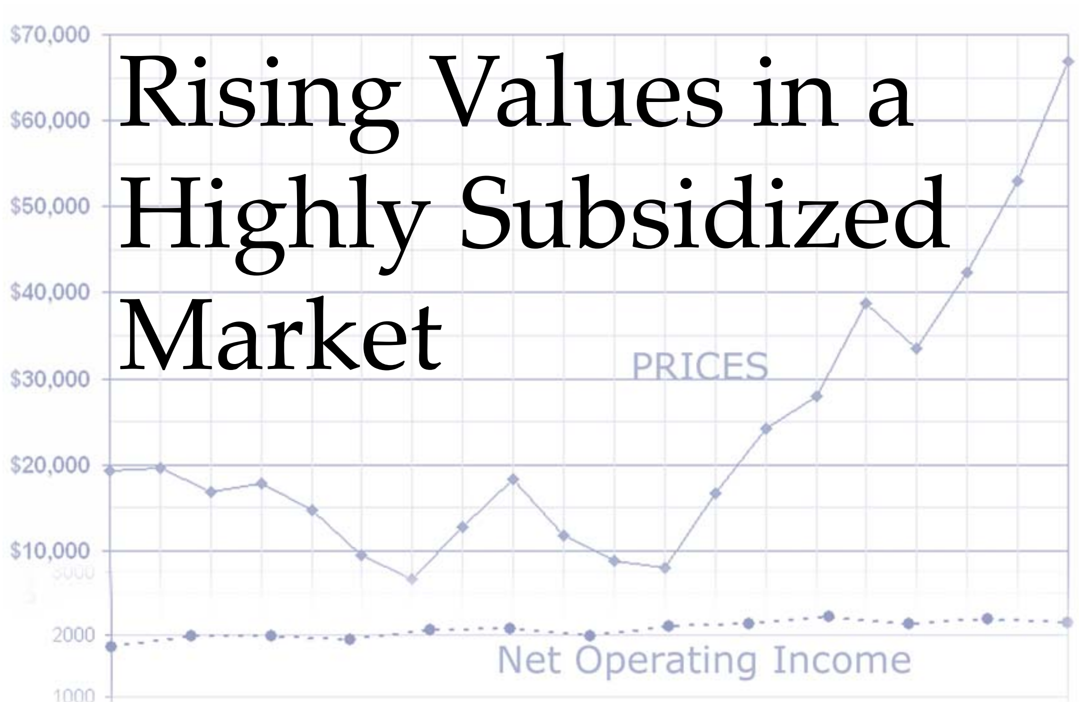
University Neighborhood Housing Program

2005 Affordable Housing Forum

Rising Values in a Highly Subsidized Market



An Assessment of Bronx Multifamily Affordable Housing Indicators

A publication of University Neighborhood Housing Program

Wednesday, March 30, 2005
8:30 AM

Fordham University's Rose Hill Campus, The Bronx

Faculty Lounge, McGinley Center

Rising Values in a Highly Subsidized Market

An Assessment of Bronx Multifamily Affordable Housing Indicators

Wednesday, March 30, 2005

Breakfast

Introduction & Memorial for Michael Crawford

Joseph Muriana, UNHP Board President

Moderator

Guillermo Franco, Deutsche Bank

Rising Values Presentation

Gregory Jost, UNHP

Response from Panelists

Daniel White, Congressman Serrano's Office
Dan Houlihan, NY Appraisal
Elliot Hobbs, JPMorganChase CDG
Elaine Calos, HPD
Jim Buckley, UNHP

Discussion

In Memory of a Friend
Michael S. Crawford

Mike Crawford came to work in the Northwest Bronx in 1977. When first asked whether he had any previous experience doing neighborhood work or community research, he said simply, "Don't worry about it, I can do it." Indeed he showed us how true his reply was day in and day out. Being from Grand Avenue in the Fordham section, and having attended Roosevelt High School, he had a big stake in this part of the Bronx. He really cared about his neighborhood, and translated these feelings into his work, clearly a labor of love given the compensation packages at the time.

Mike "worked smart," as a contemporary saying goes. He brought his intelligence and problem solving ability to work, whether it was to raise funds, understand and articulate community issues, or interact with all kinds of personalities in meetings and discussions. One of the first projects he led was the Northwest Bronx Community Planning Project. In the months and year prior to "Planned Shrinkage," the idea of community planning was, quite naturally, suspect. But he conceived the planning process in a way which actually recruited and involved local community leaders and residents. The result was a useful document that helped neighborhood leaders press for improvements.

Another accomplishment was the Northwest Bronx Reinvestment Plan. Mike documented the mismatch between residents' deposits and housing lending, and pushed to implement the intention of the Community Reinvestment Act for Bronx neighborhoods. Working with Roger Harless, then of National People's Action, Mike put together a comprehensive vision itemizing the amounts and kinds of investment that would be needed to sustain and improve the level of housing, commerce and overall quality of neighborhood life for the next generation of residents. At the time, there was practically no reinvestment, yet neither he, nor the Northwest Bronx Community and Clergy Coalition, (NWBCCC) would let that stop them. This was a truly proactive move and ahead of its time. History has seen many of the particulars in that plan fulfilled.

These are just two of the ways that Michael Crawford's example has helped shape the way that groups like University Neighborhood organize and undertake affordable housing work over the years. There are so many others. In the midst of NWBCCC's usually contentious meetings with the Koch Administration, Mike led some Board members into a meeting at City Hall and came out with a large contract funding organizers for another year. Another time, in the campaign to highlight the issue of exorbitant interest rates and their negative impact on affordable housing, he made contact with the production people at Saturday Night Live and was able to borrow the actual Land Shark costume. He carried it back to the Northwest Bronx on the Number 4 Train, and the Coalition had the shark present for meetings with the American Bankers Association and with Federal Reserve Chairman Paul Voelcker, a spot which was then carried on NBC Nightly News. On still another occasion, the day of President Reagan's first State of the Union speech, he persuaded TV news reporter John Hambrick to come to Flanagan's, a local establishment on East 198th Street, to interview and discuss the issues in the speech with community people. After moving on from the Coalition, while Mike was working in banking regulation, many of us called on him with specific questions on community reinvestment. Mike was a great resource, and always there to help.

The beneficiaries of his work are many. We miss him as a colleague, but more importantly in our hearts and minds we miss our good friend. Laura, Zoë and Heather miss their husband and father terribly. His Mom and Dad, his brothers and their families grieve for him. Whether we have known him in his work in the Northwest Bronx, Brooklyn, in banking or serving and representing as a lawyer, he was such a good guy, and he left us too soon. Mike was a person you could count on, one always more interested in how *you* were than how he himself was. And so we miss our friend. The UNHP dedication is a fitting reminder. Friends and colleagues will keep on remembering him always, the wit, the laugh, and his countless kind and gentle ways of being a friend. When asked one morning late last year whether he wanted anything for himself from outside, he quipped, "How about twenty-five more years?" And so do we, Mike, so do we.

- Jim Mitchell served as director of the Northwest Bronx Community and Clergy Coalition from 1974 to 1982.

