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JOINT PUBLIC HEARING

before

RENTAL HOUSING STUDY COMMISSION

AND

ASSEMBLY COMMUNITY DEVELOPMENT AND URBAN AFFAIRS COMMITTEE

Condominium conversions and their impact upon the
availability of affordable housing

February 28, 1989
Room 403
State House Annex
Trenton, New Jersey

MEMBERS OF COMMISSION PRESENT:

Assemblyman C. Richard Kamin, Chairman
Assemblyman Byron M. Baer
Robert Fioretti
Frank Engleberg
John R. Giaquinto
Mitchell Kahn
Mark Rosen
Janice Wells
Susan V. Lenz

New Jersey State Library

MEMBERS OF COMMITTEE PRESENT:

Assemblyman John T. Hendrickson, Jr., Chairman
Assemblyman Anthony Impreveduto

New Jersey State Library

ALSO PRESENT:

John B. Lee
Office of Legislative Services
Aide, Rental Housing Study Commission

Robert H. Levin
Office of Legislative Services
Aide, Assembly Community Development
and Urban Affairs Committee

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Trenton, New Jersey 08625



**New Jersey State Legislature
RENTAL HOUSING STUDY COMMISSION**

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Richard Kamin
Chairman

MEMORANDUM

TO: Members, Rental Housing Study Commission
FROM: C. Richard Kamin, Chairman
DATE: February 15, 1989
SUBJECT: Meeting on February 28, 1989

(Address questions and comments to John B. Lee, Committee Aide at [609] 984-0231)

The Commission will meet jointly with the Assembly Community Development and Urban Affairs Committee on Tuesday, February 28, 1989, in Room 403, State House Annex, beginning at 10:30 a.m., for the purpose of a public hearing concerning condominium conversions and their impact upon the availability of affordable housing.

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ASSEMBLYMAN JOHN T. HENDRICKSON, JR. (Chairman, Assembly Community Development and Urban Affairs Committee): I would like to call this hearing to order before the Assembly Community Development and Urban Affairs Committee and the Rental Housing Study Commission. I welcome everyone here today. We want to hear what you have to say, as far as the Community Development Committee goes. With that, I will turn it over to Assemblyman Kamin. Assemblyman?

ASSEMBLYMAN C. RICHARD KAMIN (Chairman, Rental Housing Study Commission): Thank you, Mr. Chairman. I want to try to set the ground rules. This is about the fifth meeting of the Rental Housing Study Commission. We have been taking input, trying to find recommendations and reasons for, and solutions to, the housing crises that face the State of New Jersey, to try to provide affordable housing.

We are not, today, going to be taking testimony on any legislation -- bills specific. The comments we would like to hear today are from the experience of the individuals, primarily as they affect our mandate of affordable housing here in the State of New Jersey.

A number of people have signed up to testify. I realize that all of us have time constraints. It is our goal to be finished by one o'clock. So I ask that you try to be specific and, for those of you who speak later, try not to be redundant. Anyone who has a time constraint-- For example, I know that Mayor Cucci from Jersey City is here, and I am going to ask him to be one of the first people to testify.

I would also like to announce that Frank Gargiulo had intended to come down from Hudson County to testify, but he has the flu. I would like to send him our best wishes, because he is one of our former colleagues.

Are there any questions from the members of this Joint Committee? (no response) If not, let me first call on Mayor Anthony Cucci from Jersey City. Mayor, it's nice to have you with us.

M A Y O R A N T H O N Y R. C U C C I: Good morning, Mr. Hendrickson, Mr. Kamin, and members of the panel. I certainly appreciate this opportunity. I promise to be brief, in realization of the number of people who wish to approach this sensitive situation.

Let me say, coming from Jersey City-- Needless to say, Jersey City, as well as every municipality in Hudson County -- it is not unique to just Jersey City and Hudson County; it is shared by many of the counties and municipalities throughout our State -- has a dire need for rental and affordable housing. A brief example of what we are experiencing in Jersey City: We now, in this administration, have over 1500 units of affordable housing, partially built, fully built, certainly contracted, regardless of any change in administration. The last 39 units became available for application approximately two weeks ago. In four days, through media advertising on a local basis, over 7000 applications were submitted to Jersey City. Of course, that 7000 will be kept as a pool for those who qualify, an ongoing program, certainly with a linkage program that we implemented on July 1, 1985, that developers, naturally, would not be mandated, but would certainly be expected to comply with formulas for a linkage program in affordable housing, whether it be on-site, off-site, or cash payment in lieu of those things. Also, to comply with a formula to help us with the great impact of the infrastructure on the development.

I am happy to say that this has resulted, once again, in over 1500 units. Regardless of that, we still have less than 1% of housing available on a rental basis, and if not all of that 1%, the major part of that 1%, is not available to moderate- and low-income working people. I think this is a situation that can be well-understood.

Condo conversions have had a great impact, and continue to have an impact in Jersey City. In my opinion,

condo conversions do not help the need for affordable or rental housing in any way. Regardless of the fact that some people may leave their rental apartments to buy, the number who are doing that within Jersey City is extremely minimal.

The problem we all know; we understand. What is the possible solution? The solution has to be something throughout the State that has support. That it is not affecting anyone's particular area at this time, does not mean it does not have the potential to impact upon your area by virtue of a socioeconomic migration that is going on throughout our State.

We also must have solutions that do not, in any way, negatively affect what could be very productive for a community. For example, in order for us to attract developers to Jersey City who are going to help us sociologically and economically, we must be able to have better than a transient atmosphere. If they are going to draw on our working pool of people, or bring people into the area, they would certainly like to know that we have a stable atmosphere that they can draw upon, therefore making it more conducive to them to come to New Jersey from other areas out of our State. But they are not going to be attracted to a very transient atmosphere where they cannot rely on bringing people in or the employment of people within our own State to work for these new developments.

So, the picture is more than just a family, or 1000 families in this city, as opposed to another community. The picture has a great, great prospective to it. The ramifications socially and economically are really almost non-ending.

We have rent control in Jersey City. I hope the day comes when we won't need it -- nowhere. If we did not have that rent control, our displacement would be far greater than it is now. All I see through condo conversions is a fast way to exploit an economic crisis for a fast dollar. And once again, we are now going to be facing tremendous displacements.

We are well over 4000, and higher, in Jersey City alone, in Hudson County, with already realized condo conversions, and those that will be actualized very shortly. Where do these middle- and low-income working people go, with fewer than 1% rental apartments available?

So I am offering here a plea -- a plea to let's be totally objective. This is not unique only to our city -- Jersey City, Hudson County. It is shared. The only way to be totally objective is to take a full measure, and a full study of those areas that can be addressed. For example, I am happy to see, and I congratulate the entire Assembly-- I believe they unanimously voted for an employer assistance bill. That may be more toward home owning, but not necessarily just that. It shows you already that you are thinking carefully, a matched basis of every dollar-- Every three dollars that an employer invests, we will invest a dollar. That, I think, should be considered as part of the total comprehensive picture.

But if an employer has to put up this kind of money, in order to expedite, or make it more stable where his work force will be coming from, then we cannot leave that employer out there alone just by virtue of giving a dollar to every three they do to create affordable housing and affordable rents. Then we must put more than our money where our mouth is. We must show that we are taking actions other than that nominal dollar; that we are taking legislative actions that will be felt statewide, and yet will have an equitable impact upon all.

The Federal government certainly has not helped by its act of 1986. The largest rental unit developer in the country -- Sam LeFrak and his corporations -- immediately after 1986, just stopped making any kind of rental units. It is just not feasible for them; it is not properly done.

Once again, getting back to developers, we have potentially now, and hopefully it will culminate successfully,

another world-famed corporation. The question they are asking is-- They want to know, of course, about safety, police, and fire. They are satisfied with accessibility by roads and mass transit. The other question is, how about our housing? I feel very, very reluctant to even be candid, but one must be candid. I have told them the facts I have told you, and not in an oversimplified way.

We are hoping very strongly to attract this great developer, but I do see a reluctancy that this will affect, not only the developer, but other developers once again. The stability of their corporations is the work force they have to attract to produce their end product. If we can't have a more stable, less of a transient kind of area and State, then we are not going to attract those people to come from out-of-state to add to our economy.

Thank you very much for your time, and I thank the others. I believe when I turned around, I saw a hand go up. I hope I didn't intrude on anyone having their hand up for something back there.

ASSEMBLYMAN KAMIN: Not at all, Mayor. I wanted to ask, if I may, before we go to questions from the Committee, how does your testimony balance with the current law on condo conversions? The current law says that a landlord is to provide tenants with a three-year notice, and to waive one month's moving expense as a compensation, and if a tenant so requests within 18 months of receiving the notice, the landlord must offer comparable rental housing. At the end of the three-year notice period, the landlord may initiate eviction proceedings, but the court is required a one-year stay if the landlord fails to provide for comparable housing. Thereafter, the court may grant up to one-year stays, in the court, until either: One, the court is satisfied that comparable housing has been offered; and secondly, if the landlord has waived payment of five months' rent as a hardship relocation compensation.

MAYOR CUCCI: Let me take--

ASSEMBLYMAN KAMIN: As I understood you, you are talking about 4000 people who are under the gun here. They may have been given the notice, but, in fact, they are not out in the streets. I just wanted to ask if you would comment on that, from your experience?

MAYOR CUCCI: All right. First, let me take one facet of your question, sir. Number one, I don't know of any -- which does not mean that there may not be any-- But I certainly do not know of any builder who is converting into condominiums who has given those who are subject to be displaced a comparable list of where they can go to rent. There is a violation immediately on the entire thing. And I can understand why. I don't think the converter is doing it maliciously. I said there were less than 1% available units. That 1% goes to those who can afford to pay.

So if we take step one, the requirement that a converter should offer a comparable list of what is available, or comparable rents, there is a violation immediately there. It almost makes the rest of it totally moot.

Then there is something else. Maybe this is not pertinent exactly, but I would like to mention it. We have tried to innovate -- not innovate for the sake of patronizing anyone-- We have come up with a formula, and that ordinance has been passed by the Council in Jersey City, that we can treat condo conversion somewhat similarly, if I may use that term, to our rent control; to make the condo conversion units available for those who have been renting on a purchase arrangement. That purchase arrangement would have a cap, providing those were as-is. If there were any renovations, of course, they would be built in. That is on a ratio of 73 times the monthly rent you are paying, which now offers equity, if they so desire, to the person who has been renting that unit, and certainly offers an appreciable profit to the owner. That

is something that we have out there now that is being challenged. It is not pertinent to what you said.

But getting back, if the converter cannot even comply with the first requirement of offering a list of comparable rentals, then how can we go to step two? The thing, in my opinion, becomes socially and economically repugnant. It borders on a moral violation, in my opinion.

ASSEMBLYMAN KAMIN: Thank you. Questions from the Committee?

ASSEMBLYMAN BAER: Yes.

ASSEMBLYMAN KAMIN: Assemblyman Baer?

ASSEMBLYMAN BAER: Thank you, Mayor. I wanted to ask you, regarding the thousands of people who are facing displacement, if they are actually displaced, without any further legislative action being taken to deal with the situation, what kind of problems would that cause your community -- cause your city?

MAYOR CUCCI: Assemblyman Baer, it would be catastrophic. We already have a homeless population of just about 400. Regardless of how sensitive I and my administration have been to affordable housing -- and I have worked feverishly to reduce it -- of that 400 homeless population, a segment of that is made up of families who are homeless by being displaced, if not necessarily through condo conversion, by being displaced through high rents, and so forth, that they cannot afford. It has so affected them that the breadwinner of the house has to take days off from work to look for rooms, and it therefore affects their job. We now have that segment being provided for. Just imagine if this thing is compounded, and we turn loose 1000, 2000, 3000. We're talking about predominantly working people. It will immediately affect their jobs if they do not have a home. Therefore, it affects their entire life socially, economically, and morally.

So what we would be doing, would be making a critical problem that already exists worsen. I think Jersey City would be a prime example throughout the entire State if this happened, if we study those ramifications. But who wants to study the actualization of something? We want to prevent it as much as we can. We have already 400 homeless in Jersey City. Once again, a segment of those is made up of homeless families, not only through fire, but through economic displacement. Fortunately, they work, but they cannot afford, and they cannot find, a place that is comparable. It is a situation that is horrendous, and it is frightening.

ASSEMBLYMAN BAER: The 4000 people you refer to-- I take it they have received notices, depending on the particular building, over quite a variety of time.

MAYOR CUCCI: Right.

ASSEMBLYMAN BAER: So, so far as the four years of time they would have before the landlord could require them to leave by the providing of the additional payment, some of them may be, within what, six months or a year of that?

MAYOR CUCCI: Six months, or a year at most, yes. I don't understand how you could keep extending it, and I don't understand how people can live under that kind of an atmosphere.

Look, Mr. Baer, we have -- with Rick Cohen, HED, and all -- researched every possible way for affordable housing, and I am disappointed because I thought it would be easier. In just a bit over three and a half years, we are producing over 1500 that are not all completed yet. That is nowhere near what we do need and what we will need with those kinds of displacements. What I see in a time when New Jersey is enjoying a very low unemployment rate, is eventually putting people out of work because an employer will not be able to tolerate, for a long period of time, someone who has no place to live, and has to take care of their personal family needs and themselves. So, it creates a situation.

We've heard of unemployment, but not by virtue of someone who has no place to live. All we are doing is compounding it, unless you find a solution whereby, over this period of time, these people are protected. They have to be protected until such a day as the city, working locally, and working on a Federal and county basis, and a State basis, will make arrangements, and will provide housing that is comparable to what they had, so they can continue their lives. Until that day, measures have to be taken to safeguard-- The three years may not be enough. We may need seven; we may need eight. We all hope there will be a day when there is no rent control; when there is no need for it. Yet, Jersey City has never stopped. We have encouraged new buildings for condominiums -- new -- or old abandoned buildings.

Jersey City had to go as far -- and I am very proud of this-- We had a great deal of land and city-owned buildings, which before they were just sold out from under everything, to enjoy that lucrative market that was out there -- real estate-- We held a substantial part of city-owned land and buildings in reserve, because we knew that if we were going to provide affordable housing, we would first have to have city-owned land and buildings. Not an isolated one, but one of the best examples, is that we have finally -- and I am waiting now for COAH for final approval, which we know is imminent in there-- We were successful, under the RCA -- Regional Contribution Arrangement -- to take 150 units of the mandated part of the Township of Ramsey. The only way Jersey City was able to accommodate that, was by not selling off all of its land and buildings. And the temptation is there, with the fiscal crisis we have.

So we are-- I use that not as an isolated example, but as an example of the integrity of our city. Right now, Robert Janiszewski, our County Executive, from a pool of 150,000, is putting forth -- 150 million-- We are putting

forth 100 million to apply to the 12 communities how they best can serve the need for affordable housing.

ASSEMBLYMAN KAMIN: Thank you, Mayor Cucci. Excuse me. If I may, before we continue with the questioning, and I call upon Assemblyman Hendrickson and, Mr. Baer, you have another follow-up question-- It might be helpful if we went around the table here and had each of the members introduce themselves and tell us who they represent. This is a joint hearing, and it might be helpful to our guests who are here, and perhaps the press.

I would also like to remind you that the reason for this hearing today is-- It is not on legislation, not on condo conversion bills that are being considered by other committees, but only on the affordable housing efforts here in New Jersey.

If I may, I will start from my right.

MR. GIAQUINTO: Yes. John Giaquinto. I am representing the New Jersey State Builders Association. I am also Chairman of the Edison Rent Control Board.

MS. LENZ: Susan Lenz, representing Commissioner Villane of the Department of Community Affairs.

MR. ROSEN: Mark Rosen. I am on the Rental Housing Study Commission, and I am also a member of the Coalition for Better Housing.

MR. FIORETTI: Bob Fioretti, from Waterfront Invest, and I am on the Rental Housing Study Commission.

MR. MATOS: David Matos, Assembly Democratic staff.

ASSEMBLYMAN IMPREVEDUTO: Tony Impreveduto, Assemblyman, District 32.

MS. SMARTH: Deb Smarth, Assembly Majority office.

MR. KINGSTON: John Kingston, Assembly Majority staff.

