New York City's Multifamily Housing in Distress

Using the Building Indicator Project to identify and address physical and financial distress

A Report by
University Neighborhood Housing Program

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Executive Summary

The number of New York City's multifamily properties in physical and/or financial distress is on the rise, according to research based on University Neighborhood Housing Program's (UNHP) Building Indicator Project (BIP). The BIP database, conceived in 2003, launched in 2004 and improved and expanded over the following six years to its current form, works as a tool to identify levels of distress in buildings with at least five residential units using publicly available data on violations, liens and mortgages. With input from housing and banking professionals in the public, private and nonprofit sectors, UNHP tested, analyzed and refined a scoring system where properties with a score of 800 or above warranted further examination to confirm probable physical and/or financial distress.

Documenting the growing disconnect between sales prices and net operating income in Bronx multifamily housing in the early and mid 2000s, as well as the swelling number of households with a severe rent burden throughout the decade, led UNHP to believe that levels of distress in the local housing stock would rise. Speculative landlords would not be able to meet high debt service payments without cutting back on services to buildings, especially as other operating costs such as water and insurance were increasing dramatically. The gambles of private equity investors on replacing working class lower-rent tenants with higher income earners in places like the west Bronx would not pay off, and all parties would pay a price, especially the tenants and the housing stock itself. The need for a tool like the Building Indicator Project was and continues to be apparent.

Currently, the BIP database tracks violation, lien and lender data for more than 62,000 properties in four boroughs of New York City, and the most recent data shows nearly 3,400 properties containing approximately 135,000 apartments scoring above our likely distress threshold of 800 points. This represents 5.5% of all properties in the database, and is a significant increase from the fall of 2009 when 3.3% were likely distressed. The percent of properties also increased slightly in all boroughs except Manhattan since the spring of 2010, bucking the trend of scores dropping slightly each fall.

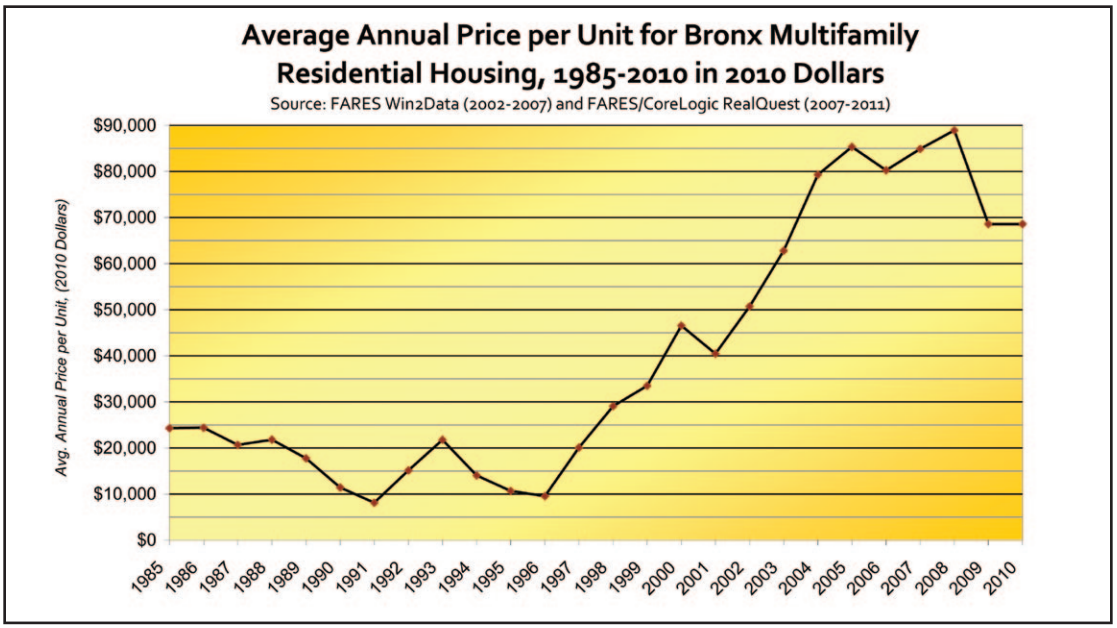
In this report we will present current data on Bronx real estate trends, housing-related demographics of Bronx neighborhoods at the epicenter of this crisis, and a detailed analysis of BIP data including trends of distressed housing by neighborhood, type of property and by lender. We will also discuss some of the uses of BIP by community groups across the City, and the influence it is having on lenders and public policy. In sum, we will demonstrate the current and potential power of BIP to improve the quality of housing in poor and working class neighborhoods throughout New York City, especially in places like the west Bronx.

The Bubble Behind the BIP Story

Aside from the confusion over who would be the next President of the United States, the day after the 2000 election is most memorable to UNHP staff because of the forum we held at Fordham University's Lincoln Center Campus on rising Bronx real estate prices. Entitled *Six Times Rent Roll*, more than 50 lenders, regulators, owners and managers responded to both anecdotal and empirical evidence of rising sales prices in Bronx multifamily housing at the forum. These rising prices had impeded UNHP's ability to work with tenant and nonprofit groups to purchase buildings, and triggered memories of a previous spike in the late 1980s when Freddie Mac was financing building sales for similar amounts prior to a sharp downturn and ensuing foreclosure crisis in the Bronx multifamily real estate market.

In the following years, UNHP would complete a detailed analysis of real estate data with assistance from the Citizens Housing and Planning Council (CHPC) and issue a report in 2003 entitled *A Real Estate Bubble in the Bronx?* that reached the significant conclusion that speculation could not be ruled out. UNHP continued to update the research on sales prices and net operating income in subsequent reports in 2005, 2007 and 2009.[1] Now in 2011, we are able to look back and see some intricacies of that bubble and how we developed the Building Indicator Project just in time to identify the housing distress caused by the growing number of individual bursts.[2]

Figure 1



Using sales price data for residential apartment buildings in the Bronx with at least six rental units[3] from First American Real Estate Solutions/CoreLogic, we track sales price per unit going back to 1985 *(see Figure 1 above)*. After a period of relative volatility in the late 1980s and early 1990s, a

1 All UNHP Reports including *A Real Estate Bubble in the Bronx?*, 2005's *Rising Values in a Highly Subsidized Market*, 2007's *Shrinking Affordability*, and 2009's *Envisioning the Future of the Red Zone* are available at www.unhp.org/forums.htm

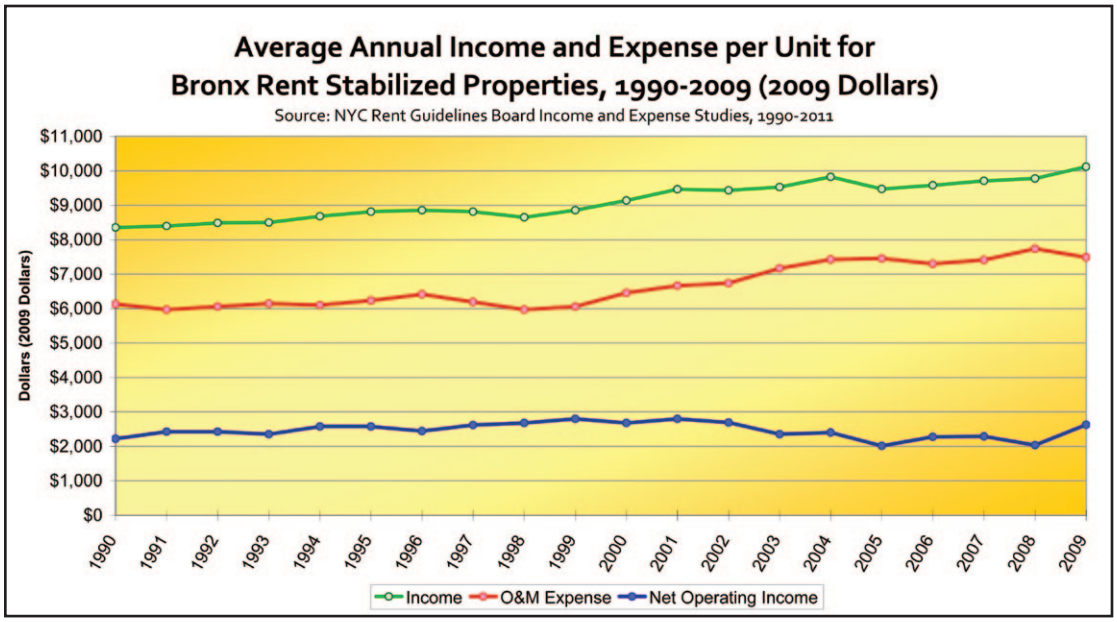
2 In the mid- to late-2000s we began to refer to the predicted bursting of the Bronx multifamily real estate bubble as a series of individual bursts, as individual over-leveraged buildings and portfolios would go in foreclosure over a drawn out period of time.

3 We elected to look at properties with at least six rental units as this is the minimum number required for a building to be rent stabilized.

rapid and steady increase in sales prices begins in the late 1990s. With the lone exception of 2001, sales price per unit increased uninterrupted for the decade beginning in 1996, skyrocketing 794% by 2005. This represents an average annual increase of 30% sustained over a nine year period.

After another slight drop in 2006, two more years of increases brought sales prices to almost $90,000 per unit (all figures are adjusted to 2010 dollars) before the correction seen in 2009. Annual data for 2009 and 2010 shows a steady average price per unit around $68,500.

Figure 2

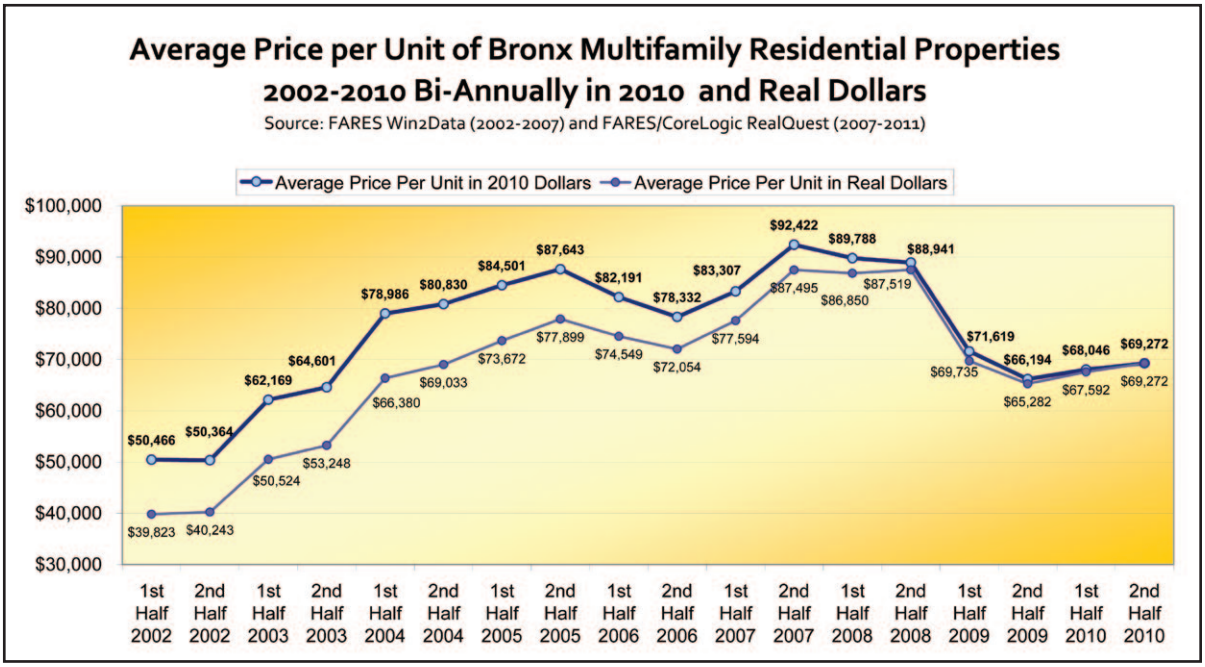


What has always set off alarm bells for us has been the dramatic disconnect between sales prices and net operating income (NOI). Using Rent Guidelines Board data from their annual *Income and Expense Studies*, we see in *Figure 2* that growing income numbers in Bronx multifamily housing have been offset by increasing operating and management (O&M) expenses. The result has been that, adjusted for inflation, NOI has remained virtually flat since 1990, even accounting for the very recent jump in 2009.

Hence, rising sales prices were not the result of an increase in profitability of Bronx apartment buildings, but rather likely stemmed from speculative investment and expectations based in the bubble mentality of the 2000s. While some lenders practiced conservative underwriting during this period, others became more aggressive and sought larger market share and short term profits. In general, most Bronx multifamily loans during this period were not based on traditional debt service coverage ratios. While some of the loans may have been considered conservative based on loan-to-value ratios (with large amounts of cash from private equity investors), there are documented cases of underwriting using projected income based on unreasonably high expectations of turnover of tenants.[4] In the end, these aggressive lenders aided speculators in putting many thousands of properties at risk of deferred maintenance and deterioration while increasing levels of harassment of low-rent tenants and contributing to the loss of apartments affordable to working class New Yorkers.

4 Source: *Predatory Equity: Evolution of a Crisis* by the Association for Neighborhood and Housing Development, November 2009. http://www.anhd.org/resources/Predatory_Equity-Evolution_of_a_Crisis_Report.pdf

Figure 3



Biannual sales price data *(see Figure 3 above)* gives a more detailed look at changes in the Bronx multifamily real estate market. We see a peak in the first half of 2006, only to be surpassed in the second half of 2007 and both halves of 2008. The dramatic drop did not arrive until the first half of 2009, and prices have remained under $70,000 per unit since then.

Near-peak sales prices coincided with record sales volume during the first halves of 2005, 2006 and especially 2007 *(see Figure 4 below)*, when adjusted price per unit stayed above $82,000. As a result, a huge segment of Bronx multifamily housing stock was sold at record prices, creating a potentially enormous pool of buildings that would be at-risk of physical and financial distress due to over-leveraging.