Rising Values In a Highly Subsidized Market

An Assessment of Bronx Multifamily Affordable Housing Indicators

Background

The day after the November 2000 election will always be remembered for the uncertainty of who the next President of the United States would be. Coincidentally, it was the same day that University Neighborhood Housing Program sponsored the forum, *Six Times Rent Roll*, discussing the trend of rising sales prices of multifamily real estate in the Bronx. More than fifty lenders, regulators, owners and managers of affordable housing came together to discuss the rising sales prices that had reached what seemed to us at UNHP the somewhat preposterous (at the time) level of six times the annual rent roll. Hearing of sales at this rent roll multiplier triggered memories of the late 1980s, when Freddie Mac was providing financing for similar amounts prior to a sharp downturn in the Bronx multifamily real estate market. Seeking to back up our anecdotal reports of rising values, UNHP collected basic empirical evidence of a rise in Bronx multifamily sales prices for this initial forum. Our preliminary research presented that November morning indicated prices for the first half of 2000 had reached \$35,000 per unit, almost triple the \$12,000 figure from the second half of 1996 (our earliest numbers were not adjusted for inflation). As part of the forum, we also presented research on other market factors, including net operating income (NOI), housing conditions and per capita income, none of which provided an explanation for a steep rise in prices.

Following the forum, UNHP partnered with the Citizens' Housing and Planning Council (CHPC) to research and analyze the sales price data more thoroughly. In May of 2003, we released a report entitled *A Real Estate Bubble in the Bronx?,* documenting this data through an in-depth analysis. The regression analysis CHPC performed showed that while controlling for a host of factors (including inflation, location, lot size, year built and elevator), sales prices had still risen sharply since 1996, peaking at about \$37,000 (2001 dollars) in 2000 before a slight drop in 2001. This sharp rise was not matched by a similar rise in NOI, meaning that a comparable increase in building profitability was absent and that speculation could not be ruled out as a major factor in the Bronx real estate market bubble.

Updating the Research

Since the release of that report, updated research shows the average price per unit in Bronx multifamily real estate has continued to rise to unprecedented levels ***(see figure 1.1 on page 8)***. In 2003, prices reached \$53,000 per unit, and have jumped to nearly \$67,000 per unit this past year (both figures in 2004 dollars). These numbers have been exceeded only by the setup sale sheets we receive from brokers, showing buildings for sale in the range of nine to ten times rent roll. Bronx buildings have been listed as high as $100,000 per unit. Yet current data from the Rent Guidelines Board ***(see figure 1.2 on page 8)*** shows NOI continued to remain virtually flat through 2002 (the last year for which data is available) as both income and expenses slowly rose. In addition, our experience is that many Bronx multifamily buildings are aging to the point where they need extensive work; many of them need close to $60,000 per unit to ensure their long term use as decent affordable housing.

Demographics

UNHP has continued to research other factors that play into the Bronx housing market as well, and data sources such as the 2002 New York City Housing and Vacancy Survey (HVS) – easily available for the first time thanks to NYCHANIS – continue to support our concerns that these prices are not sustainable in the Bronx, especially in the densest parts of the borough (the South Bronx and the Northwest Bronx minus Riverdale). Renters in these neighborhoods have the lowest median household income in the City ***(see figure 2.1 on page 9)***, while higher acquisition debt increases the pressure on owners and managers to increase the rents. However, Bronx residents are already paying more of their income on rent than those in the other boroughs. Nearly a quarter of Bronx households had a severe affordability or housing quality problem in 2002 ***(see figure 2.2 on page 9)***, meaning they were either paying more than 50% of their income on rent (or 60% of their income on a mortgage) or had at least five maintenance deficiencies (these two categories are combined to increase the sample size in the HVS to make the data more reliable). Broken down by Sub-Borough Areas ***(see figure 3.1 on page 10)***, we see an intense concentration of these households in the west-Bronx neighborhoods of University Heights/Fordham, Kingsbridge Heights/Mosholu, Highbridge/ South Concourse and Morrisania/Belmont. When we look at this same data over time ***(see figure 3.2 on page 10)***, there is an increase in this trend in these neighborhoods since 1999 while much of the rest of the City has seen a decrease in the percentage of households with a severe affordability or quality problem. With between thirty and forty percent of households in this situation in these neighborhoods, it is difficult to understand why purchase prices have continued to increase so sharply.

We were able to access data that separates out those with a severe rent burden, as described above, from those with five or more maintenance deficiencies (although the data set is too small to be reliable for some Sub-Borough Areas). ***Figures 4.1*** and ***4.2 (on page 11)*** show the highest concentrations of both categories in the west Bronx on either side of the Grand Concourse.

Section 8

Now add to the mix the Section 8 voucher program. At just over 42,000 vouchers (as of 2002), the Bronx has more tenant-based Section 8 than any other borough; nearly 9% of all housing units in the borough are subsidized through this federal program ***(see figure 5.1 on page 12)***. Within the Bronx, three Community Districts (5, 6 and 7) in the Northwest Bronx are home to about 20% of all vouchers in the City ***(see figure 5.2 on page 12)***. Throughout the borough, especially in these neighborhoods, Section 8 is an integral part of multifamily revenue streams, subsidizing the rent of as many as one in six households.

The Outlook

With defense and war costs rising and the temporary tax cuts being made permanent, cutting existing programs has become an obvious solution to curbing the rising federal deficit. If Congress passes the resolution to cap spending for the next five years, we will witness an array of interests fighting over a finite pot of money. The Department of Housing and Urban Development (HUD) has been targeted for deeper cuts than other federal departments and HUD Secretary Alphonso Jackson has been publicly critical of the Section 8 program. With Section 8 consuming the majority of the HUD budget, the program is anything but safe. Some national housing advocates believe he will pit various HUD programs against each other in the battle for funding. New York City's housing agencies are already feeling the crunch. Further cuts will obviously exacerbate the problem. Based on our research, it is clear that any negative impact on Section 8 will result in the Bronx being harder hit than any other borough.

When we consider all of this information together, it is difficult to justify these rising sale prices by any method other than comparable sales. If the net operating income before debt service continues to stay even while debt service and return on equity requirements increase, the pressure to reduce services or destabilize tenant populations to receive vacancy rent hikes will also increase. Either scenario is problematic for the Northwest Bronx and the solutions are difficult to determine.

