

Predatory Housing Practices Stalk City Dwellers

As many as 250,000 New Yorkers residing in 100,000 rental apartments could be affected by predatory investments. Affordable rental housing in the city remains at risk, even during the economic recession, some of it due to the implosion of predatory equity, according to “Closing the Door 2009: Risks of Boom and Bust,” the latest housing report by the Community Service Society (CSS).

Affordable housing is a systemic problem in New York City, and one of our greatest concerns is the fate of rental units owned by predatory investors. The thousands of apartments in buildings in default right now are just the beginning. The wave of financial implosions could end up affecting a very large share of apartment buildings where New York City’s low-wage working families live.

Predatory equity is the practice of buying rental apartment buildings at inflated prices (remember the housing bubble?) and hoping to replace poor and working tenants with new tenants willing to pay much higher rents. The result could be disastrous for thousands of low-income New Yorkers.

The CSS report reveals that a large number of affordable housing units are threatened as the financing unravels for buildings purchased at highly speculative prices by predatory investors in recent years. Predatory equity investors based their actions on a number of beliefs: that the housing market would continue to expand; that buildings could be converted from rentals to condos; that rent control and rent stabilization laws could be circumvented; and that low-income tenants could be forced out.

Buildings in Default

The defaults are occurring because buildings were sold with financing that could only be supported if the buildings rapidly began to produce increased incomes from renters. But this isn’t happening. When the expected rent increases failed to materialize, owners found themselves unable to make mortgage payments at the same time that the banks have severely reduced their lending. The outbreak of mortgage loan defaults provides some of the clearest evidence that many apartment buildings are in fact worth much less than the price levels that the market reached several years ago.

The housing market is essentially frozen, leaving tenants and neighborhoods vulnerable to deteriorating building conditions and leading to a wave of defaults that is now well under way, with over 4,000 apartments affected in the Bronx, Harlem, and East Harlem. Another threat to working family tenants is the option of selling the buildings to slumlords rather than to responsible owners. Either way, tenants lose.

Lender Resistance

The banks and other financial institutions which provided much of the loans to investors to buy these buildings have been complicit in this situation. According to the report, it appears that a

number of these lenders have contributed to the problem by refusing to acknowledge that their loans are unsustainable. Buildings were bought at very high prices relative to annual rental income, and those prices did not moderate even after the economic downturn. In 2008 and 2009, a number of buildings were resold at prices that ranged from 25 percent below to 80 percent above their initial predatory purchase price.

This pattern, with reductions in price limited to 20 to 25 percent, suggests that buildings are selling for the amount of debt outstanding on the properties, but never less. This in turn suggests that lenders are not permitting sales for less than the amount of debt. By blocking such “short sales,” lenders can delay the appearance of losses on their financial statements and avoid the regulatory consequences of these losses. This lender intransigence helps explain why prices have failed to fully retreat from their boom levels.

We need a well-designed government program to get banks to restructure unsustainable mortgages on apartment buildings, and to make sure that building services are maintained and tenants are not displaced. Banks need to be working to reset the market and help save, not destroy, rental housing in New York.

Protecting Tenants

There are several actions that government can take to protect tenants. Here are three recommendations included in the CSS report. The state should strengthen protections for tenants when buildings leave subsidy programs such as Mitchell-Lama. Exposure of subsidized buildings to predatory practices could be reduced by establishing a federal “right to purchase” for tenants and their chosen development partners before allowing the properties to leave subsidy programs. To get banks on board, the possibility of a federal program to encourage responsible debt restructuring by reducing the regulatory consequences of reporting the related losses on balance sheets should be explored.

It is hard enough to see thousands of affordable apartments lost because of vacancy decontrol laws and buildings coming out of subsidized programs. We should not allow a further deterioration through what are essentially “fast buck” operators either forcing tenants out of apartments or defaulting buildings into economic oblivion.

David R. Jones is president and CEO of the Community Service Society (CSS), the leading voice on behalf of low-income New Yorkers for over 160 years. The views expressed in this column are solely those of the writer. The Urban Agenda is available on CSS’s website: www.cssny.org.

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