Figure 4

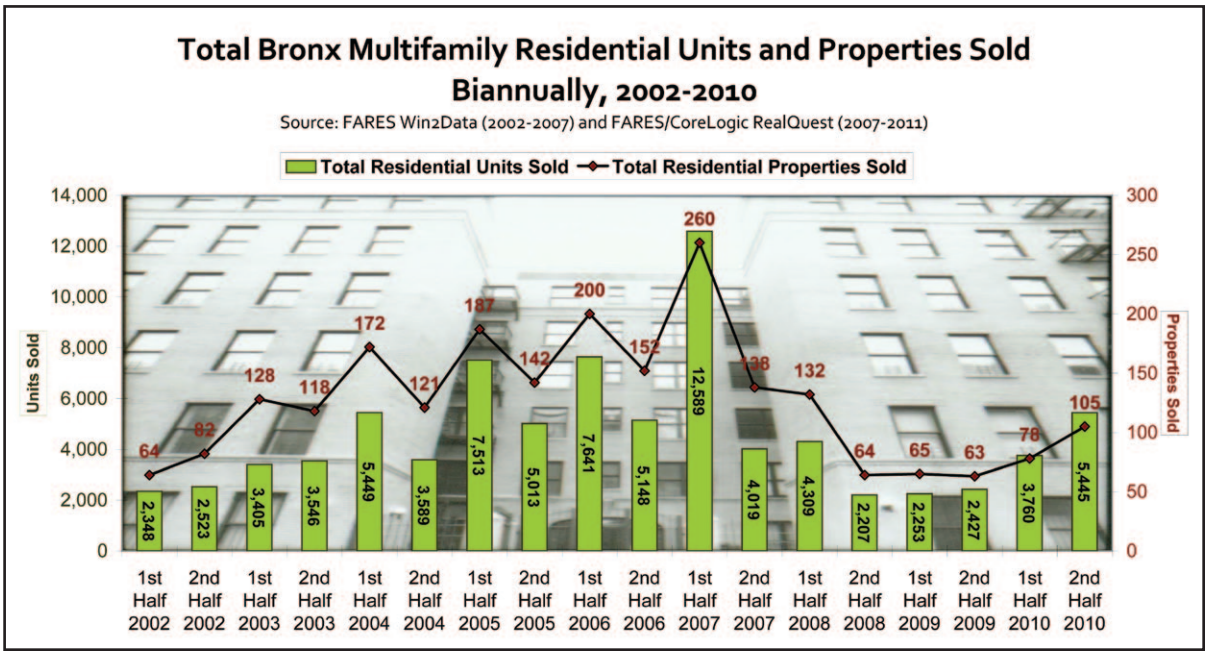
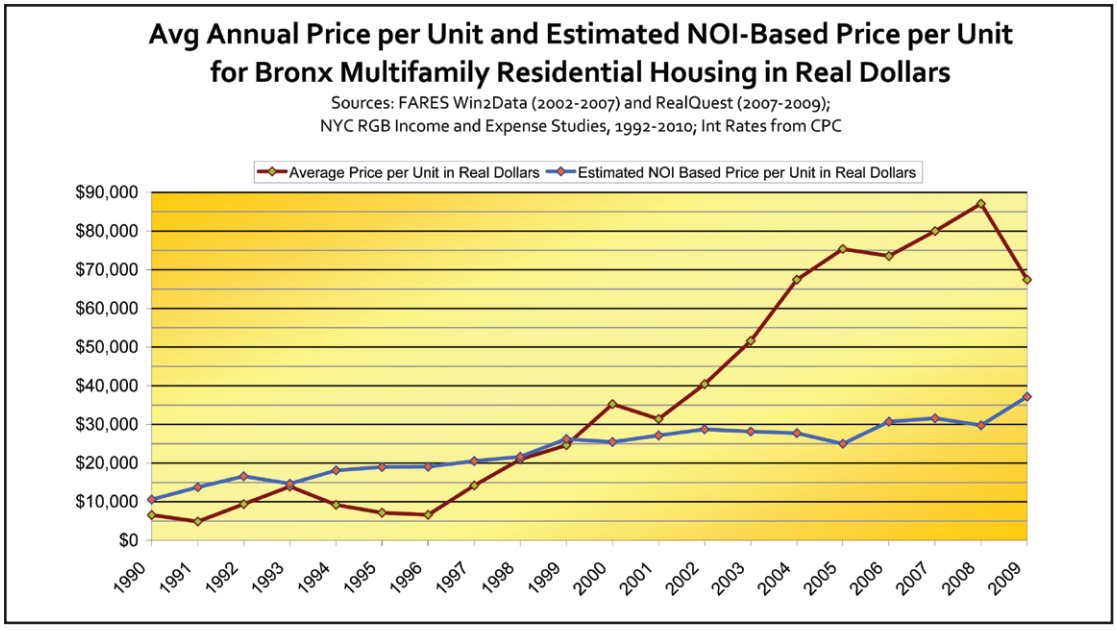
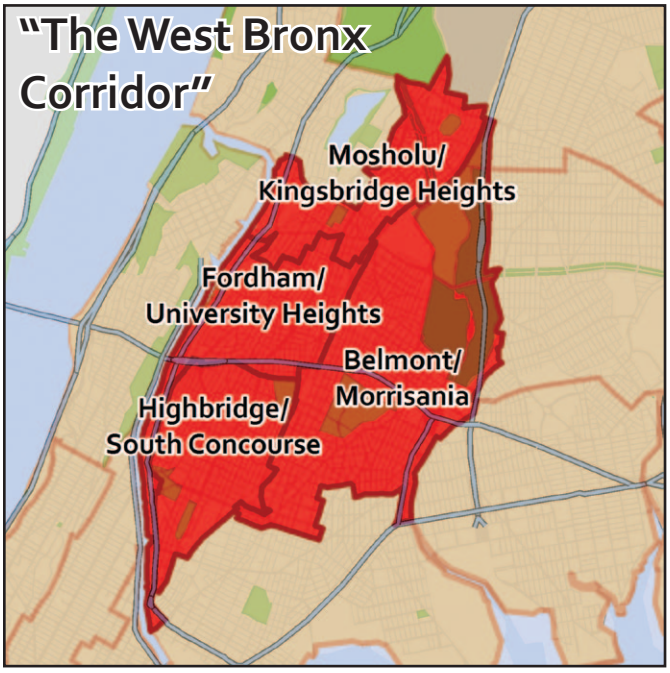


Figure 5



If both owners and lenders had based value on actual net operating income and debt service coverage ratios, the average price per unit would have looked closer to *Figure 5*. Our theoretical price per unit is based on NOI data from the Rent Guidelines Board, interest rate data from CPC, gradually decreasing debt service coverage ratios from 1.25 in 1990 to 1.16 in 2009, and gradually decreasing loan-to-value ratios from 80% in 1990 to 75% in 2006-2009. Equilibrium of sorts was reached in 1998 and 1999, while 2001 was also close. While we realize these are ballpark estimates, they still demonstrate the dramatic contrast between actual speculative and theoretical responsible investment during this period. Even with a bump up in NOI and a sharp drop in sales prices for 2009, average price per unit is still almost double what it might be if it were based on actual average operating income.

Figure 6



The People of the West Bronx Corridor

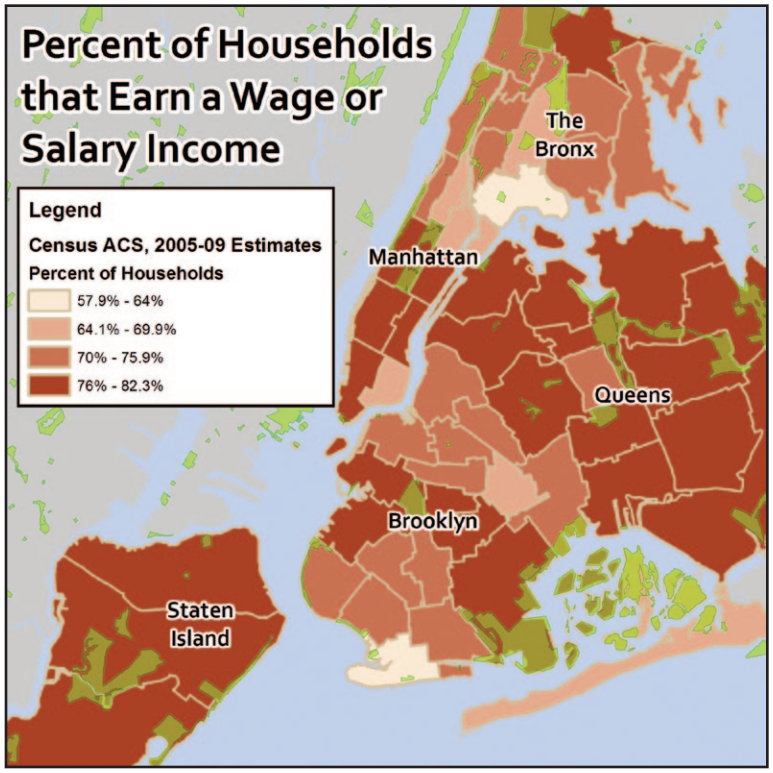
In UNHP's work, the traditional boundaries have been the Northwest Bronx, bounded by the Cross Bronx Expressway to the south, the Harlem and Hudson Rivers to the west, the Bronx River to the east and the City line to the north. However, we have identified slightly different boundaries for an area in the City that has been hardest hit by levels of housing distress and share many other demographic and economic indicators. Featured in our 2009 report, *Envisioning the Future of the Red Zone*, "the West Bronx Corridor" is

comprised of Bronx Community Boards 3, 4, 5, 6 and 7 and includes neighborhoods such as Fordham, University Heights, Norwood, Highbridge, Crotona, Bedford Park, Belmont, Mount Hope, Morris Heights and southern Kingsbridge Heights, with the Grand Concourse as its spine stretching from 161st Street to Mosholu Parkway.[5]

These neighborhoods also share a similar housing stock, comprised mainly of five and six story walk-up and elevator apartment buildings as well as a mix of two and three family homes and a few high rises, and a relatively small amount of public housing.[6] While these neighborhoods experienced varying levels of devastation during the 1970s and early 1980s, they all witnessed many occupied rehabilitations during the past thirty years with the assistance of effective community organizing, neighborhood-based housing development organizations, private-public partnerships and City investment.

In total, these neighborhoods are home to more than 540,000 residents living in about 180,000 households.[7] According to data from both the 2008 New York City Housing and Vacancy Survey (HVS) and the 2005-2009 American Community Survey (ACS), they share similar demographic profiles that can be categorized generally as predominately Latino and black, immigrant--heavy (especially Dominicans, Mexicans and West Africans), working class and working poor, with a high percentage of the population under the age of 18.

Figure 7



Approximately 70% of households in the West Bronx Corridor (WBC) reported a wage or salary income on the 2005-2009 ACS 5-Year Estimates.[8] While not as high as some other parts of the City, this percentage is only slightly less than the citywide average of 75%, and is about the same as it was in 2000, despite a recent spike in the unemployment rate.

However, incomes in the West Bronx Corridor are among the lowest

5 While we mention here Community Districts (CDs), most demographic data is based on Sub Borough Areas (SBA), also known as Public Use Microdata Areas (PUMAs) which closely correspond to CDs, though in a few cases two CDs are combined to form one SBA to reach a large enough population count, including Bronx CDs 3 and 6 which form one SBA known as Morrisania/Belmont.

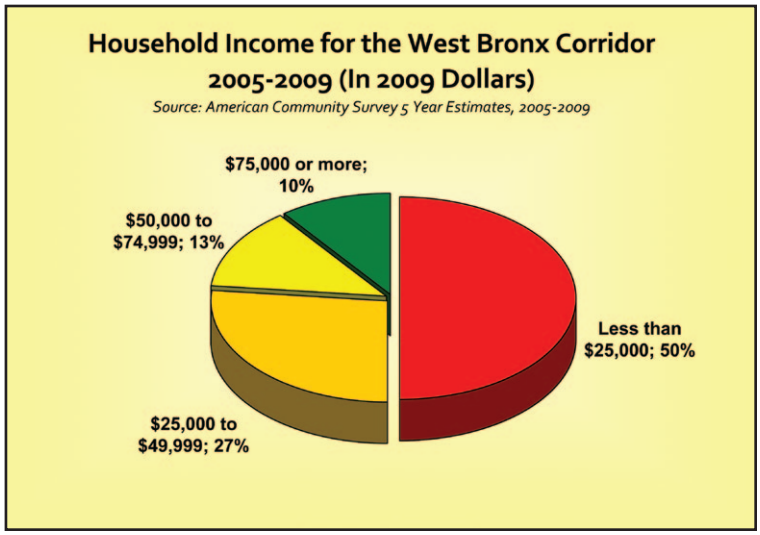
6 Most of the Public Housing in the West Bronx Corridor is concentrated in the southeast part of the area.

7 Taken on their own, these neighborhoods would rank as the 33rd largest City in the nation between Albuquerque and Tucson. At 56,910 people per square mile [64,472 if you exclude Bronx Park], it is more than twice as dense as the City as a whole, and nearly as dense as Manhattan.

8 The 2005-09 ACS Estimate is the most recent dataset with a large enough sample size to look below the county level with a relatively small margin of error. Data also exists at the one year and three year levels, but with much higher margins of error.

in the City and have, in the past decade, failed to keep up with inflation. Median household income is around $25,500, which is about 4.5% less than what it was in 2000 adjusted for inflation.[9] Single parent households make up 44% of the total, meaning a family with two wage earners is not typical.[10]

Figure 8



Additionally, a large percentage of the population in this area does not have a high school diploma or GED,[11] limiting residents to service sector employment where wages have stagnated in the past decade, and benefits are limited or none. The growing level of income inequality in New York City (with the top 1% now earning 44% of the income) means there is less money to be earned by those at the bottom of the job ladder.[12] Neighborhoods like the West Bronx Corridor suffer the most from this confluence of severe economic stratification and wage stagnation for those at the low end of the pay scale. Attempts to bring about living wage legislation are in progress, but if successful, it would not improve wages for the vast majority of residents.[13]

While the Bronx continues to offer the lowest rents of any borough in the City, affordability is a serious and growing problem. Asking rents have increased at a much faster pace than incomes and a household that has moved in the past five years pays significantly more in rent than one that has remained in the same apartment for more than a decade *(see Figure 9 on Page 9)*. Overall, more than a third of renter households in the West Bronx Corridor now pay more than half of their income on rent, and this number would be much higher if not for the large number of Section 8 vouchers in our neighborhoods.[14]

Furthermore, gentrification pressures in other parts of the city have increased the level of economic segregation as more and more poor and working class families have been priced out of their old neighborhoods. Aside from moving out of the City entirely, one of their few alternatives is to move to the Bronx in search of cheaper rents. Affordable housing units built under the Mayor's *New Housing Marketplace*, while commendable, have been more than offset by the loss of "affordable" rent regulated apartments.[15] With the loss of lower-rent apartments in other boroughs and increasing

9 In 2000, the average of median household incomes for West Bronx Corridor SBAs was $20,553, which adjusted for inflation to 2009 dollars would be $26,671. Median household income in 2005-09 in 2009 dollars averages out to $25,465. Sources: 2000 Census and 2005-2009 American Community Survey

10 Source: 2005-2009 American Community Survey

11 Upwards of 40% of WBC residents aged 25 and over do not have a high school diploma or GED. Source: 2005-2007 American Community Survey.

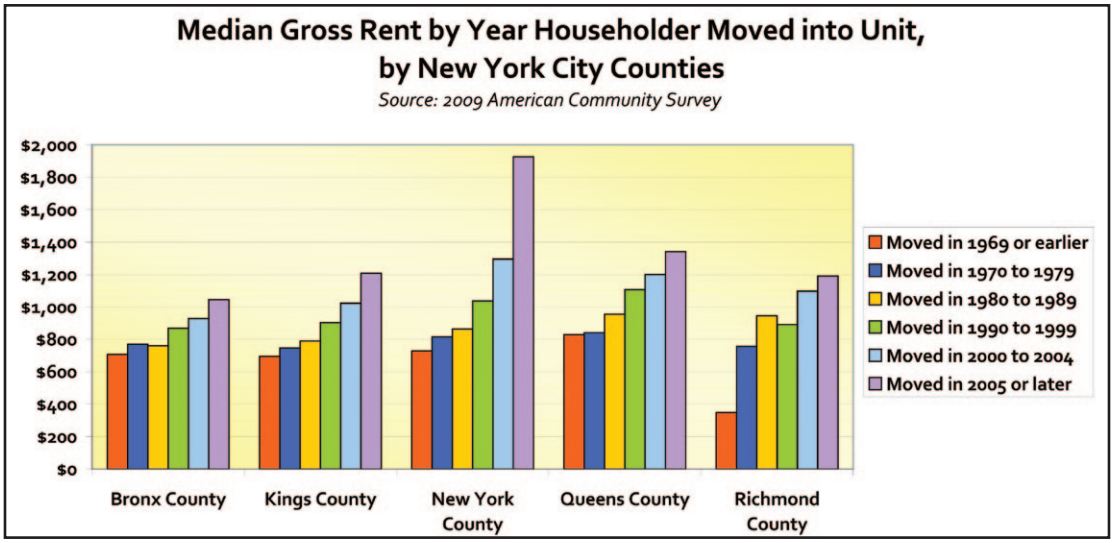
12 Source: *Grow Together or Pull Further Apart? Income Concentration Trends in New York* by the Fiscal Policy Institute, December 2010. http://www.fiscalpolicy.org/FPI_GrowTogetherOrPullFurtherApart_20101213.pdf

13 Living wage legislation currently pending would apply only to developments that receive public subsidies.

14 Sources: 2005-2009 American Community Survey and 2008 Housing and Vacancy Survey

15 Source: *Shrinking Affordability*, by UNHP, March 2007. http://www.unhp.org/pdf/ShrinkingAffordability.pdf

Figure 9



levels of economic segregation, it is difficult to imagine an end to the Bronx's position as the borough with the lowest median income and the highest poverty rate.