Figure 1.1

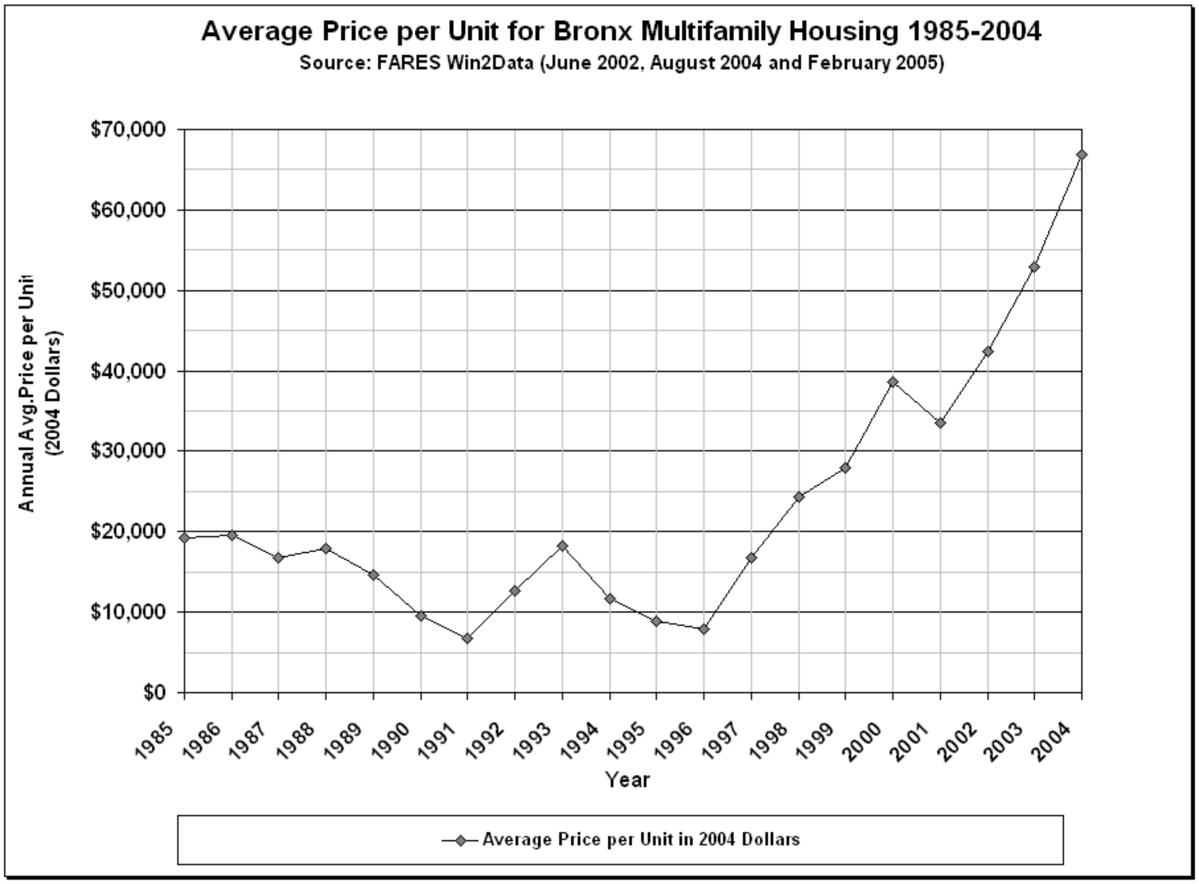


Figure 1.2

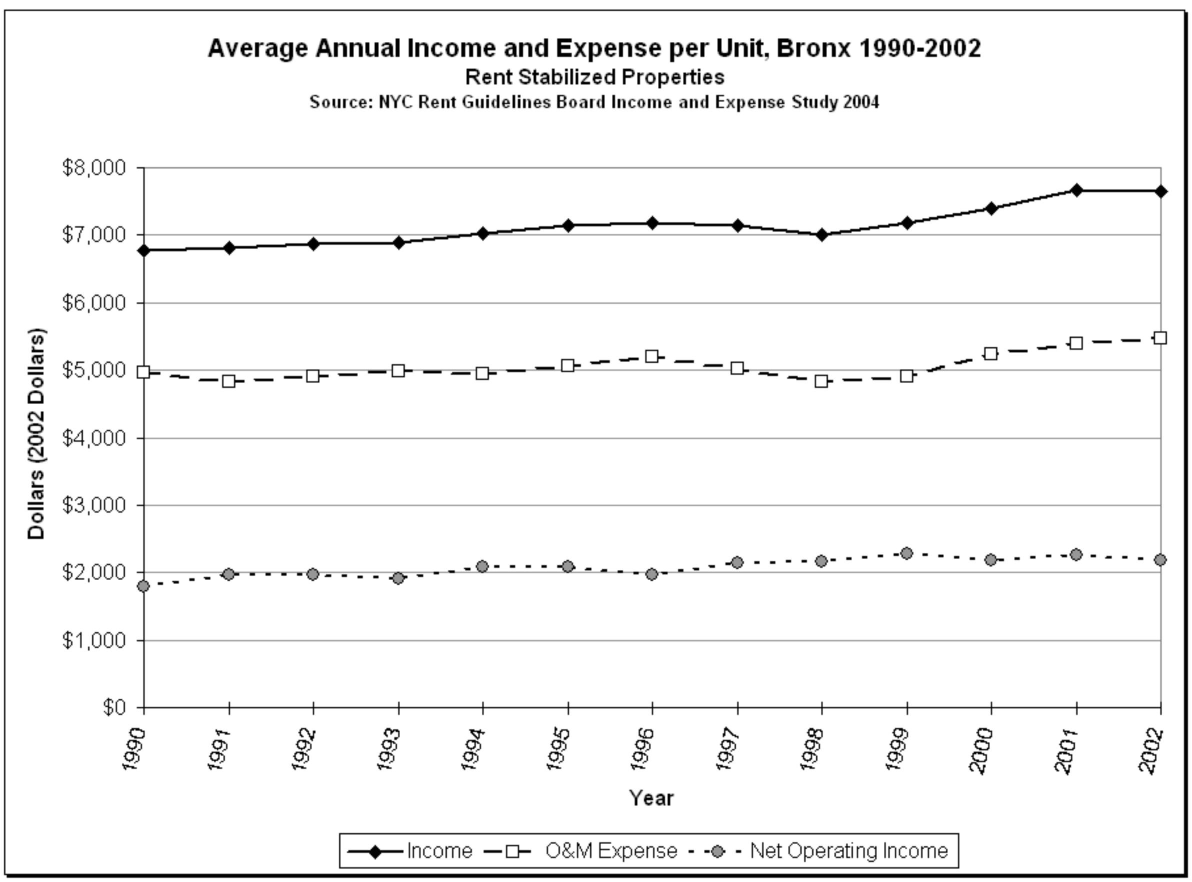


Figure 2.1

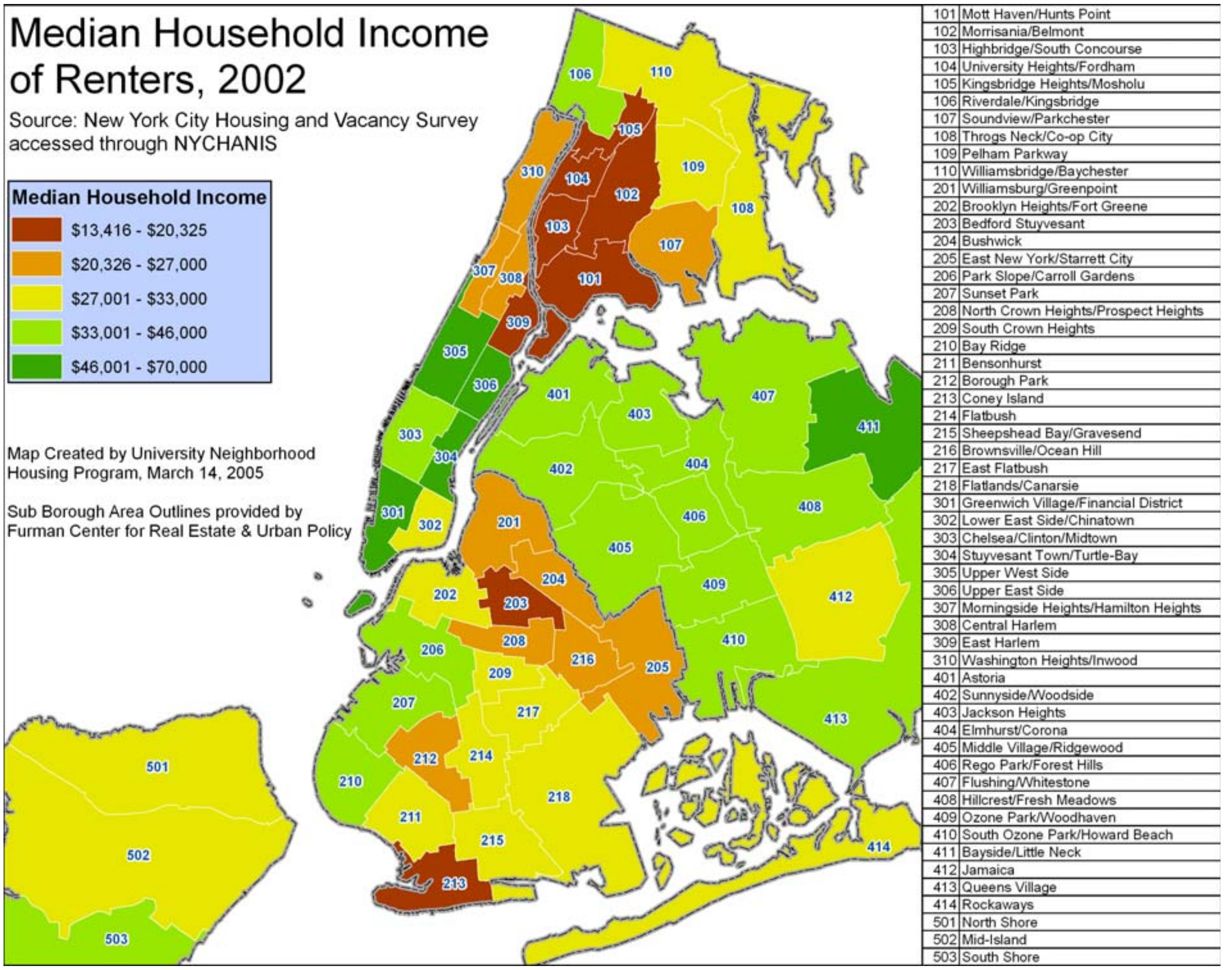


Figure 2.2

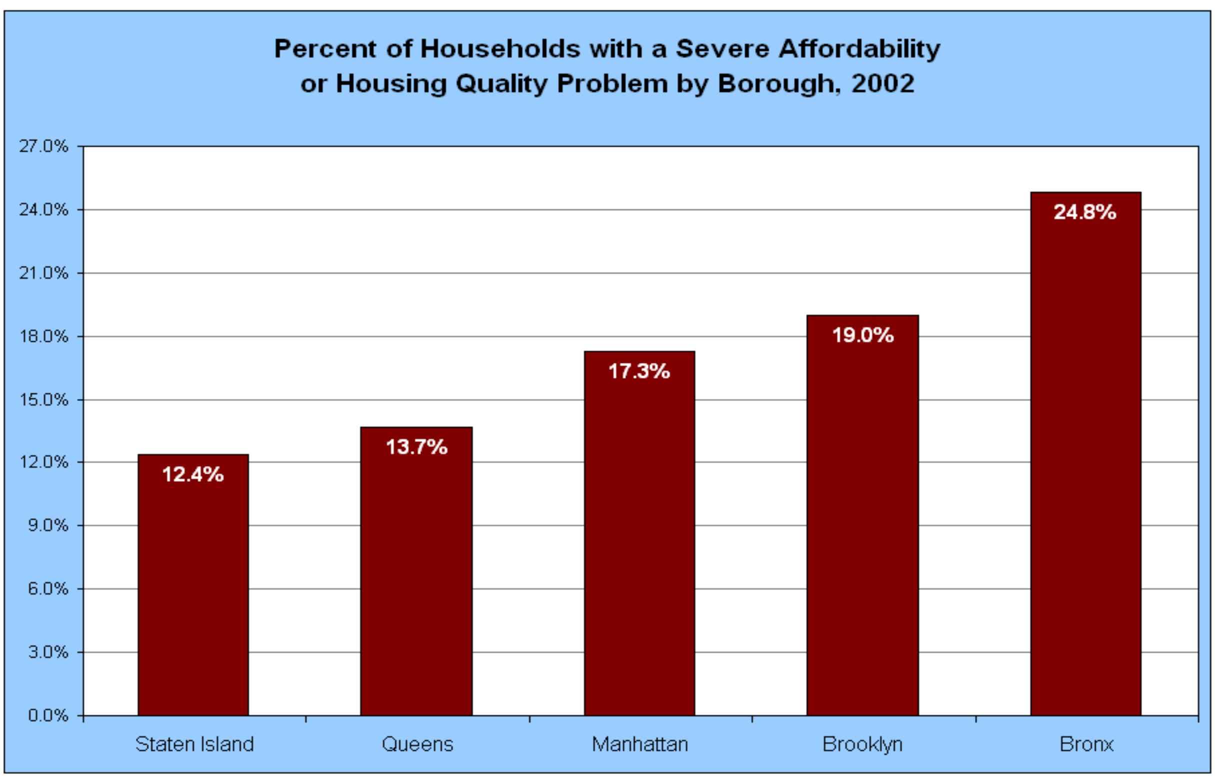


Figure 3.1

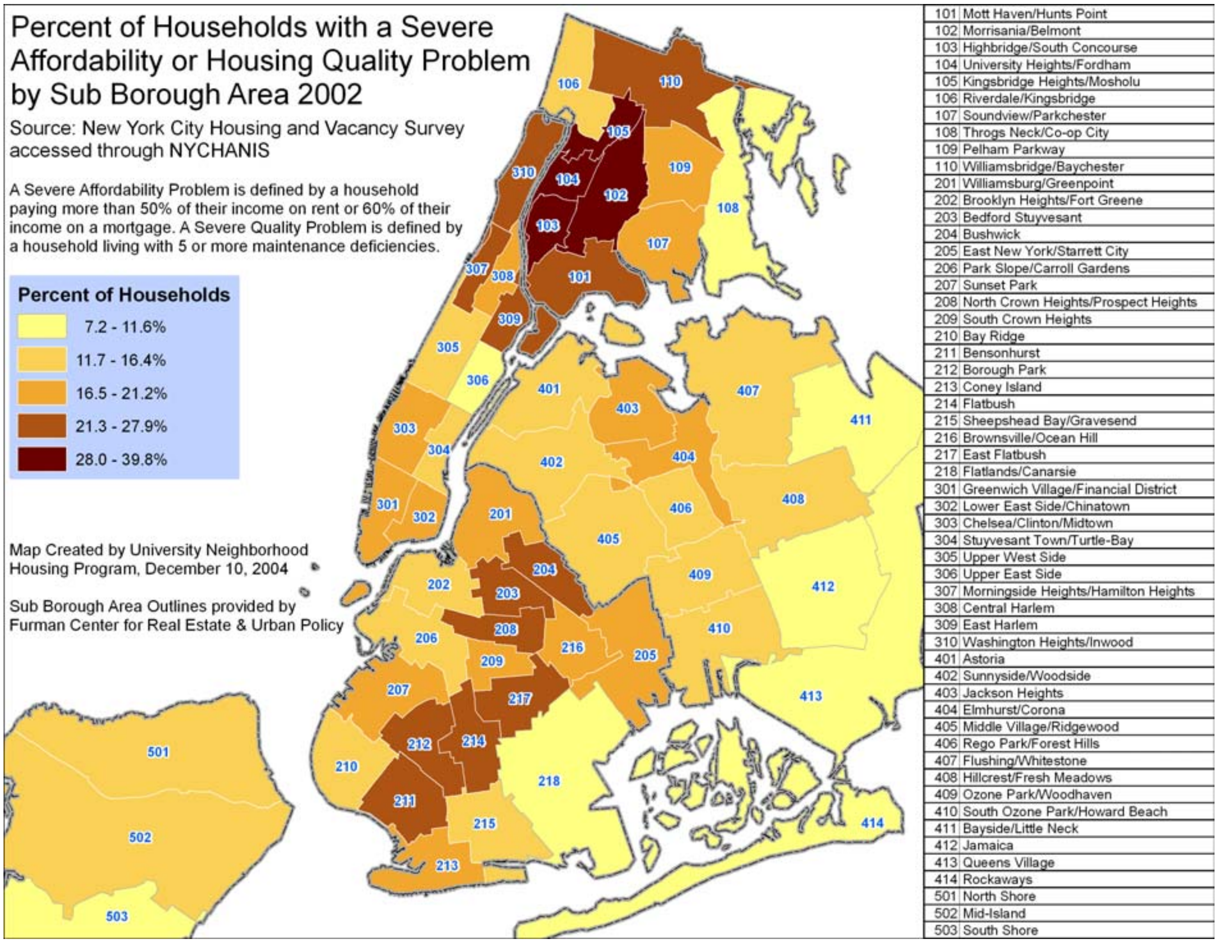


Figure 3.2

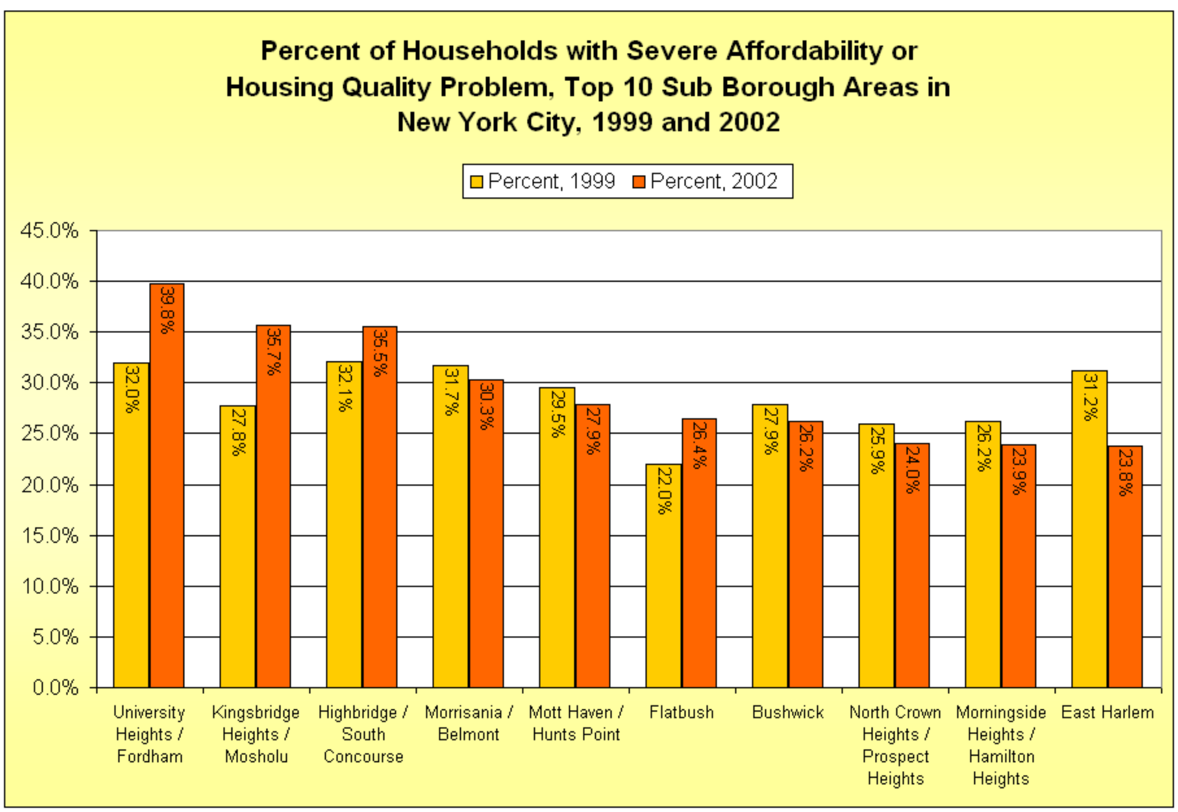


Figure 4.1

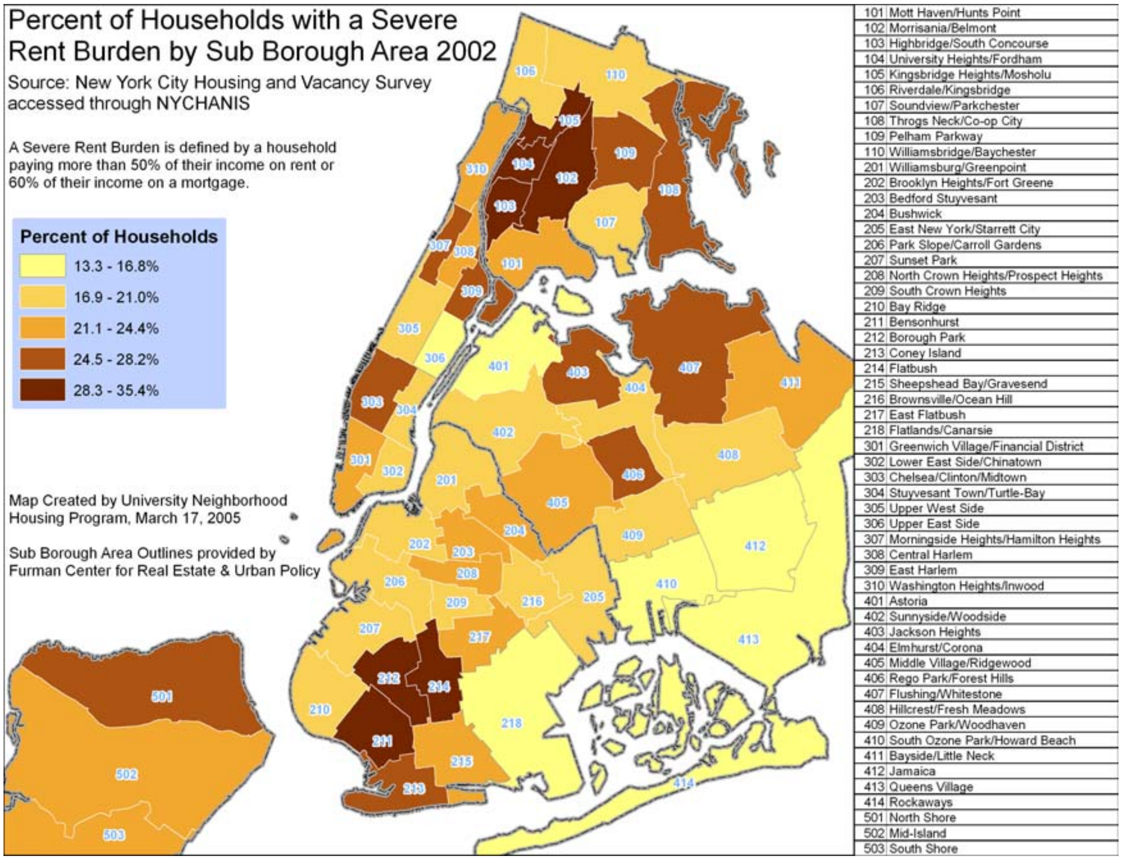


Figure 4.2

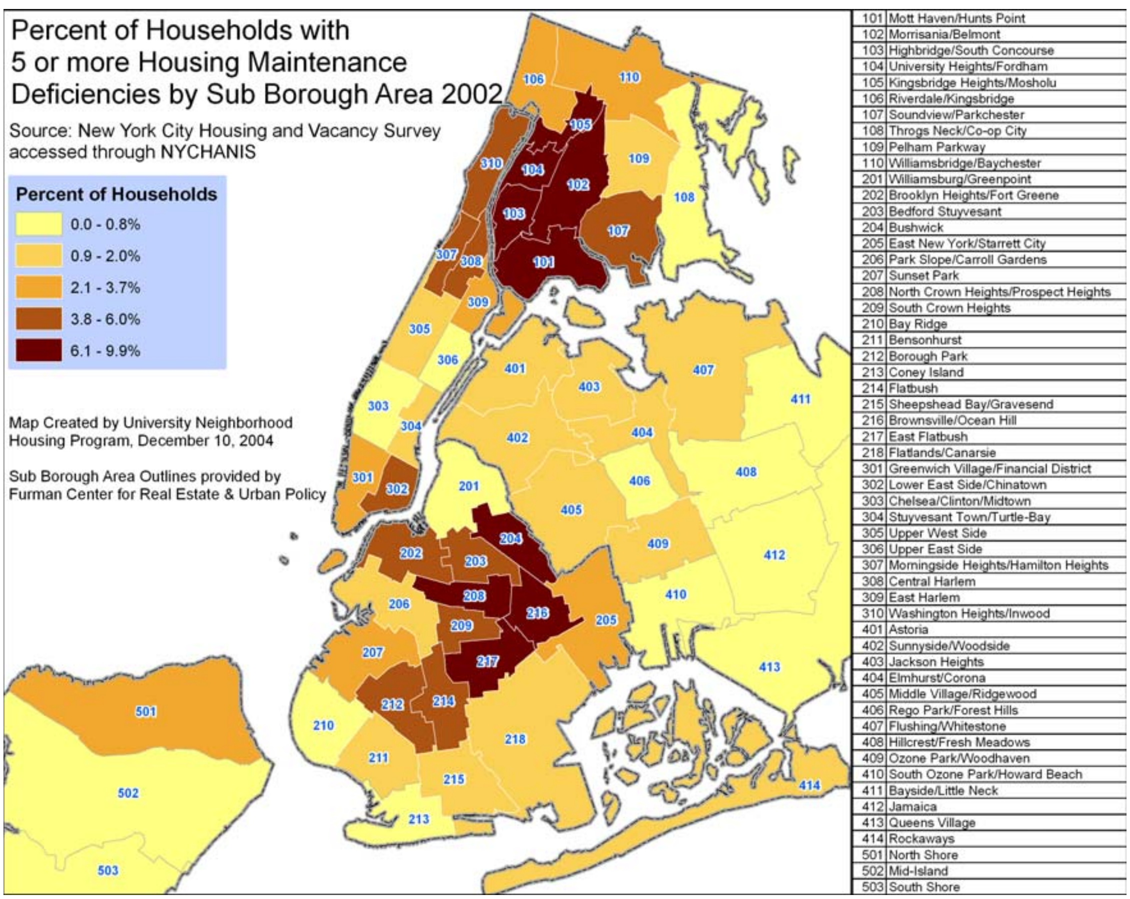


Figure 5.1

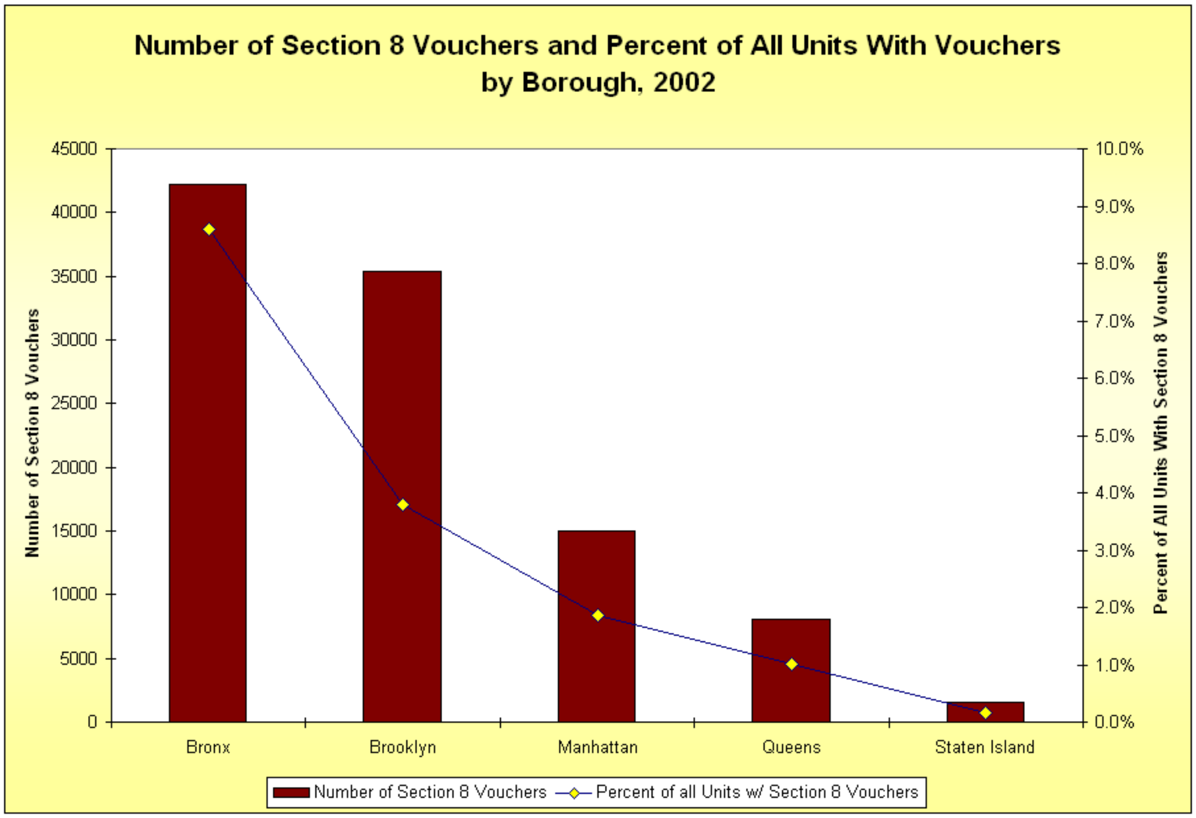
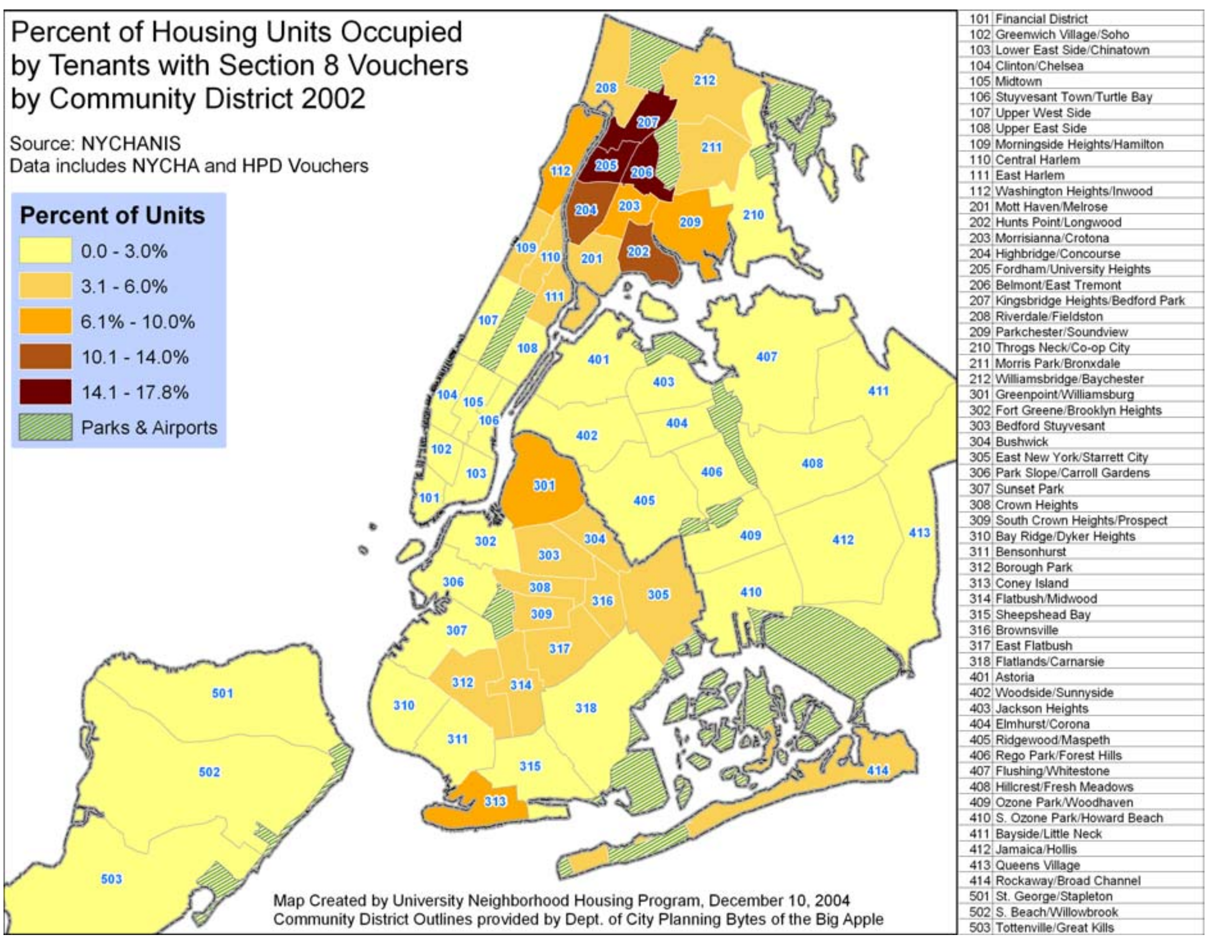


Figure 5.2



Proposal for Multifamily Assistance Center