ASSEMBLYMAN BAER: Assemblyman Byron Baer, District 37, and a member of the Rental Housing Study Commission.

MR. KAHN: Mitchell Kahn. I am a member of the Rental Housing Study Commission, and Director of the Bergen County Housing Coalition.

MR. ENGLEBERG: Frank Engleberg. I am a member of the Housing Commission, but I also represent the North Bergen Tenants Organizing Committee.

MAYOR CUCCI: I am aware of that, thank you. May I thank each and every one of you very, very much. I am sorry if I have imposed too long. In fact, I am hurrying to meet Commissioner Daggett. We are meeting in Newark, and I need a (indiscernible) permit very badly, because, what is contingent upon it? Affordable housing. That is a contribution from a developer. So, we're working on it.

ASSEMBLYMAN KAMIN: Mayor, if we could impose, Mr. Baer has a fast question, as does Mr. Hendrickson.

MAYOR CUCCI: Yes, Mr. Baer?

ASSEMBLYMAN BAER: My final fast question -- and it may seem pretty obvious -- is, do you consider this an emergency situation, a matter of great urgency, that the protection that you refer to, protecting tenants from displacement from conversion, be acted on in some way as soon as possible?

MAYOR CUCCI: Assemblyman Baer, you said it beautifully. This is an emergency. Yes, as soon as possible. Trite, but true, as of yesterday, so to speak, because it can't wait. It is growing; it is mounting; and every day that goes by, we are getting closer and closer to that moment of truth that we have to face up to, and we can possibly ease that time as we work now. Yes.

ASSEMBLYMAN KAMIN: Assemblyman Hendrickson?

ASSEMBLYMAN HENDRICKSON: Mayor, I really appreciate your testimony. What I would like, when you get back to your busy Mayor's office -- and I know just how busy they are -- I would like to have that in writing to each member of the Committee, particularly my Committee -- okay? -- so we can put it in and really go over it

The name of the developer that pulled out in '86-- We didn't get that.

MAYOR CUCCI: The name of the developer?

ASSEMBLYMAN HENDRICKSON: Yes, the investor who was building the houses, that didn't build any more after 1986?

MAYOR CUCCI: Oh. It is Sam LeFrak. Right now, he is building at Newport. Even our Newport development, which on the master plan had arrangements for rental housing-- He changed his mind after '86, with the Federal law. So it is the same LeFrak of the famous LeFrak City in Rego (phonetic spelling) Park, but not LeFrak City in Jersey City. It's Newport Center. Okay?

ASSEMBLYMAN KAMIN: Assemblyman Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: Mayor, just one fast question: Do you have any idea, just in Jersey City alone, how many rental units in the past eight years have been converted to condominiums?

MAYOR CUCCI: I probably used a very conservative number. In the last eight years, there could be as many as 4500 to 6000, even closer to the 6000. In Hudson County--

ASSEMBLYMAN IMPREVEDUTO: No, I just--

MAYOR CUCCI: In Jersey City, I am going to allow myself a wide margin. Between 5000 and 6000, or no lower than--

ASSEMBLYMAN IMPREVEDUTO: Are no longer rental units?

MAYOR CUCCI: Absolutely; absolutely. I am not talking about new construction. I am talking about--

ASSEMBLYMAN IMPREVEDUTO: Just old construction -- old buildings that people were living in, which have now converted to condominiums?

MAYOR CUCCI: They haven't been totally displaced, but that is the number that stands to be displaced, among others who already have been.

ASSEMBLYMAN IMPREVEDUTO: That is an important number.

MAYOR CUCCI: I thank you genuinely, each of you.

ASSEMBLYMAN KAMIN: One more question.

MAYOR CUCCI: Yes, sir?

MR. GIAQUINTO: I could keep you here all day.

MAYOR CUCCI: Well, that's okay.

MR. GIAQUINTO: I am also on the Rental Housing Study Commission. Mr. Mayor, what would you consider the most serious problem about housing in your city? And I have a follow-up question, too.

MAYOR CUCCI: Well, the most serious problem is that itself -- providing housing -- on a rental basis and on an affordable purchase basis. That is the problem. We just don't have-- We have senior citizens' complexes, where each one has a waiting list of 500 or 600. We have public housing -- at least eight of them. We have hundreds waiting who qualify for public housing. We have working-class people who are moderate- and low-income people by the hundreds, waiting to find something commensurate with their income. So the problem is housing itself.

MR. GIAQUINTO: Okay. Then apparently the State of New Jersey has really not solved that critical problem of, one, homeless, and affordable housing?

MAYOR CUCCI: No, but they have helped. I must say that former Commissioner Leonard Coleman has, and it certainly looks as though Mr. Villane is on the same track, and that is not being patronizing. Mr. Coleman certainly expedited for us, before he left, a few arrangements that really help. He did all he could, and I am sure Mr. Villane will, too. But it has to be more than just Commissioner Coleman, more than Commissioner Villane. It's got to start from the top, right down to the community. There have to be expeditious ways.

In fact, I was handed something yesterday in Trenton on how the concept can, hopefully, be expedited along the way. That came out of the Community Affairs Department.

MR. GIAQUINTO: Now, if this problem were solved -- the homeless and the affordable housing for the lower income -- then all of the other problems would not even exist?

New Jersey State Library

MAYOR CUCCI: Well, I don't know what other problems would not exist.

MR. GIAQUINTO: Well, I am talking about-- I am getting back to condo conversions. I could ask you a thousand questions. What price range are those condo conversions, from where to where?

MAYOR CUCCI: They vary, sir. Sometimes they call it an "inside price," meaning that someone who has been renting there can get an inside price, in a proper way, and it may be \$75,000, \$80,000. You hear prices of \$110,000. Okay? I know someone -- and I have to believe this person -- who earns \$28,000 or \$29,000 a year. He has lived in a studio apartment in St. John's in Jersey City, which is being converted, for 18 years. He now finds that even at the inside price, with his somewhat moderate income of \$29,000, yet higher than many people, he does not quality to purchase the very studio apartment that he paid rent for for 18 years.

So, you have prices ranging from \$75,000 -- which should be an inside price -- up to \$110,000.

MR. GIAQUINTO: So, condo conversions are meeting a certain segment of the market that cannot be met by building houses somewhere else?

MAYOR CUCCI: I am afraid that the segment they are meeting are not people who are from Jersey City who decide to leave a rental apartment vacant for someone else and buy. They are attracting a great many people who don't live in Jersey City, who come from out-of-town, and buy. Now, if we had a great proportion of those people who are buying the condos but were leaving rental units, or other owned units, then you would be leaving-- You would never have only 1% availability. You would have much more. But if the migration is coming from another area and buying the condos, how has that relieved us -- our own constituents? Do you understand my point?

MR. GIAQUINTO: You know, you have to do the whole thing. How has that affected your tax base and your taxes -- these condo conversions? Has that not helped the tax base in your city?

MAYOR CUCCI: Well, right now we are going through a reevaluation. Okay? That reevaluation has certainly come at a time when real estate is certainly at the highest it has ever been in Jersey City. We believe the formula that was exercised by our tax assessor is fair; the buyer of a condo paying his fair share according to the formula and according to 100% of market value. They are not in any way being punished, or paying more, and they are certainly not being favored to pay less than the required formula. Our tax base now-- Our value, they claim, in Jersey City, is now \$5.6 billion, by virtue of the new reevaluation. Yet the State turns around and, based on '88 sales after the reevaluation, says we are not worth \$6.9 billion, and takes away \$13 million in school aid.

You know, I am not trying to get into another area, but Jersey City is on the threshold of becoming more and more sustaining, and is working hard for affordable housing. But, like other communities in urban areas, it is also on a fiscal razor's edge if it does not get the support it needs, and others like us need. Then, instead of the threshold being economic recovery, it becomes fiscal and social economic chaos. That is the kind of threshold position we are in now.

ASSEMBLYMAN KAMIN: Thank you, Mr. Giaquinto.

MR. GIAQUINTO: I have many questions, but thank you for your--

ASSEMBLYMAN KAMIN: Mayor, if I may?

MAYOR CUCCI: Yes?

ASSEMBLYMAN KAMIN: While we are trying to finish up, Bob Fioretti has one question, which is short, and your answer is going to be short as well, if I may ask. Thank you.

MAYOR CUCCI: I promise.

MR. FIORETTI: Good morning, Mayor.

MAYOR CUCCI: Good morning, Mr. Fioretti.

MR. FIORETTI: Having the distinct pleasure of building in Jersey City for the past three and a half years, we have worked very hard with you in both the inner city and also in providing contributions for affordable housing.

My biggest concern continues to be focusing the burden on one segment of the population, which continues to be the private property owner. It seems that since there is this crisis, we do need more help from either the State or the Federal government.

Can you point to any specific area of funds that the city has used, or available to be used, that would be most efficient in facilitating the production? If I were to give you a wish list--

MAYOR CUCCI: Our own funds, Mr. Fioretti?

MR. FIORETTI: No, available from the State or Federal government. If there was this new pool of money created, what would it look like, and in what form would it come, to help the city the most?

MAYOR CUCCI: If it were to supplement the funding we have already built up -- and that is somewhat over \$9 million-- You are one of those participants; you contribute either in lieu of, building, or the actual cash. The new concept now, which I hope becomes an actuality by our own county, is that there will be \$100 million available for communities, to help to build affordable housing. That would give us something to work with in the county. That would supplement our local level. The other impetus is needed on a State level. I may not be able to be definitive, but there has to be money. We are all clamoring and putting mandates on what the affordable housing mandates should be for each community. But the roads, the access to getting that money, the access to doing all that, is very difficult.

One of the things -- I do not call it a roadblock, but it is not so easy-- If you want to give city-owned land or buildings for affordable housing, you are giving the land and the buildings required free, naturally to reduce the rental or the selling price, so it is not built into either one. You must get a nonprofit organization, because then they have a limited dividend. It is very difficult finding enough qualified, nonprofit organizations. We have been successful with eight so far, but that becomes a delaying factor. Many people, many churches, many good institutions are nonprofit, but don't have the wherewithal to do it. Okay? So you need funding from a source. You also need, I think, some latitude, since you are giving up the land for free, to expedite this if there are not nonprofit organizations that are qualified to be the sponsor of the building. Then you are going to have to look for other means to make it possible to give this land free, or the buildings free, so that the price tag can be reduced.

I may not be answering you directly, but--

MR. FIORETTI: But Mayor, would this money-- Let me try to get a little bit more direct. Would the money come in forms of low interest constructions loans, or rent subsidies? What programs have you seen work most efficiently in providing affordable housing?

MAYOR CUCCI: Low interest loans; CDBG money on a Federal level, where it is applicable; where it could be used to expedite. We take our UDAG loans that were given out, the interest that comes back through our EDC -- the Economic Development Corporation. We use those interest funds to supplement and perpetuate. We need more areas like that; areas that do not have such restrictions on them, yet do have great responsibilities in their use -- but more than we have.

I guess I am oversimplifying or being general, but that's--

ASSEMBLYMAN KAMIN: That is very consistent with the testimony we have received.

MAYOR CUCCI: Is that right?

ASSEMBLYMAN KAMIN: Yes.

MAYOR CUCCI: I recommend you to a man you all know, Rick Cohen, who could be much more definitive side by side, you know. And, Mr. Hendrickson, I will certainly forward to the members of the Committee-- You're talking about what I said, and more. I can document our projections to you, our completions.

ASSEMBLYMAN HENDRICKSON: I appreciate it. Just send your testimony in, Mayor.

ASSEMBLYMAN KAMIN: Mayor, thank you very much.

MAYOR CUCCI: Thank you very much.

ASSEMBLYMAN KAMIN: I know there are other members of the Committee who have questions, but I am going to ask if they would drop a note to Mayor Cucci, and ask him to submit his answers back in writing, or you can walk into the elevator, and ask your questions now.

We have an extensive number of people who wish to testify.

MR. KAHN: Mr. Chairman, may I ask one quick question -- one very quick question, because I think it bears a lot of relevance to our deliberations? There is a major bill pending -- even though this is not a hearing on the bill -- the non-eviction bill, S-2107. You are the Mayor of one of the largest cities in the State. What is your position on that bill?

MAYOR CUCCI: I support it.

ASSEMBLYMAN KAMIN: Thank you very much. May I now call on representatives from the New Jersey Multi-Housing Industry Council, Jacque Eaker, Kerry Flowers, and Mike Pesce. I also understand that Don Legow, I believe, is also here.

J A C Q U E E A K E R: (speaking from audience) Yes. At this time, there are several members from the industry who would like to say something. We have been asked by the Commission to address certain areas, and that is going to be Mike Pesce and Kerry Flowers. Then there are several other people-- (remainder of comment indiscernible; no microphone in audience)

ASSEMBLYMAN KAMIN: That's fine. My goal, as you know, is one o'clock. That's an hour and 50 minutes. I have 20 people to speak.

M I C H A E L P E S C E: I assure you, I will be brief.

ASSEMBLYMAN KAMIN: Thank you. If you would, for the record, please identify yourself.

ASSEMBLYMAN BAER: Mr. Chairman?

ASSEMBLYMAN KAMIN: Yes, Mr. Baer?

ASSEMBLYMAN BAER: If we do not conclude by one o'clock, is there a possibility that we will continue beyond that, or take a lunch break?

ASSEMBLYMAN KAMIN: Depending on the tolerance of this Committee and the audience.

ASSEMBLYMAN BAER: Fine, thank you.

MR. PESCE: Thank you, sir. My name is Michael Pesce. I am the Vice President of the Management Division of Cirkus Real Estate. We are also a member of the Coalition for Better Housing in the State of New Jersey. I am here today to attempt to address the concerns that you have spoken about.

Let me start with telling you a little bit about what we do, so you can understand our perspective. We are in the condominium conversion business from several different perspectives. First of all, we are real estate brokers, and we broker the sale of approximately 100 condo and co-op units per month in the State. We also purchase apartment buildings for the purpose of conversion. To date, we have done approximately 70 conversions. We are also in the management business. We

manage condos and co-ops in the State of New Jersey, and to date, manage about 5000 of them.

Let me start with the question of the impact of conversions on the availability of affordable housing in the State of New Jersey. I would like to offer, for the record, a report -- and I think I have sufficient copies for everybody, if you have trouble sleeping at night -- entitled, "Conversion of the Rental Housing Stock to Condominium/Cooperative Ownership," by Professors Listokin and Burchell. This was prepared at the request of the Coalition for Better Housing. I will pass these around. I suspect at the end of my testimony may be most appropriate, rather than interrupting things.

One of the things -- and I will just refer to it briefly -- that this report addresses, is the very question of, what do conversions do to the availability of affordable housing, or particularly rental housing? Obviously, I can't dispute the fact that when a unit is converted, it is taken off the rental housing stock. It shows up somewhere else, though. It shows up now in a different category of ownership. But in terms of the rental housing actually going away--

ASSEMBLYMAN KAMIN: May I ask that you distribute that material now, so we can kind of look at it?

MR. PESCE: Certainly. I would be glad to. (witness complies)

ASSEMBLYMAN KAMIN: Thank you.

MR. PESCE: Sure. The chart, I think, that bears the most relevance, is at page 12 of the report. It addresses, by county, the percentage of rental housing stock lost to the rental housing stock lost to the rental housing market as a result of conversions. And I guess one point ought to be made right up-front: The only real basis you have to look at that number is, registered conversions. So, when a 100-unit building is registered to convert by the Department of Community Affairs, it shows up as 100 units having been taken

off the rental housing stock. That does not mean, however, that all of those rental units are no longer rental units. Obviously, there is a period of time over which those 100 units are sold. So this is the worst-case scenario, when you look at these numbers. This assumes every conversion, once registered, is sold, and therefore not available. Senior citizens, for example, are going to be in some of these buildings for the rest of their lives.

I think you would be interested to know that the percentages, at least in my judgment, are not big numbers. In Essex County -- and by the way, the time frame here is through 1987, the last point at which available figures could be had -- 3.3% of the rental housing stock has been converted; Middlesex County, 2.77%; Passaic County, 3.13%; Bergen County, the highest, with the exception of Atlantic, 13.88%; Union County, 3.04%; and Hudson County, 7.46%. I won't go through all 21. Obviously, some counties have virtually no incidents of conversion.

