ROUNDTABLE DISCUSSION HELD BY
THE NEW YORK STATE SENATE
STANDING COMMITTEE ON HOUSING

ROUNDTABLE DISCUSSION ON

CHALLENGES FACING NEW AFFORDABLE HOUSING IN NEW YORK

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250 Broadway - 19th Floor
New York, New York 10007

January 25, 2012
Afternoon Session

PRESIDING:

Senator Catharine M. Young
Chair

ALSO IN ATTENDANCE:

Lorrie Pizzola
Senate Finance

Teresa Rosie
Housing Counsel
Office of Senator Young

ROUNDTABLE PARTICIPANTS:

Joe Rosenberg
Senior Counsel, Intergovernmental Affairs
NYC Dept. of Housing Preservation and Development

Ed Josephson
Housing Coordinator
Legal Services in New York City

RuthAnne Visnauskas
Deputy Commissioner for Development
Housing Preservation and Development (HPD)

Chris Athineos
Small Property Owner in Brooklyn, NY;
VP, The Small Property Owners of New York (SPONY)

Aaron Sirulnick
Property Owner in Brooklyn, Queens, and Manhattan;
VP of the Rent Stabilization; and, Chairman of CHIP

Raphael Sistero [ph.]
(Position not identified)
Community Preservation Corporation

SENATOR YOUNG: Thank you for taking the time for being here today.

Joe, nice spiel this morning.

But, as you also know, I became Chair of the Senate Housing Committee about a year ago, and since that time, we've been very busy with a lot of policy initiatives.

But, I thought it would be helpful to get leaders in the industry together, to talk about different issues that face us, because, not only do I want to be reactive, and take care of concerns as they arise, but also be proactive and creative about how we're addressing housing needs, not just in New York City, but across the entire state.

So, that's the whole thinking behind having these roundtables. And, this is the third one that we've had.

We had one about a month, month and a half ago, here, and talked to some of the academics, and people, kind of, in that mode.

And then, this morning, we talked about people actually developing the housing, and now we've got our segment this afternoon.

And we've talked about a lot of different issues that arise.

So, the way we've done this, is that it's been very interactive, free-flowing. I want people to participate, jump in.

You know, I've been to so many hearings, as an Assemblymember, and as a Senator, over the years, and hearings can be very beneficial. But that format, I think, sometimes it stifles ideas.

And, this is a way where you can actually interact with each other, and respond to each other.

And, as a result of how we were able to conduct the meeting earlier today, we got a lot of really good ideas out of that.

So, I'm hoping that we can do the same this afternoon.

So, I thought we'd go around the table because, what I have found, is that, in the housing community, usually, everybody knows each other. But, why don't we go about the table and say who you are, and where you're with, just in case somebody doesn't know someone.

JOSEPH ROSENBERG: Okay, I'm Joe Rosenberg.

I'm the senior counsel for intergovernmental affairs for the New York City Department of Housing Preservation and Development.

Glad to have been invited here.

EDWARD JOSEPHSON: I'm Ed Josephson.

I'm the housing coordinator for Legal Services in New York City, which has offices in every borough of the city.

And, as you probably know, we represent those tenants, but also owners in foreclosure proceedings. And, we represent, also, tenants in multi-family foreclosure proceedings.

SENATOR YOUNG: Very good.

RUTHANNE VISNAUSKAS: I'm RuthAnne Visnauskas.

I'm the deputy commissioner for development at HPD.

CHRISTOPHER ATHINEOS: I'm Chris Athineos.

I'm a small owner from Brooklyn.

And, I'm vice president of "SPONY"; the Small Property Owners of New York.

AARON SIRULNICK: Aaron Sirulnick, property owner of buildings in Brooklyn, Queens, and Manhattan.

I'm the vice president of the Rent Stabilization, and, chairman of CHIP.

SENATOR YOUNG: Very good.

And, I don't know if you know, but this is -- two very important members from the Senate team.

This is Lorrie Pizzola, who is former deputy commissioner at HCR. And, she joined Senate Finance this past year, and is doing a tremendous job.

And, Teresa Rosie, who is the housing counsel in my office.

And, she is really a great go-to person, and has done a really fantastic job getting up to speed and getting a lot of very important work done.

So -- and she actually, as you know, helped coordinate today; so, I want to thank her for that.

So, here we are.

And, I have some questions.

I think you got some questions in the mail, so, that, it's always better to know what you're going to be hit with. But, I thought I'd start.

And, I didn't even have to ask that many questions in the last session because people just, kind of, naturally flowed from one to the next.

But, the first question is: What's the current availability of financing for improvements and maintenance to multi-family buildings, including the green buildings and energy-conservation enhancements?

So, who would like to start on that?

And, then, how does that work?

RUTHANNE VISNAUSKAS: I can kick off.

So, at HPD -- and I'm sure a lot of folks know what we do, but, just to provide a little, sort of, overview.

So, we run -- in my division specifically, we provide low-interest loans to private owners, non-profits, for-profits, for new construction and preservation of existing housing.

So, we put out about $350 million a year in loans.

So, for the preservation stock, we have two -- I'm not so sure if it's, sort of, a broad overview, but, sort of, more narrowly, we have two loan programs that are -- we've had for a very long time, that are specifically geared towards private owners who want to go upgrades to their buildings.

They don't have very interesting names, but one is called "The 8(a) Program."

We do about 1,000 loans a year. The -- it's about a $20 million program, and they're, sort of, smallish loans, mostly for systems repairs or roof, boilers, windows. Kind of falling into that weatherization concept of, really, sort of, tightening the envelope --

SENATOR YOUNG: You said those are no-interest, or low-interest, loans?

RUTHANNE VISNAUSKAS: They are 3 percent loans.

SENATOR YOUNG: 3 percent.

RUTHANNE VISNAUSKAS: So, they're -- you know, today, interest rates are so low, it might not seem that low.

I mean, historically, they're, you know, sort of, generically, low-interest loans.

SENATOR YOUNG: And that's always a set rate; right?

RUTHANNE VISNAUSKAS: Uh-huh.

And, we provide up to 25,000 a unit, depending on the needs of the building, for that.

So, we -- it's been a very successful program.

It just, sort of -- we have continuous demand for it. It's been really great.

We try to publicize it as much as we can, out in our field offices, so that people can, sort of, make themselves -- you know, not everyone wants to work with government, but we feel it's, sort of, our easiest program for folks to use.

We have a second program that's called

"The PLP Program," which is more around, sort of, moderate rehab; and getting inside people's apartments, and more, kind of, in the kitchen/bath area, in addition to, sort of, building-envelope stuff.

That's slightly smaller. We do about 400 units a year, and we have about $15 million for that.

So, those are the two, sort of, main programs that we use, that anyone can really walk off the street and come in.

We -- you know, when you work with the City, there's, obviously, sort of, other things that go around -- along with it, in terms of getting through our process. It takes a bit of time.

But, we have found it to be very successful.

It's, really, just to, sort of, maintaining the city's housing stock.

The other thing I would -- that we were fortunate enough to have in last couple of years, was the -- through ERA, there was an additional large chunk of weatherization funds that we got two years ago.

And, so, we spent an additional, about $7 million last year, weatherizing 1,100 units.

I'm not sure how many buildings that was.

But, that was a great, sort of, federal one-shot, sort of, deal that we got.

And, we worked with a couple partners to leverage it up, and make sure we were using it very efficiently. And also targeted that, really, towards, sort of, windows, efficient boilers. Sort of, tightening the building envelope.

SENATOR YOUNG: Who carried out to work?

How did that work?

Did you --

RUTHANNE VISNAUSKAS: So, a partnership of two national non-profit organizations: One called "Enterprise Foundation." And, the other one called "LISC"; Local Initiatives Support Corporation.

[Unintelligible] vague national organizations.

They were actually the grantee from the -- gosh, I can't -- forget, if they got it from state -- I don't know if it went from the feds to the state, and the state to them; or if they got it directly from the feds. I just, sort of, forget.

But, they were the grantee for the funds.

And then we had a -- the program required a match; a small equity contribution by the owner.

And where the owner didn't have those funds, we provided them.

So, we worked jointly with them to, both, identify pipeline that would be eligible, and provide some funding where it was needed.

And then they set up, basically, an internal staff, focused just on this; where they had a -- basically, a series of contractors that they would, sort of, bid out all of this work to, because it was, sort of, a short time frame where we had to spend the money. There were deadlines on it.

So a -- third parties, or, you know, a private entity, run by these two organizations, undertook managing the process. And we provided, sort of, the technical support.

And we have, obviously, a huge pipeline of projects that we've done, you know, for the last 40 years. So, we tried to highlight things in our pipeline that were old, that could really benefit from an infusion of dollars like this.

SENATOR YOUNG: Is that something that you've been --

AARON SIRULNICK: I have a question.

SENATOR YOUNG: -- your members take advantage of?

AARON SIRULNICK: As a fourth generation of real estate, tell me why -- I participate in not one of your programs, for no reason, other than, I don't really know what the difference is, what the benefits would be, if I wanted to.

RUTHANNE VISNAUSKAS: Uh-huh?

AARON SIRULNICK: And it's my own -- not you. It's not for lack of effort on your end, for -- on your programs out there.

But, if I wanted to participate in an 8(a) program, on buildings that are generally kept up.

RUTHANNE VISNAUSKAS: Uh-huh?

AARON SIRULNICK: These are not in areas that are -- or, buildings that have been let go, or dilapidated.

RUTHANNE VISNAUSKAS: Uh-huh?

AARON SIRULNICK: What would be the benefit of me participating in an 8(a) loan program; as opposed to going to my current bank, and telling them that I need to refinance my mortgage, or take out more money, to put into the properties?

RUTHANNE VISNAUSKAS: Yep.

AARON SIRULNICK: Is there --

RUTHANNE VISNAUSKAS: So, it's really

targeted toward -- to folks who -- for whom that is not an option.

Right?

We would prefer, obviously, if people can use the regular banking industry, and that's more efficient.

I mean, going to your bank, where you have a relationship, and getting a loan, to do some capital repairs in your building, is, for sure, a much quicker process than to come through City government to get a loan.

So, I think a lot of folks prefer -- I know the intent is, not necessarily to compete with the banks on that. It's really, I think, for the market of folks for whom that is -- either, financially, doesn't work, because they don't want a 7 percent construction loan because the building can't carry it.

AARON SIRULNICK: Is there a tax incentive, though --

JOSEPH ROSENBERG: It's --

RUTHANNE VISNAUSKAS: On --

AARON SIRULNICK: -- to go through HPD?

RUTHANNE VISNAUSKAS: For -- not for 8 -- for 8(a).

JOSEPH ROSENBERG: Not for 8(a).

RUTHANNE VISNAUSKAS: No, it's strictly just a loan -- a low-cost loan.

CHRISTOPHER ATHINEOS: But it's --

JOSEPH ROSENBERG: [Unintelligible] on the building?

RUTHANNE VISNAUSKAS: It's a mortgage.

JOSEPH ROSENBERG: A mortgage.

But, it's good to look in the context of this.

The 8(a) Program was originally designed back at a time when there was no investment in the rehabilitation of multi-family buildings in New York City.

So, it was, really, a sense of, if you can't get the private financing, the 8(a) was essential.