Background

A report released by UNHP in 2003 entitled *A Real Estate Bubble in the Bronx?* as well as updated research raise concerns about the impact of sharply increased prices of apartment buildings in neighborhoods of the Bronx. Conventional banks and financial institutions have provided much of the financing. Despite loan to value ratios of between 70-75%, UNHP predicts that the sharp increase in operating costs will make it difficult for some properties to stay current on tax and mortgage payments while maintaining the building in good repair and maintaining appropriate services. The impact in some buildings may be more clearly felt if interest rates rise significantly before buildings financed over the past couple of years at historically low rates with 5 year balloon mortgages have their notes come up for renewal.

Many Bronx buildings suffered when Freddie Mac foreclosed a large number of properties in the late '80s and early '90s. A recently published piece in the *Bronx County Historical Journal* by Margaret Groarke recalls the major financial losses Freddie Mac took in the early 90's due to over financing; this caused them to close down their multifamily lending program in 1990. The process of foreclosure was financially costly to Freddie Mac, but it was very costly in less easily quantifiable ways to the tenants of the buildings and to the neighborhoods in which the buildings were located.

Justification for a Multifamily Assistance Center

While not anticipating the volume of foreclosures seen over a decade ago, UNHP expects that there will be a number of multifamily buildings in financial and physical distress in the coming months and years. The typical path for a building confronting financial difficulties starts with a deterioration in service and delays in repairs. If the problems in a specific building are bad enough, they can spread to other buildings on the block. If it reaches a point where a foreclosure is initiated, the installation of a receiver precedes a lengthy adjustment period in the building where rent collections are complicated and service further deteriorates. If the owner is well represented legally, the foreclosure process can extend for well more than a year. Developing an alternative to the foreclosure process would be beneficial for all parties involved and the neighborhood in general.