I think it important to understand that this is not a phenomenon that is completely depleting the rental housing stock in the State of New Jersey. The next issue, of course, is, where does it go? It doesn't go away. These are not buildings that are being demolished. The form of ownership is changing. I must tell you, I don't stand before you with any apologies for the fact that we are in the business of converting. We think we are providing something that in the absence of conversions would not exist in the State of New Jersey, and that is affordable housing for first-time home buyers, and also for empty-nest type of people, who have decided it is time that they don't need the house, but they want to remain in the community where they are.

It is just going to another form. It is not going to the landed gentry in the State of New Jersey. The people who buy our converted units, which are in the price range of

\$70,000 to perhaps a high of \$150,000, are, in fact, the young, the married couples who, in this day and age of detached homes being virtually priced out of the market for those people, in the absence of conversion, they would have nowhere to go to attempt to build some equity in something.

So again, I make no apologies for that. Also what comes with the conversion is, for the most part, a substantial rehabilitation of the physical plant, which also benefits those tenants who, in fact, have the right to remain in the place. They end up with a spruced up complex, in many instances, with a controlled rent. It also provides investment opportunities, not only to those people who want to live there, but for the person looking to have a piece of the rock, if you will.

I would suggest to you that this is not a bad thing -- conversions. Yes, some rental housing stock goes away, but it shows up in another very desirable form. If there is a problem with rental housing, let that be addressed on a State level, perhaps through State or Federal funding. Don't put that burden on the landlords.

Although I certainly understand that this is not meant to be a legislative specific session, I do want to address some of the concepts that are being thrown about as legislative solutions to this perceived problem. Non-eviction: The pending legislation would, in effect, say that any tenant in the State of New Jersey in a building either to be converted or already converted has tenancy for life. The question oftentimes asked is, well, it works in New York, why can't it work in New Jersey? Why all these naysayers and people predicting gloom and doom for the industry?

I must tell you, we are involved only in the State of New Jersey. It is the place where the principals in my company come from. It is where we want to be. So I can't tell you that we have experience in New York. But I will tell you this: As we perceive the current legislation out there, it

will, in fact, bring conversions to a grinding halt. Any one of the four major components of it will have that effect. The non-eviction aspect of it-- We are very different than New York in many respects, and thank goodness so. If I could point to the one major reason why it is going to affect us much worse than it would affect the State of New York, it's price. Price, of course, is a function of market.

Just throwing out some examples: If the average price of a condominium in Manhattan, or a co-op, is \$300,000, that converter can afford to do what he has to do to deal with the fact that he is going to have lifetime tenants there. The question is, how does he convince those people to buy, in order to make his conversion work? He does that by very substantial price discounts; not like the insider prices we have in New Jersey of 15% to 20% discounts, but discounts in the range of 50% to 60%. That is what will convince those otherwise legally protected people to invest their hard-earned dollars to buy their units. With a \$300,000 unit, that works, because even at a 60% discount, the landlord still yields \$120,000 in the purchase price. He certainly doesn't get rich on that kind of a sales price, but it is enough to make it work, and it is enough to make the whole process palatable. That price also gives him enough money to then subsidize the people who, even with that substantial price discount, refuse to buy.

In New Jersey, if your average price for a condo-converted unit is \$100,000, and you have to give a 60% discount, the landlord is now confronted with, can I sell it for \$40,000? Well, trust me. We can't sell it for \$40,000. That unit that we are being compelled to sell for \$40,000, would sell to somebody who wants to operate it as only a rental for \$50,000 or \$55,000, so the numbers just don't work. I can tell you that whatever percentage of this business we control in the State of New Jersey will be gone. We are absolutely convinced. You can't get bank financing for projects if you

have a non-eviction plan, and ultimately, you know, we are not prepared to put up the large sums of money and take the risks we have taken, with that sort of problem out there.

Very quickly, on the other aspects of the legislation-- Retroactivity: Not only prospectively would tenants be given tenancies for life, but people who are already in there would be protected for life. That means that the person who saved up a nest egg and invested in a unit, understanding that economically it made no sense as a rental unit with a tenant in place, understanding that you would lose some money over some period of time, but understanding that under current law that period of time was four years, has just been told, you know, that this tenant you thought you had for another three, you have for another 40, or virtually for the life of that tenant. I can assure you that the banks will end up owning more real estate than individual homeowners in the State of New Jersey, should that come about.

The question of home rule-- The State of New Jersey regulates condominium conversions like no other state right now. Now the suggestion in the pending legislation is, let's put another layer of regulation. Let's let the municipalities supplement the existing legislation via home rule.

ASSEMBLYMAN KAMIN: Understand, we don't want to get on the legislation, okay?

MR. PESCE: Understood.

ASSEMBLYMAN HENDRICKSON: We are going to be here a long time.

MR. PESCE: Okay; okay. I would just say that none of the four components of the bill that is pending now are palatable. This is not a bill that the industry can adjust to. It is a bill that will shut the industry down.

I thank you for your time.

ASSEMBLYMAN KAMIN: Thank you. Assemblyman Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: Sir, you mentioned the percentage of 7.46% -- excuse me, but I am suffering (referring to cough) -- of buildings have converted to condominiums in Hudson County.

MR. PESCE: Right.

ASSEMBLYMAN IMPREVEDUTO: Could you convert that to apartments for me?

MR. PESCE: Number of units?

ASSEMBLYMAN IMPREVEDUTO: Yes.

MR. PESCE: Sure. I believe on page 9 of the report, it is reflected in those terms -- 10,894.

ASSEMBLYMAN IMPREVEDUTO: Okay. So, in Hudson County there were 10,894--

MR. PESCE: Correct.

ASSEMBLYMAN IMPREVEDUTO: --apartment units that have come off the rental list due to condo conversion?

MR. PESCE: Not entirely so; 10,894 units have been registered in the State of New Jersey entitling the owner to sell those units subject to existing State laws, meaning that if some of those tenants have 40-year protected tenancies, although it is in this number-- It is not off the rental market. They can stay there. If there are four-year protected tenants amongst those number, those people stay there for however long that four-year period lasts.

ASSEMBLYMAN IMPREVEDUTO: This was up through 1987, I think you said.

MR. PESCE: Through the end of '87, correct.

ASSEMBLYMAN IMPREVEDUTO: Okay. So, we're two years back. So we're looking at two years ahead, so--

MR. PESCE: Well, we're one year back. We're 14 months back.

ASSEMBLYMAN KAMIN: These figures were from the Department of Community Affairs.

ASSEMBLYMAN IMPREVEDUTO: No, no, I'm just talking about years.

MR. PESCE: I agree with you. Certainly, '88 is not here.

ASSEMBLYMAN IMPREVEDUTO: Okay, '88 is not here--

MR. PESCE: Absolutely.

ASSEMBLYMAN IMPREVEDUTO: --so we're looking at-- On the long shot, somebody might have three years left on the conversion if, in fact, the court gave him that extra year. So we're looking at the potential in 1991 of having 10,894 units, if no other conversions take place?

MR. PESCE: Well, you certainly have protected tenants within that number.

ASSEMBLYMAN IMPREVEDUTO: Are we talking about 894 protected tenants, are we talking about 9000?

MR. PESCE: I am not going to speculate on the percentage of senior citizens.

ASSEMBLYMAN IMPREVEDUTO: It is not a large percentage, I'm sure.

MR. PESCE: It is certainly some percentage; I don't know what.

ASSEMBLYMAN IMPREVEDUTO: But not a large one?

MR. PESCE: Correct.

ASSEMBLYMAN IMPREVEDUTO: So we're looking at approximately 10,000. Let's leave off-- And let's not even say what converted in 1988. Let's just say what converted up until 1987. The problem I think the Mayor of Jersey City was alluding to before is, where, in fact, do they go? Rental units are virtually nonexistent right now in the urban center of Jersey City. They certainly aren't available in probably most of Hudson County.

Now, the question is, where do these people go? Maybe down in South Jersey there are some rental units that are much cheaper, that they could probably afford, but they work in Jersey City, or they work in Newark. That is the problem we are confronted with.

I can appreciate what you're saying. Who has the right to tell you what to do with your own property? You're right; I don't disagree with that. I do have a problem, though, with, what do we do with the people?

ASSEMBLYMAN KAMIN: Susan Lenz, would you mind commenting on that, because of the programs the Department of Community Affairs has in place?

MS. LENZ: Well, the Department has a number of programs to produce affordable housing units. Jersey City has taken advantage of most, if not all of them, but they are quite small compared to the amount of money the Federal government used to spend on affordable housing in New Jersey.

ASSEMBLYMAN IMPREVEDUTO: I think we heard the Mayor speak of 1500 units before.

MS. LENZ: That would probably be a statewide figure for some of our programs. I guess over the past four years, Jersey City could have produced that much from State programs.

ASSEMBLYMAN IMPREVEDUTO: So we're looking at 1500 units being produced over the past four years, as opposed to a loss of 10,000 up to 1987.

MS. LENZ: The ones produced may have been purchased housing. They wouldn't have been all rental. The State just has one program right now for rental.

ASSEMBLYMAN IMPREVEDUTO: So it would be even less produced, as opposed to what is as of 1987?

MS. LENZ: Yes.

MR. PESCE: Assemblyman, just one caveat to that, too: Of that 10,000, some of those were purchased as well, by existing tenants.

ASSEMBLYMAN IMPREVEDUTO: But I am also stopping at 1987. We are not saying what was converted in 1988, or in '89. I'm sure the market seems to have regulated itself, at least when I look at Hoboken. Not too much is changing down there at this point. I don't know if there is much conversion going on at this point.

MR. PESCE: Well, you see that, too. You see communities having surges. I think it is simply a fact that the most desirable units for conversion go first. Once they are gone, the pace typically slows, leaving aside the marketplace.

ASSEMBLYMAN IMPREVEDUTO: So basically, we are looking at the major problem, and that is why we are here. That is to see-- Of these 10,000 units, where do the people go?

MR. PESCE: I can tell you that we don't have a great deal of experience converting on our own behalf in Hudson County. We are typically in Essex, in Bergen, in Passaic, and in Middlesex. I can tell you that in buildings that we have converted, we have never gotten to the point where we actually had to go to court and lock someone out. They find places to go. I mean, I don't keep track of where they end up, but they end up. Nobody tells us to send our security deposit refund to the corner of Market and Broad. I mean, it is being sent to an address. I certainly have the impression that something is happening out there to accommodate these people. I do not mean to demean the fact that there is a problem. I just don't think it ought to be solved on the backs of one segment of the population.

ASSEMBLYMAN KAMIN: Let me add also that, in the budget that has been proposed for this year, which we are in the process of reviewing, I believe there is some \$54 million that has been set aside for housing initiatives by the administration, so there should be some hope with some of that.

Thank you.

ASSEMBLYMAN BAER: Mr. Chairman, just as a matter of procedure -- something I wanted to raise before, but I didn't want to break in with a technical point of order or anything-- But just on procedure, I wanted to say this, having been on a number of study commissions in my 18 years here: Certainly, there is no specific legislation that is in this Study

Commission, which you are chairing, and some of us here are serving on, in that regard, we have no power or authority over legislation as a standing reference committee would have. But if there is legislation that is relevant to the matter that is before us, it is certainly appropriate for people to comment on it. I don't think you intend to suggest that people are out of order if they believe that particular legislation is particularly helpful or harmful or relevant to our inquiry.

We, as a Study Commission, certainly may want to consider whether we want to recommend certain legislation, or legislative concepts for or against. I don't think we would have a full record, and I don't think you intend to have us not get any information from witnesses relative to legislation, that might be relevant to our inquiry. Am I correct on that?

ASSEMBLYMAN KAMIN: To some degree you are, Assemblyman. But my reason for focusing on that, is that I think if we, in fact, as we are compiling a report, do make legislative recommendations, perhaps a hearing on our report with proposed legislative initiatives at that time-- Perhaps it would be appropriate to get bills specific for testimony. The reason for that is the length of the list of the people who plan to testify today. I know that many are down here because of legislation being considered by some of our committees, and I didn't want our message to be clouded today, or the thrust of our Commission.

ASSEMBLYMAN BAER: Well, with all due respect, Mr. Chairman, I recognize that there are many witnesses, and that you may, as the Chairman, want to manage that in any one of a number of ways, whether having to do with the extent of the testimony or whether extending our session, or whatever. But it seems to me that to limit people so that they cannot discuss, or recommend any particular legislative scheme that they think may be very relevant and helpful to us, I don't think would be desirable.

ASSEMBLYMAN KAMIN: If the thrust of your question is, are we tolerant, yes, sir, we are.

MR. PESCE: I feel like I got my points in.

ASSEMBLYMAN KAMIN: Okay, thank you. Mr. Fioretti?

MR. FIORETTI: Mike, being on the Rental Housing Study Commission, we really have two objectives: One, to take a look at why the shortage of rental housing has occurred; and secondly, to come up with a combination of incentives that we would be able to offer builders, converters, and so on, to produce more affordable rental housing in the State. Does this report, or do you personally have any of those incentives, or combination of incentives to offer the Commission, for us to think about?

MR. PESCE: Are you talking about on a rental level?

MR. FIORETTI: Yes.

MR. PESCE: I can't tell you that that was the intent of the report.

MR. FIORETTI: Okay.

MR. PESCE: Quite candidly, we are not in the business of building rental housing, so you probably have the wrong witness to ask that question of.

MR. FIORETTI: Okay.

ASSEMBLYMAN KAMIN: Thank you. Mr. Engleberg?

MR. ENGLEBERG: I listened to your report carefully, and I got the impression from your report that you certainly know an awful lot about the real estate business and how to make a profit. I wonder if you take into account your social responsibility to the municipality in which you are building any buildings? Is there any relationship between what you are doing and your responsibility to the municipality? I am talking about a township -- North Bergen -- where you may not do any building. But in our township, there is no available housing, and the municipality itself is changing in character. Buildings are being built there, and people are going out who

spent their lifetimes in that municipality. I am a person who has lived in Hudson County for 70 years. Does the builder have any responsibility when he goes into building, in taking into account that he is just destroying a municipality? I heard all of the beautiful things you said about what is happening in the municipalities. What is the social responsibility?

MR. PESCE: Well, sir, I think I have to disagree with the premise of your question. I don't believe that what we do destroys anything. I think it improves it. We may come from different perspectives. I am quite proud of what we do and, as I said, I won't apologize for it.

MR. ENGLEBERG: I heard you say that. That is why I am questioning you.

MR. PESCE: And I believe it. If you look at the buildings we bought two years ago, and look at them today having gone through the conversion process, they are much better buildings today.

MR. ENGLEBERG: I believe that is true. I don't want to enter into a debate, but let me--

ASSEMBLYMAN KAMIN: On this particular point, I think we can agree to disagree, and I would like to move on.

MR. ENGLEBERG: Let me just make one point, because I think it is important for people to see that we do speak from entirely different perspectives.

The gentrification that is taking place-- The young people you are talking about are probably a young family that wants to own a home in the suburbs, where there will be a little bit of land, in a safe community where they will be able to raise their children. You are giving them an apartment that they are trapped in -- the family is trapped in for the rest of their lives, probably still a roach-infested building, that hasn't been corrected.

So there are fundamental differences, and I wanted to make that point.

MR. PESCE: I can only tell you this: Those are not the conversions that I am involved in.

MR. ENGLEBERG: I'm sure anyone who comes up here is going to tell us the same thing.

MR. PESCE: Well, fine.

ASSEMBLYMAN KAMIN: Thank you for your comments. Am I missing sign language back there? Occasionally I see members of our audience trying to get my attention for some reason.

FIRST UNIDENTIFIED SPEAKER FROM AUDIENCE: Mr. Chairman, each time one of us raises his hand -- every 12 minutes -- someone is being evicted.

SECOND UNIDENTIFIED SPEAKER FROM AUDIENCE: Oh, that's a little abuse.

FIRST UNIDENTIFIED SPEAKER FROM AUDIENCE: Yes, the abuse is free.

ASSEMBLYMAN KAMIN: Thank you very much. We will continue on with the testimony, and I would ask, now that you have made your statement about the every 12 minutes-- I would appreciate it if you would refrain from raising your hand, because it is somewhat distracting to the members of the Committee who are up here.