The weakening of rent laws in 1997 is partly to blame for the loss of "affordable" rent regulated apartments, as they encouraged a climate of speculative investment with new and easier paths towards deregulation. Current threats in Albany force us to question rent regulation's ability to ensure even semi-affordable rents for poor and working class New Yorkers going into the next decade. Citing similar affordability statistics from the 2008 Housing and Vacancy Survey, Rafael Cestero, who served as the City's Housing Commissioner up until the end of March 2011, recently insisted that rent stabilization is not an affordable housing program.[16] Any time a family pays half of their income on rent, the housing cannot be considered "affordable" in its traditional sense, where no more than a third of income should go towards housing costs. Yet, without the protections of rent stabilization, the situation could actually be much worse for working families, and many more of them would not be able to afford to live within the borders of New York City.

The Building Indicator Project's Role

Michael Bloomberg has made many changes in NYC during his two-and-a-half terms as Mayor, but one of his first and most significant was incorporating technology into City administration in a variety of ways. Making publicly available property data accessible online in his first two years of office dramatically altered the way community and property research could occur.

In the summer of 2003, the idea of combining some of this data first dawned on UNHP staff. Though the process might involve many hours of screen time and tedious web research, it would be much simpler and easier than spending thousands of hours at a municipal office. The result could be a small, searchable database of properties with many characteristics including violations, liens and mortgage data. While the name "Building Indicator Project" was at least a year away, as was the concept of a scoring system to rank the buildings for likely levels of distress, the concept of BIP was born and the initial research began that summer.

16 Commissioner Cestero made these comments at the March 10, 2011 meeting of UNHP's Multifamily Assistance Center.

Our earliest research began with nothing new: Home Mortgage Disclosure Act data to identify some of the top multifamily lenders in the Bronx. With this list, we then moved to the *Automated City Register Information System*, more commonly known as *ACRIS*. Housed on the Department of Finance (DOF) website, *ACRIS* provides summary information and actual documents related to property transactions, including deeds and mortgages. By performing a search for a bank name (*e.g.*, "Chase" or "Astoria"), limiting the search to party 2 on a mortgage transaction (giving the name of the mortgagor), we could more or less identify the lending portfolio of an institution as long as that name was present.[17]

The lists compiled, however, could be very extensive if the lender was also active in the 1-4 family lending market. They would need to be parsed down when we then pulled up the number of housing code violations from *HPD Online*, a website from which we could also glean unit count and building registration (*i.e.*, owner, manager) data.

Soon into the process we also realized we could pull data on outstanding property tax and emergency repair program charges from the Department of Finance's *ePayment Center* (since renamed the *eService Center*), a multi-service site where one can make all types of payments to DOF.

The Department of Buildings (DOB) *Buildings Information System* website also provides property and violation information online, including both DOB and ECB (Environmental Control Board) violations, and we soon began to include this data as well. These violations pertain more to structural and exterior issues with a property, as well as elevator issues and work without permits. While they may not indicate issues within a household's apartment, the additional violation data could help to paint a more complete picture of a building's physical condition.

Much of the motivation for compiling this data was to deepen the conversation with multifamily lenders beyond the pricing research we had undertaken as part of our Multifamily Assistance Center meetings. While we could discuss underwriting practices and the disconnect between sales prices and NOI, the idea of discussing actual portfolios could lead to concrete plans for distressed properties and potentially influence future lending practices.

In March of 2004, we were first able to put the usefulness of the data to the test. Armed with manila folders full of housing code and lien data for each bank's portfolio, we presented early stage BIP data to a room full of lenders.[18] The meetings featured updates on pricing data as well as the distribution of data from what had by then been officially named the Building Indicator Project.

It was at this meeting that our very earliest attempt at a scoring system was debuted. There was instant feedback about the different types of violations and their relevance, as well as suggestions for cleaning up lien and mortgage holder data (for example, we removed mortgage satisfactions and realized that some real estate tax charges listed were not yet due or less than 30 days late).

Additional meetings followed with more feedback on the scoring system, including accounting for the number of units in a property. Our goal was to create a formula that would catch small, medium and large properties in distress, and a straight per-unit count would skew heavily towards small properties, as has been the case in a number of other databases.

17 For example, in searching for the portfolio of Fannie Mae, multiple searches would need to be performed including "Fannie" and "Federal National Mortgage", as well as "FNMA".

18 Some of the lenders looked as though we had hacked into their systems when we distributed the folders for the first time.

During the spring of 2005, UNHP staff inspected numerous buildings to test the formula.[19] With very few exceptions, buildings that scored above 800 points on our system appeared visually distressed.[20] Lenders and servicers, after completing thorough inspections using our data would confirm for us that 800 was a reliable cut-off, though by no means do we say that every building above it is definitely distressed, and every building below it is not. Rather, the BIP scoring system is a powerful and effective tool in identifying buildings that are in immediate need of deeper examination to confirm likely levels of distress, and 800 points is a pragmatic threshold.[21]

Despite making major advances on the formula and achieving participation from a number of major lenders, the BIP database still only contained about 2,500 Bronx properties at the end of 2005. UNHP hired a small crew of interns for the summer of 2006 to expand BIP to the entire Bronx – about 7,100 properties with at least six residential units. Records were researched individually and painstakingly on four different websites for each property (*HPD Online*, *Buildings Information System*, *eService Center* and *ACRIS*), meaning a total of more than 28,000 inquiries to complete the dataset.

While this work was extremely valuable and comprehensive for the Bronx, we realized at the end of the summer that it would be difficult for us to repeat, since we valued the mental health and eyesight of our interns. Thus, we began our search for a partner who could help us automatically pull this same data from the various websites. Eventually, we contracted with LotInfo, LLC, a mapping and IT company focusing on property, owner and building information, to do just that. The concept of expanding the BIP beyond the Bronx (which had been a frequent request from a number of lenders) was close to becoming a reality. While it took a few tries to get the bugs worked out, we began pulling data using the customized utility from LotInfo in the fall of 2007 and had our first four-borough[22] final report in 2008, profiling nearly 58,000 properties.[23]

In this interim period, we refined our formula and developed other improvements to the dataset. We worked hard at persuading the Water Board and Department of Environmental Protection (DEP) staff to make outstanding water charges available with a block and lot number (previously only available online with an account number) which would become a reality in March 2009. The current incarnation of the formula was developed at this time and, even though it is based on neighborhood work in the Bronx, it has been proven to be reliable and effective at identifying distressed multifamily buildings regardless of size or borough.

The Logic Behind the Formula

The BIP formula weights various violations and liens differently based on the level of current distress each is likely to indicate. Data from HPD comes in seven different fields, six from *HPD Online* (code violations) and one from the *eService Center* (Emergency Repair

19 These inspections were usually based on walkthroughs of exterior and common areas, though occasionally we were allowed access to actual apartment units, either by the super or by tenants.

20 Some of these exceptions included a building where almost all of the recent hazardous violations were for peeling lead paint, and another property that was at the time under renovation.

21 A lower number than 800 could definitely be used. We often refer to properties with scores between 500 or 600 and 799 as borderline properties.

22 Data for Staten Island is not available on most automated City systems, so our research has been limited to the Bronx, Manhattan, Brooklyn and Queens.

23 At this point we limited the database to properties with at least six residential units. Currently the database includes all properties with at least five residential units and has more than 62,000 properties.

Program liens). HPD code violations are broken up into three classes, "A" which are considered non-hazardous,[24] "B" which are considered hazardous,[25] and "C" which are considered immediately hazardous.[26] As "A" class violations are the least serious (*e.g.*, repainting an apartment, posting signs), they are weighted the least, while the more serious "B" and "C" class violations are weighted more heavily. While "B" class violations are often good indicators of deferred maintenance (*e.g.*, broken or defective plaster, leaky faucets), the immediately hazardous nature of "C" class violations (*e.g.*, major leaks, peeling lead paint) requires them to be the most heavily weighted.

The age of a violation is also important in considering its relevance to current conditions. If a violation has been issued in the prior year (previous 12 months), the violation is given additional weighting in BIP.[27] Hence, an "A" class violation issued in the prior year would count for a total of 3 points toward the absolute score (not yet weighted by unit count), while if that single "A" class violation was more than a year old, it would only count for one point. A recent "B" class violation would count 6 points while an older one for 2, and a recent "C" class violation would count for 8 points or 3 points if it were not in the past year.

As older violations are not always officially cleared even if they may have been corrected, this weighting structure allows those older violations to still count towards a final score while placing stronger emphasis on what has been happening in the past year. We believe our scoring system negates the outdated argument of HPD violation data being old and unreliable.

Figure 10

UNHP Building Indicator Project
Scoring System Summary

Absolute Score = (All "A" Class Violations) + (2 * All "B" Class Violations) + (3 * All "C" Class Violations) + (2 * Prior Year "A" Class Violations) + (4 * Prior Year "B" Class Violations) + (5 * Prior Year "C" Class Violations) + (3 * Open DOB Violations) + (3 * Open ECB Violations) + ((City Lien + Water Lien)/225) + (ERP Lien/75)

Per Unit Score = (Absolute) / (Number of Residential Units)

"The BIP Score" = (Absolute Score) * (Per Unit Score) / 25

24 According to HPD's website, "A" class violations are "non-hazardous, such as minor leaks, chipping or peeling paint when no children under the age of six live in the home, or lack of signs designating floor numbers. An owner has 90 days to correct an 'A' violation and two weeks to certify repair to remove the violation.

25 According to HPD's website, "B" class violations are "hazardous, such as requiring public doors to be self-closing, adequate lighting in public areas, lack of posted Certificate of Occupancy, or removal of vermin. An owner has 30 days to correct a 'B' violation and two weeks to certify the correction to remove the violation."

26 According to HPD's website, "C" class violation are "immediately hazardous, such as inadequate fire exits, rodents, lead-based paint, lack of heat, hot water, electricity, or gas. An owner has 24 hours to correct a C violation and five days to certify the correction to remove the violation. If the owner fails to comply with emergency C violations such as lack of heat or hot water, HPD initiates corrective action through its Emergency Repair Program."

27 One reason we used the prior 12 months as the cutoff for recent violations is that HPD's website aggregates violation counts at this level.

Data from the *Buildings Information System* comes in three fields, two of which are used in the score. Both DOB and ECB violations are weighted evenly and pertain to construction, boiler, elevator, local law, plumbing, site safety and zoning infractions.[28] A single DOB or ECB violation is worth 3 points towards the absolute score, the same as a recent "A" class violation or an older "C" class violation from HPD. We also pull data on complaints, but do not factor them into the score since they are not actually issued by an inspector. We do not weight DOB or ECB violations on their age, but only count violations that are still currently open.

While DOB and ECB violations are not likely to occur within a dwelling unit, they help to paint a more complete picture of a property and can help push a building over the 800 point threshold in various circumstances and, as we have learned from one of our subscribers, can be very useful on their own.[29]

Data on outstanding municipal charges is available from the Department of Finance via their *eService* website and then categorized into four fields, two of which are used in the score. Outstanding water charges are in the field "Water", while the field "City Lien" encompasses any property tax or municipal fees more than 30 days in arrears as well as any Emergency Repair Program (ERP) charges.[30] ERP charges are also separated out in another field, "ERPs", while the field "Total City Lien" is a sum of "Water Lien" and "City Lien". These last two fields are counted in the scoring formula, with the ERP charges weighted much more heavily; "Total City Lien" is multiplied by a factor of *4.44E-03* (or 1/225) while "ERPs" is multiplied by a factor of *1.33E-02* (or 1/75). The result is that every $450 of outstanding tax or water charges is equal to 2 point towards the absolute score (the same as one older "B" class violation), while every $450 in ERP charges is worth 8 points towards the absolute score (the same as one recent "C" class violation).

We originally arrived at the weighting of the "City Lien" via a merging of average and median violation and lien data on Bronx buildings, and have always factored ERPs more heavily as they are indicators of both physical and financial distress. While violations are the main factor in most high scoring buildings, enormous liens can result in astronomical scores, especially when ERPs come into play.[31] Nonetheless, lien data is very valuable and the combination of using it along with violation data is part of what makes the Building Indicator Project unique[32] in identifying both physical and financial distress, especially understanding that one can often to lead to the other.

The final weighting adjustment in our formula accounts for the unit count. Earlier versions of the formula sought a balance between absolute and per unit numbers by experimenting with

28 The types of DOB and ECB violations include Administrative (AD), Boiler (BL), Cranes & Derricks (CD), Construction (CN), Elevator (EL), HPD (HP), Local Law (LL), Public Assembly (PA), Plumbing (PB), Physical Disabilities (PD), Quality of Life (QL), Signs (SG), Site Safety (SS), and Zoning (Z).

29 Source: *Demolition Through Intentional Neglect,* by Asian Americans for Equality, January 2011. http://www.aafe.org/rsr/Demolition_through_Intentional_Neglect.pdf

30 According to HPD's website, "If an emergency condition is verified in an apartment by an HPD inspector, and the owner fails to make the necessary repairs in a timely manner, HPD's Emergency Repair Program (ERP) may repair the condition. If HPD repairs the emergency, HPD will bill the owner for the cost of repairs."

31 In our 2005-2006 BIP database for the Bronx, the score of a particular building (3569 Dekalb Ave) was significantly higher than all others due to the fact that it was in 7A program where a court had appointed an administrator to manage and renovate the property. A total of more than $1 million in work was performed on the building by the administrator and placed as an ERP lien on the property.

32 We understand that HPD's new *Proactive Enforcement Bureau* appears to be using very similar indicators to BIP, so its uniqueness may be called into question.

both summing and averaging the two. The current version[33] is based on the product of the two, and we have been happy with the results. Yet, in order to remain at the 800 point threshold, we divide the product by 25, a number we reached based on capturing the same proportion of buildings we identified with a previous formula. While we accept that the details of our scoring system are based more in pragmatic results than in complex algorithms, the underlying fundamentals are proven.

Liens vs. Violations

A helpful way to understand the role violations and liens play in identifying distressed buildings is to categorize properties by how they get to 800 points. A building with zero HPD or DOB violations and no outstanding ERP liens would need varying levels of outstanding tax and water charges to equal 800 points based on the size of the property. For instance, a six unit building would need to owe about $13,000 per unit in back taxes and/or water totaling $78,000 to score 800; a 25 unit building would need $6,350 per unit or $159,000 total; a 75 unit building $3,670 per unit or $275,000 total; and a 200 unit building $2,250 per unit or $450,000 total. If the lien was entirely ERP-based instead of taxes and/or water, each of these size buildings would only need a quarter of the respective amounts owed to reach 800.

Likewise, there are many potential scenarios where a building with no liens and only HPD code violations can score 800, also depending on unit count. A 25 unit building would need about 2 prior year "B" and 2 prior year "C" violations *per unit* to score 800; larger buildings need fewer per unit while an 8 unit building would need just over 3.5 each of prior year "B" and "C" violations. As it is not typical for a building to have only "B" and "C" violations, or only prior year violations, the possible (and actual) scenarios are endless.