RUTHANNE VISNAUSKAS: Uh-huh.

JOSEPH ROSENBERG: So, that's one of things about HPD: we have dozens of programs.

Some of them are -- all remain in effect, but some are more effective, depending on what the economy of the city is, and what the mood is in terms of investment.

8(a) was an absolutely essential program back in the days when a lot of private banks were not

willing to make the investments in New York City. So --

AARON SIRULNICK: I sit around -- when I sit at our CHIP board meeting, and I listen to other members, whether they be small property owners, or owners of property in the Bronx, or up in Manhattan, or in certain areas of Brooklyn and Queens, I hear them talking about their HPD 8(a) programs, and their issues with HPD.

And -- and I'm -- I know these gentlemen and these ladies who are owners of property, and I'm thinking:

Do they have first mortgages on their properties?

Is yours subordinate to the first mortgage?

Why are they going to government, as opposed to going to the private sector, for financing?

And, typically, I hear more about, it's the ability for them to rehab property for considerably low cost of funds.

JOSEPH ROSENBERG: Uh-huh?

AARON SIRULNICK: But there -- is there an incentive otherwise?

Or is it, just, that the cost of funds are lower, and the programs are available?

Or, because it's just that simple?

RUTHANNE VISNAUSKAS: I think so.

JOSEPH ROSENBERG: Yes.

And it's been a longstanding program.

I think the 8(a) has been around, probably, since early '80s or so.

AARON SIRULNICK: You know we have plenty of members -- well, Chris and I are on the RSA board together. We have plenty of members who are participants of your program.

I'm sure you're well aware of their names.

And, I don't hear too many complaints about it, so, I don't know why more people may not be taking advantage of it.

RUTHANNE VISNAUSKAS: Well, not everybody wants to engage with government to get their capital.

Right?

It takes longer.

CHRISTOPHER ATHINEOS: Do you find that the first -- the banks will allow a mortgage -- a second mortgage to be placed on the building?

RUTHANNE VISNAUSKAS: You know, each deal is a little different.

But, right, I mean, you have to, sort of,

negotiate, depending on the building, and the amount of the loan, and what the first is.

But, you know, it's a very successful program.

JOSEPH ROSENBERG: And we're always looking for ways to improve this program.

The thing about the program is, as RuthAnne mentioned, both, adding NP and LP, they were both created by the Private Housing Finance Law, Article 8(a) and Article 15.

So, any time that we feel that it needs to be modified, to some extent, we would certainly come to Albany, and to the Senator, to discuss options in which this -- these programs can be improved.

SENATOR YOUNG: Has it been difficult for owners to get financing through the banks?

You know, the market tightened up --

CHRISTOPHER ATHINEOS: I mean, as a small owner, you know, SPONY represents the mom-and-pop families that have a six-family or a ten-family building, and, they live in the building.

And, it is difficult to get financing, even from the banks.

And, you know, typically, these buildings have been in people's families for many years.

But, you know, they just really put, especially the small owners, through the ringer to get a loan. And, a lot of times, they just don't want to give it.

But -- and when you mentioned HP -- you know, if you mention to these small owners, like, HPD, they just start to get the shakes. It's like the third rail of --

RUTHANNE VISNAUSKAS: For sure.

CHRISTOPHER ATHINEOS: -- so, no offense to --

RUTHANNE VISNAUSKAS: And -- no.

Well, that's --

CHRISTOPHER ATHINEOS: That's great that there are programs out there like this.

RUTHANNE VISNAUSKAS: Right.

CHRISTOPHER ATHINEOS: And, you know, certainly, if, you know, it's doable, we would promote it to our members, because it's a win-win situation.

RUTHANNE VISNAUSKAS: Right.

CHRISTOPHER ATHINEOS: I mean, that's the problem with the small owner, at least. You know, someone puts a mortgage on, for -- even some -- some small owners put a 15-year mortgage, or a

self-liquidating mortgage, on their building, and they may be locked in.

And then, all of a sudden, they find out an apartment becomes vacant, and they have to do lead-paint abatement, for thirty or forty thousand dollars, or more, for, you know, an apartment.

And, they just can't -- they don't know where to get the money. You know, to re- -- get a mortgage, you may have to -- they may have to pay a broker a point, and inspection fees, and appraisal fees, environmental studies on the building.

So, you know, just the costs of getting that financing are just prohibitive.

So -- and something like this, sometimes they'll try to go -- before, a small owner, you know, I guess, maybe, ten years ago, you'd go to the bank. And, if you have a decent amount of money in the bank, you can get a credit line.

Chase Bank would have a one -- one side of one piece of paper, and they'll do a credit check on you, and they give you a little checkbook, and you'd have a credit line.

But, now, they want, you know, several years of tax returns. And, has to be a lien on the building.

And, it's just not an option for the small amount of --

RUTHANNE VISNAUSKAS: Uh-huh.

CHRISTOPHER ATHINEOS: -- 50,000 -- under $100,000 loans.

So --

SENATOR YOUNG: How do you communicate that this program is available?

Or, is it just kind of known in the housing community?

Or, how do you --

RUTHANNE VISNAUSKAS: I think it's a couple of ways.

One: We -- obviously, they're on our website. So, anyone who's, sort of, noodling around, looking for government -- low-cost government loans in New York City, would find it.

We have -- it's, sort of -- we have field offices. Our field offices have, historically, been in areas where we've done a lot of work, so they are the more, sort of, distressed neighborhoods in the city.

So, I think to your point, where there's probably folks who are homeowners in very stable neighborhoods, that have been longtime stable

neighborhoods, where there isn't really a city presence, or a -- and, certainly, HPD presence, folks probably don't know who we are.

JOSEPH ROSENBERG: But we also head out to the neighborhoods. I mean, quite often, we have meetings that are sponsored by local elected officials in certain areas, and schools, that are well publicized, where people get a sense of what the options are.

If you're a small -- if you're a -- if you're an owner of multiple-dwelling, if you're a tenant, if you're an owner of one- or two-family --

RUTHANNE VISNAUSKAS: Yep, they're called --

JOSEPH ROSENBERG: -- what can you do?

RUTHANNE VISNAUSKAS: And they're called "Owners's Night."

JOSEPH ROSENBERG: Yep.

RUTHANNE VISNAUSKAS: So, we do these specific things, where we have -- invite owners to come, and talk about all of the services that HPD can provide.

So --

CHRISTOPHER ATHINEOS: I remember them -- several years ago, they had them in Brooklyn, some "Owner's Nights."

RUTHANNE VISNAUSKAS: Yep. Yeah.

CHRISTOPHER ATHINEOS: I mean, I remember years ago, HPD used to have a small-building owners's unit.

Does that still exist? Or --

RUTHANNE VISNAUSKAS: I think it might have gotten subsumed in a couple other places.

CHRISTOPHER ATHINEOS: [Unintelligible]; right?

RUTHANNE VISNAUSKAS: No, we're still, you know, actively, out in the -- in our field offices, with outreach.

Subsumed, yeah. It's so small, it got eaten up by another division, I think.

[Pause in proceeding.]

[The proceeding resumed, as follows:]

AARON SIRULNICK: Hi.

RAPHAEL SISTERO (ph.): How are you?

Hi, Raphael Sistero [ph.].

AARON SIRULNICK: It's a pleasure.

RAPHAEL SISTERO (ph.): How are you?

How you doing?

[Greetings from Mr. Sistero continued.]

[The proceeding resumed, as follows:]

SENATOR YOUNG: Thank you for coming.

RAPHAEL SISTERO (ph.): It's my pleasure.

I'm sorry I'm late.

SENATOR YOUNG: That's okay.

That's okay. We're just so happy that you made it.

RUTHANNE VISNAUSKAS: Raphael knows everything I know. I can just leave.

RAPHAEL SISTERO (ph.): That's not true.

SENATOR YOUNG: We started the roundtable discussion.

And, as I outlined, it's just kind of this free-flowing thing, to generate ideas, and, people can jump in anytime they want.

RAPHAEL SISTERO (ph.): Okay.

SENATOR YOUNG: Okay?

RAPHAEL SISTERO (ph.): Great.

SENATOR YOUNG: So, we were just talking about, some of HPD's programs offered financing to owners so that they can upgrade their apartments. And, it's a great program because they have low interest rates.

RAPHAEL SISTERO (ph.): Right.

SENATOR YOUNG: And, that sort of thing.

So, we're having a good exchange here between some of the owners and the City.

RAPHAEL SISTERO (ph.): Great.

RUTHANNE VISNAUSKAS: Which would be a good dovetail to other people that have financing for green -- for retrofitting multi-family buildings, we could segue to you.

JOSEPH ROSENBERG: Not that we would put you on the spot, but --

RAPHAEL SISTERO (ph.): We do.

We do -- at least I think we do, in the six days that I've been at CPC.

So -- I mean, CPC has been around for 37 years, and has done, you know -- has -- primary mission has been to work with small owners to do renovation, retrofitting, refinancing of existing properties.

Have a great initiative that they've been trying to get off the ground for a little bit, to do retrofitting -- specifically, to do retrofitting to meet the new requirements that the City put in place.

So -- so, there is -- you know, there is -- there is the availability of that. You know, sort of a private financing leverage on top of the public dollars.

And that's actually true across the state.

CPC operates statewide, so, it's not just New York City.

And, you know, obviously, I have a variety of other, both permanent and permanent financing, as well as construction/renovation financing programs, as well, for owners of existing -- existing properties.

SENATOR YOUNG: I know you're brave to come so early in your tenure, you know, to be here.

So, we really appreciate it.

Congratulations.

[Laughter.]

RUTHANNE VISNAUSKAS: And CPC is actually a good complement, I think, to the extent, we were talking a little bit about, how the majority of multi-family owners, small owners, in the city don't necessarily know who HPD is or what we do.

And, CPC is probably a little -- well, we have sort of a big presence in really distressed areas.

I think CPC, sort of, complements that by actually being more, sort of, borough-wide, and not just in -- probably more, not in distressed areas --

EDWARD JOSEPHSON: We were talking about the

frustration of, how do you get the word out to the constituency that really needs this.

This is what we were, kind of, addressing.

ADAM SIRULNICK: I think that most people know what HPD, and who HPD, is, but don't associate HPD with being a source of financing.

RAPHAEL SISTERO (ph.): Right, the code enforcements.

JOSEPH ROSENBERG: The code enforcements. That's right.

RAPHAEL SISTERO (ph.): That's right.

And, you know, I mean, that's -- that's one of the biggest challenges, I think, with the agency getting its resources out to the right people.

CPC can play, you know, a big role in that; and has, historically, played a role in, sort of finding small owners that need the financing, underwriting whatever, sort of, permanent market-rate debt that the properties can support. And, then, you know, introducing them, and connecting them, to HPD for subsidy that fills the gap.

That's -- you know, that's sort of the historic model that CPC grew up around, and I think

is -- you know, is -- continues to be the model that drives what CPC does. And, you know, along with, you know, a few -- some other things.

So, one of the things that -- that you know, I want to do, now that I'm at CPC, is, really, sort of, reenergize that part of CPC's business.

I think it's fair to say that CPC drifted away from that during the boom years.

