

AG Watch: New York's Heightened Enforcement In Real Estate

By **Manisha Sheth and Jack Robbins** (March 26, 2026)

This article is part of a regular column in which each installment features observations on one state's attorney general enforcement news and trends, and the compliance implications.

New York's real estate industry is facing a new enforcement reality. Over the past several months, New York Attorney General Letitia James has brought a rapid succession of enforcement actions targeting rent stabilization abuse, unsafe housing conditions and fraudulent securities practices, signaling that the office views these problems as systemic issues warranting aggressive intervention.

In a December statement, James said, "When corporate developers and bad landlords try to cheat housing laws, my office will always take aggressive action to stop them," and she has repeatedly emphasized that message.[1]

For investment firms, property managers and developers operating in New York's residential market, the takeaway is clear: Compliance gaps now carry significant regulatory exposure.

These actions come on the heels of increasing political and public pressure about housing affordability and tenant protections. Under James' leadership, the New York Attorney General's Office has taken an increasingly active role in addressing what it views as systemic issues in the residential housing market, even where those issues traditionally fell within the purview of federal and state housing regulators.

The attorney general's office has employed a mix of statutory tools, from Executive Law 63(12) to the Martin Act.

By examining recent enforcement actions by the New York attorney general, this article identifies the key areas of regulatory risk for firms operating in New York's residential real estate market, and steps that can reduce that risk.

Rent Stabilization Abuse

On Dec. 1, 2025, the New York Attorney General's Office filed a complaint in the Supreme Court of the State of New York, County of New York, against Peak Capital Advisors, alleging that the firm illegally deregulated over 150 rent-stabilized apartments across Brooklyn and Queens.

People of the State of New York v. Peak Capital Advisors LLC has serious implications for real estate investment firms operating in New York, placing heightened scrutiny on how such firms comply with rent-regulation frameworks.

The complaint highlights inconsistencies between a firm's internal records and its regulatory filings. At the center of the case is Peak Capital's alleged abuse of New York's substantial rehabilitation exemption to rent regulation.



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Under Section 2520.11(e)(2) of the Rent Stabilization Code, an owner may exempt apartments from rent regulation if it can demonstrate that it began rehabilitating the building when it was in a "substandard or seriously deteriorated condition." [2] According to James, Peak Capital failed to meet these requirements, yet nonetheless treated stabilized apartments as deregulated and rented them at inflated market rates.

The complaint alleges that, once the apartments' exempt status came under scrutiny, Peak Capital directed its architect to prepare false affidavits claiming that the buildings' systems had been substandard before rehabilitation, contradicting prior reports prepared for investors in which the properties were described as being in "fair" condition. [3]

The complaint further alleges that Peak Capital's practices misled tenants by requiring them to sign leases stating that their apartments were "not subject to the rent stabilization law" because the buildings were permanently exempt following substantial rehabilitation. [4] At the same time, the complaint contends, Peak renumbered most of the apartments to obscure the buildings' histories and make it more difficult for tenants and regulators to look up prior legal rents. [5]

The New York Attorney General's Office seeks a host of remedies:

- First, it asks the court to order Peak Capital to reregister the apartments as rent-stabilized and immediately set rents at their last lawful regulated levels. [6]
- Second, it seeks an award requiring Peak Capital to pay both current and former tenants three times the amount of any rent overcharges. [7]
- Third, it requests the appointment of an independent third-party administrator to oversee Peak Capital's compliance with rent-stabilization laws for a three-year period. [8]
- And finally, it seeks the imposition of civil penalties of \$5,000 for each violation of New York General Business Law Sections 349 and 350, which prohibit deceptive and misleading business practices. [9]

This case reflects that housing affordability is a continued enforcement priority of the New York Attorney General's Office and that it is willing to pursue entities that adopt aggressive interpretations of rent-stabilization exemptions, particularly when those aggressive interpretations are combined with fraudulent and deceptive conduct.

Unsafe Housing Conditions

In addition, over the past several months, the office has signaled that it is willing to commence enforcement proceedings to address chronic operational failures in property management, including persistent code violations.

In re: Blue Sky Management NY LLC and People v. Bourne & Kenney Redevelopment Co. LLC demonstrate that a backlog of unresolved maintenance issues can attract the attorney general's attention and quickly turn into an enforcement proceeding.

The initial investigation of BlueSky Management was undertaken by the attorney general's Tenant Harassment Prevention Task Force. [10] As of May 2025, nearly 800 open Housing

Maintenance Code violations were on record across BlueSky properties, including issues such as unsafe exposed wiring, leaking roofs, concealed water leaks, and inadequate heat or hot water in tenants' apartments.