Looking at our most recent BIP data set for November 2010, we can determine how many buildings scored at least 800 points due to liens *or* violations, how many buildings would score at least 800 with *either* liens or violations, and how many needed a *combination* of both to pass the threshold *(see Figure 11 on Page 15)*. Out of a total of 3,395 properties throughout the City that score 800 or above, nearly 2,000 (57%) needed some combination of liens and violations, while another 37% (1,246) made the list due to violations. Less than 5% would have scored above 800 with either liens or violations, and just 59 properties, less than 2%, were based on liens.

There are a few noteworthy variations by borough. In Queens, 76.7% of 116 properties needed a combination of liens and violations to score 800, 14 points higher than any other borough; Brooklyn had the highest percentage of buildings (44.2%) scoring over 800 based on violations; and liens had the biggest impact in the Bronx where 8.5% of properties made the list based solely on liens or would have with either liens or violations.

The largest group of high scoring properties needed some combination of liens and violations to equal 800 points. This statistic highlights the strength of BIP to include both types of indicators and join them together with proper weighting to produce an accurate and reliable list of likely distressed properties.

33 We continue to look for ways to improve the BIP formula. We are in the process of extracting additional data from HPD's website on "I" class violations and on building registration, and are refining some of the rules on mortgage holder from ACRIS. While these improvements in data supplied to subscribers will not affect the formula, new data may become available in the future that might be cause for changes.

Figure 11

Properties Scoring 800 or Above, November 2010

	Lien Based	Violation Based	Either Lien or Violation	Need Lien and Violation	Totals
New York City	59	1,246	156	1,934	3,395
Manhattan	17	353	25	666	1,061
Bronx	23	357	66	606	1,052
Brooklyn	18	515	60	573	1,166
Queens	1	21	5	89	116
Percent					
New York City	1.7%	36.7%	4.6%	57.0%	
Manhattan	1.6%	33.3%	2.4%	62.8%	
Bronx	2.2%	33.9%	6.3%	57.6%	
Brooklyn	1.5%	44.2%	5.2%	49.1%	
Queens	0.9%	18.1%	4.3%	76.7%	

Thus, according to the BIP formula, most distressed properties in New York City are either physically distressed or physically and financially distressed, not just financially distressed. It is rare for a property owner to keep a building in good physical condition and owe extraordinary amounts in back water or tax bills. This is also impacted by the lien sale process in New York City, where substantial liens are sold to a third party debt buyer. Legislation in December 2007 allowing stand-alone water liens to be sold (even if taxes were current) has also contributed to this phenomenon. With the City Council currently considering legislation to allow stand-alone Emergency Repair Program liens to be sold, the effect will likely become more pronounced. While properties that have had their liens sold might be considered financially distressed, this will not be reflected in the current BIP formula.[34]

In the end, our formula is only as good as the data going in. Inaccurate inputs can result in faulty results, as was the case in data analyzed by the RAND Corporation for fire station closings in the late 1960s and early 1970s that proved devastating,[35] in crime data analyzed through CompStat by the NYPD[36] in the 1990s, and most recently in erasures on standardized test scores in public schools.[37] While we do not have reason to believe HPD code inspectors are manipulating data, the number of inspectors and the level of aggressiveness by HPD's Division of Neighborhood Preservation play

34 At one point in 2006, UNHP added 500 points to a building's score if its lien had been sold during the Department of Finance's annual Lien Sale. However, once the lien is sold it is difficult to track to see if it has been paid off. Until we can better track liens that have been sold, we will probably not include this data in the score again.

35 Sources: Wallace, Deborah and Rodrick, *A Plague on Your Houses : How New York was Burned Down and National Public Health Crumbled.* Verso Books: 2001; and Flood, Joe, *The Fires : How a Computer Formula Burned Down New York City--and Determined the Future of American Cities*. Penguin Books: 2010.

36 Source: Chen, David, "Survey Raises Questions on Data-Driven Policy" in *The New York Times*, 8 February 2010. http://www.nytimes.com/2010/02/09/nyregion/09mayor.html

37 Source: Gillum, Jack and Marisol Bello, "When standardized test scores soared in D.C., were the gains real?" in *USA Today*, 30 March 2011. http://www.usatoday.com/news/education/2011-03-28-1Aschooltesting28_CV_N.htm

a key role in the data we get back in BIP. If budget cuts severely impact code enforcement efforts, the number of violations issued on the whole will likely drop, meaning the number of 800 buildings could drop, even though in actuality levels of distress might be rising. And of course, the degree to which tenants feel comfortable, empowered, and trustful enough to call 311 to complain about conditions in their buildings also has an impact on whether inspections are performed and violations are written.

Borough Trends

The current version of the BIP database contains all properties with at least five residential units in Manhattan, Brooklyn, Queens and the Bronx, excluding condominium buildings, public housing and embassies. While Brooklyn has the most properties, it has the smallest average unit count at about 20. Manhattan has the most units, with just over 725,000, while the Bronx has the largest average unit count at about 40. Across the four boroughs, there are more than 1.8 million apartments found in 62,241 properties[38] in the BIP database.

Figure 12

UNHP Building Indicator Project Database, November 2010

	Total Properties	Properties 800+	Percent Properties 800+	Total Units	Units 800+	Percent Units in 800+ Properties
Manhattan	20,893	786	3.8%	725,849	17,692	2.4%
The Bronx	7,906	865	10.9%	319,311	48,862	15.3%
Brooklyn	23,299	1,635	7.0%	466,497	27,604	5.9%
Queens	10,143	109	1.1%	320,182	1,962	0.6%
NYC	62,241	3,395	5.5%	1,831,839	96,120	5.2%

Buildings scoring above 800 in November 2010 did not always keep to the individual borough profile *(see Figure 13 on Page 17)*. While the average unit size for high scoring buildings in Brooklyn was similar to the overall Brooklyn average, in the Bronx the average unit count for 800-plus properties was significantly higher than the overall Bronx average. In Queens and Manhattan, however, the average size of high scoring buildings was much smaller than the respective overall borough averages.

The median unit count for all multifamily buildings and 800-plus buildings is very similar across the City: in the Bronx the median counts are 26 and 28; in Manhattan 16 and 17; in Brooklyn 8 and 8; and in Queens 7 and 8. Across the four boroughs, the median unit count of all multifamily properties in the BIP database is 10, while for high scoring buildings it is 12.

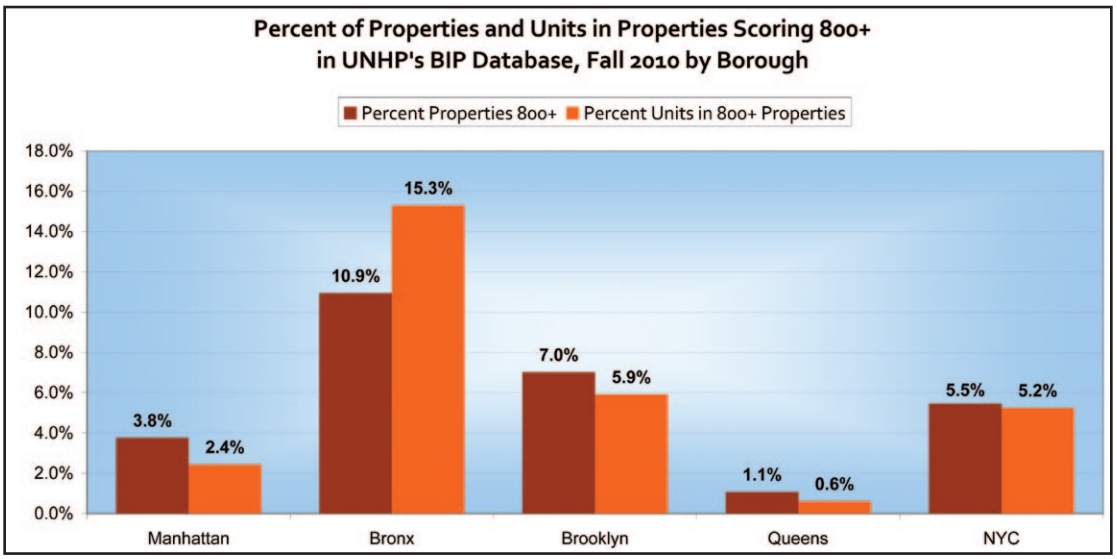
38 Technically, there are 62,241 tax lots in the database, and a small percentage of them contain more than one building. Data in BIP, however, is grouped by tax lot since both DOB and DOF also group data by tax lot. HPD breaks violation data into separate buildings, including those that share a tax lot. Violation data from HPD for lots that contain multiple buildings is aggregated for the individual tax lot.

Figure 13

	Avg Res Unit Count	Avg Res Unit Count, 800+	Median Res Unit Count	Median Res Unit Count, 800+
Manhattan	35	23	16	17
The Bronx	40	56	26	28
Brooklyn	20	17	8	8
Queens	32	18	7	8
NYC	29	28	10	12

Thus, while the Bronx has the highest percentage of multifamily properties scoring above 800 (10.9%), an even higher percentage of its units (15.3%) are found in these properties *(see Figure 14 below)*. In the other boroughs, the dynamic is the opposite: while 1.1% of Queens multifamily properties score above 800, only 0.6% of its units are in these properties; in Manhattan the respective percentages are 3.8% and 2.4%; and in Brooklyn the proportions are a bit closer at 7.0% and 5.9%.

Figure 14



At the Neighborhood Level

Whether we look at the current set of high scoring properties, or the "repeat offenders" who have scored above 800 in at least three out of the five runs of the data, the geographic concentrations remain similar *(see Figure 15 on Page 18)*. The entire south and west Bronx (excluding Riverdale) plus parts of the northeast Bronx are saturated with distressed housing. The same is true for upper Manhattan, though the situation is more severe in Washington Heights than in East or Central Harlem. Other than the Lower East Side, Chinatown and a smattering in Hell's Kitchen, the rest of Manhattan is in good shape. Central Brooklyn is also saturated with high scoring properties, from Bushwick and Bed-Stuy to Flatbush to Brownsville and Cypress Hills. In Queens, high scoring buildings are few and far between but some very small concentrations are found in Far Rockaway and Jackson Heights.

Figure 15

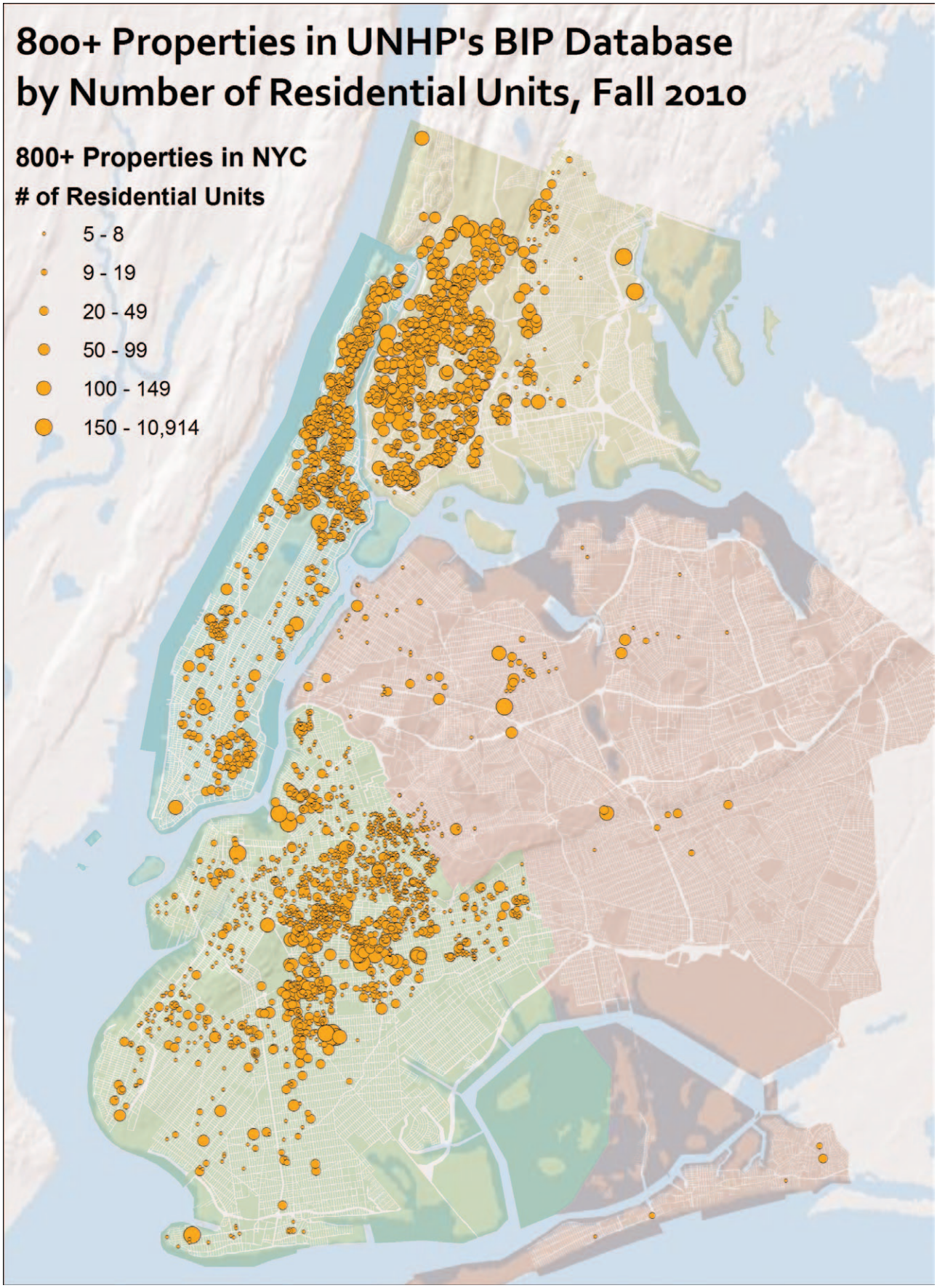
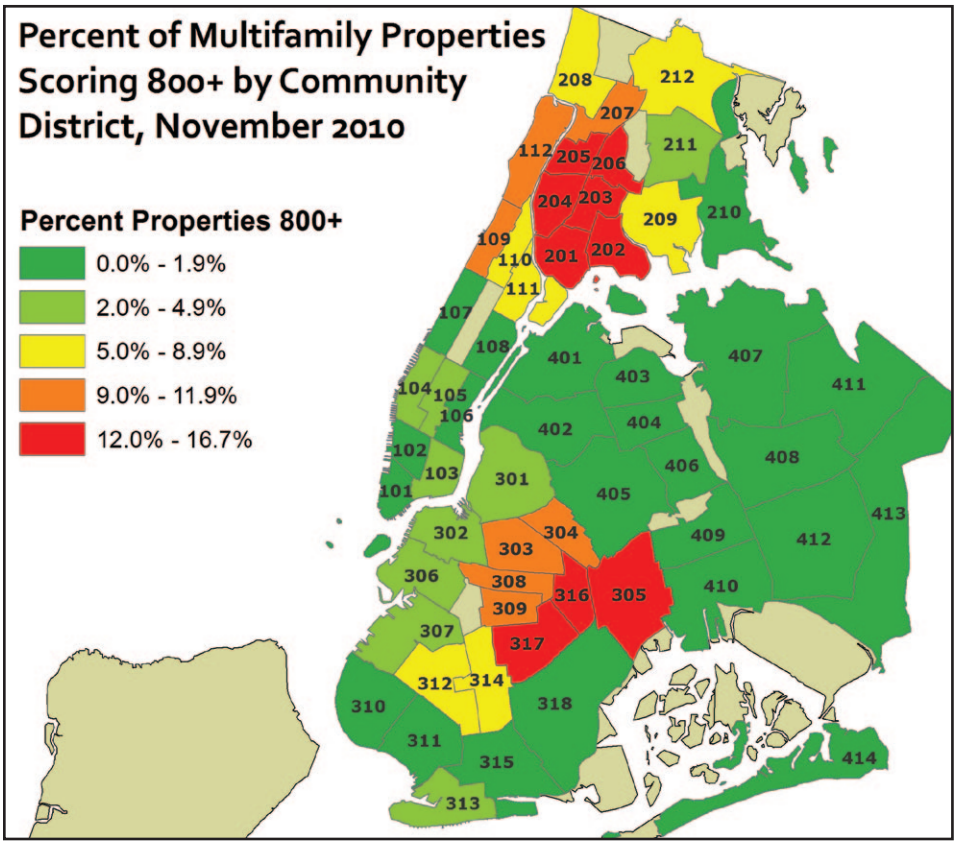

800+ Properties in UNHP's BIP Database
by Number of Residential Units, Fall 2010
800+ Properties in NYC
# of Residential Units
5 - 8
9 - 19
20 - 49
50 - 99
100 - 149
150 - 10,914

Figure 16



In many of these neighborhoods, especially the west and south Bronx and east-central Brooklyn, the percent of the multifamily housing stock that is likely distressed is in the teens, while bordering neighborhoods in upper Manhattan, central Brooklyn and the northwest Bronx, between 9% and 12% are high scoring. In all of these neighborhoods, the issue of properties in distress is especially acute.