And, you know, now we need to, sort of, refocus on that core-mission business that CPC has done for so long; and, that really revolves around providing debt financing to existing owners of affordable housing, connecting them where necessary, with HPD, to sort of leverage up what the -- what subsidies can do.

So, you know, that's the -- that's the future plan for -- you know, for CPC, is to -- is to really reenergize and reinvigorate that part of -- the -- or, of the company's business.

And I think, you know, at a time now, where -- you know, there used to be lots of banks out there that were -- that would provide, you know, debt financing for small owners.

You know, the numbers of banks that are willing to do anything these days is dwindling.

So, I think, you know, the -- sort of the reason for CPC to be a big player in that market, is more now, than it -- maybe it was during the boom years, when money was easier to come by, and easier to get financing.

SENATOR YOUNG: We had kind of a -- well, we did have an interesting conversation earlier, about energy efficiency, and ways to help incorporate that into the design of a new build.

But, also, you know, do -- like, for example: Do owners find it difficult to -- because, obviously, there would be some cost savings there if you're able to make your unit more energy efficient.

Are there things that the State or the City could do to help with that?

Or, do you have any ideas on that?

CHRISTOPHER ATHINEOS: And I know, like, New York City, I guess the law that the City Council and the Mayor passed, their green initiative, to get rid of Number 6 fuel.

But, unfortunately, like, we have members that have buildings in certain parts of the city, in the Bronx, or Manhattan.

One of our members has a building right here

in the village, and, his grandfather built the building. And, he was all ready to switch, from his Number 6 oil to gas, and he found out that there's no gas. They can't supply the amount of gas that he needs.

SENATOR YOUNG: I've heard that, that that's a problem.

CHRISTOPHER ATHINEOS: And, you know, he called us, and complained.

You know, he said: How could they pass -- how could the City pass a law like this, without, you know, making sure the infrastructure was in place?

So, I mean, he'll have to switch to, I guess, a Number 2 fuel. But, you know, he was all excited about gas, and being more green, and --

So, from that perspective, I think it's frustrating for a lot of owners.

AARON SIRULNICK: Another issue that came up in our discussions at RSA, and at CHIP, is: Well, for owners, like myself, who are going to embark on a change of, 30, 40 of our boilers in the next 3 years, that's a tremendous, not only monetary undertaking, time undertaking, but, to be told, or hear -- and this is not on the City level, it's on

the State level -- that owners may not be eligible for certain -- you know, rent incentives, or to do so, because of the fact that the law is in place, despite the fact the machinery and the equipment that's being replaced may not have exceeded, or has exceeded, its useful life.

So, where we want to be more energy efficient, where owners want to participate in local, city, state, programs, and federal programs, sometimes the benefits don't outweigh the effort.

And, we want to be green. We want to be environmentally friendly.

We also have to be financially sound.

We can't make decisions just because those who want to be green say you should do something.

We want to make decisions that are good for our properties, good for our residents, but they have to be good for our bottom line as well.

Someone -- some -- I don't believe Chris or myself, or the people who we are in business with, and we know who are -- who are real-estate people, are not for profit.

I think that we all are here to make reasonable expectations and returns on our

investment.

And, green is a wonderful investment. I mean, we do it in our buildings, where we can, and where there is some incentive, other than just change a light bulb. And changing light bulbs are very easy.

I mean, you have a large building, changing light bulbs is also very costly.

And, they don't really -- the tenants don't really benefit directly from the hallway light bulb being changed. They, go, "Oh, wow, that's a new fixture."

What tenants want, is to have some incentive to do something inside their apartment.

What they don't want, is to pay for it.

And, we're stick in the middle, where we want to be compliant, but we don't know where the cost benefits are to participate.

And that's not -- I'm not trying to sound insensitive to being green. I'm trying to be realistic, too, which is important.

RAPHAEL SISTERO (ph.): Yeah, even -- I think the -- you know, all of that makes sense.

And I think the biggest -- you know, the biggest thing that the energy-efficiency discussion

has to focus on, is, doing things that drive down operating costs, right, because that is what goes directly to your bottom line; is, if, you know, you're not -- if your cost to your fuel comes down; if your building envelope is sealed so the heat -- you know, you don't have to be, you know, heating -- your boiler doesn't have to be running as much.

Those kinds of things are things that I think are the things that make the biggest impact on the buildings.

And -- and may -- and they're also the ones that are also happen to come with the added benefit of being green.

But the reality is, that -- I've always felt, like, if you do the energy-efficiency work properly, you do it in a way, that, from my opinion -- not that I want to be insensitive to the environment either -- is the most important thing out of this, which is, you do it in a way, that, over the long run, allows us to, sort of, maintain the quality of the housing infrastructure.

Right?

If you -- you know, if you're creating programs and incentives for people to change

boilers, and to invest in building envelopes, to keep the building envelopes tight so that you're not losing heat through those things, you know, that kind of stuff is also an investment in the -- in the building itself, which, you know, is what we need to do in order to be able to, sort of, maintain the housing --

JOSEPH ROSENBERG: That's a good point, because I -- we have, in our programs, when an RFP goes out for that new construction, right now, a requirement that the building be as green as possible.

And, it's like Raphael said, although there might be more up-front costs when it's new construction, that kind of sets the stage for savings, ultimately; as opposed to waiting until the use of the -- of the -- you know, building system has deteriorated, and then having to replace it.

EDWARD JOSEPHSON: If I could just chime in for a second?

You know, this raises an important point; which is, that, often, maybe too often, the source of funding for building improvements tends to be, get the tenants to pay for it, either through the

MCI Program, or, you know, [unintelligible], we're going to discuss later.

And, you know, to some extent, that might be appropriate, but -- but, when we're discussing things like green initiatives, we have to also be sensitive to not having a lot of green buildings that are unaffordable to working families in the city.

And, so, for example, you know, if you're making an investment that reduces the landlord's costs, and you're saving money that way, it's not necessarily appropriate to then say: And, the tenant should pay for it, so that they're getting the cost savings at no investment to the landlord.

And, in MCIs, after the improvement's completely paid off, the tenant is going to pay forever, and it's just like a free lunch for the owner.

And, you know, for the tenant's community, that seems like the -- sort of, the balance is struck too far away from the affordability.

CHRISTOPHER ATHINEOS: Well, I think yours --

ADAM SIRULNICK: Well, probably for a different roundtable, to discuss whether it's a free ride.

But I --

CHRISTOPHER ATHINEOS: I think, years ago, I mean, for a lot of small owners, there was always that option of: Do I go with the MCI and pass it along to the tenants, or do I go with the J-51 and get a tax abatement?

And, many years ago, sometimes, a lot of owners would use the J-51 process. It wasn't, maybe, necessarily passed along to the tenant. Or, if there was a combination of the two, it would be a little less of an offset onto the tenant.

But, now, the J-51 Program, if you -- I'm just, you know, rattling off a number -- if you spend $100,000, the J-51 schedule, they only, maybe, will give you a $25,000 allowance, for a new boiler, or a new roof.

So, owners say: Well, I'm going to spend 100,000, and, I'm only getting $25,000 benefit over 11 or 12 years? Not worth it.

It's not worth it.

So, you know, we'd always, like, look -- I don't know who was in charge of changing the schedule, but, you know, that certainly is, you know, something that, you know, lightens the burden on the tenants.

But, you know --

RUTHANNE VISNAUSKAS: Yeah, I mean, it's another thing that I think we were going to talk about today, which is, sort of, efficiency of government programs.

And, J-51 is certainly one of the ones that we've been looking at.

It expired this past December; so, we're in the process of looking at it through just that lens, and, sort of, updating and correcting it, to make sure we're -- we have, sort of, the most efficient --

JOSEPH ROSENBERG: And you're referring to the certified reasonable cost schedule, which, although --

RUTHANNE VISNAUSKAS: Yes --

JOSEPH ROSENBERG: -- which, although is not statutory, is governed by the rules and regs, and hasn't been changed since the 1990s.

So, that's what we're looking at very closely, in sync with whatever decisions are made on what the ultimate J-51 bill will look like.

SENATOR YOUNG: So, that possibly may be included in the bill language --

JOSEPH ROSENBERG: It --

SENATOR YOUNG: -- even though it's regulatory right now?

JOSEPH ROSENBERG: It probably wouldn't be in the -- this is something we're looking at. We don't -- it probably wouldn't be incorporated into the statute, but it would be done hand in hand.

I mean, it's -- we're looking -- we're acutely aware that it hasn't been changed since 19- -- the mid-'90s. We're wondering how effective it is.

Are there certain items that should be in, certain items not in.

So, we're doing a really in-depth analysis of how the CRC can actually reflect what is needed in the year 2012.

ADAM SIRULNICK: We'd be very happy to help participate in that.

RAPHAEL SISTERO (ph.): Look --

RUTHANNE VISNAUSKAS: Yeah, we've met with --

RAPHAEL SISTERO (ph.): It's --

JOSEPH ROSENBERG: Duly note, yes.

RUTHANNE VISNAUSKAS: -- we're in --

RAPHAEL SISTERO (ph.): It's -- to be a little bit more direct, okay, it's impossible to look at that schedule and think that it actually is

kept up with the cost of doing the things that the J-51 Program was intended to do.

So, you know, it just -- it just is --

AARON SIRULNICK: Well, there's just disincentive.

There's just no incentive, or very little incentive --

RAPHAEL SISTERO (ph.): To do it; right?

AARON SIRULNICK: -- for any of us -- small property owner, large property owner -- to participate.

RAPHAEL SISTERO (ph.): Right.

And -- and -- then, that's part of the reason why applications have been down, and, you know, people are not -- it's not the only reason, but it's part of the reason, why it hasn't been done.

And I think, look, I agree with your point about J-51. I think, that, you know, fortunately, or unfortunately, depending on how you think about it, we -- you know, programs get put in place decades ago. And, sometimes, as an industry, we lose sight of why the program was originally set up.

The J-51 Program was originally set up at a time in which the City was losing population dramatically, the neighborhoods were

deteriorating. And, it was set up to create an incentive, and an assistance, for owners to invest in their buildings, and to not walk away from their buildings.

And, that's the reason the J-51 Program was put into place.

And, it's gotten caught up in a whole bunch of, you know, other stuff.

And I think that -- you know, that may be fine for today's J-51 Program, but, I think we can't lose sight of the fact that, you know, the housing infrastructure that the city has is just as critical as the roads and the bridges, because, if we don't have good housing stock, people aren't going to want to live here.

And, we need to -- we need of be sensitive to that fact, as a city. And, I think we need to -- to recognize that, you know, owners are -- are -- you know, are trying to -- you know, the vast majority of owners are trying to do the right thing.

And, the numbers don't always add up, especially for small owners.

And, the J-51 Program is a great way to be able to incentivize owners, and to provide assistance to owners, to do things that are

necessary to -- invest in the underlying housing infrastructure.

And, you know, I get the point about MCIs, and all of that, and I'm sensitive it to.

I think it has to be talked about, and dealt with, but, it benefits nobody, for our buildings to deteriorate and our housing stock to deteriorate, and for our neighborhoods to, sort of, really flounder the way they did in the '70s and '80s.

That's -- that's nobody's -- to nobody's benefit. Whether you're an owner or a tenant, a financier, or a City agency, elected official, nobody wants to see that.