Mr. Hendrickson, did you have a comment?

ASSEMBLYMAN HENDRICKSON: Yes. On page 12, you have some pretty high percentages. I would like to see broken out of that, particularly in the tourism counties -- in the shore counties -- what conversion factor you have in there for hotels/motels. That isn't really shelter housing; that is recreation and/or vacation. I know that in Cape May and in Ocean-- I look at these figures, and I know there is a problem in parts of Ocean, as far as condo conversion goes, but I believe that 8% is high, because a lot of it, in the experience I have had, is hotel/motel conversion. I think it would be helpful to us--

MR. PESCE: Let me see if that is readily available. If it is, we will supplement it.

ASSEMBLYMAN HENDRICKSON: And just real quick -- okay? -- you are investing, as a private investor and under the Constitution, in the conversions. Right now, why not in rental units?

MR. PESCE: Why are we not investing in rental units? Principally because they don't make economic sense for us. Somebody owns every apartment building out there today. So with what we are being asked to pay to purchase them, we can't run them as rental units.

ASSEMBLYMAN HENDRICKSON: Essence of time-- I just have one other statement: The Community Development and Urban Affairs Committee will be having public hearings on this also. We are looking at, at least two future hearings, and you will hear from us. Anyone who is interested can contact Robert Levin, from our OLS staff.

ASSEMBLYMAN KAMIN: Thank you. Mr. Flowers, would you like to give some comments as well? It is nice to have you with us. Thank you.

K E R R Y F L O W E R S, E S Q.: Thank you. My name is Kerry Flowers. I am an attorney currently with Greenbaum, Rowe, Smith, Ravin, Davis and Bergstein, with offices in New York, Woodbridge, and Newark. Prior to joining the firm, I was in-house counsel with Time Equities.

ASSEMBLYMAN BAER: Excuse me, I had some questions for the prior witness. I didn't know you were going on to another witness.

ASSEMBLYMAN KAMIN: Well, if I could have Mr. Flowers proceed, and then--

ASSEMBLYMAN BAER: They are very brief, but before we lose the train--

ASSEMBLYMAN KAMIN: Certainly, Mr. Baer. Does anyone else have questions of Mr. Pesce at this point? (no response)

ASSEMBLYMAN BAER: First of all I wanted to ask, is yours a publicly held corporation?

MR. PESCE: No, it is not.

ASSEMBLYMAN BAER: So, we couldn't get any figures to evaluate, in terms of the profitability of the business, and whether or not it could afford, or to what extent, you know, it would be able to afford the impact of prohibiting displacement? There is no way we could see that, because that is private information which we are not entitled to.

MR. PESCE: That's correct.

ASSEMBLYMAN BAER: Okay. My other question is: You speak about, with all of these conversions you have been involved in, the fact that you have never had problems with people leaving. That being the case, how are you so certain that protecting tenants by non-eviction protection would pose you any problem?

MR. PESCE: Well, I am not suggesting that people are not leaving because there is, in fact, a legal deadline for them to leave. I believe they are. What I am suggesting is, I believe they find another place to go. If you tell them they can stay forever, however, many of them will opt to stay forever.

ASSEMBLYMAN BAER: Okay. On these percentages -- the figures -- are these-- It says "rental units." Are these all rental units, or are they just multi-family rental units?

MR. PESCE: Gee, you know, I am not sure of the answer to that.

ASSEMBLYMAN BAER: So, if one were to exclude what in some areas are very large numbers of rental units in single-, or two-, or three-family homes, the percentages might be larger -- if we were taking the smaller universe of that? Am I correct?

MR. PESCE: Yes.

ASSEMBLYMAN BAER: And likewise, if one were to eliminate from these figures the relatively small apartment buildings which do not experience as great an incidence of conversions, we might find that the percentage would grow even larger?

MR. PESCE: Sure, if your assumption is right. I don't know what you mean by "relatively small," though. We have converted and manage a number of 15- and 20-unit buildings.

ASSEMBLYMAN BAER: Right, but they are not the most common.

MR. PESCE: True; that's true.

ASSEMBLYMAN BAER: Your average building is what size?

MR. PESCE: I would say probably 75 units in what we have converted and manage.

ASSEMBLYMAN BAER: Okay. So we have substantial rental stock where the building has from one to 15 or 20, or even 30 or 40 or 50 units, which is not where the main impact of conversion is. Your figures do not take into account any breakdown economically. Is that correct?

MR. PESCE: As to the price?

ASSEMBLYMAN BAER: Yes -- price or rental range or income of the folks involved.

MR. PESCE: That is correct.

ASSEMBLYMAN BAER: Therefore, it may very well be that some income segments are affected much more than others. I guess that would be a logical assumption.

MR. PESCE: Which way it goes, I would have no idea.

ASSEMBLYMAN BAER: And, the impact on some income ranges might put us into a totally different dimension, percentage-wise.

Thank you. That's all.

ASSEMBLYMAN KAMIN: Thank you, Mr. Baer.

MR. KAHN: I have one quick question: You know, I don't want to dwell on the bill at all, but really on the

impact on affordability of conversions. Even using your figures-- You talked about 10,000 conversions. Let's take Hudson County -- 10,000 conversions. Actually it is now up to 15,000 since the time that this study was done, as of last July.

But assuming that your figure is correct that 30% buy -- at least your researcher's figure -- that an average of 30% of the tenants buy, it still leaves large numbers of people who are going to be leaving, whether you evict them or not, or whether they leave at the end of three or four years. If we are talking, in a place like Hudson County, about 9000 or 10,000 tenants entering the rental market, which is already less than 1%, clearly the impact on affordability of the remaining rental units is going to be severe. I mean, you know, just by the very nature of the law of supply and demand, it is already going to make a tight rental market tighter. Would you agree with that?

MR. PESCE: I think there is a problem with the availability of affordable housing. The question is, who solves it?

MR. KAHN: Okay, thank you.

ASSEMBLYMAN KAMIN: Thank you very much. Now, Mr. Flowers.

MR. FLOWERS: I believe I was telling you basically about myself. I am with Greenbaum, Rowe, Smith. Prior to joining the firm, I was in-house counsel at Time Equities, based in New York. They converted approximately 10,000 apartment units within the metropolitan New York area, and have substantial projects in New Jersey as well. I deal, on a daily basis, with conversion projects, both in New York and in New Jersey, and am familiar with the process in both states. I have come here today to discuss, or address some of the concerns which the conversion industry has heard from statements in the press and elected officials and such, about New Jersey copying the New York style of no evictions.

Well, that is simply a fundamental misconception of the New Jersey regulatory scheme for converting rental housing into cooperatives or condos. Clearly, under New Jersey law, eviction plans are permitted. They require 51% of the tenants in the particular project to agree to buy their apartments. Non-eviction plans require 15% of the existing tenants to purchase their apartments, before being "declared effective."

So, New York has simply not allowed the total lifetime tenancy concept, which is evidenced by certain bills that are pending before various legislatures. A major difference between New York and New Jersey that I encounter all the time and have to answer is, what is the fundamental difference--How does the regulatory process differ? In New York, the conversion industry is regulated under the Martin Act, which is New York's Blue Sky Law, and New York is determined that an offering of real estate, in whatever form, is a public security and is subject to a wide range of regulations, and is treated as such. The review of the public offering statements is conducted by the New York Attorney General's Office by attorneys.

To the contrary, New Jersey is governed by the Planned Real Estate Act, and the offering statements are reviewed basically by people who have engineering backgrounds. The fundamental difference between New York and New Jersey is the focus of the review process. The review process in New Jersey is much more geared toward the individual condition of buildings, and indeed, the New Jersey regulations require the establishment of reserves for the capital components of the building, or their replacement in a satisfactory condition. It simply does not exist in New York.

You have a licensed engineer in the State of New Jersey who must certify as to the condition of the building and as to the adequacy of the reserves that are being established for the conversion. Again, that simply does not exist in New York.

New Jersey State Library

The emphasis is entirely different. The actual product which emerges is probably a much better maintained building and a much more improved building in New Jersey.

One issue I have heard again today is the issue of affordable housing. I did not know exactly what my colleague was going to state, but on a personal note I will tell you, when I was in law school I was married with a young child, and we faced the prospect of losing an apartment in New York, and I had to find alternative housing. It was expensive in 1981. No one was assisting me in my law school education, nor no one assisted me in my finding of housing, family or anyone else. We did buy an apartment in a conversion, and we lived there for four years. It was our only affordable alternative to obtaining housing at that point. By staying in the apartment for a period of five years, we built equity, and were able to buy the current house we live in. Granted, we chose an expensive area of New Jersey, Bergen County, but in order to live there that was the only entry level type of housing that was available.

I see that daily in the types of projects that I work with. Conversion is an affordable alternative to obtaining housing for people. One thing that is missing from both the proposal in New Jersey and in the New York scheme, is that there is no income criteria which is given to people who are seeking to benefit from the public of some kind of protected tenancy. I review senior citizens' applications and applications for protected tenancy on a daily basis, and I frankly, as a homeowner and someone who has to work very hard for a living, do not understand why someone earning \$60,000 or \$65,000 in any place in New Jersey is entitled to a benefit that I simply don't have. I understand the concern of what happens to people when there is no rental housing, but I will also tell the Committee that I have no protection against property taxes, and I live in a very expensive town. No one is

telling me that they will subsidize my mortgage payment. No one is telling me that they will subsidize my property taxes. I think the municipalities have an equal obligation to ensure that their taxes and their tax rates are such that they are affordable to a wide segment of the population.

I would also note, or bring to the Committee's attention, a recent decision in which our firm represented a developer in Hudson County. It was in the registration of the cooperative conversion of Woodcliff Gardens. The Appellate Division strongly talked, or addressed the rights of tenants versus the rights of property owners to determine the type of ownership that will own their property. The Appellate Division said that the method and the manner that is chosen by owners of multi-family housing is not subject to participation or approval from tenants. By, in effect, giving tenants a lifetime tenancy, regardless of their income criteria, you are making them a partner in the building. They participate in no risk if the building goes down; they participate in no benefit. And you are taking an important component, profit, or incentive, out of the entire real estate multi-family housing market.

If you wish to treat rental housing as a public utility, I think there are a lot of property owners who would be willing to have access to the type of rate-setting structure that is available before the Board of Public Utilities. That simply is not the fact. There are many municipalities in this State under rent control ordinances that limit increases to 2% and 3%.

One final point I would like to make is, the impact of the decision to give lifetime tenancies will have economic consequences to the buildings that are already converted. I represent many lending institutions which have given conversion loans, and they are concerned about the economic ability of the sponsors to maintain the negative carry on the occupied

apartments. Those apartments, in all likelihood, if the sponsor does not have independent resources, will go into default, and you are going to see, as I have seen already in the past year, sponsors not able to meet that negative carry; the difference between their obligations to the condominium association or the co-op and the monthly maintenance, and their obligations to the bank. Those obligations were undertaken with the assumption that there was a certain type of legislative criteria or scheme in place. If you upset that criteria and these people cannot recoup their investment, they have to simply go into their own pockets. If they don't have the money, the banks are going to have to step in. You are asking for substantial economic turmoil to those people who have already bought into converted projects.

ASSEMBLYMAN KAMIN: Thank you. Mr. Hendrickson?

ASSEMBLYMAN HENDRICKSON: When you were renting, when you were first married with a child, at what portion of your income did you feel rental housing was affordable? In other words, how much of your income were you ready to attribute for rent?

MR. FLOWERS: I was willing to spend 40% to 45%.

ASSEMBLYMAN HENDRICKSON: In that limit, all right.

MR. FLOWERS: I had no other choice.

ASSEMBLYMAN HENDRICKSON: Okay. On your investment, what would you consider a normal return to try to get you into the construction of rental units? What percentage, 10%?

MR. FLOWERS: I am in a law firm, sir, and I don't--

ASSEMBLYMAN HENDRICKSON: Okay. The way you were talking, I thought you were part of the other firm. Okay.

ASSEMBLYMAN KAMIN: Yes? Let me start over here.

MR. ROSEN: Kerry, will you just quickly explain the distinction between the eviction laws in New York City, as opposed to suburban New York State?

MR. FLOWERS: Well, the point is well taken. There is a substantial difference between the eviction laws and also the conversion laws, between the City of New York, the surrounding suburbs, and the rest of the state. There are many protections which are available to tenants within the City, which are not available and do not apply because the rental housing market is so substantially different. If you went to Syracuse, Utica, or Albany, there would be no problem with finding affordable housing. Land is readily available. There is no rent control. There is an open market, and that market is functioning and is okay.

In New York, tenants, unfortunately, are, in essence, given a lifetime tenancy with a right to transfer that apartment to relatives or anyone. The effect of the tenant regulations in New York has not been so much to give people affordable housing, but by accident of having occupied a space, they reap an economic windfall if a building is converted by having a veto power, in essence, over a conversion. I can tell you from personal experience, I have done many buildings in Central Park West and other fancy addresses, where the people come in screaming and crying that they have no money, but then turn around and make a tidy \$300,000 and \$400,000 profit by purchasing -- flipping their apartments. I don't think anyone intends affordable housing to be confused with that scenario.

But, by assuming that all tenants cannot afford housing, or should benefit from some type of scenario like New York does -- New York City -- you confuse the issue dramatically, and you wind up protecting people who simply do not need the protection.

ASSEMBLYMAN KAMIN: Mr. Rosen?

MR. ROSEN: My question was, is there a non-eviction law outside of New York City?

MR. FLOWERS: There is a non-eviction law throughout the State. Even in New York City, there is an eviction and a non-eviction.

MR. ROSEN: And, when you move outside of the City limits, am I correct to say that there is no non-eviction law; that you are permitted to evict tenants in New York State?

MR. FLOWERS: Correct.

MR. ROSEN: So it is just New York City?

MR. FLOWERS: Correct.

MR. ROSEN: Thank you.

ASSEMBLYMAN BAER: Doesn't that apply to other big cities?

MR. FLOWERS: Well, by the statutory definition, cities with a million or more, and there is another ring, which I believe is Westchester, Nassau, and Rockland Counties. I don't think any other cities within the State of New York come within that definition.

ASSEMBLYMAN KAMIN: Thank you. Mr. Fioretti?

MR. FIORETTI: Kerry, what year did the non-eviction plan go into effect in the City of New York, do you know?

MR. FLOWERS: The non-eviction-- I have the statutory reference in my-- It has been in existence as long as I have been practicing.

MR. FIORETTI: Okay. The second question is, are there any statistics as to how much rental housing was available in the City before the non-eviction plan went into effect and today, to see if it has caused any incentive for additional rental housing?

MR. FLOWERS: Well, similar to what was presented here today, I am sure statistics exist. I don't have them with me. If you wish, I'm sure I could get some of that information and make it available to the Committee.

MR. FIORETTI: I would certainly it. Thank you.

ASSEMBLYMAN KAMIN: It would be helpful. Thank you.

MR. FLOWERS: I can tell you that there is no incentive to build rental housing in New York currently.

ASSEMBLYMAN KAMIN: Mr. Impreveduto, and then Mr. Engleberg.

ASSEMBLYMAN IMPREVEDUTO: Mr. Flowers -- it's getting worse as we go along (referring to bad throat) -- just a couple of quick questions. I just want to clarify something. You were asked whether or not there was non-eviction outside of New York City, and I think you said there was. Outside of New York City non-eviction, or eviction?

MR. FLOWERS: I don't want to get caught in semantics -- outside of--

ASSEMBLYMAN IMPREVEDUTO: In New York City, there is a very strong non-eviction law?

MR. FLOWERS: Correct. You are either governed by rents--

ASSEMBLYMAN IMPREVEDUTO: In New York State, there isn't?

MR. FLOWERS: There are three types -- and this is what gets so crazy about the statutory scheme-- There are three types of housing -- rental housing -- in New York: rent control, rent stabilized, and market, and you have to fit -- and it determines-- None of it relates to income criteria. It all relates to when you happen to have entered into an agreement to rent that space, and whether or not you are permitted the succession rights to an aunt, an uncle, or whoever. Outside of the City, none of that stuff applies.

