent 1's role in the kickback scheme in preparing and/or signing Renovation Checklists, De-Regulated Rent Riders, and leases which were inflated through inclusion of kickbacks accepted by Agent 1; in actively concealing the existence of the kickback scheme; in funneling a portion of kickbacks he received to Agent 1; and in regularly meeting with Agent 1 to discuss, debrief, and advise Agent 1 on his use of price fixing, cost splitting, false job proposals, false change orders, and the kickback scheme.

PRAYER FOR RELIEF


WHEREFORE, Plaintiff requests an order and judgment:

- a. Permanently enjoining Defendant Drumheller from engaging in the unlawful acts and practices alleged herein, pursuant to N.Y. Executive Law § 63(12).
- b. Directing Defendant Drumheller and JBD Realty Services, LLC to disgorge all moneys taken from contractors as kickbacks during the course of his employment at Newcastle, pursuant to N.Y. Executive Law § 63(12), the OAG's *parens patriae* authority and the inherent equitable powers of this Court;
- c. Permanently enjoining Defendants Drumheller and JBD Realty Services, LLC from directly or indirectly engaging in any business or activity related to management or ownership of rent-stabilized property in the State of New York, pursuant to N.Y. Executive Law § 63(12) and the inherent equitable powers of this Court;
- d. Directing Defendants Drumheller and JBD Realty Services, LLC to make full restitution to tenants who paid rent in excess of the legal regulated rents for their apartments as a result of their illegal and fraudulent conduct;

- e. Directing additional disgorgement, restitution, and other such equitable relief as may be necessary to redress Defendants' fraud and violations of the Rent Stabilization laws, pursuant to N.Y. Executive Law § 63(12) and the inherent equitable powers of this Court; and
- f. Granting such other and further relief as the Court deems just and proper.

New York, NY
May 30, 2019

Respectfully submitted,
LETITIA JAMES
Attorney General of New York

By 

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