And, so, I think that's -- to me, that's the common ground to build on.

And I think -- you know, personally, think J-51 has been one of the most successful programs that we've had in the city over the years. It's, now, needs to be rethought about, and updated.

And my hope, you know, now being outside of government, is -- is that we can get together around the table and talk about the reason why it was put in place, and use that as the common agenda to, sort of, create the new -- the new J-51, because, you know, we need it.

And we -- and we're not going to get it -- in this day and age, and in this economy, we're not going get some great new, you know, government program to dump boat loads of direct capital money into investing in the housing infrastructure.

So, we've got to find another -- another way to incentivize private-sector investment, which then leverages up the investment that government makes --

JOSEPH ROSENBERG: And just on that for a second, yeah, the J-51 program started in 1955.

I mean, how much has the world, let alone the city of New York, changed since 1955?

You know, we've talked about how the 8(a) Program, perhaps, was used for a specific purpose several years ago, more than it is now, but, it's subtle.

But, J-51, this is -- we need a program for, you know, the year 2012, not 1955.

There have been modifications, but they're not -- they have not been substantive.

EDWARD JOSEPHSON: You know, and to pick up on that point, you know, my understanding is, that the J-51 program is a $257 million program.

And, the irony of -- of, you know, these

tax-abatement programs is, is if the Senate were appropriating $257 million for housing, you can bet that you would be, you know, scrutinizing how to target it in the most efficient possible way.

But when it's a tax program, you know, it's tended to just kind of roll over, year by year, without any thought about, you know, where should this money really be going.

And so, while, you know, I agree with Raphael's comments about, you know, how improvements are possible, the question is, you know: Have we really thought about, where is this money going?

Should it be targeted to distressed neighborhoods?

Should it be targeted to small owners, as opposed to big owners?

Should it go to, you know, certain parts of the city?

Should it go to preservation programs?

I'm told that the 257 million is greater than HPD's code-enforcement budget.

So, I mean, it's a big-scale thing.

And, so, you know, what I would say here, is, not to advocate any particular use of this money,

but, that I know that people sitting at this table could probably think of better ways of spending it than what's being spent right now.

And that's the discussion that needs to happen, and it's not happened in a long, long time.

ADAM SIRULNICK: To your point before, about, whether this should -- owners should look at the only reason to put money into the building, should not be to -- or, on the back of the tenant; and I agree with that.

I think that the bigger issue, and as Chris pointed out, is that, laws, whether they be local or statewide, are oftentimes passed with less than all the information available.

And, hearings are great, but they don't always accomplish, as you know, everything.

And, then, putting a law into effect, to require property owners to change to a different grade of fuel over a certain period of time, and in a very short period of time, without accounting for the infrastructure, without accounting for the absolute economic hardship that small property owners, or any property owner, would have, putting the tenant side apart; putting that MCI component separate -- to me, was putting a lot of effort to be

very green, but little effort into thinking: How are we going to, you know, put this through, and make it work?

So, where I'm going to put ahead a significant amount of money, and I'm not borrowing the money, I'm not going to HPD for the money --

Although, at 3 percent, I may.

-- and, I'm not going to CPC --

Although I may, now that I see Raphael, and he seems like a nice guy, and he wants to lend money.

-- but the -- I'm going into my cash flow.

To go into cash flow is a significant decision that we make in our business, over a policy that I think was not well thought out. And, it was done very quickly, at the Mayor's behest, to be very green; to be very energy- and environmentally friendly.

But the reality is, is that it wasn't well thought out. It forced a lot of people who may have, in the past five years, replaced their heating-plan systems.

So, now, the five years, those boilers and machinery are not -- have not exceeded their useful life, but they have to change it again, for what

reason, whatsoever, other than, the law says you have to do it.

It's, to me, backwards; but, we have to comply with the law.

If I were a small property owner, I'd be really upset.

If I was this guy's friend in Greenwich Village, who's really eager to go do this, and he may save a significant amount of money on his operating side -- forget the tenant side, we have the operation and revenue side -- he can't even do it. It's not available to him.

Yet, the law's going to require him to do something, maybe not what he wants to do.

But, that's what we have to work on; we have to work on creating laws that really work. Not just that sound great, and look good on the front page of "The Times."

EDWARD JOSEPHSON: And your point about the costs of J-51 is interesting.

I mean, as much as the program needs to be changed, and, of course, it is an expensive one, I think people shouldn't lose sight of the fact that J-51, to a great extent, is the basis by which a lot of owners are able to provide new boilers and

heating systems, to ensure that the building is not deteriorating, and that the tenants are able to get heat and hot water over the winter.

So, it's got -- it's got a very important rehab aspect, and it's been very important in ensuring that neighborhoods don't deteriorate [unintelligible] --

AARON SIRULNICK: We participated in a J-51 program. Up until the recent "Roberts" decision, we were tremendous participants in the J-51 Program for every capital-improvement project that we did in our buildings, where we were qualified.

Where we were qualified, we participated in it.

It wasn't -- and I agree, we need to relook at this cost that we were recouping, and the time frame in which we were recouping it. But, we fully agreed that this program works, and we participated in it.

And, we'd like to continue to participate in it, once, you know, it takes change.

JOSEPH ROSENBERG: And there's a benefit for tenants in J-51. It's not substantial, but, a certain percentage of the MCIs --

AARON SIRULNICK: Offset.

JOSEPH ROSENBERG: -- as you know, is offset, by J-51.

AARON SIRULNICK: But I'm not even looking at the income side. I'm just looking at the incentive to improve on the properties.

As Raphael said, if you look at the late '70s, and the beginning of the '80s, how many properties went rem in the city of New York, and property owners would just -- couldn't afford, no matter they would want to do, had to walk away from their properties?

That is not the same anymore. I think the numbers, obviously, speak for themselves. You would find that the rem properties, or the properties the City is taking over, are minuscule, compared to what they were in the late '70s. And, that is because of programs like J-51, and programs like your 8(a) Program, where you are incentivizing the people to borrow and improve.

And I'm not looking at the income side.

EDWARD JOSEPHSON: Right, and all I'm say is, you know, if you had a limitless source of money, you'd want all the buildings to improve and use J-51.

But, as it is, you know, if you have building on Park Avenue, you know, is that really -- you know, they prob- -- they might -- they'd probably improve themselves anyway without the J-51 incentives.

So, you're really giving the incentives to the people that need the most incentive in a city where you also have east New York and south Jamaica and all these distressed neighborhoods.

And, you know, maybe, maybe not, but that's the discussion that needs to happen.

RAPHAEL SISTERO (ph.): It's a completely fair point. That's right.

CHRISTOPHER ATHINEOS: I think, also, in the J-51 Program, when they have the schedule, like, it might say, a new boiler, but, a lot of times, the costs -- the associated costs are not included.

I just went to put a new roof on. It was a $100,000 roof.

And, when you talk about going green, we wanted to rip off the existing many layers of roofs and go right to the deck; rip that up and put insulation in there, on a six-story building in Brooklyn.

And when I found out that this wasn't a

new-roof project now, it was an asbestos-abatement project, because, the tar, although it's not airborne, it's not pipe insulation, but they consider it an asbestos-abatement project, the cost of that was more than the roof, because you have to use union abatement companies.

And so we said: You know what? Just forget it. I'm just going to put another roof on top of the old one, and, you know, maybe I'll let my son worry about it in 30 years from now.

But, it's unfortunate, because, you know, there is, maybe, savings. There's, you know, improving the building.

And, then, I know we talked about associated costs.

A lot of times, when the boilers -- now, this guy in Greenwich Village wanted to change his boiler from Number 6 to gas. He found out, not only is there not any gas available in that neighborhood, but, he has a 21-story building.

He said, that, now, under the new building code, we have to reline the chimney. And they cost -- it costs $10,000 a floor, because the gas burns at a different temperature than oil.

So he said, "I would have to reline the

chimney too, at $10,000 a floor."

He said, "Forget it."

You know, it's not -- so, all these, you know, associated costs sometimes are not factored into, maybe an MCI, or a J-51. And they really should be.

The -- I mean, as a small -- as a small owner, if I go to take a loan for the $100,000 roof, you know, even if I don't avail myself of the J-51 Program, just use the MCI program, the cost of borrowing the money is not included in the MCI.

So there are a lot of --

AARON SIRULNICK: We met with the Mayor's Office, and their -- the DEP and the DOB, for months before the enaction -- creation of the -- enactment of the law.

Nobody wants to listen to reason. They want you to follow the Mayor's lead, and be green.

And that was the law, and that's how it was created, and it went through, and everyone was happy, except the people who have to spend the money to do it.

JOSEPH ROSENBERG: RuthAnne, just, we have to jump in and defend the Mayor, I believe; right?

RUTHANNE VISNAUSKAS: That's your --

ADAM SIRULNICK: No, the Mayor's initiative was a good initiative.

RUTHANNE VISNAUSKAS: Yes, it was.

AARON SIRULNICK: How the law became the current form was not thought out.

The initiative is great. We support the Mayor's initiative.

We don't support the current form of requirements. It's just -- there's no incentive to do it. And the time frame to do it is unrealistic, considering the fact I just said before, many property owners, including small property owners, may have recently done work on their heating-plant system, and now they're forced to do it again.

CHRISTOPHER ATHINEOS: I think the unfortunate thing is, when they -- when the City passes laws, and we can, you know, blame the City Council, maybe not so much the Mayor, but, they don't take into consideration the people in the trenches, like us, the people at the agencies, the lenders, the owners.

And, although there are many good intentions, like the "lead paint" law, the green initiative, the people that sit in the City Council

chamber, you know, just love to pass the laws.

I mean, everyone would like to drive a car as a safe as President Obama drives, but, the cost of it is just not, you know, reasonable.

So, I think, at these City hearings, you know, I wish, as a small owner, and someone who attend a lot of the hearings, you know, I wish the City Council members would be better informed on how to pay for this.

Or, they should require, you know, people from the City agencies, or small businesses, to come and figure out: How are we going to pay for this?

I mean, it's not fair, maybe to -- for the tenants. It's not fair for the owners.

And maybe we need to target, you know, certain areas.

I mean, especially the "lead paint" law, although, maybe it's not as discussed as much now as it was in the past, that was terrible for the small owner who has no ability to pay for these, you know, huge costs.

And, it's irrelevant. It doesn't matter how -- if the apartment could be as good shape as this room is. You know, the walls could be perfect, but, you have to abate, you know, paint on friction

services, and impact surfaces.

So, you have to go and change the door frames, even though, if that's -- if that's lead paint, I mean, it just doesn't make sense.

It just doesn't make sense.

AARON SIRULNICK: I think -- in defense of HPD, I think that [unintelligible], when he was there, one of the great things that he did, when -- is, the language was rewritten --

RAPHAEL SISTERO (ph.): He passed the J-51 law in 1952, too, by the way.

ADAM SIRULNICK: -- but, I think that --

JOSEPH ROSENBERG: Well, he'd would love that; right?

RAPHAEL SISTERO (ph.): I told him that the other day.

JOSEPH ROSENBERG: He's not dead yet.

AARON SIRULNICK: -- [unintelligible] more appropriate language changes in the "lead" law, was just decreasing the age by one year.