The housing stock in New York City also varies greatly from one borough to another, and often from one neighborhood to another. Thus, the total number of properties in distress does not tell the full story, as the number of units in these properties can vary widely. Huge numbers of very small multifamily buildings (6-8 units) exist in Brooklyn and Queens while mid size buildings dominate upper Manhattan and the west Bronx. Very large complexes are scattered throughout all of the boroughs.

For the most part, the neighborhoods experiencing the highest levels of distressed housing now are the same ones that have been historically redlined and where the fight to preserve communities has been ongoing for more than 35 years. In places such as the West Bronx Corridor, Upper Manhattan and Central Brooklyn, huge investments in creating and preserving affordable housing have been made, but these investments are threatened with increasing levels of distress in the aging privately owned rental stock that dominates these neighborhoods.

Figure 17

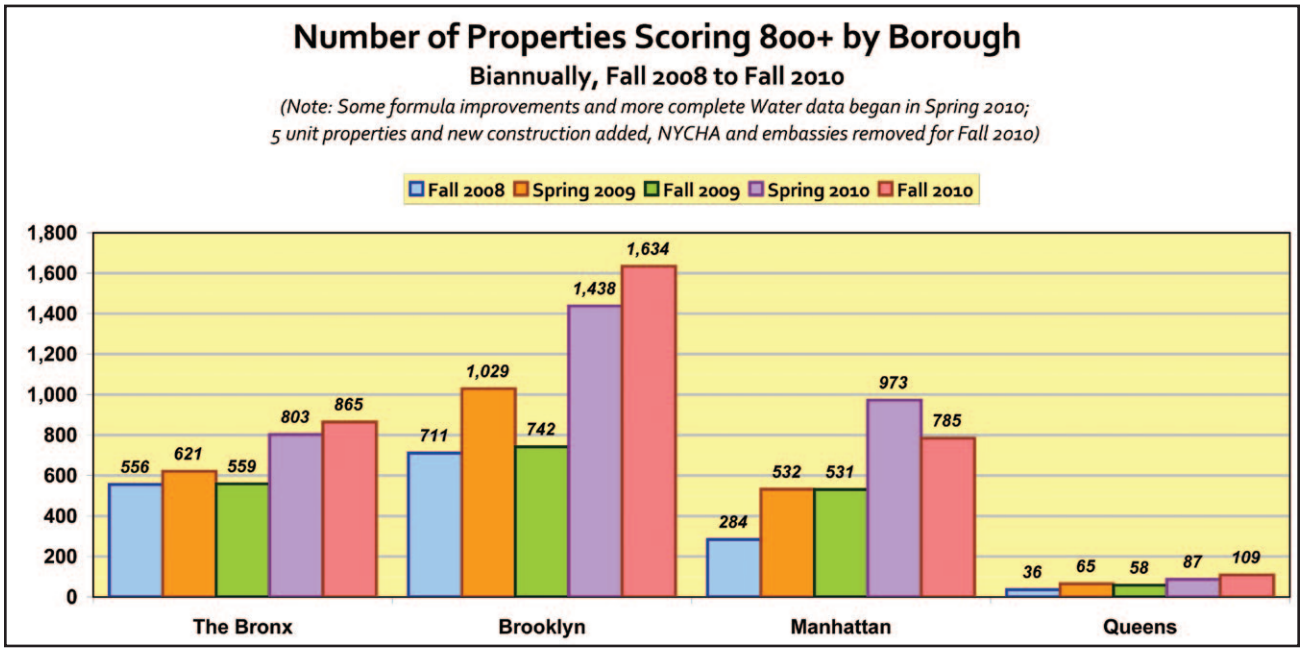
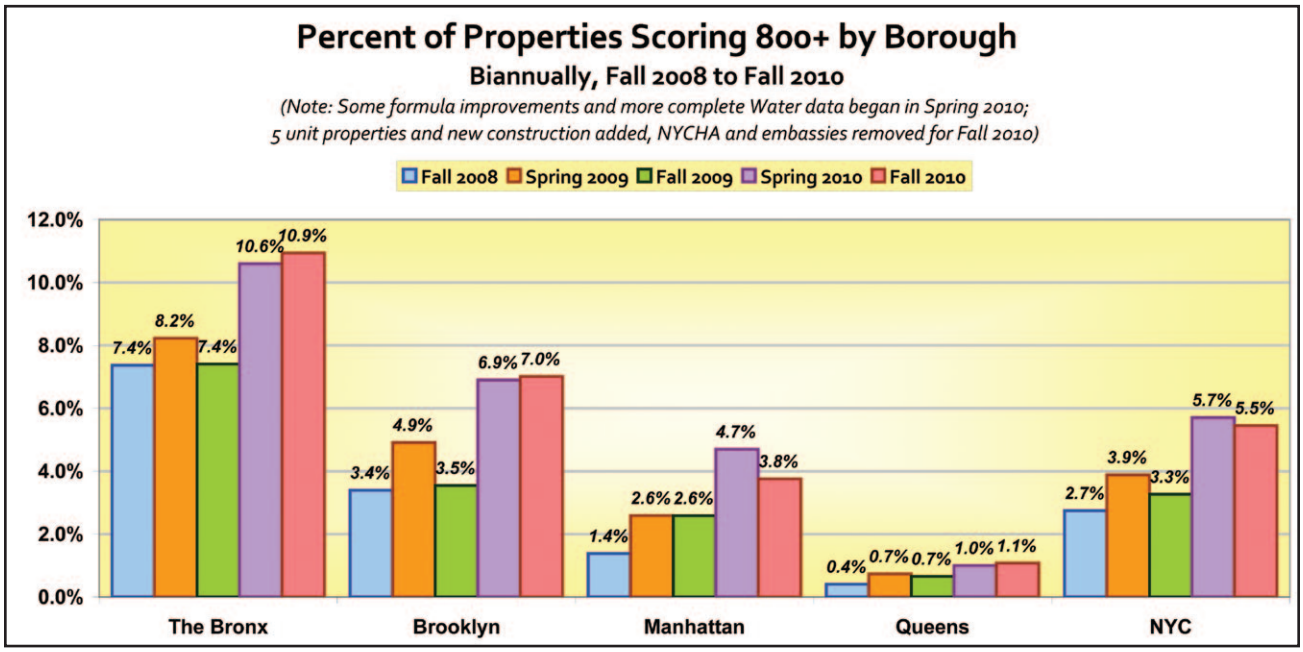


Figure 18



Tracking Trends Over Time

BIP data for all four boroughs goes back to the fall of 2008 and has been updated twice a year since then. The addition of water lien data and some minor updates to the weighting of violations in the spring of 2010 had a small but noticeable impact on scores. Additionally, the base file of properties was updated for the fall of 2010 to include five unit properties and newly constructed properties while excluding public housing and embassy buildings.

Regardless of these minor changes, two larger trends emerge. First, on average there are more properties with higher scores in the spring than in the fall of a given year. This is likely due to

Figure 19

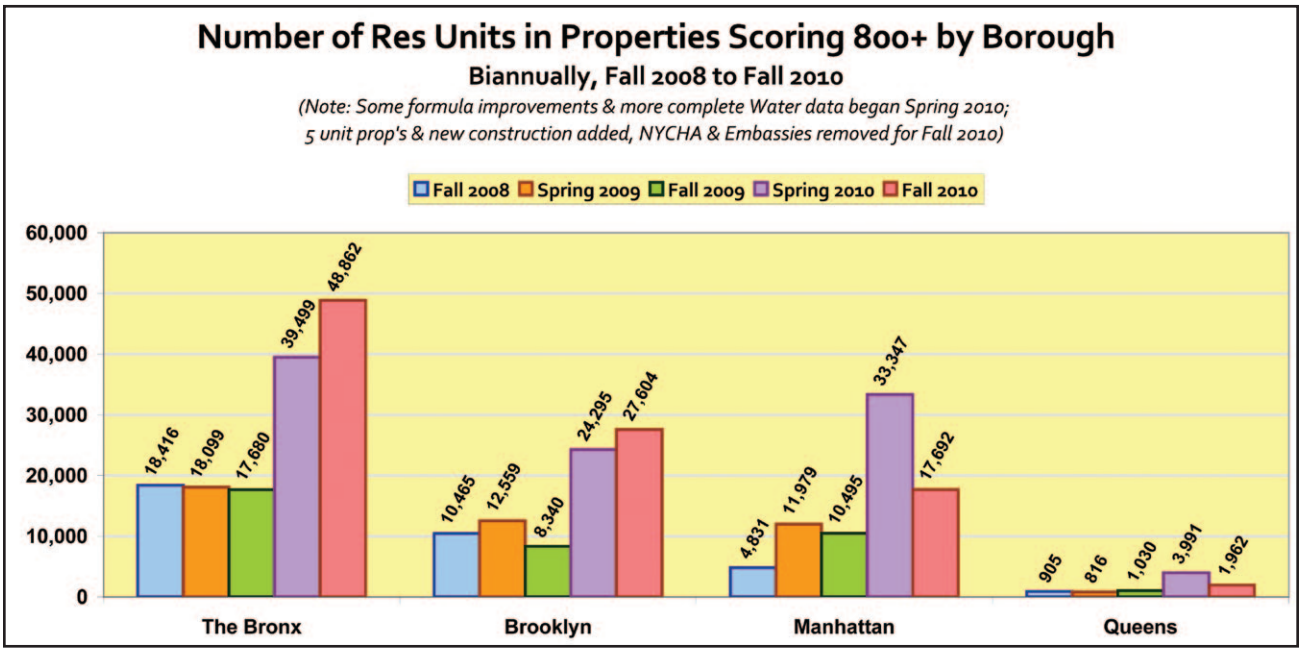
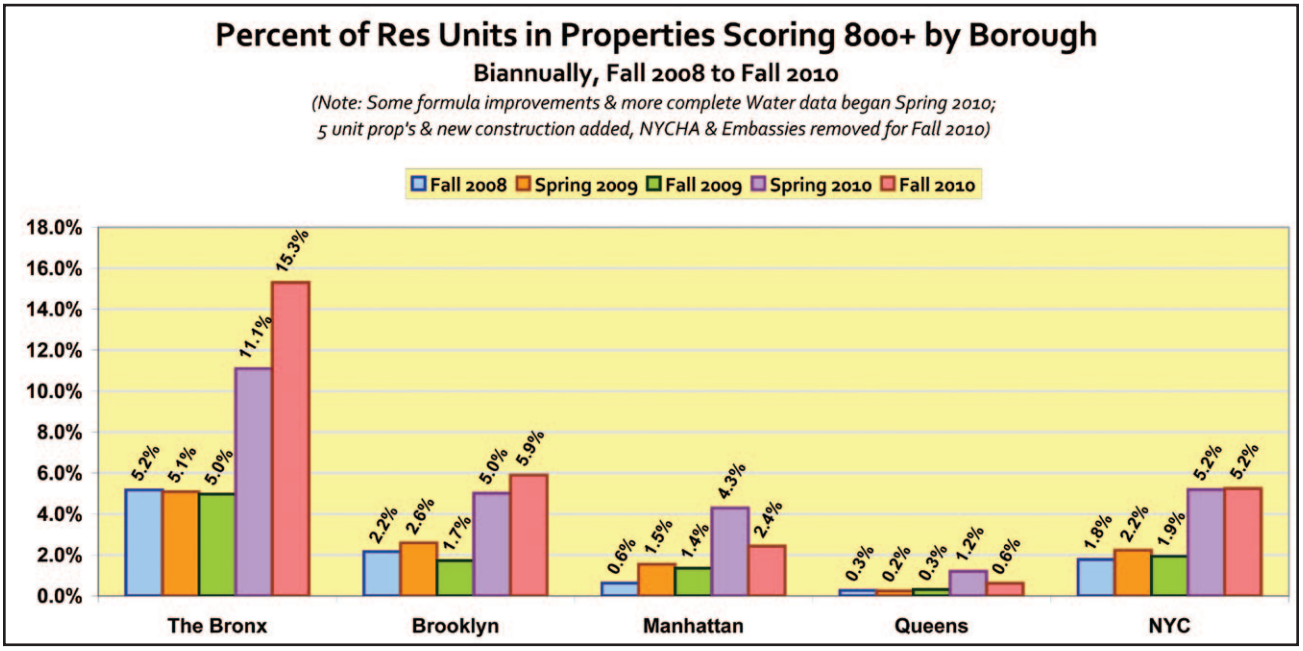


Figure 20



heating season when violations are issued for lack of heat and/or hot water, and when owners may put off municipal bills in favor of fuel payments. The second noticeable trend is a general upwards move in the number of distressed properties, likely due to the increased number of over-leveraged properties and better code enforcement from HPD.

Both trends hold true for the total number of properties, the number of units in those properties, and both of these as percentage of totals. For the most part, they also apply across all four boroughs *(see Figures 17 and 18 on Page 20, and Figures 19 and 20 above)*.