The Tenant Harassment Prevention Task Force found that BlueSky Management often failed to remedy these defects within the time frames required by law, resulting in prolonged periods during which tenants endured hazardous conditions or interruptions of essential services.[11]

On Dec. 9, 2025, the New York Attorney General's Office announced a settlement with BlueSky Management to resolve allegations that the company allowed unsafe, unsanitary living conditions in buildings under its control.[12] The settlement is memorialized as an assurance of discontinuance, where the company agrees to discontinue the challenged practices, undertake certain remedial efforts and pay a monetary payment in exchange for the New York Attorney General's Office agreeing to resolve the investigation without commencing an enforcement proceeding.[13]

As is typical in assurances of discontinuances, BlueSky Management neither admitted to nor denied the task force's findings, but agreed to an extensive set of remedies and compliance measures.[14] The assurance obligates BlueSky Management to remediate all outstanding code violations and to implement safeguards against future violations.

In the seven properties singled out for severe neglect, BlueSky Management is required to correct every overdue Housing Maintenance Code violation and certify the repairs for inspection within the cure periods prescribed by law.[15]

Likewise, the company is expressly forbidden from performing construction without first obtaining all required permits, or from doing work outside the scope of a permit. BlueSky Management must also pay over \$400,000 in civil penalties[16] and designate a compliance officer (subject to task force approval) who will implement a monitoring plan for its construction activities and provide regular compliance reports to the authorities for a period of three years.[17]

Unlike the BlueSky Management matter, which was resolved through an assurance of discontinuance, the New York Attorney General's Office opted to litigate against Bourne & Kenney Redevelopment Co., filing suit on Feb. 2 in the Supreme Court of the State of New York, Orange County, over similarly persistent code violations at the Kenney Apartments in Newburgh, New York.

The complaint paints a bleak picture of conditions at the Kenney Apartments. The office alleges that since 2023, tenants have dealt with persistent lack of heat and hot water, mold, leaking sewage, unsafe electrical wiring, cockroach and mice infestations, peeling paint, and roof leaks.[18]

According to the New York Attorney General's Office, approximately 160 code violations remain unaddressed at the property.[19] The City of Newburgh Code Enforcement has issued multiple complaints, including a December 2025 filing noting that one of two boilers was inoperable and that heat issues have recurred annually for five years.[20]

In January, three units were condemned as unsafe, and inspections of 66 units resulted in over 160 additional violations.[21]

The attorney general's office seeks injunctive relief requiring defendants to correct all

outstanding violations within 30 days, rehabilitate condemned apartments, hire independent experts to assess heating systems and conduct mold remediation, and refrain from retaliatory actions or property sales until all violations are cured.[22]

These two cases demonstrate that not only is the attorney general concerned with the provision of affordable housing, but also ensuring that housing is safe and habitable — and that the office will aggressively pursue property management companies for failing to address housing code violations in a timely manner.

Fraudulent Securities Practices

In addition to its emphasis on housing affordability and habitability, the attorney general's office is also focused on public disclosures relating to the purchase and sale of condominiums and cooperatives, which are considered securities under New York law.

The office continues to deploy the Martin Act to police disclosures made in connection with residential real estate transactions.

People of the State of New York v. Xi Hui Wu, filed in 2022 in the New York Supreme Court, County of New York, shows that real estate transactions involving condominiums and cooperatives may be prosecuted under the Martin Act as securities fraud when the basic legal prerequisites for selling ownership interests are not met.

On Jan. 9, the New York Attorney General's Office announced a summary judgment ruling finding Wu and TCJ Construction Inc. liable for fraudulently selling condominiums in Brooklyn.[23] The office brought this case against the defendants after an investigation found that over the course of several years, the defendants had taken money from buyers in exchange for "condominium ownership" in a building that was never legally converted into a condominium.[24]

The complaint alleged that the defendants engaged in a scheme to sell condominiums to members of the public even though the building had never been lawfully converted into a condominium and no valid offering plan authorizing the sale of condominium interests was in effect.