ASSEMBLYMAN IMPREVEDUTO: Only because housing is readily available.

MR. FLOWERS: Correct.

ASSEMBLYMAN IMPREVEDUTO: So actually, if housing were readily available, there would be no need for any of this. If there were plenty of rental units--

MR. FLOWERS: If rental housing were readily available.

ASSEMBLYMAN IMPREVEDUTO: Yes, that is what I am saying. If there were plenty of rental units at affordable prices, we wouldn't be worried about condo conversions.

MR. FLOWERS: One of the problems, however, is the restrictions on the rent that is allowable. Quite frankly, if I had \$100,000 to invest, and you had \$100,000 to invest, and we were asked to invest in Fort Lee, New Jersey, which will only allow us a 2% or 3% increase, I would put my \$100,000 into Treasury bills. I am certainly not going to invest it in rental housing.

ASSEMBLYMAN IMPREVEDUTO: That's quite obvious. My second question is: You mentioned Woodcliff Gardens -- that you are representing the people who own that?

MR. FLOWERS: Yes, we represented the sponsor there on various matters.

ASSEMBLYMAN IMPREVEDUTO: That's in North Bergen?

MR. FLOWERS: Yes. It is a conversion which has taking place, and is effective.

ASSEMBLYMAN IMPREVEDUTO: Okay. The reason I asked you that, is because that particular project -- and I don't want to get specifically into that particular project-- That particular project, as well as other projects I have heard horror stories about, you know--

MR. FLOWERS: I would love to take you -- if I could roll back the clock -- on a tour of Woodcliff Gardens four or five years ago, and take you on a tour of it now. The difference is phenomenal.

ASSEMBLYMAN IMPREVEDUTO: Has the owner fixed the boiler so that people get heat there now?

MR. FLOWERS: Yes.

ASSEMBLYMAN IMPREVEDUTO: Okay.

ASSEMBLYMAN KAMIN: Thank you, Mr. Impreveduto. Anyone else? Mr. Engleberg?

MR. ENGLEBERG: Just a few fast questions. Is there anything in the New York law that legislates the eviction of tenants after one year, two years, or three years in a converted building?

MR. FLOWERS: As I said before, there is simply no comparison to the tenant protection or eviction statutes between New York and New Jersey. I would like to make that clear. In New York City, there are three types of rental housing. It depends on which type you're in.

MR. ENGLEBERG: My question is, is there a law in New York that legislates that after a certain period of time, people shall be evicted and the judge is compelled to say, "Go out in the street"?

MR. FLOWERS: Yes. On market rate housing, yes.

MR. ENGLEBERG: On rental housing?

MR. FLOWERS: On rental housing, yes, but not on rent stabilized or rent controlled. You're asking a question about-- You are trying to ask a very simple question about statutes which, if I piled them in front of you, would be this high (demonstrates), which categorize rental housing into three different categories. There is not one answer that applies across the three categories.

MR. ENGLEBERG: Let me ask you another question. That wasn't clear to me. In New York, I got the impression from you that the Attorney General has the authority to veto conversions, if certain conditions are not met. For example, if it doesn't meet the code standards, and things like that.

MR. FLOWERS: No. There is a recent case in New York which stated that the Attorney General -- and it is basically, I believe, the Alamo case -- of New York tried to insist that all asbestos-containing material be removed from every building before there was a conversion. The Court of Appeals, which is New York's highest court, said that the Attorney General did not have the ability to do that -- could not regulate. They simply could only make the sponsor disclose whether or not the material existed and what the sponsor intended to do about it.

MR. ENGLEBERG: I don't that really directly answers my question. My question was, if there are clear violations--

MR. FLOWERS: Yes?

MR. ENGLEBERG: --can the Attorney General in New York prevent the conversion until these clear violations are met?

MR. FLOWERS: No.

MR. ENGLEBERG: If there is no heat in the building?

MR. FLOWERS: No.

MR. ENGLEBERG: I would suggest that we recommend an independent study of the New York law, to get an idea of that. Incidentally, I live one building away from Woodcliff Gardens. When you take us on the tour, take me back there--

MR. FLOWERS: I would be glad to.

MR. ENGLEBERG: --because I agree with you that there is beautiful grass planted around the building, but there is--

MR. FLOWERS: New windows, new intercom, new roof.

MR. ENGLEBERG: --no intercom, no windows, and we will take you to apartments where the rain is coming in.

MR. FLOWERS: Oh!

MR. ENGLEBERG: But my question is something a little different; my question is a little different. My question is--

MR. FLOWERS: But there are windows.

MR. ENGLEBERG: --are you aware of the number of apartments that are being warehoused within those apartments?

MR. FLOWERS: I have a philosophical-- We are going to agree to disagree, because I don't understand how any government agency can tell me that I have to enter into a contract with somebody if I choose not to. If I am a property owner and I have a garage space, or I have an apartment in a two-family house, and I choose not to rent that, I don't understand how a government can compel me to rent it, and then tell me how much I can rent it for.

MR. ENGLEBERG: See, we don't have so much of a difference of opinion. I happen to agree with you there that you have the right to put people out in the street. When you have vacant apartments that you can rent, you tell us you have

the right to keep them vacant, when here we are discussing a problem that exists in the State.

Woodcliff Gardens, in my opinion, is a glaring example of how condo conversion takes off the market rental units that can be rented, because the converter has decided that he can determine what his profit should be, when to sell, and when not to sell, while people are homeless and--

ASSEMBLYMAN KAMIN: Sounds like American free enterprise. John Giaquinto?

MR. GIAQUINTO: One question--

MR. ENGLEBERG: Excuse me. Free enterprise-- I heard that expression used. Does free enterprise give the right to do anything? (no response)

ASSEMBLYMAN KAMIN: Mr. Giaquinto?

MR. GIAQUINTO: The conditions of most rental housing now that is being purchased for conversion, based on the tax base that a town collects taxes on, are normally--

MR. FLOWERS: They are geared toward the rental income and the value of that property to generate a profit -- the ability to generate a profit.

MR. GIAQUINTO: Does rental housing-- I mean, not rental housing, but rent control-- Does rent control value upward or downward?

MR. FLOWERS: Rent control is definitely-- Well, I think all of you can understand that if you limit the ability of a property to generate an income, and the real estate taxes are based upon that ability to generate income, you have decreased, artificially, the amount of the real estate taxes. Every conversion, and every plan that I do, has to contain a very large description of the real estate tax consequences. After a conversion takes place, municipalities generate substantially more in terms of real estate taxes than the property generated as a rental. To me, that is simply a windfall. There are no more services required. You have not

built anything additionally, yet the municipality is generating significantly more in real estate taxes.

If you are looking for a fund, or a way to look at sources of obtaining money to establish affordable housing, why don't you simply tap that increase, which is, in essence, a windfall to any municipality. As I said before, I think it is incumbent upon any municipality to maintain a tax base that makes it affordable for every one of its citizens. I happen to live in Teaneck, in Bergen County, and there are many senior citizens who lived in Teaneck for many years, who are complaining bitterly that they have to sell their homes now because the real estate taxes are way too high for them to afford.

MR. GIAQUINTO: Hasn't this become a bonanza for most towns?

MR. FLOWERS: Absolutely, and the tax assessors certainly extract every bit of additional tax money that they can.

MR. GIAQUINTO: The other point I am getting at is, the maintenance on those condo units. From being a rental unit to a condo unit -- say a rental unit within rent control, and now it is a condo unit out of rent control-- What would you say the maintenance on those units would be?

MR. FLOWERS: I have seen it go across-the-board. It depends on the age and the condition of the building, and the price structure. It depends on a number of factors.

MR. GIAQUINTO: Would you say it improved?

MR. FLOWERS: I have seen where the maintenance is less than the rent. I have seen it where it is significantly higher than the rent. I can't-- I am not able to make a guess, and I don't have any figures on that, because I have seen it all across-the-board.

MR. GIAQUINTO: Okay.

ASSEMBLYMAN KAMIN: Thank you very much, Mr. Flowers. Is there anyone else from the New Jersey Multi-Housing Industry Council wanting to testify? (no response)

Let me now make a couple of comments. First of all, I said we were going to break at one o'clock. Obviously you can tell that is not going to happen. I think in the interest of giving everyone a chance to testify who cares to, we will continue right on with the hearing until we are finished with everyone who would like to speak before us.

What I will try to do to accommodate you, so you will know what the batting order is going to be, is announce the next three or four people, so you will have a sense of when you can go down and grab a sandwich, take a break, and come back and see us. We will just continue right on. Also, for the members, if you are getting hungry, please feel free to get up and go grab a sandwich, but we are going to keep right on going.

I would like to now call on Lewis Weyl. He will be followed by Assemblyman Bob Singer. And Assemblyman Kronick is here, and Assemblyman Menendez. Hudson County is well represented. Also, Assemblyman Kenny is with us today.

Mr. Weyl, thank you very much for being with us. I appreciate your patience. Mr. Singer, you're on deck.

L E W I S J. W E Y L, E S Q.: I thought I would be out of here by now, but--

ASSEMBLYMAN KAMIN: I know.

MR. WEYL: --the discussions are educating.

Good morning. My name is Lewin Weyl. I am an attorney with the law firm of Jamieson, Moore, Peskin and Spicer, with offices in Princeton and Trenton. I would like to thank you for the opportunity to testify at this joint hearing on the important issue of condominium conversions and the availability of housing. I am particularly interested in the issue at hand because I practice real estate, condominium, and land use law, and prior to my practice of law, I served as an

urban planner, as well as the Economic Development Director for the City of Trenton.

I would like to make three points this morning: First, tenants are well-protected under the present statute; second, there are several important public policy reasons to support the continued viability of condominium conversions; and third, confiscatory rent control is one source of condominium conversions.

As I am sure you are all aware, the present statute offers tenants substantial rights, if and when a property owner decides to convert his rental property to the condominium form of ownership. Every conversion plan must be registered with the Department of Community Affairs, and every plan requires a detailed disclosure of the terms and conditions of the sale. Included in the public offering statement is a professional engineering survey of the building, and a professional projection of the monthly condominium maintenance costs. In contrast, the average New Jersey purchaser of a single-family home does not get a sophisticated engineering inspection, and gets no professional estimate of his anticipated monthly maintenance costs.

Additionally, once the plan is finally registered with DCA, tenants are granted an exclusive 90-day option to purchase their units, during which time no other persons may inspect the property, and more importantly, as has been discussed previously, tenants are usually offered significant price discounts to purchase the unit during this period.

I think for most property owners who desire to convert their property, having tenants purchase their units is much more lucrative than waiting for the tenants to relocate, especially in today's flat real estate market and the over-supply of condominium units. As noted before, if tenants decline to purchase their units, substantive protection is available. Qualified senior citizens and disabled tenants are

entitled to 40-year protected lives, and all other tenants are entitled to occupy their units for at least several years from the date that DCA registers the public offering statement. The entire process takes approximately four-and-a-half years, besides the additional five months' rent that is paid to a tenant to relocate at that time.

Since the average American moves every five years, the issue of displacement and the actual amount of forced relocation is wholly uncertain. There is no uncontroverted data on the proportion of tenants who have actually purchased their units, the number of tenants who have purchased lucrative buyouts from their property owners to move earlier, and equally important, there is no data on the proportion of tenants who would have moved anyway, even in the absence of the conversion.

There are several public policy reasons to promote condominium conversions. Conversions promote housing investment and reinvestment in developed areas that have existing infrastructure in accordance with the State Development Plan. From a public policy perspective, conversions are also positive because generally owner occupants have more of an incentive to maintain their homes than do tenants. Additionally, property owners who convert their rental properties not only ensure that there are no safety violations in accordance with DCA regulations, but also generally upgrade the apartments with certain amenities to sell the units.

Conversions also offer benefits to municipalities, as noted before, especially those towns with a limited property tax base, because the change in ownership creates new property value without any additional demand for local services. Consequently, property tax revenues increase, and the remaining homeowners throughout the town receive more financial support in their payment of the local tax burden.

I would note that the proposal to permit towns to establish more stringent guidelines for conversions than those adopted by the State, is too important an issue to be left to the patchwork regulation of hundreds of municipalities. But if such a proposal is adopted, and a town does adopt more stringent standards, and hence curtails conversions as a source of revenue, I think the State might consider a proportionate reduction of that town's community development and property tax support.

Finally, perhaps the greatest reason to support conversions is that they offer New Jersey residents, including many moderate households, a singular opportunity to buy into the housing market. I would note from my personal experience, that I previously did sell units for the St. John's Associates in Jersey City. I sold about 40 units. About 30 of them, at least, were purchased by tenants, and the unit prices ranged anywhere from \$30,000 to \$150,000. Most of them ranged from about \$30,000 to \$75,000, which is -- at least by Mercer County's standards -- moderate income housing.

There has been a continuing discussion regarding the connection between rent control and condominium conversions. There are no studies, to my knowledge, which prove or disprove the causal connection between the two. But it must be clear to any property owner that, aside from abandonment of the property, or a distress sale, conversions oftentimes offer the only profitable solution to confiscatory rent control ordinances.

It is interesting to note that the September 1988 "Annual Survey of Municipal Rent Control Ordinances," prepared by the Department of Community Affairs' Office of Landlord Tenant Information, reported that approximately 120 municipalities in New Jersey have adopted rent control. Of these, approximately one-quarter of the towns do not permit vacancy decontrol.

In Hudson County, however, in an area of substantial conversion activity, seven of the eight towns reported by DCA to have rent control, prohibit vacancy decontrol and limit their permissible annual increases from 2% up to the rate of inflation. In light of the recent proposals to impose more stringent conversion controls, I would suggest that its adoption be limited to towns which wouldn't turn decontrol rents altogether.

To conclude, I would urge the Committee and the Commission to ensure the continued viability of condominium conversion, so that the residents of this State can attain home ownership.

Thank you.

ASSEMBLYMAN KAMIN: Mr. Weyl, thank you. I very much appreciate your testimony. Questions from the Committee? (no response) Thank you very much.

Assemblyman Singer, I believe, had to depart. I apologize to him, and to our friends who are here, that we were unable to get him on in a timely fashion, but sometimes that is how it works. Mr. Menendez, how would you like to join us and comment? And if Mr. Kenny would like to join us at the same time, and also Mr. Kronick-- It is nice to have so many of our colleagues here today. Hudson County is well represented.

ASSEMBLYMAN HENDRICKSON: If I may, someone may be able to get Assemblyman Singer out by the elevators. He may be waiting.

ASSEMBLYMAN KAMIN: May I also add, we have been a bit unmerciful on our stenographer staff here. If you need a break, just give me a wave, and we will take a five-minute break. I know you may need to change tapes, or whatever. Thank you.

Mr. Menendez?

A S S E M B L Y M A N R O B E R T M E N E N D E Z: Mr. Chairman, I want to thank you for the opportunity, along with

the members of the Rental Housing Study Commission and the Committee. Mr. Hendrickson is the Chairman of the Community Development and Urban Affairs Committee.

Let me first say that I come before you in three different capacities. I would like to try to blend the experience of all three in some of the information I would like to give the Committee. One is as a fellow State Assemblyman; one as the Mayor of the tenth largest city in New Jersey by population; and the third is as an attorney. Let me preface my comments by saying that I am not one of those who subscribe to the view that those people in the housing industry, or developers, or that whole range of individuals for which we have a very difficult issue to decide, are clearly all bad. They are not. Most of them are very reliable, hard-working, honest people, trying to make, you know, an affordable -- affordable from their point of view -- profit in the business that they decided to enter, which is the rental market. But we do have serious, serious issues.

So let me start off by asking you a real estate riddle: When is an eviction not an eviction? It's when it is a conversion. In the last year alone, you have heard from varying statistics, but clearly in Hudson County alone, over 11,000 rental apartments have been turned into condominiums. Eleven thousand families and individuals found that being a good tenant, paying their rent, keeping their apartments safe and clean, was not good enough to satisfy their landlord. So 11,000 families and individuals have had their homes cut out from under them.

