



NEWS & POLITICS

How Forcing Tenants to Move Became a Business Model for NYC Landlords

Changes in state law and the rise of "predatory equity" companies made eviction a growth business

by STEVEN WISHNIA

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ILLUSTRATION BY TARA JACOBY

Benjamin Warren remembers when he had a “fair, decent landlord.”

That once described David Kramer, who in 1999 took over 1511-21 Sheridan Avenue, the eight-story Bronx building one block east of the Grand Concourse where Warren has lived since 1978. But then, says Warren, “greed set in.” In 2006, Kramer took out a \$247 million mortgage on the building and forty other Bronx properties, splitting ownership with the private-equity firms Normandy Real Estate Partners, Vantage Properties, and Westbrook Partners.

“All of a sudden they were low on fuel,” Warren, who is a member of Community Action for Safe Apartments, recalls. A few years later, the building went through a winter where residents had only five hours a day of heat and hot water, and he caught pneumonia. So many people moved out, he says, “it looked like Exodus.”

After the building was foreclosed on and resold several times, the Toronto-based Medallion Corporation took over in March. Medallion immediately filed eviction notices against more than 50 tenants in the 222 apartments.

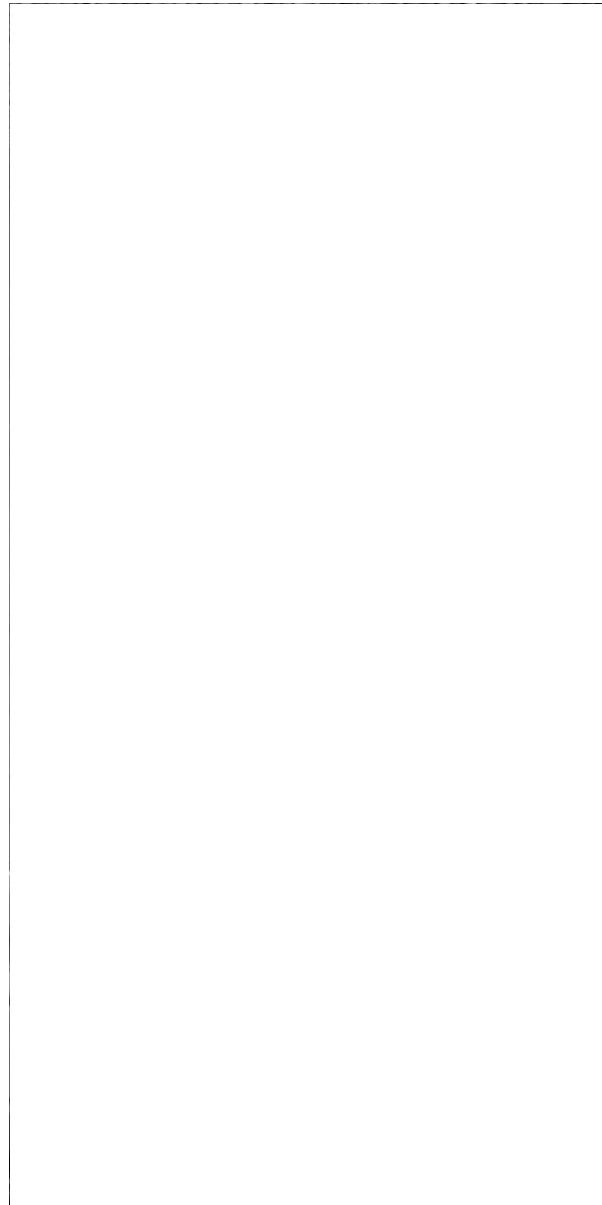
Tenant harassment as a business model — owners buying buildings with the intent of driving out rent-regulated tenants so they can charge higher rents — came to the fore when the notorious landlord Steven Croman made headlines for practices like repeatedly filing nonpayment eviction cases against tenants who’d already paid their rent. (In June, he pleaded guilty to loan-fraud charges for, ironically, claiming he had forced out more rent-stabilized tenants than he actually had.) But the practice has its roots in tactics first widely adopted by landlords fifteen years ago. Initially seen mostly in the East Village and the Lower East Side, the tactic has spread with gentrification to places like Crown Heights, Bushwick, Washington Heights, and other working-class neighborhoods with good housing stock and decent public transportation.