As a result, purchasers acquired no legal ownership interests in the building, notwithstanding the defendants' representations to the contrary. The attorney general further alleged that the defendants improperly collected monthly maintenance fees from these purported purchasers based on their nonexistent ownership of security interests in the building.[25]

The defendants did not dispute any of the office's claims, but instead argued that the New York Attorney General's Office did not sufficiently demonstrate scienter. On Nov. 8, 2025, the New York County Supreme Court, Commercial Division, rejected this argument, emphasizing that the Martin Act, which authorizes the attorney general to investigate and enjoin fraudulent practices in the marketing of real estate securities, does not require the New York Attorney General's Office to prove either scienter or intentional fraud.[26]

The New York County Supreme Court found Wu liable for violating the Martin Act, which creates a statutory mechanism for the attorney general to "have broad regulatory and remedial powers to prevent fraudulent securities practices." [27] In addition to finding Wu liable for violating the Martin Act, it granted the attorney general's motion for injunctive relief to enjoin Wu from selling securities in New York.[28]

This case confirms that the New York Attorney General's Office is willing to use all the statutory tools in its arsenal to address injustices in the New York residential real estate market, even in instances where there may not have been intentional or deceptive conduct.

Looking Ahead

These cases reflect an ongoing and sustained focus on ensuring that New Yorkers have access to affordable and safe housing, and that real estate developers comply with registration and disclosure requirements.

They also confirm that the New York Attorney General's Office is willing to use all tools at its disposal, including traditional housing laws, consumer protection statutes and the Martin Act. For firms operating in New York's residential market, three practical lessons emerge.

First, Peak Capital illustrates the risk of invoking the substantial rehabilitation exemption from rent stabilization without sufficient documentation. Where an owner seeks to invoke this exemption, contemporaneous assessments should clearly and unambiguously document that the property was in a substandard or seriously deteriorated condition prior to rehabilitation.

Second, the BlueSky Management and Bourne & Kenney Redevelopment matters demonstrate that persistent, unresolved housing code violations can trigger New York attorney general enforcement action.

Under the Housing Maintenance Code, a landlord's repeated failure to correct hazardous violations within the time frames prescribed by law is itself presumptive evidence of tenant harassment.[29] Property managers should implement systematic protocols for tracking and timely curing open violations, and should be particularly attentive to immediately hazardous classifications, which carry the shortest cure periods and greater litigation exposure.[30]

Finally, BlueSky Management, Wu and Peak Capital each involved a failure to accurately register or disclose the correct legal status of residential units to the relevant regulatory authority. The consequences varied by context but share a common theme: Where a firm's filings, representations to tenants or registration history are materially inconsistent with the correct legal status of its units, that discrepancy can serve as the basis for commencing an enforcement action.

Firms should audit their Housing Maintenance Code registration histories, ensure that any offering of real estate interests is supported by a valid offering plan on file with the attorney general, and confirm that tenant-facing representations about regulatory status are accurate and consistent with applicable law.

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[1] Press Release, N.Y. Att'y Gen. Letitia James, Attorney General James and HCR Commissioner Visnauskas Sue New York City Real Estate Developer for Illegally Deregulating Rent Stabilized Apartments (Dec. 1, 2025), <https://ag.ny.gov/press-release/2025/attorney-general-james-and-hcr-commissioner-visnauskas-sue-new-york-city-real>.

[2] 9 N.Y.C.R.R. § 2520.11(e)(2).

[3] *Id.* at 45.

[4] *Id.* at 66.

[5] *Id.*

[6] *Id.* at 67.

[7] *Id.*

[8] *Id.* at 68.

[9] *Id.* at 68-69.

[10] *Id.*

[11] *Id.*

[12] Press Release, N.Y. Att'y Gen. Letitia James, Attorney General James and Tenant Harassment Prevention Task Force Secure More than \$672,000 from NYC Landlord for Creating Unsafe Living Conditions for Tenants (Dec. 9, 2025), <https://ag.ny.gov/press-release/2025/attorney-general-james-and-tenant-harassment-prevention-task-force-secure-more>.

[13] N.Y. Exec. Law § 63(15).

[14] *Id.* at 18.

[15] *Id.* at 22.

[16] *Id.* at 17, 47-50.

[17] *Id.* at 42-45.

[18] *Id.* at 2.

[19] *Id.*

[20] *Id.* at 4-5.

[21] *Id.* at 6.

[22] Id. at 15-16.

[23] Press Release, N.Y. Att'y Gen. Letitia James, Attorney General James Wins More than \$4.2 Million for Chinese Immigrant Families Defrauded by Brooklyn Property Owner (Jan. 9, 2026), <https://ag.ny.gov/press-release/2026/attorney-general-james-wins-more-42-million-chinese-immigrant-families-defrauded>.

[24] Id.

[25] Id. at 16-17.

[26] General Business Law §§352, 353.

[27] Id. at 3.

[28] Id. at 11.

[29] Assurance of Discontinuance, In re: Blue Sky Mgmt. NY, LLC, Assurance No. 25-031, at 13.

[30] HMC § 27-2115(c).