In my home county of Hudson County, we have seen almost 10% of the entire housing stock turned into condos. The timing could not be worse. We should be encouraging ways to build approximately 150,000 new and affordable units of housing, which are so desperately needed. But instead, we are losing out in this regard. As every day of inaction passes, we

do less to solve the problem, and more to make things worse. What were once affordable apartments are now being transformed into condos at the rate of over 1000 a month, and often this conversion is nothing more than charging a very, very high price for what used to be a reasonable rental. Too many conversions are purely a question of a profit, where no renovation takes place, no upgrading of quality, just the raising of the prices.

The simple fact is this: We need more affordable places to live, not fewer. We need more places for families starting out and people in their golden years to live in dignity and safety, without having to consider their only option being giving up 50% or 60% of their income. And yet, there are too many developers who will consider their issue of profit over the issue of community.

Frankly, it is not fair to place all of the blame on the landlords and the development interests. Government, particularly the Federal government, has abandoned its rightful role as a catalyst for housing. To be realistic, I don't think -- at least in the near future -- that we are going to see those days again. But even today, perhaps more than ever, there is a role for government to play in the housing mosaic. First of all, and this is probably the issue that irritates most, we must play defense. Government -- in this case, the government of the State of New Jersey -- must use all of its powers to preserve our dwindling affordable housing stock. Our immediate task is to protect those who are living close to the edge. Everyone pays lip service to the sad fact that the homeless are a terrible indictment of the society that cannot provide for them; a society that we all feel should. Yet, we certainly do not need to add to that misery by throwing potentially more people out onto the streets.

I will say, as a personal experience, in the City of Union City, we have various shelters, and they serve a region,

not just our municipality. One is the St. John's Lutheran Center, and another one is the American Red Cross Center. In the City of Hoboken, you have the Maurice Bishop Shelter. They cannot handle the number of people in the north Hudson communities who come to them. If this means laws to protect and to defend for the moment until we can come to a solution of the issue, laws that will consider condo conversion, we must certainly consider them, and consider them soon.

We must do more than prevent people from losing their places to live. We must create new and better and affordable housing. While money is part of the answer, innovation and partnership are also the roads down which we must walk. I believe we must urge the Federal government to restore the tax incentive that existed prior to the 1986 Tax Reform Act. I think that, coupled with New Jersey's own law that there is no rent control over any new rental housing that is created for a period -- and I may be wrong on the time period, but I believe it is 20 to 25 years, or so--

ASSEMBLYMAN HENDRICKSON: Thirty.

ASSEMBLYMAN MENENDEZ: --are the ultimate incentives that we can do to bring people back into the rental market. We have heard many times that only-- I have heard people here, and on other occasions, say that rent control is the reason why they got out of the rental market. Well, for new -- and I don't know of any, and maybe the Commission has had the ability, or someone has brought to their attention -- anyone who has taken advantage of building new rental housing under our State law, that will exempt them from rent control. I certainly don't know of any in Hudson County, and I don't know if there are any before the State. So that clearly is not the only issue. I believe if we add the Federal incentive back, then between those two combinations of possibilities-- If then no one enters the rental market, then clearly it is no longer the issue of rent control.

We should consider fostering development by creating housing enterprise zones. I have a bill in in that respect. I know the Chairman has also expressed interest in this regard. We must make employers partners in the housing process. We must explore new ways of financing and capital creation. But, most of all, we've got to make affordable housing a priority for both the public and private sectors.

Now, landlords often speak of condo conversion protection ordinances as if they were acts of piracy. The question is, what are the values involved? No one would quarrel that they have a right to make a fair return on their investment. That has been well-documented by law. There is a trilogy of cases upholding rent control ordinances, also recognizing a landlord's opportunity and right to have a fair return on his investment. But there is also a more pressing right -- the right to live in dignity and safety. Sadly, things are doomed to be worse off before they get better. There is a built-in three- to five-year delay before the real effects of condo conversion displacement are felt.

Today we have a problem; tomorrow we will have a crisis, and after that we will have a tragedy. As the Mayor of Union City, I see dozens of people with problems every day. At least eight out of ten come to me because they have a problem with housing. A good many of those are a result of condominium conversion. These people are already paying at least a third of their incomes, or more, to live in housing that few of us -- few of us -- would call sumptuous. They simply cannot afford to go on to buy their apartments as they go condo. They cannot come up with the \$10,000, or more, for that down payment. And -- the worse issue -- they have no place to go; no place that we would consider going.

The condo conversion fight as it relates to your rental study is simply not economics. It is also a matter of basic decency. I think there are several things that have to

be considered by the Commission, and the institute does a good job of presenting its views and creating opportunities for us all to think about. But you know, when a buyer goes in to purchase a rental unit, he goes in with his eyes open. He knows the rent role-- I mean, if he is doing a good job, he knows the rent role; he knows what the local rent control ordinance is, if there is one; he knows the condition of the building; and he opts, freely, to purchase. When he does so, he does so knowing the rules and regulations under which he will exist. That equation of what he does-- Part of that equation in his business judgment is called risk. He makes a determination to take that risk.

A lot has been said about tenancy for life. While we may call it as we will, because we say it exists under potential legislation in terms of non-eviction, in reality today, as a lawyer, I believe, that a tenant has tenancy for life if, in fact, he lives under the rules and regulations and the statutory outline of the non-eviction law, which basically is, if he pays his rent, if he maintains his apartment in the fashion in which it was given to him, if it is not taken off the rental market, if he lives within the reasonable rules and regulations set down-- Whatever the statutory outline is under the non-eviction law, if he lives within all of that, he has, in essence, life tenancy. There is no other reason by which a tenant may be evicted, except in condominium conversion.

Now, when last year, or two years ago or so, the issue of a waiver keeping rental housing available existed, there was a different bill. It was called, "50% plus one." It failed, but at that time people within the housing industry said, "That is really ultimately unfair. That clearly is a violation of property rights. What would be fairer would be non-eviction." Now today we consider those-- Not today at this hearing, but we have considered those issues, and yet now non-eviction is not a fair way to go.

I heard the gentleman talking about tax bases, and that is one of the nicer points of a condominium conversion. But you know, there are matters there, too. First of all, full value is when-- We realize that full value is when they are actually sold. When a tax assessor of a local community goes in and assesses them what he believes at the time they are converted, I would like you to look at-- I would recommend to the Commission the number of appeals that are filed, as they relate to those assessments, and then what the true assessments end up being after those tax appeals. And I think that when we look at the issue of how many tenants are being displaced, at this point in time under the procedures we have, compared to the vacancy rate, which is less than 1% -- at least within Hudson County -- and the number of people we can displace, and the fact that we are coming very close to that point in time when some are already realizing that their time is up, and some will very soon realize that their time is up, and they cannot, or will not make a purchase, then what do we do with the thousands of tenants who will be displaced?

Is there an economic benefit to conversion to a municipality? Somewhat. But when it is offset by all of the issues of displacement, and what do you do with those people-- A municipality does not have the wherewithal, in and of itself, to create the type of affordable housing that is needed, compared to the numbers. Clearly then, that economic benefit is lost. And in comparison to the human detriment that it has created-- Those are some of the conditions that have to be considered.

I don't know that we can make the Federal government bring back the tax incentive, and we all know, as members of the Appropriations Committee, of the budget constraints we have. But if in that context we cannot dedicate more to the number of units than DCA has been able to produce, or if the numbers necessary within the context are not there, then

clearly do we not have an obligation that has been well recognized under case law, and well upheld under case law? Do we not have the right and the necessity to protect these people as we continue to reach for solutions?

I think that is important, Mr. Chairman. I hope the Committee and the Commission will expeditiously look at some of these issues, because I just don't think we have all the time in the world to come forward with some favorable conclusions.

I want to thank you for your patience and for the opportunity.

ASSEMBLYMAN KAMIN: Thank you, Mr. Menendez. Mr. Hendrickson has a comment.

ASSEMBLYMAN HENDRICKSON: I am kind of shocked that the real property assessment appeals were granted. That really shocks me. I would like to see some of those figures for my Committee. And then what I would highly recommend here and now, is that John Baldwin and Jack Raney specifically be brought in, to find out why the assessor cannot maintain his assessment before the county tax board. The county tax board is appointed by the county. Under our law, they all have to be qualified in real property tax assessment procedure, and it just presents a problem to me that they are being granted, for whatever reason.

ASSEMBLYMAN MENENDEZ: To make a point, Mr. Chairman, I am not saying that they won't in the end still receive a higher amount than they originally were assessed at, but they are lower than what I believe is being projected before you and the Commission. I think it would be interesting to see original assessments versus actual assessments, and seeing what those economic values are.

ASSEMBLYMAN HENDRICKSON: If you can get them for me, I would be happy to see them.

ASSEMBLYMAN MENENDEZ: At least within Hudson County, I would be happy to do that.

ASSEMBLYMAN HENDRICKSON: I have a problem with appeals being--

ASSEMBLYMAN KAMIN: Jan Wells, good morning. I didn't introduce you, because when we went around the table--

MS. WELLS: I was late.

ASSEMBLYMAN KAMIN: Jan is a member of the Rental Housing Study Commission as well.

MS. WELLS: Mr. Menendez, two questions: Union City does have rent control?

ASSEMBLYMAN MENENDEZ: Yes, it does.

MS. WELLS: And how much can the landlord-- What is the statutory limit for increases?

ASSEMBLYMAN MENENDEZ: Well, it is a CPI formula. It regularly works out to about 5%. It also allows for tax surcharges to be passed on to the tenant, hardship provisions, capital improvement provisions. It also -- until recently, and it still has, under a different format, however -- has the opportunity for written rental agreements, in which a vacant apartment, under certain conditions for which the property is approved, can receive a new base rent.

MS. WELLS: Is there any land left in Union City where you could build new rental housing?

ASSEMBLYMAN MENENDEZ: Well, in District 33 there are a lot of other cities that have a lot more land available than we do. We are a landlocked community, and in that regard we have a very difficult opportunity in terms of new land. There are spots, but really what we would have to do is take down, let's say, commercial structures, by purchase -- eminent domain -- to build affordable structures, or convert them into residential structures. We have to be more creative than those who have good amounts of waterfront and other land areas, to be able to build. That is why the crisis for us is so much greater.

MS. WELLS: I understand. I know Union City and it is very dense, and that is why my question. Are you being approached by any private developers who may want to come in and, say, purchase some of the older commercial buildings, or whatever? And are you taking the Newark tact where, you know, "I welcome you with open arms. Let me see what we can do"? Are you seeking out private developers to see if you can, you know, get any of this created?

ASSEMBLYMAN MENENDEZ: We would be happy -- and then, again, the issue is, happy to create affordable units. To convert simply to those units that are not affordable for the population that exists -- for the general population around us -- is not our goal. We have talked to individuals. We are in negotiations with two different communities on regional contribution agreements. A piece of legislation which I have offered, where I would hope Union City and the north Hudson area would become one of the housing incentive zones, would give a series of incentives to developers to build affordable rental housing.

So, in that regard, yes. We have our arms open. However, we have not had many offers in that regard.

MS. WELLS: Thank you.

ASSEMBLYMAN KAMIN: Thank you. Mr. Fioretti had a question.

MR. FIORETTI: Assemblyman, I have two questions: One, can you first tell us a little bit about the housing enterprise zones you mentioned -- what incentives that would include?

ASSEMBLYMAN MENENDEZ: If you wish to look at it, I would be happy to make sure that we get you a copy. It's Assembly Bill 2918. It talks about creating various zones; three throughout the State -- northern, central, and southern. Within those regions, it has certain actual zones which would be identified. Among the incentives that would be created

would be: One, any of the materials that are used in the development of new affordable housing would be free from sales tax. If you are a corporation, certain corporate business tax exemptions. If the municipality agrees to be within the zone, one of the conditions is that we will consider abatements for affordable rental housing. There is also, I believe, one or two other tax incentives as they relate to the potential developer. It is more specifically outlined in the bill.

MR. FIORETTI: Okay, great. Could you get a copy of that to the Commission?

ASSEMBLYMAN MENENDEZ: Sure. I would be very happy to.

MR. FIORETTI: Second, for the first time I heard the idea here today where we might take the additional tax revenues that are provided to the city from condo conversion -- possibly take that money and put it toward a fund to provide affordable housing. Is that something that, as a Mayor, you would consider to help increase the funds available for housing?

ASSEMBLYMAN MENENDEZ: Well, you know, first of all, we have to look at what the real numbers -- what they mean in terms of new dollars to the community. And secondly, those condominium conversions -- and there are bills existing for other condos that exist, and whatnot-- We have to make all of the municipal services that are available to the average resident available to those institutions, whether it be garbage collection, snow removal, or any of those things. In that regard, if you have to provide all of the services, I think a very healthy challenge could be brought about by taking normal tax dollars and diverting them from the rate that everybody would enjoy, either being reduced -- because there is such a big advantage, if there is one -- or held in line by whatever the advantages. I think the other taxpayers could seriously bring an issue.

In terms of creation of a fund, that's fine. But I think that when we look at the dollars that are generated, we

are far off the mark, in terms of the ability to create anything substantial by those funds. Not that it isn't good as a start, but it is certainly not the solution in this State, in my opinion.

MR. FIORETTI: Thank you.

ASSEMBLYMAN KAMIN: Thank you, Bob. Mr. Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: Bob, if I may just ask you this question. I think I know your answer, but I think it is important that we make this statement. If, in fact, there were sufficient affordable housing in your city, and in our county, would you be standing here today arguing for a no eviction, no conversion program?

ASSEMBLYMAN MENENDEZ: Well, let me just say that if we had everything, then clearly there would be a place for people to go. I don't know. The only thing I still have difficulties in conceptualizing, is that someone who has lived for a long time, and let's say he or she is not a senior citizen, loses their home simply because of conversion. But if we had, you know, in this imaginery thing, all of the units necessary for all of these people to go to an equally affordable and decent place, well that is a consideration that I would have to think about at that time. But I have a real problem with people just losing their homes, simply because-- They have met all of their obligations under the non-eviction law; they have done nothing wrong; and they are going to be evicted simply because someone wishes to make a greater profit than they presently are making for that unit. I still have a problem with that, but I might be better able to live with it if all of the units were created.

ASSEMBLYMAN IMPREVEDUTO: But the paramount problem is the fact that currently there aren't enough affordable units to take care of those people who are being evicted because of conversion. Therefore, we are trying to preserve what, in fact, is there until something can be built to take its place.

ASSEMBLYMAN MENENDEZ: Create that scenario in reality for me, and then I will answer your question more fully. But actually it is so far off the mark that I really don't know. I would not want to weaken my arguments in favor of a defense of tenants now in condominium conversion, for something that is so many years, if at all, down the road.

ASSEMBLYMAN KAMIN: Thank you. Before I call on Mr. Kenny and Mr. Kronick, let me announce some further parts of the batting order: Former Assemblyman Charles Catrillo is with us. He will be on after our current legislators. Also I have former Commissioner John Sheridan, who will be following Mr. Catrillo, followed by Father Gilchrist.

Mr. Kenny and Mr. Kronick, good morning. Thank you for being with us.

A S S E M B L Y M A N B E R N A R D F . K E N N Y , J R . :
It is a pleasure, gentlemen.

ASSEMBLYMAN KAMIN: Or, afternoon. I apologize for that.

ASSEMBLYMAN HENDRICKSON: Time flies when we're here; it's so interesting.

ASSEMBLYMAN KENNY: Thank you for this opportunity to be here this afternoon. The need has been addressed already here today. It is acknowledged that there is a need for 145,000 units in the State. It is also acknowledged that they are not available. The housing is not being produced; only 3500 units of affordable housing since 1975.

Then we have statistics as to the loss in various counties of 10% to 15%. Keeping in mind that some of the rental in that county is subsidized housing, which couldn't be removed very easily -- the actual traditional rental housing that many of us grew up with in an apartment building -- the number is probably really double when you subtract that percentage from the affordable housing units that are already in the community.

Thirty thousand eviction complaints were filed last year in the State of New Jersey; tripled in the last 10 years. Thirty thousand homeless in the State of New Jersey -- evidence introduced before the Homeless Committee, which is a part of this Assembly, a few weeks ago. Chairman Pat Roma took that testimony. We spent \$42 million last year in the State of New Jersey on housing the homeless in motels.

