

# Real Estate Transcript

## CHIP seminars: Help for multi-family owners

Striking directly at the critical issues affecting the real estate industry, the 1992 Community Housing Improvement Program (CHIP) Trade Show proved a critical source of information for anyone operating residential property in New York City.

Owners, managers, and investors from all over the city and state turned out to attend the show's three in-depth seminars and speak with vendors of real estate services and products.

The show's theme -- "Can You Profit from Disaster?" -- carried forth from the registration booth, where attendees were able to sign the "End Rent Control Scroll." The scroll cites the 50th anniversary of rent control and calls for an end to the system's onerous regulations.

With hundreds of signatures from the show, and many more anticipated during the next few months, the scroll will be delivered to Governor Mario Cuomo and the New York State Legislature.

At the CHIP Trade Show's first seminar, "Can You Profit from Disaster? Investing in Housing in New York City", Rubin Pikus, vice president of CHIP and an owner and manager of more than 3,000 units, summed it up by noting that "owners are a powerful group, if we would only realize it. But we're only powerful if we band together."

Other members of the seminar panel included: Robert Knakal, Massey Knakal Realty Services, Inc., a broker who has personally handled sales with a market value of more than \$175 million over the past 10 years; Mark Zborovsky, president of Mark Zborovsky & Company, who specializes in selling packages of renter-occupied units in co-ops; and Jack Greene, senior vice president of the Community Preservation Corporation (CPC).

Rubin Pikus asserted that attractive deals are available for wise investors, using the example of three distressed rental properties that he purchased recently. According to Pikus, two of the buildings were in foreclosure and the third had trouble with the Division of Housing and Community Renewal (DHCR) and a recalcitrant tenant.

Asked by a member of the audience what he considers when buying a building, Pikus said he first looks to see if the rents are topped out, then examines the real estate taxes to see if there is room to bring them down. In addition, he looks at the overall expenses and how much it will cost to upgrade and maintain the building. He said he uses his own maintenance team to keep renovation and maintenance costs down.

In response to another question, Pikus acknowledged that rent regulations today are too complicated to permit novice investors or immigrants to buy a building alone, as they did in the 1960's.

Broker Robert Knakal pointed out that the recession, the lack of available financing, the evaporation of the co-op market, and a lack of perceived appreciation have hurt the market. But the deciding blows against New York real estate have been (1) rent regulation, which legislators use to "keep tenants paying as low a rent as possible for as long as possible," said Knakal, and (2) the fact that those who bought during the heady days of the late 1980's were

not paying attention to economics.

Yet Knakal did note some bright spots. Banks and other lenders with huge stocks of foreclosed apartments are selling them off at bargain rates, creating tremendous opportunity for investors. When purchasing such buildings and apartments, though, he warned that buyers first have a good idea of how the DHCR works, then check out rent levels, management alternatives, and the value of the property versus the cost to remove any asbestos, lead paint, and other potential hazards. Knakal also noted that even on the East Side, only 38 percent of building sales today can be conventionally financed.

### Owners, managers and investors from all over came to the multi-family housing conference.

Buying unsold, sponsor-held co-op units was popular with all kinds of investors four or five years ago, but has become tricky since apartment values have plunged. As a result, Mark Zborovsky has been dealing with a different type of clientele and putting together some unusual -- but attractive -- deals.

The new unsold-unit investors are sophisticated real estate professionals who are better prepared to take calculated risks. In one deal, an investor paid \$300,000 for a block of apartments where the co-op maintenance exceeded the rents collected. Yet by using his economic clout to secure favorable financing, the investor is now earning \$100,000 a year by selling and renting the units.

According to Jack Greene of the CPC, financing is available for multi-family buildings in New York City and the surrounding counties; owners just have to qualify. The CPC, a consortium of lenders that was established in 1974, does a lot of lending -- it has financed renovations in 30,000 units, representing about \$900 million in investments over the past 18 years, and it has been lending on 2,500 to 3,000 units a year for the past few years.