The occasional landlord trying to force out tenants is nothing new. In 1987, a Community Service Society survey of low-income renters in the gentrifying East Village found about one-third reporting an “ongoing pattern” of harassment, such as aggressive offers of money in exchange for moving, says CSS senior housing policy analyst Victor Bach. It didn’t emerge as a widespread tactic, however, until after the state’s loosening of rent laws in the 1990s, and the subsequent rise of a new breed of real estate speculators.

Harvey Epstein, the Urban Justice Center director who serves as a tenant representative on the city Rent Guidelines Board, says tenant harassment first emerged as a “functional business model” for some landlords by the end of the 1990s. It proliferated, however, during the housing bubble of 2003–08, when private-equity firms like Vantage

Properties, Pinnacle Group, and Dawney Day bought up hundreds of buildings at prices that could only result in profit if they cleared out all the rent-stabilized tenants.

Pinnacle's purchases included buildings containing 20,000 apartments, many in Harlem and Woodside; within two years, the company had filed eviction cases against 5,000 tenants. Vantage, says Association for Neighborhood & Housing Development executive director Benjamin Dulchin, tried to evict 60 percent of its tenants in some Washington Heights buildings within six months.



“All of a sudden, we were getting calls from all over,” recalls Sadia Rahman, a supervising attorney for the Urban Justice Center’s Community Development Project, who at the time was a lawyer at Catholic Migration Services in Queens. When Vantage

bought a 44-building portfolio stretching from Sunnyside to Flushing for \$274 million in 2008, she says, more than one-third of the tenants had their first rent checks returned, a prelude to what she calls “totally baseless” eviction attempts.

A common tactic, Rahman says, was to charge that the apartment was not the tenant’s primary residence. One of her clients, a man named Juan Diaz, was accused by Vantage of actually living in Miami because there was a “Juan Diaz” in the Miami phonebook. (In a 2010 settlement with the state attorney general’s office, Vantage agreed to stop “frivolous housing court evictions.”)

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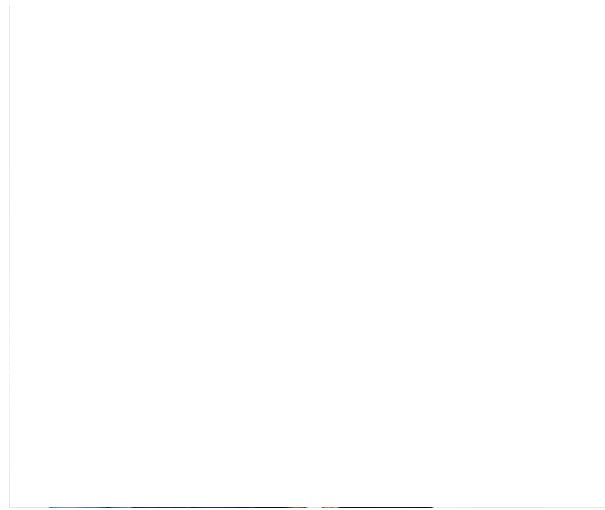
Incinerator Rats, ‘Predatory Equity,’ and Other Horror Stories From ‘NYC’s Worst Landlord’

by STEVEN WISHNIA

These strategies may be legally dubious, but they often work. “If you sue ten tenants for nonsense, you can get four to relinquish their rights,” says Bach. In the Vantage portfolio, says Rahman, one issue was that, in immigrant communities, extended families often pass apartments down to relatives, so people could have been living in an apartment for twenty years with someone else’s name on the lease. The previous owner hadn’t cared as long as he got the rent on time, but Vantage did, because it allowed them to evict tenants who didn’t have leases in their names.

Other common tactics have included filing trumped-up eviction cases against tenants (by, say, not cashing their rent checks and then trying to evict them for nonpayment), aggressively offering them buyouts to leave, and cutting off services such as cooking gas. Once a tenant moves out, there is “construction as harassment,” where landlords demolish and renovate the vacant apartment in a way intended to create maximum nuisance for the people still living there.

Harassment is illegal, but “the risk of being caught is outweighed by the gains from displacing tenants,” says Kerri White, director of organizing, policy, and research at the Urban Homesteading Assistance Board.