Figure 21

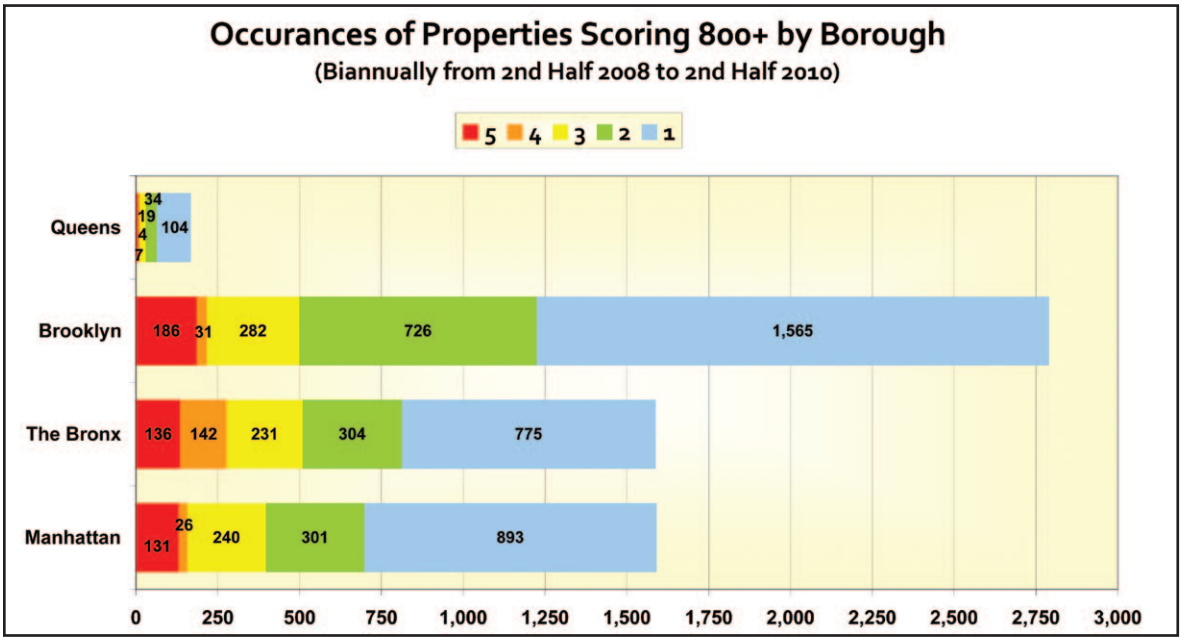
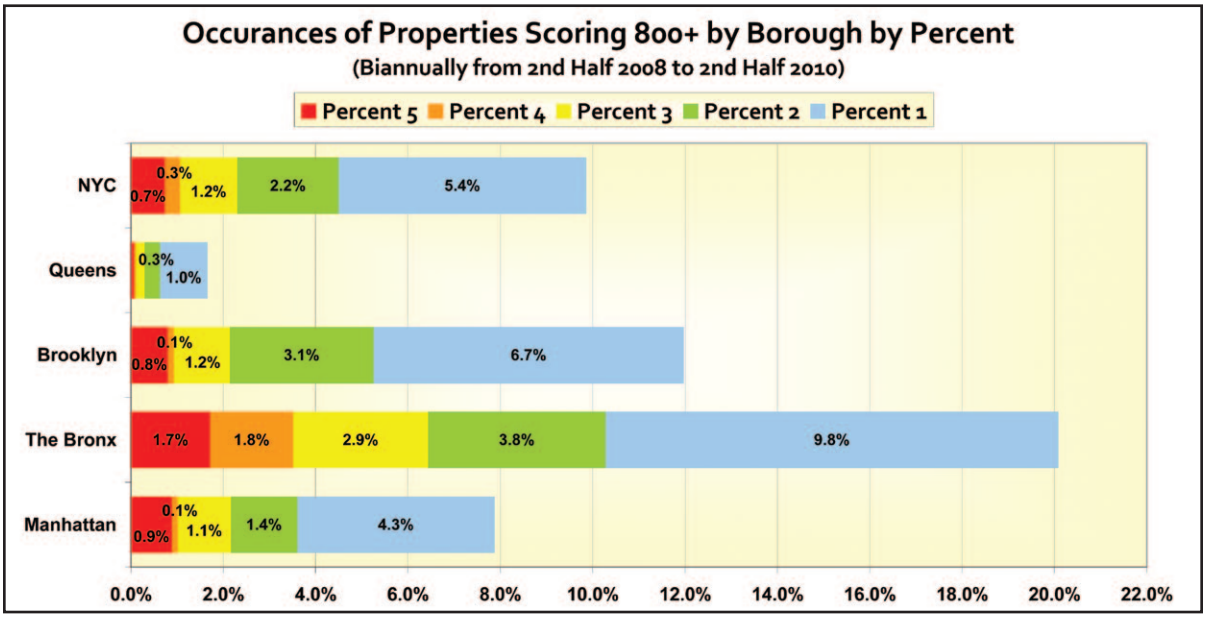


Figure 22

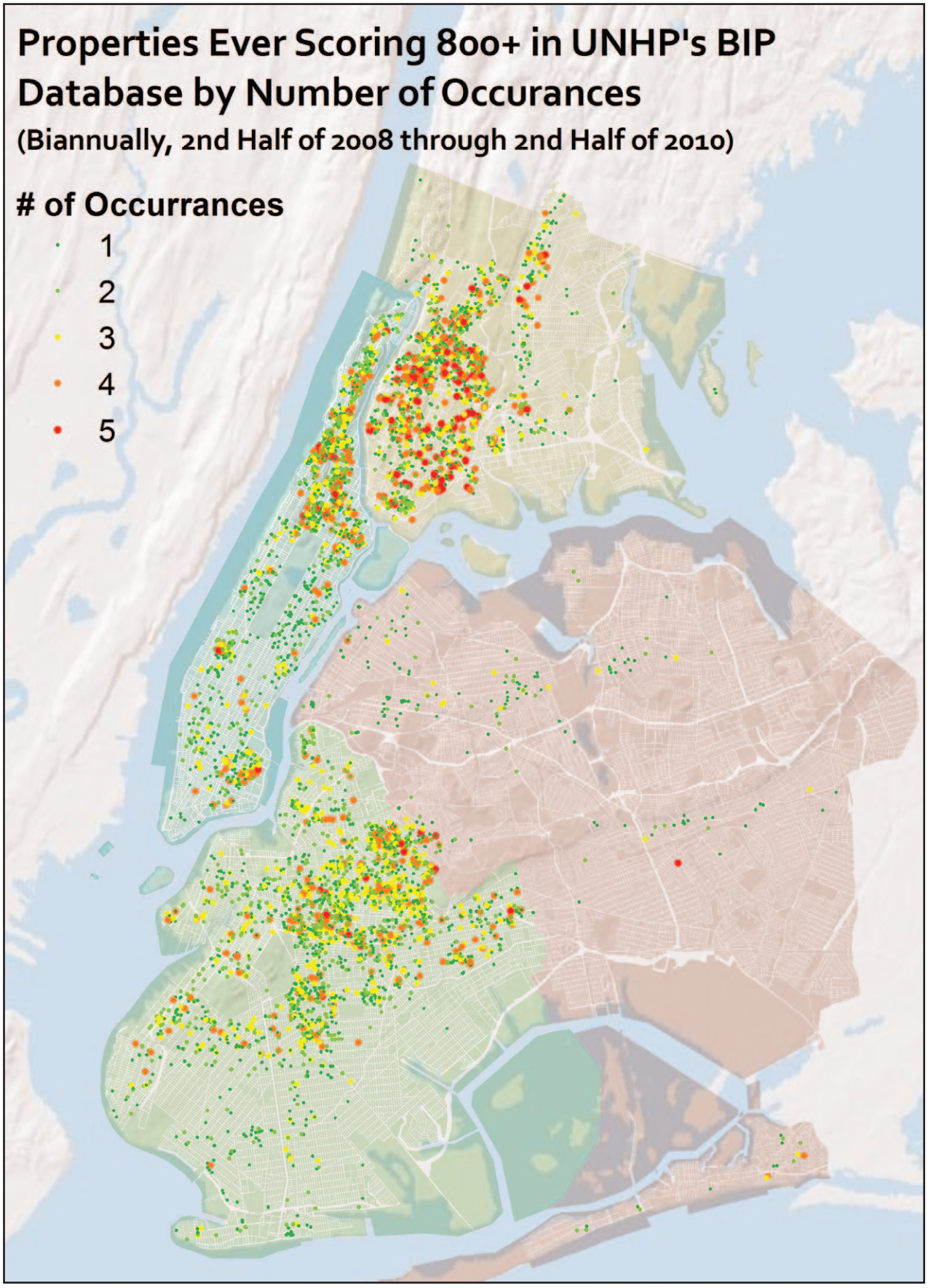


Repeat Offenders

Another way to gauge levels of distress in a property is to look at its score over time and whether it has repeatedly scored above 800. The BIP Database tracks scores over time, and a field entitled "Occurrences" lists the number of times a property has scored above 800.

This data allows us to easily see the total number of properties in each borough that have ever scored above 800 points, and the breakdown on the number of occurrences of those properties *(see Figure 21 above)*. In Brooklyn, nearly 2,800 properties have at some point made the list, while in both the Bronx and Manhattan the number is just below 1,600 each. Even though the majority of properties to score at least 800 have done so only once or twice, there are a significant number of properties identified as distressed three or more times in the Bronx (509), Brooklyn (499), and Manhattan (397).

Figure 23

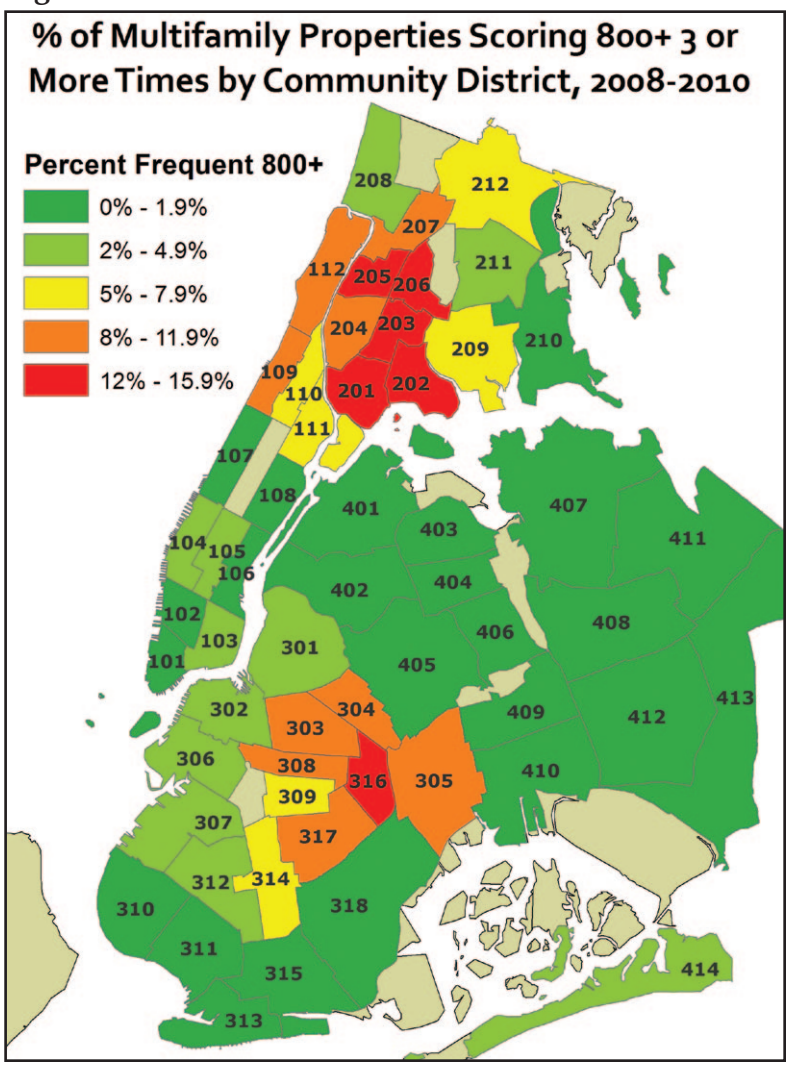

Properties Ever Scoring 800+ in UNHP's BIP Database by Number of Occurances
(Biannually, 2nd Half of 2008 through 2nd Half of 2010)
# of Occurrances
1
2
3
4
5

As a percentage of multifamily properties in each borough *(see Figure 22 on Page 22)*, the Bronx has by far the highest proportion of properties ever scoring 800 at 20.1%, and the highest percentage (6.4%) scoring 800 at least three times. While the percent ever scoring above 800 in Brooklyn (12.0%) is significantly higher than in Manhattan (7.6%), the percent qualifying three or more times is about 2% in both boroughs. Queens remains well below the citywide average in both categories.

Below the borough level, it is a similar set of Community Districts that encompass frequent high scoring buildings *(see Figure 24 at right)* as those where 800 plus buildings were concentrated for the most recent BIP data.

Citywide, more than 6,000 properties have ever scored above 800, which is close to 10% of all properties in the BIP database. Within this, more than 1,400 properties are frequent offenders having scored above 800 three or more times, representing 2.3% of all properties currently in the database.

Figure 24



Lender Analysis

Analyzing the portfolios of lenders is one of the most powerful aspects of the BIP database, yet because it relies partially on a computer formula pulling ACRIS records, accuracy is not always 100%. However, as previously mentioned, UNHP staff and interns manually check ACRIS records for every property that scores at least 800 in BIP. For lower scoring buildings, we rely on a formula to identify the most recent lender. The utility also extracts the recording date of said mortgage, and our lender analysis is based only on mortgages recorded in the past 20 years.[39]

The most recent lender according to ACRIS is then grouped under an "Umbrella" entity to encompass bank subsidiaries and acquired institutions. For instance, properties listed with the umbrella of "Chase" have mortgages made by Washington Mutual, Dime Savings Bank of New York, Chase Manhattan Mortgage Corporation, EMC Mortgage Corporation, and JPMorgan Chase Bank,

39 Mortgages recorded more than 20 years ago are excluded from this analysis.

Figure 25

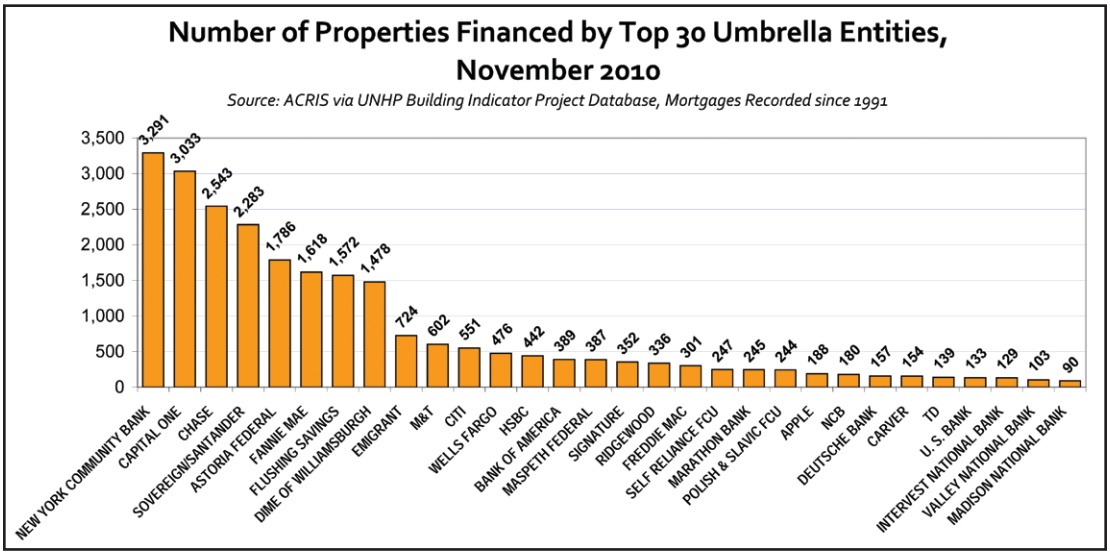
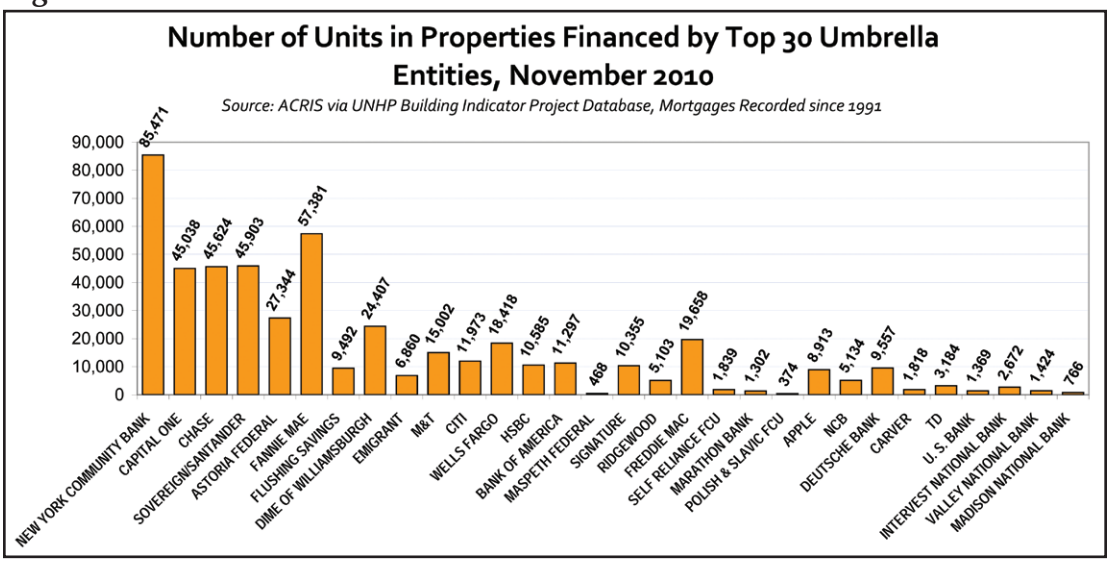


Figure 26



to name a few. Approximately 54% of all properties in BIP have a mortgage recorded in the past 20 years by a lender under one of our umbrella entities, while another 8% are part of an umbrella entity but were recorded before 1991.[40]

This analysis looks at the umbrella entities with the most mortgages recorded in the past 20 years *(see Figure 25 above)* with three main exclusions: government entities,[41] commercial mortgage backed securities (CMBS), and Mortgage Electronic Registration System (MERS). Since MERS is not an actual lender but an electronic registry that tracks mortgage assignments, we cannot be certain who actually owns mortgages listed under them. Loans that are clearly part of a CMBS, where the lender of record from ACRIS is the actual name of the CMBS or the bank is listed as a trustee, are currently excluded from a lender's portfolio. If a current lawsuit on behalf of tenants seeking to make the

40 The balance either have no mortgage recorded or their lender is not categorized in an umbrella.

41 Government entities that issue mortgages that we exclude from this list of lenders include HPD, the NYC Housing Development Corporation, and the U.S. Department of Housing and Urban Development. We also exclude the Community Preservation Corporation as the properties they finance overlap significantly with these government entities.