JOSEPH ROSENBERG: Yes. Yes.

AARON SIRULNICK: And, what -- what did that show?

It showed that the law was correct.

But, it also showed that there is -- there

are eyes on that side of the table as well, who were very well aware that the decreasing cases -- the decrease in lead-paint-poisoning cases was so overwhelming, that the age that they had initially set the law at was prohibitive; and it was cost prohibitive.

And just by lowering the age helped small property owners tremendously.

So, you know, I think that these things are goals that we should set, to continue with the -- you know, your agencies.

RAPHAEL SISTERO (ph.): Yeah, but I -- you know, I think, just as a -- as a, sort of a broad issue, and I think -- you know, I know the agency finds this in its -- in its various enforcement programs, owners of small property --

And, I'm not even talking about small owners.

Right?

I'm not even just talking about, owners that only own one or two properties.

You can own a lot of small property.

-- the small properties, in particular, in the outer-borough neighborhoods, by far, is the toughest business in real estate, in the city. It's the hardest business to, sort of, figure out how you

make economic -- it's -- it's one of the reasons why it's the vast majority of buildings that fall into, you know, the alternative-enforcement program, and other programs, because it's so hard to figure out how to do it.

And -- and, you know, I think, to -- there are, clearly, laws that get passed, that don't really -- that don't take that -- that into account; that the vast majority of the housing stock in the city is outside of -- is outside of Manhattan.

And the property types are different, and the building needs are different, and the owners are different.

And I -- you know, that's, clearly, one of the most complicated issues for the New York City housing business, is: How do you pass laws for the five boroughs of New York, where the housing stock is so vastly different across the city?

And I think -- I -- you know, I happen to think it's a completely fair point, without blaming anybody, that we just -- we -- and I say "we," even though I'm not in government anymore -- probably haven't gotten that as right as we wish we could have over the last 30 years. I mean, it's been that way for a while.

And, you know, I don't really have any answers to it, but, it is -- it's, clearly, from all my years, one of the most, if not the most, difficult problem, to, sort of, think about, how to -- how to deal with --

SENATOR YOUNG: But, yeah, and I think that's why discussions, such as today, are very important, because we can have these face-to-face conversations about, programs, proposed legislation, what the real impact is, what are the practical applications, what are the barriers, what are the solutions.

And, so, that's really what this is about.

We have something in Albany called "the law of unintended consequences"; where, maybe you strive to fix a problem over here, but you create ten more over here.

And, unfortunately, that is an outcome that we see sometimes in government.

So, the key is, getting information, listening, and coming up with a product that works.

And, so, that's why today is good, too, because we want to have these discussions.

You know, we're going to work to renew the

J-51 Program this year, and -- on the State level.

And, so, it's good to hear people give input about, what they think works, and what doesn't work, and, how we can make the program even better.

Because we want to have those -- those types of opportunities for input.

So, on the J-51, I mean, we might as well segue.

We've talked about MCI a little bit, but, you know, does anyone want to expand on that?

EDWARD JOSEPHSON: Well, let me address, sort of, the MCI individual apartment.

I don't know, is that where we are on the agenda?

SENATOR YOUNG: Talk about some of the programs, and how they work.

EDWARD JOSEPHSON: Yeah, because, you know -- with respect to Upstate and the Downstate, you know, like, the City rent regulations are, you know, described as "a forest in the thick of things." They're complex.

And -- and I'm not sure everyone appreciates the vast difference between the MCI Program and the Individual Apartment Program.

And -- and, it's really vast, because the MCI

program, and --

You know, I know I'll get disagreement from the other side of the table in a minute.

-- but, is targeted at structural improvements, like roofs and boilers, and things that really, arguably, benefit the housing stock. And, they're also very heavily regulated and supervised by DHCR.

Every application has to be approved. It's scrutinized.

And it's at a -- you know, often, a burden to tenants, but a relatively controlled rent increase.

In total contrast, the Individual Apartment Program is, generally, cosmetic improvements to individual apartments. So, instead of boilers and roofs, you're talking about, new kitchen cabinets, and bathroom tiles.

And, so, what you're getting is, very superficial improvements of dubious necessity, and huge, enormous rent increases; typically, hundreds of dollars a month on an apartment.

And -- and, in contrast to the MCI program, almost totally unsupervised by the agency, because there's no application process, there's no approval

process.

The owners go and do it. And, the cost may be inflated, the work may never have been done. And, unless the tenant is particularly savvy, no one ever finds out.

And, so, what we have found, you know, on the tenant side, is that, you know, since deregulation was put into the rent-stabilization law, 100,000 or more apartments have leaked out of the system.

And, I would think, that, probably most of them were pushed out through the abuse of the Individual Apartment Improvement Program.

AARON SIRULNICK: The use, or abuse?

EDWARD JOSEPHSON: The -- well, the -- the -- both.

Both.

AARON SIRULNICK: Oh!

EDWARD JOSEPHSON: Because I would say, even when it's used properly -- I mean, there's two different problems here.

One is, you know, perfectly honest owners doing exactly what they're supposed to do; and, yet, I would say a very dubious benefit to the housing stock, having your kitchen cabinets have an extra cost of $200 a month.

And then you have, added to that, the vast widespread abuse of landlords who, either, don't do the work and inflate the costs; use their cousin's business to pad the bills;

And, you know, on the tenant side, we've seen it all. You know, owners who use the same receipt for ten different apartments in the building. People who write a check to the contractor, and then half the fee comes back, you know, gets deposited in the owner's account.

And -- and DHCR is -- the procedures are not set up to have them watching the store.

And, so, you know, probably the number one thing on the tenant's agenda, is that, if we're not going see another 100,000 apartments leak out of the rent-stabilization stock, the State Legislature needs to pay attention to this.

I mean, that's -- you know, and that's our ask. That's why I'm here.

CHRISTOPHER ATHINEOS: Well, I have to say, I think we should get rid of the MCIs, the individual apartment improvements, and all of it.

When we cannot deregulate all of the apartments, I think everyone should be paying a fair rent.

You know, I mean, I think it's -- that's the thing. I mean, that's the whole thing for us. I mean, it's just unfair that there are people in there paying a lot less than they can afford -- a lot less than they should, that can afford a lot more.

And -- I mean, a lot of the things you said, I can understand, and sympathize. And, you know, I don't condone any illegal things that may be mentioned, but, first of all, the individual apartment improvements, unless the tenant -- if there's a tenant in occupancy, unless they consent to what you call "cosmetic improvements," they don't have to agree to it.

So, these -- these don't affect any tenants in place.

EDWARD JOSEPHSON: That's correct.

CHRISTOPHER ATHINEOS: On a vacant apartment -- on a -- in a -- in a vacant apartment in a building that the owner owns -- this is his building -- he's entitled to improve his building.

And I would argue that they're not cosmetic.

"Cosmetic" -- what DHCA defines as "cosmetic," I think is, maybe a paint job, maybe sanding the floors. Something like that.

But, when a plumber -- when we put in a new kitchen, it's not just hanging cabinets on the wall. It's putting new plumbing in the apartment, connecting the risers, replacing galvanized pipes that are, this big [indicating]. But, because of the deterioration of the pipe, they're like, this big [indicating].

So -- I mean, I wouldn't consider that cosmetic. A lot of times, it could be rewiring the apartment. You know, if you do a new bathroom.

I mean, the bathroom alone, the plumber could charge us up to $10,000 on a bathroom.

I mean, you know, a bathroom isn't just going to Home Depot, and buying a new toilet and a tub for a few hundred dollars. I mean, the price of copper and precious metals have skyrocketed, as I'm sure you can, you know, see.

So -- I mean, I think you have to be sensitive to that.

I mean, no one likes to see on the news -- certainly, I, as a responsible property owner, you see -- every once in a while, you'll see on the news, and HPD sees it, you know, someone's ceiling is caving in, and there's water -- you know, it's "raining" every time they want to -- the neighbor

upstair takes a shower.

Well, a lot of that is because these buildings have been neglected.

So -- when we put in a new kitchen or a new bathroom, it's not just the cabinets, or the fixtures, the toilet, the tub. It's all the plumbing, and everything that goes with it.

So, you know -- and these are on vacant apartments, so it doesn't necessarily affect someone that's in place.

And I would submit, that anyone that goes to rent that apartment, would love to be in a nice, you know, new bathroom, or new kitchen. And, there's no obligation on their --

EDWARD JOSEPHSON: If they could afford it.

CHRISTOPHER ATHINEOS: -- there's no obligation on their part to rent it, that's true. And, if they could afford it.

And, you know, the problem, I -- you know, we would say, is that there are plenty of low-rent apartments out there. The problem is, you have upper-income people living in them.

And, so --

AARON SIRULNICK: I think Raphael said it well before, and I touched [unintelligible] on what

you just said: Firstly, I think that the vast majority of owners are operating their properties properly, and legally.

And I would venture to say, that if -- people who you may be referring to, we would not support as members of our organizations, and we would certainly not condone any of their activities.

That being said, in order to entice people to live in this city, and not move to Hoboken, you know, Pennsylvania, Connecticut, and so forth, you must be competitive with the product you're offering.

And, if you want to rent apartments with kitchens from 1947, ands bathrooms from the same era, and you're willing to accept a rent that is substantially below market, that is the owner's decision to make.

This is -- you know, this is private property, subject to lease.

If you would like to entice and encourage people to move into the city, you must be competitive with what you're offering, and you have to offer new kitchens, new bathrooms, new electric, new plumbing.

You can't offer a view. That's the only

thing none of us can solve here. But, we can certainly offer a better apartment, and a better quality of life within our apartment buildings.

And that's what incentive is.

And, I would disagree with you that the Individual Apartment Improvement Program isn't monitored.

It is monitored by the vast majority of above-board owners who are responsible to operate real property in the city.

And, the majority of us do exactly what we're supposed to do.

RAPHAEL SISTERO (ph.): So -- I mean, I think it's -- I think it's very hard to talk about individual pieces of the rent-regulation system in isolation, you know, because they -- because they -- they work together.

You know, I think -- I, for one, you know, would never have -- would -- if -- if it were -- if it had been up to me, I never would have designed the system that we have.

On the other hand, there are a million units in it.

So I think the idea of just letting it go, or turning it off instantly, I think is a pretty scary

one, to know what would actually happen to the market if that were to happen.

And I understand all the argument on both sides. I just -- you know, for one, I'm not sure -- I'm not quite sure do how you do that.

I think, you can't, in -- you know, in defense of the tenant perspective, I think you can't look just at the Individual Apartment Improvement Program, and, without recognizing, that, when an apartment vacates, not only are you able to go in freely, totally, completely, at the owner's discretion, private property, to invest in their property, and make that improvement, and get the individual apartment increase.

But, you also get a 20 percent automatic vacancy allowance, all of which is contingent upon the market bearing any of those rents.

Right?

So -- you know, and this is one of the things that nobody ever talks about when it comes to the whole rent-regulation debate; which is, again, going back to my point about the outer boroughs. You know, most apartment units in most outer-borough neighborhoods, the market rent on those units doesn't anywhere approach the deregulation

threshold.

AARON SIRULNICK: That's right.

JOSEPH ROSENBERG: Yes, and contract versus legal aid.