Several factors combined to make harassment a business model, say housing lawyers, analysts, and advocates. In 1997, the state legislature weakened rent-stabilization laws in a way that offered landlords much greater profits on vacant apartments: If they could get the rent up to \$2,000 or more, they could deregulate the apartment. (That threshold has since been raised to \$2,700.) They were aided in this by a new automatic 20 percent increase on vacant apartments, which, when combined with the cost of renovations and sometimes outright fraud, could quickly reach the magic rent number.

“When the renting laws changed, also landlords changed,” says Natherlene Bolden, a longtime resident of Crown Heights and a founding member of the Crown Heights Tenant Union. Before that, she says, most tenants in her neighborhood “had a good rapport with their landlords.” One owner told her that getting rent late was “easier than evicting you and not being sure [how long] the apartment would sit without making any money.”

At the same time, gentrification was prompting landlords to dream of massive rent increases. “Once gentrification became prevalent about ten years ago, tenant harassment morphed into a horrible business,” says Bolden. Combined with minimal state enforcement of the laws against rent fraud, the financialization of real estate investments

during the housing bubble that insulated banks from the consequences of making bad speculative loans, and the weakened regulations, it helped create a fundamentally new landlord business model.

Before 2003, rent-regulated buildings were seen as assets “more like a bond,” says Judith Goldiner, attorney-in-charge of the Civil Law Reform Unit at the Legal Aid Society. According to Dulchin, landlords were largely content to make a 6 to 8 percent return on investment, a solid but limited profit.

In contrast, private-equity investors looked at those buildings as “historically undervalued” and “inefficiently exploited assets,” and issued prospectuses promising returns of 16 to 20 percent, says Dulchin. Those promises were based on projecting that 10 percent of the tenants would move out every year, five times the normal rate for rent-stabilized apartments. “You cannot get that through legal or ethical means,” he says. “It’s just not natural.”

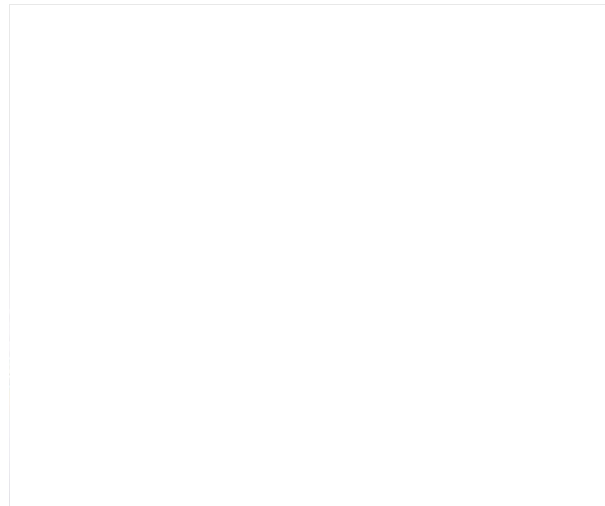
This model — dubbed “predatory equity” — undermined the “fundamental mechanism” by which regulations keep rents within reach of the majority of New Yorkers, Dulchin adds. As long as building sale prices were based on the property’s existing rent-regulated income, he explains, landlords could still turn a profit without forcing tenants out. But once investors became willing to pay speculative prices based on the building’s potential income, harassment became an essential part of the deal, because owners couldn’t cover mortgages unless the rent-stabilized tenants were driven out.

The bursting of the housing bubble in 2008 and legal sanctions against Pinnacle and Vantage stalled predatory equity. But over the past several years, the harassment model has again spread across the city, most intensely in neighborhoods on the front lines of gentrification. Banks are “willing to lend crazy money to landlords based on the belief that they’re going to be able to get people out,” says Goldiner. “Even in neighborhoods where gentrification hasn’t happened, the landlords think it’s about to happen.”

This Loophole Allows Landlords to Enact Massive Rent Increases

by STEVEN WISHNIA

Tactics vary depending on the heat of the neighborhood's housing market. The East Village and Lower East Side have seen some of the most intense harassment, with owners like Croman and Ben Shaoul seeking to empty out dozens of buildings. It's been highly profitable: Shaoul, whose construction practices left tenants breathing dust and going without cooking gas for months, was able to sell buildings for almost twice what he paid for them within three years.