So, we have a problem, and we all agree that the State of New Jersey and the United States government are not acting in a coordinated fashion, nor in an intelligent fashion, to address it. The solutions are beyond our power to implement, but we do have a way -- temporarily -- to address the needs of tenants who are now in place in our State; that is, through the so-called "non-eviction" statute.

I am not going to go point by point through that particular statute. But as to the essence of it, traditionally and statutorily, tenants have lifetime tenancies in the western democracies. The phrases are: "Your home is your castle," and, "Be it ever so humble, there is no place like home." The New Jersey statutes, going back 50 years, protected tenants for their life, until about 10 years ago, when condominium conversion became a statutory right, and a tenant could be evicted for grounds other than cause, or change of use, or removal of that building from the rental market -- or the housing market.

The prior speaker, I believe -- Mr. Flowers -- challenged the concept of lifetime tenancy. I think it is good that he did, and that he put it on the table, because I think that is really, in a way, the heart of the arguments here, one that I am very anxious to oppose. From my point of view, in answer to Mr. Impreveduto's question, I would find it very difficult to support a right of eviction of a tenant from a house within the next 25 years in this country, because tenancies still remain the fundamental affordable housing stock of our society.

We are in a state of transition. Condominium ownership, cooperative ownership, and other forms of ownership that will develop, should be encouraged. I am not one who is against condominium conversion per se. But I am for the phasing in of it, and that we protect -- as I understand the statute that is before us does, in one of its forms -- the present generation of tenants -- identifiable people. There has been testimony here that approximately one-third of those tenants buy their units, when given the opportunity. So, let's remove that third. There has also been testimony that about one-third of the tenants in buildings move on in five years. So, let's remove that third. So what we are talking about is one-third of the tenants in the present population who, for their lifetimes -- and a lifetime tenancy is basically 17 years--

Now, with the problems I cited earlier, in terms of the lack of housing, is it too much for the State of New Jersey to allow the building to convert, to sell two-thirds of the units over a period of five years, and to allow one-third of those to stay on and pay rent at affordable prices?

This is a governing body here, and I appreciate the fact that people from the private sector sit on this panel. I would like to say that whatever prosperity my family has, is owed to the building industry. My father spent 40 years in it, and was one of the prominent builders in Hudson County. So I have no problem or aversion-- In fact, I admire the private sector. However, the role of government is to balance the interests of property rights with the rights of individuals and the health, safety, and welfare of the people. This is an instance, I think, where we, as a governing body, including those of you in the private sector who sit here-- You have to balance those rights. You know, comments about free enterprise-- That's true, but our democracy harnesses the energy of free enterprise to serve social needs. If it didn't do that, we wouldn't have a democracy for very long.

I would conclude by saying to you, it is not healthy that we have a half a dozen communities in northern New Jersey that have banned condominium conversions. That is not in the interest of the State, to have individual and isolated communities banning them by ordinance. I am not in favor of that. I have spoken against it. I believe in a statewide regulation of our housing, not county by county or municipality by municipality. Unless we take the initiative and get control of the situation, more and more communities are going to ban them, including out in suburbia. In time, we are going to be in the courts, and eventually the situation is going to be resolved by the judiciary, which we don't want.

I would ask you to consider, and reflect, very, very closely on the immense value we gain by allowing a fraction of our people to remain in these buildings while they are converted, as tenants. Thank you.

ASSEMBLYMAN KAMIN: Thank you, Mr. Kenny. Mr. Kronick?
A S S E M B L Y M A N D A V I D C. K R O N I C K: Good afternoon, Chairman Hendrickson and Chairman Kamin, and all Commissioners. On behalf of two of our colleagues who couldn't be here, I want to make it clear that Assemblyman Doria and Assemblyman Charles are both supportive of affordable housing and no eviction legislation.

New Jersey suffers from a severe shortage of low-cost housing. As you have heard, tens of thousands of tenants across the State face eviction because their apartments are being converted to condominiums or cooperatives. Selling apartments has become far more profitable for landlords than renting them, because of the diminished tax advantages of owning rental units; also, sharply rising real estate property values, and a shortage of moderate-cost, single-family homes.

The problem with the process of condominium conversion is that the entire segment of our working class is being priced right out of the market. And in many instances, right out of

our neighborhoods. Why? Because they cannot afford to purchase their apartments. Another by-product of this is the proliferation of landlords who, while looking for a quick turnaround on their investment, purchase an investment property, quickly make some minor cosmetic repairs on a building, and then place the units on the market at an inflated price. What this does, is ultimately reduce the number of rental units on the market, while driving the cost of a rental unit right through the roof.

In 1986, the State Council on Affordable Housing determined that New Jersey needed 145,707 units of low- and moderate-priced housing. Since that time, a mere 2000 units have been constructed, with very few of those being rental units located in urban areas, where conversions have been the greatest.

A study conducted by the Jersey City Department of Housing and Economic Development found that a typical tenant could not afford to purchase his home, and faced a substantial increase when moving to a new apartment. The average apartment converted to a condominium, in 1987 rented for approximately \$377 a month, while the average price for a condominium was \$99,624. Meanwhile, the average rental apartment in the city cost \$625 a month. The average tenant is faced with the decision of paying a rent increase of more than \$250 a month, or purchasing the apartment he lives in for a discounted, insider price to tenants of \$75,000. Well, these figures offer little hope for a family of four in New Jersey, specifically Jersey City, with yearly earnings of about \$21,000.

The State calculates that such a family that I just described can afford to pay about \$477 a month for housing. From 1979 through July 1988, 15,511 units were registered for conversion in Bergen County; 14,989 in Hudson County. In both Essex and Middlesex Counties, more than 900 apartments were registered in the first nine months of '88. In Monmouth

County, 1053 units were registered in '87. Statewide, since 1979, there have been 96,954 apartments registered for condominium conversion, according to the State Department of Community Affairs. This number represents over 7% of New Jersey's rental housing stock, and is estimated to affect over 175,000 people. That may boggle your imagination somewhat.

While it has been clearly documented that there is a need to increase the number of available rental units, there have been no replacements for those that have been lost. Added to this is the fact that the New York/northern New Jersey area has the highest prices for homes in the nation. The median sales price for a single-family home in northern New Jersey is now \$194,000, which is more than two-and-a-half times the national median sales price. I ask you, how can somebody from Jersey City, or in Hudson County, with a family of four on \$21,000, contemplate such a move?

In addition to the high cost of homes, there is a severe shortage of rental units. The National Low-Income Housing Information Service found New Jersey to have the third worst shortage of affordable apartments in the nation. The cost of a single-family home has increased dramatically in the past few years. For most, the cost is prohibitive, and in no way is an adequate reflection of income. The condominium has become the starter home for many just beginning, while there remains an entire segment of the population who cannot afford to purchase their units, through no fault of their own, very often. This problem has been exacerbated by the continuance of condominium conversions, the decrease in available rental units, and the allowance of tenant evictions in those buildings that are converting.

Today's public hearing is on the impact of conversions upon the availability of affordable housing. It is obvious that conversions are decreasing the availability of rental stock, while prohibiting a certain segment of New Jersey's

population from the right to a decent home. I strongly urge this Commission to acknowledge the need, to stop the eviction of tenants, and to discourage the conversion of our precious, limited rental stock to condominiums, while encouraging the construction of low- and middle-income rental units and affordable single-family homes. Failure to do so can only result in the loss of business to other states and disenfranchisement of large portions of our population. Failure to acknowledge the harmful effects that condominium conversions are having upon our society may necessitate the next Committee hearing being conducted to determine the effects of conversions upon the rising numbers of homeless. Housing availability may very well have become a question from the past.

I submit to you that if we fail to have a no eviction bill, what we are going to do in this State is increase our homelessness; we are going to see an increase in divorce rates; we are going to see an increase in school dropout rates; we are going to see more crime. There will be a need for more prisons. And do you know what? It is going to cost us a great deal more money. So for now, I say, please, no condo conversions. Let's stop the eviction of tenants from their homes.

Thank you.

ASSEMBLYMAN KAMIN: Thank you, Mr. Kronick. Any comments from the members of the Committee? (no response) If not, to all of you-- Oh, I'm sorry. Mr. Giaquinto?

MR. GIAQUINTO: I just have a question: You mentioned that we spent \$42 million on motels for the homeless. How many years have we been doing this?

ASSEMBLYMAN KRONICK: I only learned that a few weeks ago at the Select Committee on Homelessness, which convened for the first time in mid-February. But the testimony came from the Department of Community Affairs and the Department of Health, I believe, which were there. I was shocked by that.

MR. GIAQUINTO: Well, it has been going on for a good many years. It is just a total waste of money, when they are spending \$30 to \$40 or \$50 per room for a family--

ASSEMBLYMAN KRONICK: Right.

MR. GIAQUINTO: --when this money could be converted, or given, or used to do something for some sort of low-cost housing. You know, everybody is blaming the apartment owners and everything, who are subsidizing today -- who have been subsidizing since 1972. If the State of New Jersey would just put its efforts into the bottom line of affordable housing, and if this wasted money were put to good use, I think we could accomplish some of the things we are trying to accomplish here today, because all of these things are just stopgaps, and nothing gets done.

ASSEMBLYMAN KAMIN: Thank you, John. Mr. Fioretti?

MR. FIORETTI: Assemblyman, it seems, over the past several years, that housing has become more of a critical issue in this State. I will attempt to say that until there are incentives to have the private sector -- because I don't think we want the public sector; we have seen what they can do to housing -- build this housing-- We need to provide the funds. As we go and take a look at a \$12 billion or \$13 billion State budget, I think at this point in time some of the priorities need to change. I think there needs to be a bigger scream and yell from the Assemblymen and the Senators, that housing is now becoming more of a critical issue, and it needs more of the funds. We can't continue to scream and yell, saying, "This is becoming a critical issue," without putting our money where our mouths are.

Last year, as much as the Governor tried to show his good faith in his first program toward new rental housing -- we took \$10 million for the JUMPP Program to try to provide this-- They wanted to provide 500 rental units, but in realistic terms, I believe it only provided 150 housing units.

I also have with me here, to distribute to the Commission, a memo written by George Vallone, who is one of the owners of West Bank Construction. From what I understand, over 100 applicants tried to apply for the JUMPP Program -- or some large number -- and from what I also understand, only one application, which was from West Bank Construction, has been approved for the funds. Until there are additional projects passed-- The Program has been put on hold until we can facilitate additional projects coming on line.

I just want to bring forth again that I think we need to look to the Assembly and the Senate to reprioritize some of the programs that I guess have just been going on continuously, and now put more emphasis on needed funds for housing facility providers.

Thank you.

ASSEMBLYMAN MENENDEZ: Mr. Chairman, very briefly -- just very, very briefly-- Mr. Fioretti, I agree with you. I would be happy to join with the Majority side here, and Assemblyman Kamin, in sponsoring such an effort. In the appropriations hearing, when JUMPP was first brought forth, we brought out that realistically the number of units could be that. When we look at 150, and it is a good-- I am not saying that we shouldn't at least have those first 150, but it is a drop in the bucket. I don't know if, in fact, anything has actually been built yet, as it relates to this, you know.

MS. LENZ: I can answer those questions. There were 17-- The Department got 17 applications for the JUMPP Program, which would have constructed, had we been able to fund all of them, over 4000 units. We received them December 1. The 17 applications were asking for \$70 million in funding, and we only had \$10 million available. So we certainly will not fund all of them. We received them December 1. We have not made final decisions on which projects we will fund, so certainly none have been built.

There is one project that we are fairly sure we are going to fund -- that is probably what this is. We are receiving, in the Governor's budget, an increase for the program for next year -- if the budget goes through -- of \$15 million. So the Department is on the right track, and pretty soon you will have rental units.

As far as the number of units, we projected 500 units total overall, 150 of which would be low-income, and the rest market. So, it is both of those numbers.

ASSEMBLYMAN KAMIN: Thank you, Susan. Mr. Kronick, Mr. Kenny, Mr. Menendez--

ASSEMBLYMAN KRONICK: I just want to commend the Chairman -- both Chairmen -- and the Commission for undertaking this hearing, because there have been a lot of very good suggestions. We heard two of them that were very good, and I would like to see something come out of it. Thank you.

ASSEMBLYMAN HENDRICKSON: Before you leave, and I know that time is of the essence, and I have been sitting here on the edge of my seat to ask questions-- Have any of the official elected bodies in those counties gone to a developer to try to bring in an incentive for him to use the law that is out there? Assemblyman Baer spoke about the bill that releases an investor from rent control for the length of the mortgage. The feedback to me, as the author of the legislation, is that the permits process is so long, that they are reluctant-- There isn't anybody going to any of the investors to try to get them to use that law.

ASSEMBLYMAN KRONICK: Didn't Mayor Cucci say that he had been successful to some extent?

ASSEMBLYMAN HENDRICKSON: That is why I want it in writing. I didn't hear that.

ASSEMBLYMAN KRONICK: Oh, okay, I thought he had.

ASSEMBLYMAN HENDRICKSON: He might have, but I didn't hear it.

ASSEMBLYMAN KAMIN: Thank you very much.

ASSEMBLYMAN BAER: Mr. Chairman, may I just observe that JUMPP is a little bit more like "shuffle"?

ASSEMBLYMAN KAMIN: For some of you who didn't hear that, Mr. Baer said, "JUMPP is a little bit more like 'shuffle.'"

I would like to call on former Assemblyman, and good friend, Charles Catrillo. Then we will take a five-minute break in order for the stenographers to change tapes, and also for paper. Following the break, the first one on deck will be Mr. John Sheridan, followed by Father Gilchrist, followed by Mr. Ray Korona.

Mr. Catrillo, welcome back.

C H A R L E S J. C A T R I L L O E S Q.: Well, thank you, Mr. Chairman.

ASSEMBLYMAN HENDRICKSON: A double welcome, Charles -- Assemblyman.

MR. CATRILLO: Assemblyman Hendrickson, how are you?

ASSEMBLYMAN BAER: Triple.

MR. CATRILLO: Triple. Thank you, Mr. Baer.

For the record, my name is Charles Catrillo. I live in Jersey City. I am an attorney with the firm of Koch and Catrillo, which is located in Roseland. I have been counsel to a number of tenant groups, and a large portion of my present practice involves landlord/tenant relations.

I am here today to talk a bit about two interrelated subjects. First, the preservation of our existing housing stock, primarily rental units; and secondly, the larger question of how to get affordable housing built in the State of New Jersey.

To give you an idea of what it looks like in the trenches -- when I say the "trenches," I am talking about the actual landlord/tenant courts that exist in the State -- last week I was in court with an attorney who represents a number of

large developers in Hudson County and in Bergen County. He told me that his office estimates, from their study, that approximately 45,000 evictions will take place over the next two to three years. Now, I am not sure how accurate that figure is, but I took a look at DCA's figures since 1979, and there have been about 80,000 conversions since '79. Since conversions take approximately four to five years to effect, and since the largest numbers of conversions began in '85, '86, '87, and '88, it doesn't take a genius to figure out that these evictions -- a large number of these evictions -- will begin at the beginning of this year -- at the beginning of '89. I am here to tell the Committee that such a process is beginning, and that is exactly what worries me.

The problem is, if we don't come up with a legislative solution to this eviction problem, I am afraid that the judiciary is going to jump in and fashion their own solution. Now, obviously judges do not speak on the record. Those judges that I am friendly with and have social contact with have told me privately that we will not put families into the streets. We are not going to do it. And under the law, they really don't have much of a choice. It is somewhat akin to the situation that existed in the south back in the 1960s, with the civil rights legislation. The local legislators, the local communities, would not face the problem, and the Federal courts came in and solved the problem for them, in a fashion that I think was unacceptable to most of the residents of the state.

But I am here to point out that if the Legislature doesn't act, the judiciary will act. Now, where these 45,000 families which are going to be evicted over the next two to three years are supposed to go, I have no idea. Affordable housing simply doesn't exist. Now, understand I am not talking about homeless people. I am not even talking about the poor -- the people who live below the poverty line. I am talking about the average guy and average working woman who lives, especially

in my county, who earns \$15,000, \$17,000 a year, or maybe \$20,000, if they are lucky. The salaries that are necessary in order to buy what is called "affordable," are just out of reach of most people; they simply do not exist. How some people can say, "Well, the solution is that they should buy a condo," is beyond me. They don't qualify for the mortgages. So even if they wanted to buy them, they can't buy them.