Figure 27

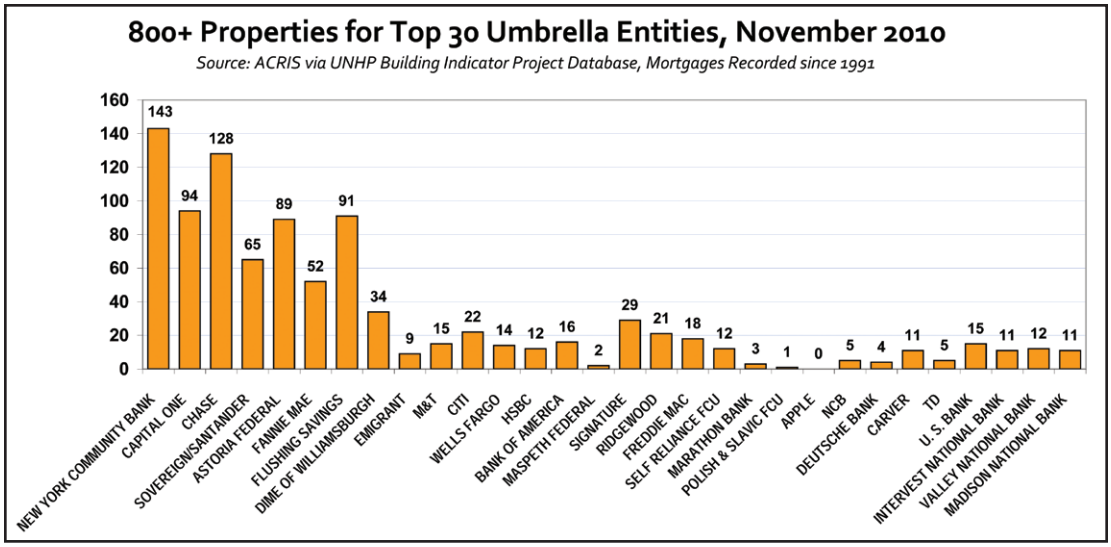
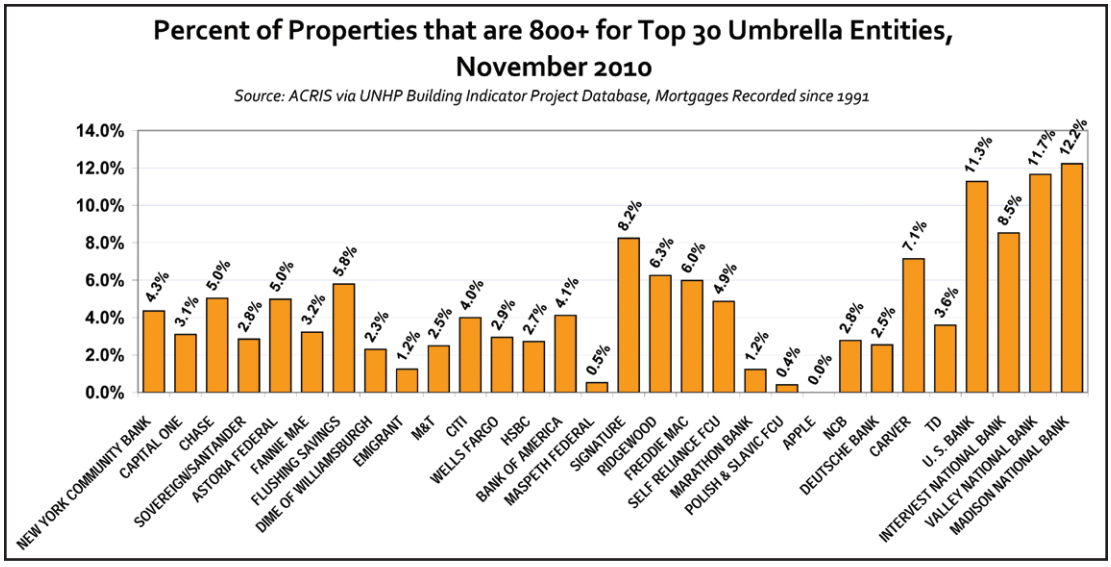


Figure 28



trustee responsible for deplorable conditions sides against the trustee, we will revert to our old method grouping CMBS mortgages with the trustee's umbrella entity.

Additionally, certain lenders originate for one or both of the GSEs (*i.e.*, Fannie Mae and Freddie Mac), and the loan may be listed under either the originator (who is often the seller/servicer) or under the GSE. While this has an impact on the size of a lender's portfolio, through the workings of our Multifamily Assistance Center, the GSEs report that they contact their sellers/servicers regarding distressed properties.

For buildings with a mortgage recorded in the past 20 years, the top lenders according to BIP are: New York Community Bank with 3,291 properties containing 85,471 units; Capital One with 3,033 properties containing 45,038 units; JPMorgan Chase with 2,542 properties containing 45,624 units; Sovereign/Santander with 2,283 properties containing 45,903 units; Astoria Federal Savings with 1,786 properties containing 27,344 units; Fannie Mae with 1,618 properties containing 57,381 units; and Flushing Savings with 1,572 properties containing 9,492 units. Other top umbrellas include Dime

Figure 29

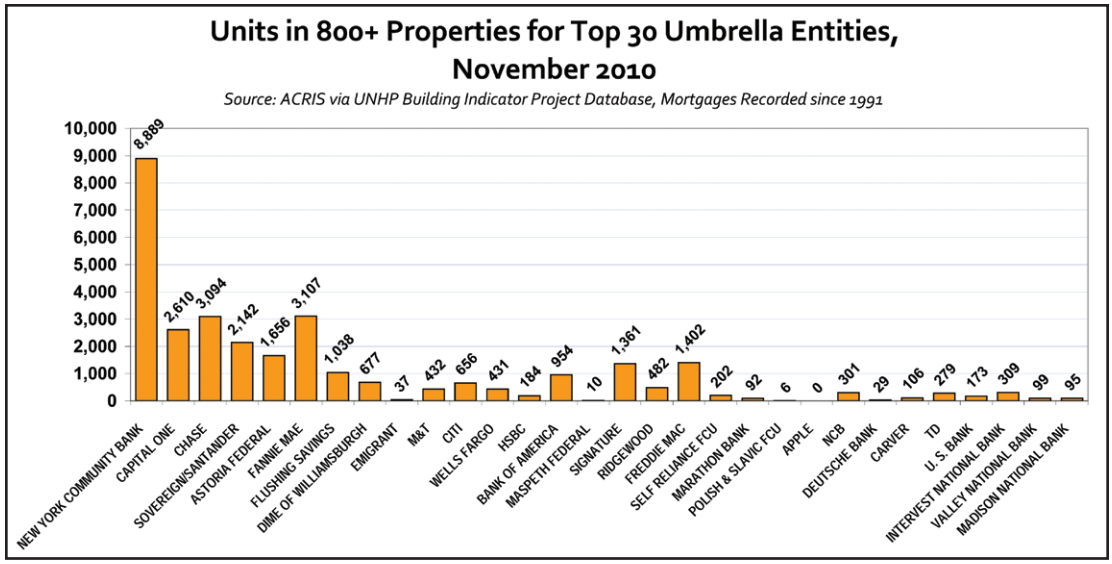
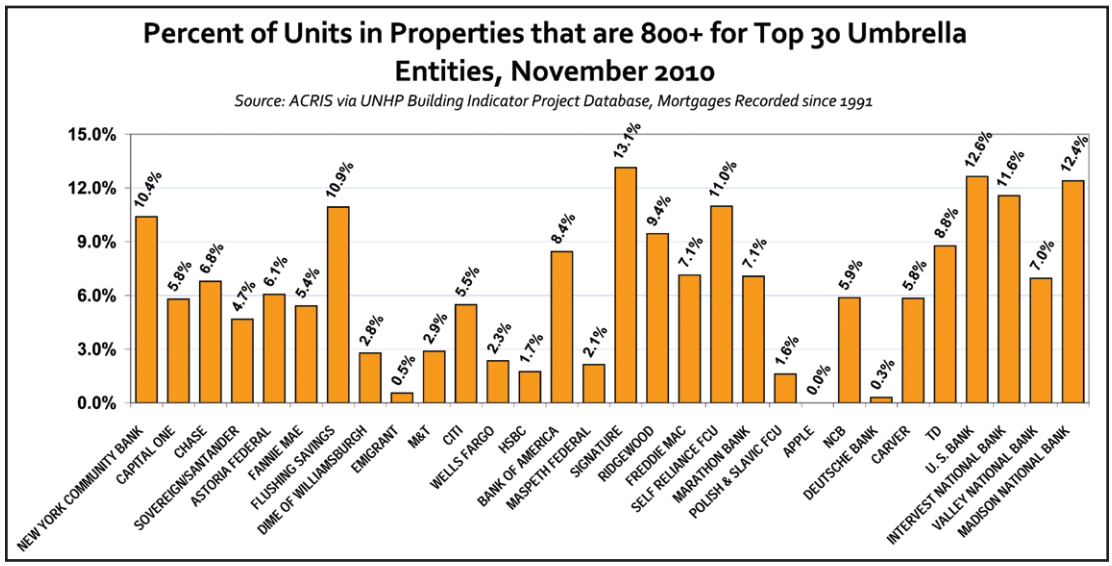


Figure 30



of Williamsburgh, Emigrant, M&T, Citi, Wells Fargo, and HSBC.

While Valley National and Madison National Banks are just outside of the top 30 umbrellas in total number of properties, their number of properties in distress were high enough to warrant inclusion on this list. Other than our notable exclusions (government entities, CMBS and MERS), umbrellas not on this list have portfolios of less than 150 properties and fewer than 10 properties scoring 800 or above. The next-largest lenders who missed the cutoff were First National Bank of Long Island, BNY Mellon and Northeast Community Bank, who all have between four and six high scoring buildings.

There are a number of ways to measure a lender's portfolio when analyzing distressed properties. In *Figure 27*, we see the number of high scoring properties by each umbrella entity; in *Figure 28*, we see this same number as a percentage of the umbrella's lending portfolio; *Figure 29* shows the number of residential units in an umbrella's high scoring buildings; while in *Figure 30* we see the percent of units in each umbrella's portfolio that are in distressed properties.

What stands out first from this data is the size of New York Community Bank's overall portfolio, their total number of distressed properties, and the number of units in those properties. The vast majority of these loans have NYCB's name recorded on ACRIS, though a few come from their subsidiaries including Roslyn Savings Bank, Atlantic Bank of NY, Synergy Bank, Queens County Savings Bank, and Yonkers Savings and Loan Association.

The next top lender to distressed properties is also noteworthy, especially how they came to that position. More than two-thirds of JPMorgan Chase's portfolio came with the acquisition of Washington Mutual, including more than four-fifths of Chase's high scoring buildings. JPMorgan Chase inherits the responsibility to address the damage done to tenants, buildings and neighborhoods by Washington Mutual's questionable lending practices in the last decade.

A number of new lenders appear to be aggressively increasing their market share in the past two years, and some of them have a relatively high percentage of properties that are likely distressed. We continue to use BIP to identify these newer players in the market and reach out to them about their portfolios and how they can use the database to reduce levels of distress in their properties. Both Signature Bank and Valley National Bank attended our most recent Multifamily Assistance Center meeting and are beginning to use the BIP database internally. We hope to see positive results from both of them in the near future.

The other trend that stands out to us is related to a lender's usage of BIP data over the past few years. With only a few exceptions, lenders that have been consistently participating in Multifamily Assistance Center meetings and have told us they are using BIP data proactively have lower percentages of their portfolios in distress, especially for those lenders with larger portfolios. For instance, Capital One, Sovereign/Santander, Fannie Mae, M&T and HSBC all have less than 3.2% of their properties identified as distressed by BIP *(see Figure 28 on Page 26)*, well below most of the other major lenders.

By way of contrast, we performed an analysis on properties with mortgages held by three large lenders who have not actively participated in Multifamily Assistance Center meetings through the end of 2010, meaning they have not used BIP data before our most recent update. Combined, New York Community Bank, Flushing Savings and Dime of Williamsburgh held the mortgages on more than 6,200 properties in the spring of 2010, and 330 of those properties (5.3%) had scores of at least 800, while another 2.9% had scores between 500 and 799. By the fall of 2010, these three lenders had increased their portfolios to nearly 6,600 properties and the number of 800 buildings was at 342, or 5.2%. The percent of properties just below the threshold remained at 2.9%. There was virtually no change in the levels of distress in their portfolios during this time, which would be expected if these lenders lack a comprehensive and significant plan to address distress in their portfolios.

We are encouraged that New York Community Bank is beginning to come to the table on the issue of distressed multifamily housing. As the largest multifamily lender in New York City, it is crucial that they institute a proactive and comprehensive strategy for dealing with distressed properties. An analysis of distressed properties from 2006 that we highlighted in our report on *Shrinking Affordability* showed a significant decrease in BIP scores for properties with financing from lenders who had begun to actively use BIP as a tool in asset management, while very little change occurred in the portfolios of lenders who had not. We are hoping that we will soon see a similar

drop in scores and improvements in property conditions in New York Community Bank's portfolio, as well as the other lenders who are new to using BIP including Signature Bank and Valley National Bank.

Involving the Regulators

Based on our own experience over the past decade, we have repeatedly encountered one particularly frustrating shortcoming of the Community Reinvestment Act (CRA) when dealing with multifamily lenders in the Bronx. During the housing bubble of the 2000s, we witnessed lax underwriting standards that helped fuel speculative investment in the multifamily rental housing market. Ironically, banks that provided financing for many over-leveraged properties that are now in serious disrepair received credit on their CRA exams for providing this financing in our low- and moderate-income census tracts.