Proposal

As a pilot project, UNHP is proposing that a Multifamily Assistance Center be created to serve the Bronx as a pilot project that could be expanded to the rest of the City in the future. The Center could be utilized by banks/lenders with properties that are in physical and/or financial difficulty, owners who are experiencing difficulty, and community organizations that have identified problem properties and the City of New York's Department of Housing Preservation and Development. Utilization of the clearinghouse is intended to move troubled properties quickly to either new ownership or critical rehabilitation money to avoid further deterioration of services or building conditions while also avoiding lengthy and expensive legal procedures that could include foreclosure.

UNHP is proposing to house the Multifamily Assistance Center at its inception within its own organizational structure to take advantage of its existing relationships with lenders and non-profit and for-profit real estate and community development organizations.

Referral sources would develop criteria that would trigger timely referral of buildings to the clearinghouse for assistance. Criteria would include the following:

a) Physical inspection by the bank that reveals serious service and repair problems;
b) Code enforcement violations or emergency repair work placed by the City of New York;
c) Delays in payment of mortgage, escrows, insurance, tax or water and sewer bills.

Tools Needed to Make the Center Viable

a) Affordable acquisition funds;
b) Rehabilitation financing including various city rehabilitation programs;
c) List of pre-qualified for profit and non-profit purchasers with geographic targeting;
d) Operations funding for staff to manage the Assistance Center; and
e) Possible creation of a conduit entity such as Neighborhood Restore to take title quickly of problem properties.

University Neighborhood Housing Program

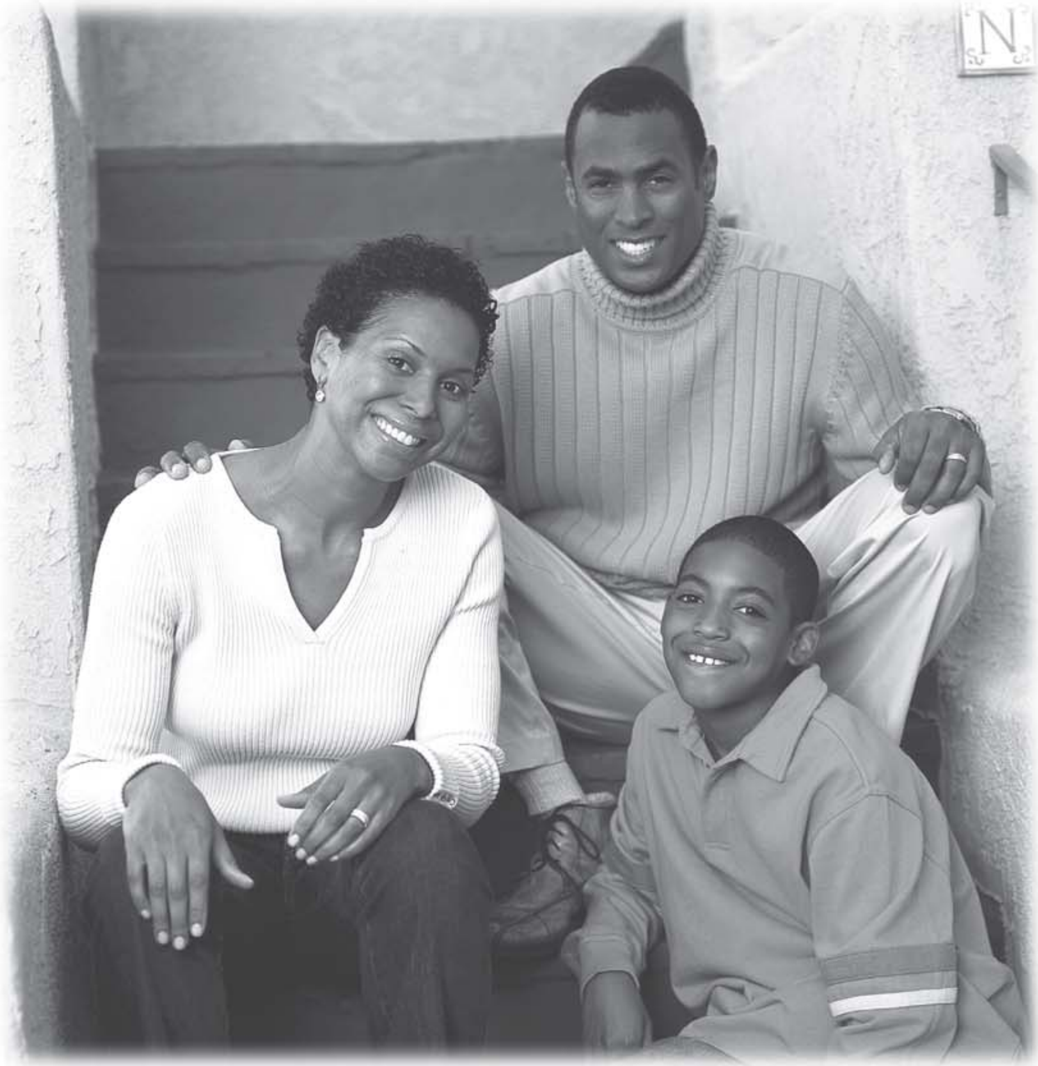
2005 Affordable Housing Forum

Rising Values in a Highly Subsidized Market

An Assessment of Bronx Multifamily Affordable Housing Indicators

A publication of University Neighborhood Housing Program

Supporting Advertisers



HSBC Community Development

proudly supports

University Neighborhood Housing Program

and

its affordable housing work

in the Bronx

HSBC

The world's local bank

Helping to Build Neighborhoods
One Building at a Time

DOUGERT
MANAGEMENT
CORP.

2811 Zulette Avenue ● Bronx, New York 10461

(718) 828-5388

UNHP

would like to thank

Steven Flax

&

Atwood Collins III

from M&T Bank

for their gift

in memory of

Michael Crawford.

The staff of UNHP would like to thank Fordham University for hosting our event.

Joseph Muriana
Associate VP for Government and Urban Affairs
UNHP Board President

Sandra Lobo Jost
Director of the Community Service Program

Contributor Listing

Mosholu Preservation Corporation

BUILD

Jim Buckley and Joan Gasser

Thank you to our supporters who purchased ads in this publication and to our 2004-2005 funders and investors:

Apple Bank for Savings
Astoria Federal Savings
Bank of New York
Citigroup Foundation
JP MorganChase
Emigrant Savings Bank
The Enterprise Foundation
Fannie Mae Corporation
GreenPoint Foundation
HSBC
Joseph Martens
M&T Charitable Foundation
New York Community Trust
North Fork Bank
Ridgewood Savings Bank
Scherman Foundation
Taconic Foundation
Thomas Webler
Wells Fargo Foundation
Sisters of Charity of Saint Vincent de Paul
Society of the Divine Word