RAPHAEL SISTERO (ph.): So -- so, the reason -- you know, the reason that owners are -- you know, are -- where buildings are, you know, with ceilings falling in, is partly because there are -- like there is in any industry, there are bad actors in the marketplace.

But part of it is the market rents. You know, there are buildings out there, especially smaller buildings, where you're doing the right things, you're trying to keep up, you're trying to do the right thing. The rent does not meet the cost to operate a building.

And, so, the third thing I would say, is, I think you have to recognize, that to keep an apartment -- to keep the lights on in an apartment building in this city costs, $500 a month, $600 a month. Something like that.

Right?

That -- just, that, if you were to say no owner can charge more than $600 a month, because that's what it costs to keep the lights on, and,

we're going to take profit out the -- capitalism out of the real-estate market, the vast majority of low-income working families in the city can't even afford that $600-a-month rent.

So -- you know, the rent-regulation system, in and of itself, is never going to be a solution to the affordable-housing problem in our city.

And I think the -- the -- you know, the issues around affordable housing and rent regulation, way too often, are confused.

Personally, my own view on this, is that, if I were, you know, king for a day, I would flip the two.

I would -- I would provide the quicker, deeper incentive that the individual apartment increase provides. I would provide that for major capital systems, and, I would provide the longer term, you know, for the individual apartment increases; because, I fundamentally believe, as I said before, that the investment that owners really -- that we want owners to make is in the infrastructure in the building.

AARON SIRULNICK: Say that again?

I think you contradicted yourself.

RAPHAEL SISTERO (ph.): I probably did.

Probably more than once.

AARON SIRULNICK: No, only at the last part.

You were right -- I was with you, right until the part --

RAPHAEL SISTERO (ph.): Give the individual apartment incentive.

AARON SIRULNICK: On the flip part.

RAPHAEL SISTERO (ph.): Reverse them.

Reverse them, the incentives.

RUTHANNE VISNAUSKAS: In terms of the amortization.

RAPHAEL SISTERO (ph.): In terms of the amortization.

AARON SIRULNICK: So, the roof, the boiler, the elevator, we'd get the 1/60th.

RAPHAEL SISTERO (ph.): The one -- right, which used to -- I was going to say, the 1/40th; now, is 1/60th.

AARON SIRULNICK: And the cabinets would have a finite period of collection?

RAPHAEL SISTERO (ph.): That would be the one, whatever the --

JOSEPH ROSENBERG: 1/84th.

RUTHANNE VISNAUSKAS: 1/84th.

JOSEPH ROSENBERG: The 1/84th, yeah.

RAPHAEL SISTERO (ph.): Right.

That's right.

That -- just -- just because, I think, if you were to, you know, from a public perspective, as much as I actually agree with what you said about cabinets and kitchens and floors, I actually don't think those are dubious improvements.

I've seen plenty of really crappy and rotten -- excuse me for my language -- kitchen cabinets, and kitchens and bathroom floors, that people are living in, that they shouldn't have to live in.

I still think the roof and the boiler and the building envelope is a -- is an investment that we would want to incentivize more than -- than the interior.

So -- but, you know what? It's a tough, it's a tough debate.

So --

SENATOR YOUNG: Very interesting.

So, there's some other questions that we wanted to talk about, and one has to do with -- I want to get into this a little bit: The recent federal cuts to New York's housing programs.

And, I think Joe could probably discuss

that --

JOSEPH ROSENBERG: Yeah.

SENATOR YOUNG: -- and what ramifications are, because I think it's pretty scary.

JOSEPH ROSENBERG: Yeah, we have a 58 percent cut in our home funds over next 2 years, which is a cut of $65 million.

That's an astounding and huge amount of money. The kind of cut we haven't seen in -- in, probably, decades.

So, it's a new day, and we have to learn how to live with this.

This is -- we don't expect this to compromise our new-housing marketplace plan.

How many units are we at, RuthAnne?

RUTHANNE VISNAUSKAS: Right about, a hundred and -- well, almost 130 -- 127,000 units?

JOSEPH ROSENBERG: Out of 165,000. But, it's going to be quite a challenge, and it puts us in a situation we haven't been before.

So, the cuts are not only for the home moneys, which, basically, is the low-income component of the federal amount, but also the CDBG.

So, it's kind of a new world for us, in that regard.

So, it's -- it's alarming.

You know, we have a lot of programs, but, this is going to be something that we really have to wrestle with.

RUTHANNE VISNAUSKAS: Yeah. And, then, we predominantly use our home funds to produce new construction, and, primarily, low-income rental housing; as well as we do a lesser amount, but just, sort of, a consistent amount of supportive housing for formerly homeless and mentally ill.

So, it really hits those two areas disproportionately: new construction, and supportive housing.

So, like I just said, this $65 million is a -- we generally do, for those types of yields, loans that might be three to eight million dollars, sort of, on average.

So, to cut 65 million -- that's the federal fiscal '12 cuts -- so, to have a -- you know, in a single year, a $65 million cut, that impacts a large number of projects that can't go forward.

So, it's a -- it's a significant impact for us.

JOSEPH ROSENBERG: And the bulk of the units done thus far, under the housing plan, about

126,000, over 100,000 are for families whose incomes are under 80 percent of the AMI.

So, this is going to be a tremendous challenge that the City and the agency are going to face.

SENATOR YOUNG: So, now you're coming up with ideas on how to address it?

JOSEPH ROSENBERG: Yes. We're -- you know, we've always been imaginative agency, in terms of trying to, not just respond to the crises that affect us, but trying to get ahead of it.

This is certainly going to be one of the most severe challenges we've had in a very long time.

RUTHANNE VISNAUSKAS: And we took, you know, a series of cuts over the years, you know, on the city capital side, you know, when the, sort of, economy crashed.

So, we, you know, spent the last couple of years tightening up what we did, and really getting at the -- you know, we -- what's for better. You know, an unfortunate way to get there, but we got to, sort of, a more efficient place, because we had so many cuts already.

So, I think what we felt, sort of, that we were out of area, kind of -- you know, efficient

place.

So, to take, sort of, another cut there, isn't really a lot of fat to trim, so to speak.

So, we're -- it's going to be very hard to implement a cut of this size.

RAPHAEL SISTERO (ph.): I think one of the biggest challenges the agency faces, that there's -- you know, the agency, has two -- has two sides of the same coin.

One side, is the development side, that RuthAnne -- through RuthAnne leads, that does all the new-building development, runs the 8(a) loan program, et cetera.

I mean, those are -- you know, those are discretionary investments.

It also has a statutory side; right?

Statutorily mandated to provide enforcement services, the vast majority of which is paid for with CDBG money.

And, so, you know, the cuts, you know, disproportionately impact the development side of what HPD does -- which is, adding to the housing stock, actually creating affordable units, preserving existing affordable units -- because, you know, there's only so much you can cut away a

discretionary program that you're mandated to run and provide.

So, you know, that's -- I'm sure they're, you know, grappling with that challenge, as the agency has over the years, with various different cuts.

AARON SIRULNICK: We all need Purel.

SENATOR YOUNG: What's that?

AARON SIRULNICK: Purel.

SENATOR YOUNG: Oh, Purel.

You know, it's something -- no, I'm not allergic to anybody in the room. Don't worry.

RAPHAEL SISTERO (ph.): What's the -- what was the CDBG cut?

RUTHANNE VISNAUSKAS: It was $8 million for this year, on top of last year's $13 million cut.

So, it was, almost, $21 million.

JOSEPH ROSENBERG: And that hurts the code enforcement --

RAPHAEL SISTERO (ph.): And that's -- right.

And that's to the -- right.

And that's to the whole City. The City gets 200-something million in CDBG money?

RUTHANNE VISNAUSKAS: Uh-huh.

RAPHAEL SISTERO (ph.): HPD gets 75 percent of that.

JOSEPH ROSENBERG: Ballpark.

SENATOR YOUNG: So, they use that for code enforcement --

JOSEPH ROSENBERG: Code enforcement is covered by CDBG, yes.

SENATOR YOUNG: Okay.

That's interesting.

JOSEPH ROSENBERG: And, that, you know, you talk about mandates, I mean, code enforcement, that's -- you know, that's a requirement, under the housing-maintenance code. It's something that we have to do.

Even if we didn't, we'd to do it anyway. It's part of the life of how we keep the city going.

So, this is really onerous.

CHRISTOPHER ATHINEOS: And it's just like, when an owner gets the 2 percent increase from the Rent Guidelines Board, and they figure, "How am I going to cover my costs on a 2 percent increase from a $400 tenant?"

So, I can sympathize, and empathize --

RAPHAEL SISTERO (ph.): Well, at least you got a 2 percent increase.

This is a --

JOSEPH ROSENBERG: Yeah, right.

We get a 1 percent decrease.

RAPHAEL SISTERO (ph.): What if you dropped your -- what if the rent guidelines dropped your rent by 15 percent? Then you'd really be in trouble.

AARON SIRULNICK: That's a different roundtable.

CHRISTOPHER ATHINEOS: You'd be running all my buildings.

[Laughter.]

EDWARD JOSEPHSON: And, you know, it's worth adding to that: In addition to the CDBG cuts, my understanding is, that, so far, we've avoided actual cuts in the Section 8 Program from the federal government.

God knows what's going to happen this coming year, but, there haven't been the increases in vouchers that there have been, you know, in years passed, even though, I think it's 1 in 10 eligible families actually gets a Section 8 voucher.

And, then, we also saw the cut of this -- of the Advantage Program, which was State funding that was going to the City, and provide a Section 8, you know, -like subsidy.

And all of those families, now, are -- well,

there's litigation, and may soon lose their subsidies.

And, you know, ultimately, there's, you know, a huge impact on the families.

But then, also, you have another impact on the City, because they then have to do something with these families who may enter the shelter system; or, you may need, you know, increases in the affordable housing.

And, I guess those also impacts on owners, right, who, you know, were formerly getting Advantage money. And then they get a letter from the City, saying: Guess what? You know, the contract that we used to have with you, well, we're not honoring anymore.

And, so, you know -- and all that.

And, I can't resist saying, that, you know, those of us who represent tenants and homeowners, you know, we took a 13 percent cut from the federal government, which is a big chunk of our budget. And, we got zero down on the funding from the State for our foreclosure representation.

And, again, you know, there's a whole chain of impacts, because, you know, sometimes we drive landlords crazy, but sometimes we get them the

money, you know, that they're owed on the rents. Or, you know, we work out a deal so houses aren't foreclosed.

And, so, it all has a rip -- and, then, people are displaced, and then they come to HPD.

And, all has a ripple effect --

SENATOR YOUNG: Right. It was very con- -- surprised, and concerned, to see the foreclosure piece of the budget.

So, we're working on that.

EDWARD JOSEPHSON: That's great.

RAPHAEL SISTERO (ph.): I don't think -- I mean, the federal budget's not going to get any better.

I mean, it's -- and, frankly, while I -- you know, I get the concern around Section 8, every HUD program will get cut to zero before they cut Section 8.

I -- it's just the way the HUD budget works. They're never going to cut Section 8 until they got nothing left to cut.

But, with the 65 percent cut to the home program, we're getting close. So -- to them not having anything left to cut.