Systems such as BIP should be included in CRA exams in order to evaluate the quality of loans being made and the response of lenders to problems in their portfolios. A number of banks financed properties purchased by private equity investors who had the clear goal of displacing low-rent paying tenants. When this goal goes unmet, services are cut and buildings fall into disrepair; in a few of the most egregious cases buildings actually went vacant. Other banks lend to less than scrupulous owners with bad track records. If systems exist to evaluate the quality of buildings and bank portfolios, they should be utilized in CRA exams to look at the quality – not just the quantity – of loans underwritten by each bank, and their response to distressed properties within these portfolios.

To date, UNHP has met with the Federal Reserve Bank of New York, the FDIC and the New York State Banking Department to introduce them to the Building Indicator Project and its ability to analyze a bank's multifamily portfolio. While we prefer that banks voluntarily use the data to improve conditions in their problem buildings, we have begun to meet with regulators specifically about the portfolios of lenders with large numbers of distressed properties who have not demonstrated a plan of action.

Over-Leveraged vs. Distressed

While the two do not always overlap, a big part of the increase in distressed housing in New York City has to do with over-leveraged properties. With so many sales taking place during the peak years of the bubble, it is not surprising that levels of distress are on the rise, especially in places like the Bronx where speculative investment was such a gamble.

While we do not have specific data to identify individual properties in BIP as over-leveraged,[42] our best proxy is to look at buildings that have been identified to be owned by private equity (P.E.) investors who bought up large portfolios of buildings between 2005 and 2008 and who often paid above average prices for these properties. These buildings were typically bought with the promise of "upside potential" and prices were often based on a projected rent roll following high levels of expected turnover.[43] When this turnover did not occur, or when higher income tenants failed to appear, as was usually the case in the Bronx, conditions in a building could deteriorate rapidly as we saw in the portfolios of two P.E. investors, Ocelot and Milbank.

Figure 31

	Total P.E. Properties	800+ P.E. Properties	Percent 800+ Properties
Manhattan	475	42	8.8%
Bronx	351	99	28.2%
Brooklyn	201	14	7.0%
Queens	147	1	0.7%
NYC	1,174	156	13.3%
Upper Manhattan	358	42	11.7%
West Bronx Corr.	269	76	28.3%

The pool of P.E. buildings we analyzed was compiled by LISC with help from a number of organizations including UNHP, UHAB, and ANHD. Out of a total of 1,174 properties, each attached to a P.E. investor, 156 had scores above 800 in November 2010. While this is an above average rate of distress (13.3%) compared to all buildings in BIP, the geographic concentration of distressed P.E. properties is dramatic *(see Figure 31 above)*. In Upper Manhattan, 42 out of 358 P.E. buildings scored at least 800 (11.7%), while in neighborhoods south of Harlem, none of the 117 properties had a high score. In Queens, only one out of 147 properties scored above 800. Meanwhile, more than 63% of all distressed P.E. buildings are located in the Bronx, where nearly one out of every three properties scored above 800. In other words, expectations went unmet in the Bronx more than anywhere else, and this gamble has had dire consequences for the tenants of at least 99 buildings there.

42 We can estimate on debt per unit and average income and/or rents for a neighborhood, but without the actual rent roll and operating expense numbers, it is mostly guesswork.

43 Source: *Predatory Equity: Evolution of a Crisis* by the Association for Neighborhood and Housing Development, November 2009. http://www.anhd.org/resources/Predatory_Equity-Evolution_of_a_Crisis_Report.pdf

Case Studies

It is helpful to use real examples of properties to get a sense of the types of buildings BIP is identifying as likely distressed. Here we will give three examples, one small (5 to 24 units), one medium (25 to 74 units) and one large building (75 or more units). Each example can be compared to the median for that size building in each borough *(see Figure 32 below)*.

Figure 32

Median Scores for Properties by Unit Count, November 2010			
	Small	***Medium***	***Large***
Unit Count	5 to 24	25 to 74	75 and up
Manhattan	4.20	5.01	1.18
The Bronx	14.71	42.33	16.52
Brooklyn	7.11	14.50	8.89
Queens	0.40	1.04	1.29

Generally speaking, medium sized buildings have a higher median score throughout the boroughs, with Queens being the exception where the median score for large buildings is slightly higher, though the median score for all three is extremely low. In the Bronx, the median score for all building sizes is the highest of all the boroughs, with Brooklyn as the runner up, also for all three. Despite this, we see that the median scores, even in the Bronx, are relatively low, meaning the majority of properties have very low BIP scores. These properties may have a handful of HPD or DOB violations, and likely are not in arrears with taxes or water payments. In other words, most owners and managers are running housing that does not appear to be in any form of physical or financial distress.

By way of contrast, the following examples serve as typical case studies of distressed properties in three different boroughs. As they are not the most seriously distressed properties that might show up on a list of worst properties, they would likely not catch the attention of the mortgage holder if not for a system such as the Building Indicator Project.

8 Units in the Bushwick Section of Brooklyn (Score: 1,446)

629 Wilson Ave, a 3 story 8 unit walk-up building in Brooklyn, was purchased in August 2005 for $535,000, or almost $67,000 per unit. After a number of refinances, a mortgage in the amount of $803,250 was made with Washington Mutual Bank in 2006, leaving the building with just over $100,000 per unit in debt. The building's BIP score remained relatively low until the spring of 2010 when it jumped to 1,159. In the fall of 2010, primarily as a result of 63 prior year "B" class violations from HPD, the score increased to 1,446. The building has a total of 109 violations, or about 13.6 per unit, the majority of which are "B" class. Boosting the score another 150 points are the water ($2,560), tax/registration ($80) and ERP ($959) liens owed.

25 Units in the Washington Heights Section of Manhattan (Score: 1,029)

65 Nagle Ave, a 5 story 25 unit walk-up building in Upper Manhattan, was purchased in October 2006 for $2,625,000, or $105,000 per unit. A mortgage agreement in the amount of $2.1 million, or $84,000 per unit, was made with LibertyPointe Bank at the time. In November 2007 that mortgage was assigned to Flushing Savings Bank. After scoring in the 300s during 2008 and 2009, the building's score increased to 1,438 in the spring of 2010. This fall, its score dropped a bit to 1,029, but remains above 800 entirely due to violations. Code inspectors have written up 33 "A" class, 92 "B" class, and 17 "C" class violations in the prior 12 months, totaling just under six per unit, and almost four "B" class violations per unit alone.

43 Units in the Fordham Section of the Bronx (Score: 2,849)

2255 Morris Ave, a 6 story 43 unit elevator building in the Bronx, was purchased in July 2006 for $3.26 million, or almost $76,000 per unit. A mortgage in the amount of $2.9 million, or just over $67,000 per unit, was made with New York Community Bank at the time. Using our archived BIP data from 2006, this building would have scored only 20 points at the time using our current formula (though we did not have water data then). In the fall of 2008, this building's score was up to 1,356 and has since steadily increased to 2,849 in the fall of 2010. While the building had racked up 121 prior year HPD violations, mostly "B" and "C" class and 7 DOB violations, it had also accumulated $130,000 in water arrears, $3,000 in back taxes and fees, and $24,000 in Emergency Repair Program liens. The liens alone were worth 1,000 points, and if it were to pay off this debt, its score would only be 473.

Of course, these are just a few examples of high scoring properties. Numerous properties do not fit into any mold, including the 43 buildings on two lots that make up Co-op City in the northeast Bronx. Since the BIP is based on tax lots and not individual buildings, multiple buildings are scored together if they are located on a single tax lot. In the case of Co-op City, one lot contains 11 buildings with 4,458 units and the other holds 32 buildings with 10,914 units. The first of these has 472 HPD violations, of which 398 are from the prior year, the majority being "B" class. However, since this represents about .1 violations per unit, the score of 1,068 is based primarily on liens, especially the $1.9 million owed for water. The larger lot with 32 buildings also has about .1 violations per unit, but owes $6.8 million for water, giving it a score of 4,901.

Expanding the User Base of BIP

Our earliest sharing of BIP data with another organization was with the Northwest Bronx Community and Clergy Coalition. Local housing organizers were able to more easily identify buildings to target for tenant organizing based on a high BIP score and, if part of a larger campaign, the mortgage holder or owner.

As we expanded BIP to four boroughs, we realized there were many groups throughout the City that could put the data to positive use for tenants living in distressed housing. By late 2009,

we felt that we had been able to streamline the process of updating the data twice a year and could adequately begin sharing data on a regular basis. Enterprise Community Partners, with whom we had a long term relationship on local housing work, agreed to underwrite the cost of subscriptions to the BIP database for up to two dozen nonprofit organizations. In the late spring of 2010 we made the first delivery of data to 20 organizations, and are now up to 23 including groups such as Chhaya CDC, Asian Americans for Equality (AAFE), UHAB, ANHD, Fordham Bedford Housing Corporation and the Furman Center at NYU.

One subscriber organization is the CASA (Community Action for Safe Apartments) program at New Settlement Apartments in the Bronx. Organizers used the BIP data to identify distressed properties for organizing work, including 1380 University Ave, a 140 unit building that saw its BIP score jump from 70 in the fall of 2009 to 22,918 in the spring of 2010 due to hundreds of new violations and over a million dollars of unpaid property taxes. Organizers worked with tenants to demand meetings with both the owner of the property and the lender, New York Community Bank, who they noticed had many other high scoring properties on the BIP. CASA used BIP data to leverage a meeting with the lender and then the lender helped arrange a meeting with the owner for the tenants and the community group. While the owner agreed to various improvements at the meeting, the actual results have been discouraging. According to organizers, pressure applied by the bank resulted in limited repairs, while most improvements came after the threat of a rent strike by tenants.

Another organization, Asian Americans for Equality (AAFE) used the data to address a different type of housing problem. According to AAFE, a number of building owners in the Lower East Side and Chinatown had been intentionally accumulating DOB violations in order to get the agency to issue a vacate order due to structural unsoundness. With a vacant building, the owner could then demolish the property and build a much larger luxury development without regards for current tenants. Using BIP data, AAFE has been able to identify buildings with large numbers of DOB violations before a vacate order is issued. They recently issued a report, *Demolition through Intentional Neglect*, where they outline the problem and offer policy suggestions.

The Growing Influence of BIP

In January of 2011, the Mayor, City Council Speaker Christine Quinn and HPD Commissioner Rafael Cestero traveled to Our Lady of Angels in the Northwest Bronx to announce a new initiative, the Proactive Enforcement Bureau. Based on data on violations and liens, the bureau will identify distressed properties, make detailed inspections, issue additional violations, and make emergency repairs where necessary. Separate legislation pending in the City Council would allow the City to sell ERP liens in the lien sale, even if taxes and water are current.

This initiative came about due to excellent organizing work by the Northwest Bronx Community and Clergy Coalition in buildings owned by the private equity firm Milbank. Conditions in a number of these properties had reached such a deplorable state that Commissioner Cestero, after personally inspecting a number of units, stated he had "never been more shocked, angry and frustrated by what [he] saw in those buildings." The goal of the new initiative is to prevent other buildings from getting to that level of distress.

The system to identify the properties that the Mayor announced that day is inspired by the

Building Indicator Project. As former Commissioner Cestero wrote in a letter to UNHP at the end of his tenure last month, we "set the stage" for their Proactive Preservation Initiative as BIP "inspired" HPD to create their own measures for evaluating physical and financial distress and "has allowed HPD to forge partnerships with banks holding distressed assets."

Another example of how BIP might be employed in policy decisions comes with the major issue of note sales.[44] Lenders almost never want to keep a mortgage on their own books once a property goes into foreclosure, as the process is long, arduous and risky. Even if a building is not in foreclosure, but other problems are identified, the lender sometimes chooses to sell the note, even if it is at a loss. With speculators still willing to take chances on some of these properties, some notes are selling for face value despite poor living conditions that necessitate costly renovations. Affordable housing developers and owners, both nonprofit and for profit, are almost always outbid by speculators in any note sale, and the opportunity to rescue a buildings from the cycle of over-leverage and disrepair is lost.

UNHP has called on lenders to limit note sales in general, but also to screen out potential bad actors from the bidding process. While we have had little success with lenders on this issue, it is our understanding that a major multifamily lender is currently considering a new protocol where properties with high BIP scores would be placed into a special asset disposition program in the event of a potential note sale. The program would aim to move properties to preservation buyers qualified by HPD.

BIP data is beginning to be considered by bank regulators as well. UNHP recently submitted a comment letter to both the FDIC and the New York State Banking Department regarding the current CRA examination of New York Community Bank and how their portfolio ranks using BIP data. While in the past, the lending test focused on the volume of loans in low- and moderate-income areas, our goal was for the regulators to consider overall quality of lending, portfolio management, and responsiveness to the tenants and community in the examination. BIP data has the potential to make this a reality, and we will soon find out if it has an impact on the bank's final CRA grade.

In a similar vein, we are hoping BIP data can be considered in relation to pending legislation in the City Council on the establishment of a Responsible Banking Act. The Act, if passed, would require the City Banking Commission to limit where City deposits can be held based on a bank's track record on meeting community needs. In addition to tests on branches, loan modifications, and community development lending, the quality of a bank's multifamily portfolio could be considered using BIP data.

44 Note sales refer to the selling of promissory notes attached to a mortgage loan. The note is a written promise to repay principal and interest over the life of the mortgage, while the mortgage itself is a written pledge of property used as security for the repayment of the loan. Whether we refer to selling the note or the mortgage, the principle is the same: the lenders are selling the debt and whoever purchases it must work out a deal with the owner or complete the foreclosure to gain title to the property.

Conclusion

While the number of New York City's multifamily properties in physical and/or financial distress is on the rise, UNHP's Building Indicator Project has proven itself to be a powerful tool for organizers, advocates, developers, regulators and lenders alike to combat this distress. Developed and improved throughout the last decade, the BIP database covers almost all of New York City's multifamily housing at a time when we are all feeling the dramatic effects of the collapse of the housing bubble and failed speculative investments, especially in lower income neighborhoods.

Beyond New York City, it is difficult to imagine how a system such as BIP could be replicated without the availability of similar code and lien data online. An active and reliable code enforcement system would also be necessary for the system to be effective. If this was the case in another city, we believe the Building Indicator Project could be used as a general model in terms of structure and scoring.

While BIP obviously cannot help solve all of our housing problems such as the larger affordability crisis for working class New Yorkers, it plays a significant role in the quality of the housing for these same residents. Subscriptions for affordable housing groups throughout the City have magnified BIP's potential, and it has already begun to influence policy decisions at HPD and a number of lending institutions. While we applaud HPD and those lenders who have actively used BIP, we realize that in order for the data to be effective on a vast level, we will need serious cooperation from more lenders. In other words, we are seeking a comprehensive and coordinated response from the lending community. Legislators and regulators need to do what is in their power to encourage this response.

"We don't want to know this stuff," was one banker's response when we first started distributing BIP data to major Bronx lenders. The banker made it clear that UNHP was making his life difficult by sharing this information because then his institution would need to do something about it. Now that the housing market has changed, we hear much more positive responses from lenders, but we really want to witness more positive action. The City of New York has been actively working to create a program where problem buildings can be moved into the hands of a responsible owner. Lenders need to work with communities, regulators and the City to develop comprehensive solutions for distressed properties other than continuing the cycle of over-leverage and distress through selling notes to speculators. Now is the time for lenders to partner with the City and neighborhoods and take responsibility for their investments.

We sincerely hope that our work with the Building Indicator Project and the Multifamily Assistance Center does not drive lenders away from our neighborhoods, but rather moves us towards more responsible lending and due diligence. In terms of safety and soundness, financial institutions can only benefit from well maintained properties in their portfolios. BIP can also help to end the speculative cycle by screening out bad actors in potential note sales. The Building Indicator Project is about holding lenders, and ultimately owners, accountable for irresponsible practices that have led tenants, the housing stock and the community to suffer.