A tactic that emerged after the recession is hiring “tenant relocation specialists.” Some, most notoriously Croman’s Anthony Falconite, have relied on intimidation, banging on people’s doors and yelling at them to leave. Others are more sophisticated, says Rahman: They keep dossiers on tenants to suss out what kind of deal they’ll take to move, whether a cash buyout or taking another apartment at a temporarily discounted “preferential rent.”


In one building at Amsterdam Avenue and West 159th Street, buyouts for tenants ranged from \$15,000 to \$110,000, says Luis Tejada, head of the Mirabal Sisters Cultural and Community Center in Hamilton Heights. Harassment in that area now “is worse than before,” he says, particularly in the buildings between Broadway and Riverside Drive.

They have large apartments and elevators, are close to Columbia University's campus expansion, and many tenants are elderly Dominican immigrants.

In the Bronx, where market rents are the lowest in the city, landlords generally try to raise rents on current tenants through major capital improvement and fees, or by using preferential rents, where higher rents are filed with the state than are charged to tenants, to hold the possibility of later increases in reserve. At 1511-21 Sheridan Avenue, says Warren, the owners have often told new tenants that the "legal rent" is \$1,400 — even when it's much lower — but they can have the apartment for \$1,100. The catch is that they can then be hit with a \$300 increase when their lease expires. When tenants at 1511-21 Sheridan asked the state housing agency for their rent history, he adds, "every apartment that came back was overcharged."

However, the 1997 state law set a four-year statute of limitations on contesting illegal overcharges except in cases of obvious fraud, says Rahman. And because immigrant tenants often pay by money order, notes Warren, they can't defend themselves against a nonpayment case if they can't find the receipts.

Speculation is beginning to hit the Bronx, too: 1511-21 Sheridan has been sold three times in the past three years, its price rising from \$15.2 million in 2007 to \$38 million this March. Apartments there were advertised this summer at \$1,500 for a one-bedroom and \$1,800 for a two-bedroom.



“Each owner was able to make a hell of a profit,” says Warren.

The city treasury also profits from rising rents, because the increased property values that result bring in more property taxes. Those higher property values, in turn, squeeze small owners with a more family-oriented business model who get hit with higher taxes based on the new speculative value of their buildings, as a Crown Heights landlord complained at a Rent Guidelines Board hearing last June.

Rezoning is another contributor. The Williamsburg rezoning of 2005, which enabled the construction of blocks of luxury housing, “opened the floodgates of speculation” in the area along with mass harassment, says Rolando Guzman of the St. Nicks Alliance. Since

then, he's seen it spread to Bushwick and Sunset Park. In East New York, rezoned last year to allow developers to build luxury housing with a percentage mandated as affordable, "we are seeing speculation rampantly," says Goldiner, "but we haven't seen the full impact."

Several recent laws have attempted to curb landlord harassment of tenants. A 2008 city law enables tenants facing eviction to file counterclaims accusing their landlords of a pattern of harassment; before, they could only file criminal charges, which requires evidence of more extreme conduct, or go to the state housing agency. The state Tenant Protection Unit, created in 2012, has slowly begun investigating rent overcharges. In July, the city enacted a law guaranteeing lower-income tenants facing eviction the right to a lawyer in Housing Court. And in August, Mayor Bill de Blasio signed a package of bills intended to curb harassment; these include measures defining repeatedly contacting tenants at odd hours as harassment, as well as requiring the Department of Buildings to audit 25 percent of applications for construction permits in rent-regulated buildings.

It's great that Steven Croman is on his way to jail, says Rahman, praising State Attorney General Eric Schneiderman for prosecuting him, but she notes that it took more than ten years of advocacy by tenant groups to get that action taken. The right-to-counsel law will be "very useful" in blocking "baseless cases," she says, but she also fears owners will develop new tactics to get tenants out.

Meanwhile, the underlying structural incentive for harassment remains. As long as vacancy decontrol and gentrification make it intensely profitable to get regulated tenants out, notes longtime housing lawyer Martin Needelman — as long as people are willing to pay \$1.4 million for an apartment on a Southside Williamsburg block where there are still occasional drug deals — there will be landlords trying to find a way.