So --

SENATOR YOUNG: So, we'll be working with the City on possible solutions to that situation.

RAPHAEL SISTERO (ph.): The one -- the one thing I just -- I -- the point I have to make, is that I think, you know, part of the reason why New York City has always provided more dollars out of its budget to support housing production and preservation, is that, you know, for last three decades, you know, the cities -- you know, mayors and city councils -- have viewed the housing -- development-housing production as part of an overall economic-development strategy.

And, that's not the way they view it at the federal-government level.

And, honestly, that's not really the way they view it at the State level, either.

But I think, you know, if -- you know, when you talk about 165,000 units that -- the investment in those units that the City's creating, has created at least that many full-time-equivalent jobs in the construction industry and the building-management industry.

And it -- you know, it has been a real driver of economic activity in outer-borough neighborhoods.

And that's why, you know, the City has always done this, because it has seen the sort of economic impacts, and it's not just about, you know, the social mission of affordable housing. It's a real economic driver for the city.

And, you know, unfortunately, that's not the way housing's seen at other levels.

And, I think that's -- that -- that shows you the difference in the investment that gets made in -- in housing programs, you know, at the federal level, at the State level, and, frankly, anywhere else in the country, other than -- other than New York.

JOSEPH ROSENBERG: Yeah, we're aware, too, that it -- you know, it's not just economic, but the crime statistics, too.

When you add instances, where, in the bad old days, when you had lots of in rem stock, and buildings that might have been abandoned, and vacant lots --

AARON SIRULNICK: Drugs.

JOSEPH ROSENBERG: Absolutely.

-- you replace that with new construction, rental, home ownership, I mean, the world changes.

The area becomes safe, there's more

stores up, and it just is a domino effect, in a good manner.

RUTHANNE VISNAUSKAS: And, you know, what Raphael said, too, on the, sort of, the economic investment, that, you know -- so, last -- in this past June, we -- it was, sort of, the end of our fiscal year.

So, in sum total, for the year before that, we had done about 200 construction loans.

As I had said before, we put out, about, $300 million a year in subsidy, and that leveraged up about a billion and a half of investments.

So, just in the, last June to this June, which is not un- -- atypical for us for the last couple of years, to be able to put a billion and a half dollars into the city's housing stock and investment, whether it's new construction or rehab, is really, sort of, a tremendous economic driver that doesn't always get talked about when people talk about housing.

JOSEPH ROSENBERG: And there's a -- just like, Livonia, I mean, the work goes on, a really blighted area in Brooklyn.

RuthAnne's sent out an RFP.

And, how many responses were there?

RUTHANNE VISNAUSKAS: Yeah, we got between -- I think we had a little more than 15 responses, for folks who want to redevelop parcels on the Livonia Avenue corridor, which is a great, you know, response.

AARON SIRULNICK: Let's not, Senator, forget one component as well: That, affordable housing, and owners, such as Chris and myself, we're employers. We have a large number of people.

JOSEPH ROSENBERG: That's right. That's good.

AARON SIRULNICK: You know, the service employees and the contractors and vendors, and so forth, the manufacturers who make the products for the vendors, we're a trickle down, from us to the working force in the city.

So, I think that's really important.

SENATOR YOUNG: Yeah, it's very important.

Yep.

So, we've got our work cut out, trying to address some of these situations, because it's going have a major impact, from the economy standpoint, from quality of life, and loss of --

JOSEPH ROSENBERG: Absolutely.

SENATOR YOUNG: -- opportunities.

One of the issues that we had down here, too, was -- just switching gears again, a little bit -- the impact of real-property taxes, water charges, other City fees on the cost of operating affordable multi-family buildings for -- on, both, for-profit and non-profit owners.

And, I'm sure that you have some input on that.

AARON SIRULNICK: I've created --

I didn't bring it with me today, which I'm sorry about, and I will provide it to you.

-- a schedule of, just on a 50-unit, 6-story building --

Forget my real-estate taxes. Those are all public record.

Forget the water charges. You can all figure those out on [unintelligible].

-- just the cost of operating a building, outside of payroll, of, fees, fees on fees, fees to pay fees, fees that you've already paid, that you now have to pay to another agency, because the first agency needs the second agency to look over its shoulder, it is vast.

And, if you're a small property owner --

And I'm just giving you an example of a

50-unit building.

-- if you have a 10-unit building, or what have you, these fees don't really change.

They are, for your boiler. If you continue the building, you may have an elevator.

But, your boiler, elevator, your compacter, your sprinkler for your compacter; any number of systems have various agencies overseeing the operation and certificate of fitness for these rooms and systems, that the fees pile up to be prohibitive.

On top of the fees, are the fines that are levied for not paying the fee.

So, where I understand the City has an economic obligation to close its budget, it seems to me, that it's being closed on the backs of property owners.

If we don't raise the tax rate, we raise the assessed valuation.

If we don't have the money to pay elevator inspectors, we create a fee.

If we don't have the money to pay the boiler inspectors, we double the filing fee to another agency, as part of the City.

And I'm not even going into, the State has

its hands in our properties as well.

So, I will be happy to provide --

SENATOR YOUNG: [Unintelligible] to see that.

AARON SIRULNICK: -- more than myself specifically, a schedule of just the fee side of operating real property.

SENATOR YOUNG: So, there isn't any differentiation between a fee in a very small building, versus a very --

AARON SIRULNICK: Very, very little. Negligible.

Chris's 10-story building -- 10-unit building, and my 100-unit building, for all intents and purposes, will have the same set of fees, unless he doesn't have -- and if he doesn't an elevator, he's one component less --

CHRISTOPHER ATHINEOS: Right.

AARON SIRULNICK: -- but, the fee structure is the same.

And it's annual, and it is overwhelming.

And I think I -- I mean, just, unrelated to our industry, you listened to 1010 Wins this morning, about the initiative to listen to restaurant owners who are upset with the -- you know, the ABC --

SENATOR YOUNG: Grading system.

AARON SIRULNICK: -- system.

And, a year into that program, they realized, that it neccess- -- it's really creating more havoc than creating -- the benefit certainly didn't come to fruition.

Everyone wants an A.

Everyone gets a B. Figures, the business has suffered by 20 percent.

And, if you get a C, unless you're Papaya King, you're closed.

So -- it's true.

Nothing's is going to close the Papaya King.

JOSEPH ROSENBERG: Can't kill it.

AARON SIRULNICK: I think you'd have an F.

JOSEPH ROSENBERG: Ya can't kill it.

AARON SIRULNICK: I'm F'ing you.

JOSEPH ROSENBERG: I'm laughing, because I go there more than I should be.

AARON SIRULNICK: But, it's true. I mean, the systems are created, with all good intentions.

The fees are created to close the budget.

And, I think that if you were to look at the fee structure of just operating an elevator in the city of New York -- in a private building, not a

commercial building, because I can't speak for that -- I think you would find that we are paying multiple fees for the same effort. And, it's just how they're worded, and how they're charged.

So --

SENATOR YOUNG: It would be very interesting to see that.

AARON SIRULNICK: The only thing that hasn't changed, $13 fee from HPD, [slaps table], staying consistent.

JOSEPH ROSENBERG: You shouldn't have said that. It's going up next week.

[Indiscernible discussion between all participants.]

AARON SIRULNICK: I know. When this comes into effect, and all of my friends around the table say, "Man, why did the fee go up to $18?" -- "Aaron."

JOSEPH ROSENBERG: Exactly, we'll blame it of you. "He said he would pay it."

RUTHANNE VISNAUSKAS: We'll edit that out of the video.

AARON SIRULNICK: That's fine.

But it's -- the point is, that the fees are --

RAPHAEL SISTERO (ph.): And that doesn't even get to taxes and water and surchargers.

AARON SIRULNICK: I've omitted those.

RAPHAEL SISTERO (ph.): Are -- I mean, property tax on rental-property owners has been going up and up and up for years. And, you know, it's hard to know where the end is.

AARON SIRULNICK: There is no end.

As long as there's a deficit in the budget, that difference was made up in the assessed valuation.

RAPHAEL SISTERO (ph.): Yep.

And the people that are tax experts, which I'm not, would tell you, that while the -- the end of -- the sort of end of that story, around property taxes going up and up, affects the housing industry significantly.

The cause of that really gets to arcane tax law in New York State, that causes -- that -- that ties the City's hands in how it is able to -- not just New York City, any -- you know, how it is -- how cities are able to raise revenue through property tax.

And, I'm not even going to remotely get into the recent, you know, law that was passed around

the -- around property taxes, but, I'm sure that has an effect on it some way.

But, in New York City, you know, the majority of the -- of the impact goes to rental-property owners, who end up paying more taxes, and more taxes.

And, you know, I got into this argument -- not an argument -- into a friendly debate with the -- the -- one of my former commissioners -- one of my former colleagues, when I was commissioner, about this.

And, you know, the -- you know, it -- you know, we were saying: Well, why do we have all of these tax-abatement programs?

What do we need all these tax-abatement programs?

Why don't we just tax the building based on what its income is, and then it just pays its fair -- you know, that way, a building that has very, very low rents wouldn't pay that much in taxes?

Well, unless you want to take on the challenge of completely writing the tax law, you can't do that.

And, so, you have all of this "alphabet soup"

of tax -- J-51, 421-A, 420-C, blah blah blah blah -- because, the rental-housing stock in the city can't support the tax burden that it's currently -- that it's currently paying. So, you end up with all these programs to provide tax abatements to different kinds of buildings, for different reasons, because they can't just -- they can't just afford -- they can't afford to pay the taxes with the rents that they're able to collect.

AARON SIRULNICK: It's the same thing with water.

CHRISTOPHER ATHINEOS: Same thing with water.

AARON SIRULNICK: Water is even more egregious.

Water can't be that expensive. We can make it in a test tube.

But, I mean, it is --

EDWARD JOSEPHSON: Chemist water in a test tube, [unintelligible].

AARON SIRULNICK: I'll figure it out, the less that I'm paying in water.

But, we figured out a change from frontage to meter. We changed it from a guesstimate to an actual.

And I think that there are ways by which to

change the arcane system of real-estate tax evaluation of that analysis to a realistic means of what the income of the property is.

RAPHAEL SISTERO (ph.): I think you would find the real-estate industry, overall, affordable -- small, large, whatever -- would be a very interested in a debate and a discussion at the State level, about the property-tax system in New York City, and would be, you know, supportive of trying to figure out a way to do something different.

JOSEPH ROSENBERG: As everyone knows, we provide many tax exemptions tied to certain types of property, whether it's formerly City-owned or low-income, but, it tends to be geared toward the previously City-owned and the low-income component, or the [unintelligible] development fund companies; except when you have J-51 and 421-A, which is tied to something else. But, there's many different ones, and they're all, certainly, pretty challenging to figure out.

SENATOR YOUNG: I bet.

EDWARD JOSEPHSON: Call me cynical, but I think if they were discussing the rewriting of the tax code, you'd find a lot of people saying that,

you know, struggling owners should be paying less, but, not a lot of outcry for hugely profitable owners to be paying proportionately more.

And that's always the problem with these discussions.

You know, arguably, yes, the way to do it is, the people who are really making the big profit should be paying those taxes --

AARON SIRULNICK: Well, I don't think that Raphael was suggesting the tax issue be tied into profit.