But CPC's lending program requires that 25 percent of the money borrowed go back into the property in the form of renovation. In conjunction with the Participation Loan Program, the CPC can offer such loans for about 3 percent to 4 percent interest rates.

Yet there are alternatives. Under a program available from Fannie Mae that is set to be introduced Jan. 1, 1993, owners can get a similar rate of interest without the 25 percent reinvestment clause. And under the city's Vacant Building Program, buyers of city-owned buildings can get loans for 5 percent or less.

In the second seminar of the day, "Legal Roundtable for Apartment Owners," four experienced landlord-tenant attorneys agreed that the best defense for any owner is to be 100 percent prepared.

All the attorneys raised what they perceived to be the "hot topic" of the day.



1992 CHIP Trade Show seminar, "Can You Profit from Disaster? Investing in Housing in New York City," panel members included (L to R): Rubin Pikus, president of Millbrook Properties and vice president of CHIP; Dan Margulies, executive director of CHIP; Robert Knakal, president of Massey Knakal Realty Services; Mark Zborovsky, president of Mark Zborovsky & Company; and Jack Greene, senior vice president of the Community Preservation Corporation.

\*Todd Nahins, Esq., of Finkelstein, Borah, Schwartz, Altschuler, Goldstein, P.C., asserted that the in-vogue defense used by non-paying tenants and their attorneys is the "overcharge"

\*Joel Mitofsky, Esq., of Rudd, Rosenberg, Hollander, & Mitofsky, stated that tenants are not responding to inquests, often making cases interminable

\*Frank Kaiman, Esq., of Rosenberg & Estis, warned buyers to thoroughly examine registered rent rolls before buying or risk being liable for the previous owner's overcharges.

In any of these situations, all the attorneys stressed that owners keep meticulous records of all canceled checks, leases, renovations, repairs -- anything that could be used as a defense.

Also on the panel, Karen Schwartz-Sidrane, Esq., of Horing & Welikson announced that she had received a reversal on appeal in the illegal-sublet case of *Carol Management vs. Briton*. Judge Fisher-Brandvein of housing court had dismissed the proceeding because the owner had failed to establish that the occupant in an apartment was "in possession pursuant to a formal sublet or assignment agreement, or a prime lease with the tenant," said Ms. Schwartz-Sidrane.

In the question-and-answer session, an audience member asked whether arbitration is better than housing court in some cases. In response, CHIP President and panel moderator Andrew Hoffman retold how one arbitration case lasted six months.

Kaiman added that arbitration does not have the teeth of a

court judgment, and often involves a court process to collect any money.

In the show's final seminar, "Hardship Rent Increases for Rent Controlled Units," panel member Arthur Zabarkes, a vice president of Peter Sharp & Company, admitted that the subject-matter was arcane. But within this niche, there is money to be made. In one case where he won an increase, the owner earned \$960 a year more per apartment and the judgment was retroactive for a year and a half.

Yet the paperwork on such applications can be daunting and the fight with the DHCR "can be hell," said Jeffrey Turkel, Esq., of Rosenberg & Estis, the second panel member. In some instances, the documentation of every invoice and expense has run up to 1,300 pages.

"You have to be on top of the DHCR every minute, and it could take anywhere from two to 10 years to get the decision." He added that owners can speed the DHCR's bureaucratic process by "filing a lawsuit against the DHCR forcing it to adhere to its obligation to process the application within a reasonable amount of time -- usually within one year."

In the spacious exhibition room, vendors found a public eager for information. A line formed at the booth taken by the law firm of Kucker, Kraus, & Brau, where attorneys fielded a multitude of legal questions.

"We didn't come here to solicit business, that's certainly not what we're about," said partner Alan Kucker at the show. "But we are here to get a feel for what people need and to offer guidance to those who need a start in the right direction."