I think he's saying it should be tied to income, which is totally different.

CHRISTOPHER ATHINEOS: The small property owner, you know, our building could be a rental -- a rent-regulated rental building, and right next door of could be a co-op building. It could be two exact same buildings, built by the same builder, but, the co-op is paying considerably less that the --

RAPHAEL SISTERO (ph.): That's really the discrepancy.

The discrepancy is how --

AARON SIRULNICK: I mean, the political --

RAPHAEL SISTERO (ph.): -- co-ops on Park Avenue are taxed versus how everyone else is

taxed.

CHRISTOPHER ATHINEOS: -- situation, I mean, one-family homeowners in the outer boroughs are paying a lot less, and co-ops are paying a lot less.

And, I guess [unintelligible] --

AARON SIRULNICK: I don't want to argue the co-op part --

CHRISTOPHER ATHINEOS: -- and no one wants to touch that.

RAPHAEL SISTERO (ph.): -- but I think that they would argue that their tax rates are unjustly [unintelligible] --

CHRISTOPHER ATHINEOS: Everybody would argue that.

I think that was your point: Everybody would argue that their tax rates were unjustly -- but, you know -- so, that's why it's a hard debate.

SENATOR YOUNG: And it is.

But -- so, in the meantime, we have programs like J-51, and we have programs -- you know, we have the MCI program, the IAI program, in order to provide incentives for upgrading of housing situations.

And, so, I think that those are very important endeavors, and we need to continue to

work to make them work, until we have other alternatives.

JOSEPH ROSENBERG: That's right.

SENATOR YOUNG: So, good. Good discussion.

The last question that I had, was: What is the availability and penetration of refinancing in government programs targeted to assist mortgage-distressed, affordable multi-family housing projects in the city?

Do you have some input on that?

RUTHANNE VISNAUSKAS: So, I can jump in a little bit on that one, and then I'm going to actually run, so --

SENATOR YOUNG: Yeah, I know. It looks like we're running out of time.

RUTHANNE VISNAUSKAS: So we, about 18 months, or 2 years ago, started seeing a lot of the distress in the multi-family housing stock, as everyone else did, and trying to figure out what -- you know, what the City's role in that should be.

And, so, we've done a couple of things. It's a really challenging problem, citywide.

So we, sort of -- we put together a bunch of resources, and, sort of, went out publicly, and said, you know, we're concerned about the

multi-family distressed stock, where people wanted to buy distressed buildings, or buy distressed notes, to come talk to us; we'd be happy to look at refinancing situations.

We've been partially successful in that, and we've been able to work with some of our partners, to buy what were some very distressed portfolios that had been on the market, which I think has been a great success. But, it's only, sort of, a drop in the bucket compared to what's out there.

I think there's a lot of challenges, on the bank side, to taking losses, recognizing losses.

I think there's a lot of challenges on the buyers, where there's a lot of folks out there who are, sort of, still doing, kind of, drive-by purchases of distressed stock, and not really going, you know, in the building and seeing what's really there.

And, so, providing, you know, very high valuations on properties that, you know, when we would, sort of, look at them, think that the prices should dropping down more, and they're just not, because there's -- capitalists are back in the market and people are out there.

And, then, I think the third thing that we

tried to do, was -- since the deals weren't really coming to us, was to put together a really analytic base to looking at the problem.

And, so, we started running a lot of data -- citywide data, on the city's housing stock, to look at what buildings were trending towards distressed.

So, as Raphael had mentioned before, we have the Alternative Enforcement Program, which looks at the city's worst 200 buildings.

We were trying to look at, who was headed that way, and how could we do, sort of, an early intervention.

So, we're about a year in now to the program, which has been really successful.

We've looked at over 500 buildings, and we do it on a monthly basis, where, we go in and look at what buildings this data was based on; violation data are trending into distressed.

And, then, we have field staff that go out to the actual buildings, and say -- and, sort of, talk to the owners, and try to see what's going on. Offer financial assistance where we have it, where there, you know, may be a bad actor, perceived as, sort of, more a code violation-type route, and,

really try to get a handle on that stock.

So we, sort of, have tried to approach it from two sides.

One is, making sure we're finding the buildings, first of all. And, then, from there, trying to provide aid, you know, through our loan programs, to folks who might not know about us; or, just hadn't, sort of, gotten around to talking to us, as well as, sort of, pursuing the folks that are bad actors in that realm.

But, it's a -- it's, certainly, still a challenging problem today; and, we're, sort of, two years in.

SENATOR YOUNG: So, do you -- so, you feel that you're making headway, even though it's challenging --

RUTHANNE VISNAUSKAS: We have had really great success stories.

We worked with a fair amount of folks, to buy distressed portfolios that were on the market.

And, had a lot of success working with owners, working with banks, and working with regulators, to sort of elevate the issue, and put, sort of, a spotlight on it, and say: This is really important to us, and it's really important to the,

sort of, the fabric of the city, and to the neighborhoods, that, sort of, make New York what it is.

And, so, this has to be something that everyone, you know, sort of, agrees is a problem, and is willing to work jointly on.

So, we have -- we have -- I don't have numbers with me, but we've done -- we've, probably, almost 1,000 units of -- where we've gone in and, either, bought notes or actual buildings on distressed properties, and done rehab on them.

And, so, it's been successful.

But, 1,000 units is great, but it's certainly a small number, you know, citywide.

EDWARD JOSEPHSON: Yeah, I think it's worth keeping in mind that there's a lot of distress on the horizon, potentially, because there were -- you know, during the boom, there were a huge number of portfolios that became overleveraged, and, a number of them have bottomed out.

And, they were the ones that, you know, we actually worked with HPD on a number of these. And -- and, some of them had wonderful outcomes, after horrible experiences for the people who lived in them.

But, they are more on the horizon, because it's just a question, [unintelligible] the build coming due.

And we're -- you know, one thing, we were talking about the outer boroughs, and how you, you know, the mom-and-pop people in the outer boroughs.

But, the other thing, is that, a lot of speculators went into the outer boroughs and bought up big portfolios of buildings for unsustainable prices; and, then, now, are now crashing.

And, the Bronx was heavily affected. Queens is affected.

And -- and, one of the big problems is not getting the buy-in from the banks, who helped to create this problem; and, then, they're not helping to solve it.

So, I'm not sure, quite, what the ask is from -- from, you know, on the State level.

It's really something, you know, the federal government, you know, could step in on a lot more.

But, conceivably, you know, if only moral pressure from the electeds who are -- have jurisdiction of, from the Banking Committee, are making more funds available to, potentially, these

preservation transactions.

But, we did one, you know, the Millbank portfolio in the Bronx, we had 600 units. The worst conditions you could ever imagine. I mean, just total disaster. There were vacancies.

And, it dragged out for two years in foreclosure, with the bank, kind of, looking the other way.

And, in the end, you know, a really excellent outcome. It was steered to a responsible owner, and with rehab money coming in, and somewhat of a write-down from the bank.

But, it took a lot of sweat and, kind of, bluff poker going on, to try to get the bank to do the right thing.

And, with more tools, it would have been much, much easier.

Right?

So -- and, then, we'll see more of that, and we would really need assistance on it, I think every level of government, to make those deals possible.

SENATOR YOUNG: Very good.

So, what do we need to do on the State level, just in general?

We've covered a lot of ground today.

So, what other things would people like to see New York tackle?

RAPHAEL SISTERO (ph.): I mean, I think, just on this issue of, you know, the State Banking Department has -- had convened a discussion, you know, a couple of years ago, but, I think, has not -- has not reconvened a discussion about, sort of, how to -- how to get a handle on this.

I think there are some legitimate regulatory issues, especially for some of the smaller community banks that are regulated by the State Banking Department, but not by the federal regulators, that could be helpful in, sort of, working resolutions on some of those -- some of the distressed portfolios.

So, you know, it would be -- it would be great to, sort of, get them to reengage in a discussion about, sort of, what's happening with that stock.

SENATOR YOUNG: I'll carry that message back.

RAPHAEL SISTERO (ph.): Okay.

JOSEPH ROSENBERG: And we have -- you know, one of things that -- I think one of the main focuses here was, basically, it's preservation; how do we -- we have all of those tools to try to stem

the deterioration of buildings.

One is, this way, we can strengthen the 7A Administrator Program that's under the State RPAPO.

So, that's something we're looking at as well, which is a way, where, 7A administrators can, hopefully, maintain and improve buildings.

So, we're looking at that as well, as an initiative, which we would, hopefully, come to soon, as well.

SENATOR YOUNG: Okay.

RAPHAEL SISTERO (ph.): And the last thing I'd just throw out there, is, you know, there was some activity amongst various parties, about, how receivers are appointed to multi-family buildings, which, in the -- which is governed by the State in the foreclosure law.

You know, I know the agency and the City Council had come together, and had some suggestions on what to do.

The industry, actually, you know -- the -- the lending industry, actually, has also been pretty vocal on this issue, because the -- you know, the process is less than ideal. And, oftentimes, receivers that are appointed don't know anything

about running buildings. And, don't know -- don't know -- wouldn't know a good manager, you know, if they -- you know, if they ran into them.

And it -- and it's just a -- I mean, this is what was one -- you know, one of the issues on some of the portfolios that HPD dealt with, was, you had receivers in place who didn't, you know, even know how to manage buildings, and didn't know how to, sort of, protect the asset during the period where the resolution was coming.

So, you know, my guess is, you'll see more action on that issue in the coming period, because, as, you know, we've talked about, there's more of this, you know, that's going to come down the pipe.

RUTHANNE VISNAUSKAS: And I think that's especially true when you're talking about receivers, for -- I mean, presumably, all buildings that are in foreclosure are in distress, but they're not always, sort of, physically distressed, necessarily.

And, so, I think that -- that case is even more exaggerated --

RAPHAEL SISTERO (ph.): Right.

RUTHANNE VISNAUSKAS: -- when someone doesn't know how to run a multi-family building.

And, that multi-family building, you know,

has a lot of physical -- has a lot of capital needs, may have tenants who are on to a rent strike, who aren't paying rents, because they haven't had any services for such a long period of time.

And, so, having a different sort of system, where receivers, in multi-family buildings where there's been distress, needing to be able to be more qualified, would be a welcome change, I think.

AARON SIRULNICK: Thankfully, this is not a world that Chris or I know.

JOSEPH ROSENBERG: That's good. That's a good thing.

SENATOR YOUNG: That is good.

JOSEPH ROSENBERG: Good thing, right.

SENATOR YOUNG: That's very good.

So, thank you so much, everyone.

And --

AARON SIRULNICK: Thank you.

JOSEPH ROSENBERG: Thank you.

RUTHANNE VISNAUSKAS: Thank you.

SENATOR YOUNG: -- this has been great.

And I think most of you know, I like to be very interactive. So, anytime you have any questions, concerns, ideas, I want to hear from you.

And, I look forward to continuing to work together.

JOSEPH ROSENBERG: Great. Thanks very much.

[All participants say "Thank you."]

AARON SIRULNICK: Thanks for convening.

(Whereupon, the roundtable discussion held by the Chair of the New York State Senate Standing Committee on Housing, concluded.)

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