I heard someone testify before -- I think it was Mayor Cucci-- He testified about the St. John's Apartments in Jersey City, which I live about two blocks away from. I know a number of people who live there. He's right. They are caught in a bind. They don't have enough income to apply for a mortgage to buy the unit they're in. So they are willing to buy, but they can't buy, because they simply don't make enough money.

As I said, with the evictions that are coming home to roost, to have that specter of 45,000 families suddenly become homeless, and roaming the streets of our State, is something I think should give all of us great pause.

Therefore, although I know the Chairman has asked us not to be legislative specific -- and I won't be--

ASSEMBLYMAN HENDRICKSON: Good old Charlie.

MR. CATRILLO: However, I think that we do need something that will slow down the process. The no eviction bill -- that has been mentioned -- I think is a good idea. I sponsored it when I was in the Legislature. I wasn't the first; there were others before me. I think Assemblyman Baer might have been there a few years before.

The point is this: A no eviction bill would take the heat out of the process. It does not say to converters, "You can't convert." All it says is, "It's not going to be as easy as you thought, and you are not going to do it in such a short period of time." Because eventually, it is like sitting under an apple tree, waiting for the apple to fall. Eventually, all of the units will be available to be converted. And it is not

going to take that long. People die; people move; people get married and move into other apartments, whatever.

But under this present situation, where you have people just being told to get out, it's terrible. Not only that, while we have this housing shortage -- again, I point to the St. John's Apartments, because they are so close to my house; three huge apartment buildings, each one of which, by the way, is in a separate election district, giving you an idea of how big they are-- They are basically empty. So you have people roaming the streets looking for apartments. You have empty apartments sitting there waiting to be sold. You have the people who are looking for apartments who can't get the mortgages to buy the apartments. You have the developers screaming, "We are not making any money. We are all going bankrupt."

We have hit an impasse. I think we do need some kind of legislation that is going to take the heat out of the process, and is going to make it a little bit easier for all of us to get along with each other, and give us all some time to work out an affordable housing plan, which I don't think New Jersey has.

Which brings me to my second topic, which is the concept of affordable housing itself. For the past several weeks, I have been doing some, more or less intensive research for a paper I am writing concerning affordable housing. I began by researching the first affordable housing programs which began, actually, in Boston, about 15 to 17 years ago -- the set aside programs -- through the mid-'70s and the sweat equity programs, through probably now what we call "linkage" programs, whereby, really, municipalities sort of extort money from developers by saying to them, "If you want the variances you need to build your project, you've got to give us money for our affordable housing program," which is a nice way of saying, "You've got to pay us."

I am not happy with that situation. I know it exists, but, personally, I am not happy with it. I think what we have to do is come to an understanding, and most of the programs I have studied don't seem to understand this: In the United States, housing is a business. Businessmen are profit driven. We have to make it profitable for businessmen to come in and invest in housing. How do you do that?

I think there is only one way to do it, and that is to completely tax shelter people -- groups, individuals -- who are willing to build housing in inner cities, especially in inner cities. How would such a program work? We would have to have legislation that would allow the formation of special limited partnerships, the sole purpose of which would be to either rehabilitate or to build new housing in specially delineated areas within cities. Those properties would be fully rebated -- outbated, excuse me -- in terms of property taxes, but the corporations themselves would be abated from paying any corporate tax on a State level, and the income derived by the limited partners, from the project, that should also be sheltered from all taxation. That's on the State level.

If we could get such a program on the Federal level, I have a feeling that we would have more money available to build housing than anyone thought possible. Take a look at the oil industry in the mid-'70s. It was on the brink of disaster. Suddenly, the Federal government came through with enormous tax shelters for people who were willing to invest capital in venture capital, that is, to drill new wells. All of a sudden, within 10 years, we have a glut on the market; the price of oil comes down; and now oil companies in Texas are closing. Why? Because the Federal government made it profitable for businesspeople to go in and invest.

Until and unless we come up with a plan that allows businesspeople -- wealthy individuals -- to shelter their money and invest in housing, I have a feeling that we are not going to go anyplace.

This gentleman -- I'm sorry, I don't know your name -- said something before that I thought was actually true. He said, "What's happening now is, the private sector is subsidizing housing," and he's right.

ASSEMBLYMAN KAMIN: John Giaquinto is his name.

MR. CATRILLO: John, okay. He's right, and that's wrong. They shouldn't be doing that. However, on the other hand, as a responsible public official, I know that government simply doesn't have the money to build the housing needed. In Jersey City, we have a group called the "Billion Dollar Housing Coalition." They claim that Jersey City needs a billion dollars. I don't know if that is true, but it certainly needs a lot of money. If Jersey City needs half of that amount -- half a billion -- what does Newark need? What does Paterson need? What does Passaic need?

So, for those people, some of whom are my good friends and tenant advocates, who think that the government has this big blank check that they are just going to write out every year to build new housing units-- That is not going to happen, and we are unrealistic if we keep trying to get to that solution. The government doesn't have the money. They don't have the money on the local level; we don't have it on the State level; and we don't have it on the Federal level, unless we are willing to raise taxes to a confiscatory level, which I don't think any politician is willing to do.

So what I am saying to you is: We have to come together and try to work out a plan to get the private sector involved in housing. The only way that I can think of -- and quite honestly, I have been wrestling with this problem for 10 or 12 years, I guess, in my public life -- is to make it a tax shelter; a total tax shelter.

That's it.

ASSEMBLYMAN KAMIN: Thank you, Mr. Catrillo. Mr. Impreveduto, and then anyone else. If not, then after Mr. Impreveduto, we will break for five minutes.

ASSEMBLYMAN IMPREVEDUTO: Charlie, just a question on your total tax shelter.

MR. CATRILLO: Yes?

ASSEMBLYMAN IMPREVEDUTO: If I understood you correctly, what you are saying is -- and correct me if I am wrong, please -- that anyone who wishes to rehabilitate an existing apartment facility would receive a property tax abatement.

MR. CATRILLO: Would receive a property tax abatement, which could be either total, or could be a phase-in abatement; that is, a 15-year abatement whereby the first five years you pay nothing; the second five years you pay one-third; the last five years you pay two-thirds; and then you go to full taxation.

ASSEMBLYMAN IMPREVEDUTO: Would that be on the improvement only, or on the entire--

MR. CATRILLO: No, that would be on the entire structure.

ASSEMBLYMAN IMPREVEDUTO: Wouldn't that, don't you think, put an unfair burden on the rest of the tax base -- the rest of the taxpayers?

MR. CATRILLO: No, because the burden is on the rest of the taxpayers anyway. If these people become homeless, we have to take care of them anyway. Then if they resort to crime, and selling crack -- which is exactly what is happening -- we pay for it in that form. I mean, the bottom line is, we are going to pay for it one way or the other. So we might as well pay for it up-front and get it done, than pay for it through all of these ancillary programs that we pay for.

ASSEMBLYMAN IMPREVEDUTO: But what I am looking at is a situation-- For instance, in Jersey City, I don't know what the tax rate is, but I know it is high; extremely high. I know it is extremely high in Hoboken. Union City is extremely high.

MR. CATRILLO: Right.

ASSEMBLYMAN IMPREVEDUTO: North Bergen is extremely high.

MR. CATRILLO: Right.

ASSEMBLYMAN IMPREVEDUTO: How much higher can these people go without losing their homes?

MR. CATRILLO: Well--

ASSEMBLYMAN IMPREVEDUTO: I mean, could you not, in effect, cause a worse problem by doing something like this?

MR. CATRILLO: I would say this, Assemblyman: I think the high property tax problem we have in, for instance, Jersey City, which is-- By the way, yesterday I was in tax court. My client in tax court, for a one-family house in Jersey City, with his mortgage and his escrow payments, is paying \$21,000 a year -- for a one-family house in Jersey City, taxes, \$21,000 a year. I don't think--

ASSEMBLYMAN HENDRICKSON: Is that an amortized mortgage?

MR. CATRILLO: Pardon?

ASSEMBLYMAN HENDRICKSON: Is he amortizing the mortgage?

MR. CATRILLO: Oh, I don't know, to be honest with you; I really don't know. But the point is, last year his payments went up \$1000 a month. Okay? What I'm saying, though, is: That tax problem is one that is created more by the fact that we here in New Jersey simply do not have a good way of raising money. We raise all of our money through property taxes, which is crazy. If we had a realistic State income tax, I think we could cut property taxes. I think that is something the SLERP Commission has already recommended, and I think that is something the gubernatorial candidates are going to have to come to grips with.

ASSEMBLYMAN KAMIN: Thankfully, that is not on today's agenda. (laughter)

ASSEMBLYMAN HENDRICKSON: We'd be here a long time.

MR. CATRILLO: Thank God it isn't. But what I'm saying is, I don't think the property tax problem is solely a problem of housing; I think it is a problem of, that is the only way we raise money.

ASSEMBLYMAN IMPREVEDUTO: I agree with you, but I don't know if the property tax area is the area you should be looking at. I mean, New Jersey is one of the situations we are looking at now, not trying to cut it back.

MR. CATRILLO: Well, how about this? How about if we said to these people who form these special limited corporations, "All right, take an abandoned building, take a vacant lot and build there. We'll abate that"? We're not getting anything for it now anyway.

ASSEMBLYMAN IMPREVEDUTO: We do have some legislation that is already there taking care of that.

MR. CATRILLO: Yes, I understand that, but I'm not sure there are enough abandoned buildings and vacant lots to do the job.

ASSEMBLYMAN HENDRICKSON: Just quickly--

MR. CATRILLO: Yes?

ASSEMBLYMAN HENDRICKSON: The St. John's project-- What do you attribute the vancancies to?

MR. CATRILLO: Well, two things: One, they have evicted most of the tenants; and number two, they simply charge too much for the units -- for what you get. I mean, a studio apartment is \$79,000, and it is not even as big as this area right here. (demonstrates) You just sort of get the four walls. Who is going to pay that? Nobody. That's the problem. The problem is, they're greedy.

ASSEMBLYMAN IMPREVEDUTO: Just one quick question. Charlie, in that same area -- that same unit you just talked about -- you might have a mortgage payment of \$600 or \$700 a month, but in addition to that, you have a maintenance fee which may be as much as \$200 to \$300 a month.

MR. CATRILLO: Yes.

ASSEMBLYMAN IMPREVEDUTO: You're not just talking about a mortgage payment; you're talking about a maintenance fee which may be equal to the current rent someone is paying for their apartment.

MR. CATRILLO: Yes. You know, by the way, that brings up another quick point. That is something that is sort of a hidden charge. In a lot of condo conversions, they do "as is" conversions -- "as is." That is, they take the building that is currently substandard, convert it, and say to the tenant, "Either you buy, or you're out." And some of them buy because they have no place else to go. What happens then is, the tenant association then assumes the costs of repairs. So the developer comes in, buys a substandard building, kicks everybody out -- or tries to kick everybody out -- sells as many units as he can, and then turns the building over to the tenant association, saying, "Hey, you put the new roof on. You put the new plumbing in. You fix the elevators. You do the landscaping. I'm not here any more. I am not part of the tenant association. I'm out of here." So, those are hidden costs, which become apparent two or three years after the conversion.

ASSEMBLYMAN KAMIN: Mr. Catrillo, thank you very much.

MR. CATRILLO: Thank you.

ASSEMBLYMAN KAMIN: One question, Mr. Baer.

ASSEMBLYMAN BAER: I have just one brief question, Mr. Catrillo. In view of the nightmare situation you project with 45,000 facing displacement--

MR. CATRILLO: Forty-five thousand families.

ASSEMBLYMAN BAER: --families facing displacement, and the kind of crisis this would create, and the urgency in terms of action, I would like to ask your opinion, as someone who is familiar with the Legislature, and the hurdles and the time situation here, and knowing that this is an election year, as

to how essential it is that this legislation be voted on and passed before the election, and brought out of Committee before we break for the summer?

MR. CATRILLO: Mr. Baer, you know, I thought it should have been done years ago. So, as far as I am concerned, every day we delay is another day lost. So, it should be done immediately.

ASSEMBLYMAN KAMIN: Thank you, Mr. Catrillo. Mr. Giaquinto?

MR. GIAQUINTO: Just one question: If they pass this legislation, what do you think the impact will be on all the conversions that are in motion, and that are already in force -- the one-third, or two-thirds, or whatever it is, would have on all of those projects?

MR. CATRILLO: I think what would happen is, some of the partners would not make their money as quickly as they thought they would. I don't think the projects would stop; I just think that everybody would just have to wait a little bit longer to get rich.

MR. GIAQUINTO: Yeah, but what would happen to those projects?

MR. CATRILLO: I don't think anything would happen to those projects. I think the projects would go forward. I think some of them would probably be sold to other investors, and maybe some people would have to take a loss.

MR. GIAQUINTO: We heard testimony here that a lot of those could go into foreclosure or bankruptcies.

MR. CATRILLO: Which indicates to me that the whole problem we are facing is one that was built on speculation and greed. It wasn't something that was well-thought-out. It was something that people thought they could jump into in Hudson and Bergen Counties in the early '80s, the mid-'80s, make a fortune, sell the units, and get the hell out. Now maybe what we are saying to them is, "Maybe, fellows, you have some kind

of social responsibility. Maybe we don't want to see our entire neighborhoods displaced. Maybe we want to keep the people who made those cities what they are, where they are. And maybe you are not going to be able to become a millionaire overnight. Maybe you are going to have to wait for a couple of years to become a millionaire." So what?

MR. GIAQUINTO: Then, why doesn't the State, for those one-third who can't afford it, work out -- or the legislators devise a system so those people can afford it?

MR. CATRILLO: Well, I have nothing against that, except, where is the money going to come from? It is going to come from additional taxation. Every time I mention that, I see Chairman Kamin saying, "Oh no, not new taxes." (laughter) That's the problem. The problem is, you can't raise taxes any more than they are, and we don't have enough money to do it.

ASSEMBLYMAN KAMIN: Thank you, Mr. Catrillo.

MR. CATRILLO: Thank you.

ASSEMBLYMAN KAMIN: I have 1:17. We will break until 1:25, and I will start promptly.

(RECESS)

AFTER RECESS:

ASSEMBLYMAN KAMIN: Ladies and gentlemen, may I ask you to please take your seats? Those of you who are involved in conversations, please take them outside.

Mr. Sheridan, welcome. It's been a while since you have been down here, at least to appear before a committee that I serve on in an official capacity. It is always a pleasure to have you with us. I thank you very much for your patience in advance of this Committee meeting today. I had indicated to you -- worst possible case -- that you would be out of here at one o'clock, so I apologize. My apologies.

J O H N P. S H E R I D A N, J R., E S Q.: Should I proceed, Mr. Chairman?

ASSEMBLYMAN KAMIN: Please proceed. Thank you.

MR. SHERIDAN: Thank you very much. My name is John Sheridan. I am an attorney with Riker, Danzig, Scherer and Hyland. We represent Morton Ginsberg and MLG Properties, Inc. Our client could not be here today, and I would like, with the Committee's permission, to read key portions of his prepared testimony. This is in the first person, since he would be presenting it himself normally:

"I am the President of MLG Properties, Inc., and I own or control approximately 7500 multi-family apartment housing units in New Jersey. We would continue a large portion of these properties as rental housing if unduly restrictive rent control in some municipalities was ameliorated by uniform vancancy decontrol provisions, and if the threat of unduly restrictive conversion legislation is removed.

"With respect to the conversion of rental housing units to condominium or cooperative ownership, the first question to ask is whether those conversions have reached critical proportions which threaten our rental housing stock? Have conversions really created a statewide crisis in rental housing, or is the crisis largely nonexistent?

"The records of the Department of Community Affairs show that from 1979 through 1987, less than 57,000 rental housing units were registered for conversion. This does not mean that all units which have been registered have been sold and taken off the rental housing market. Many are unsold; many are still occupied by tenants, some of whom are senior citizens or disabled, whose tenancy status is protected by existing legislation; and many have been purchased by outside investors but continue to be occupied by the preexisting tenants or new tenants. In addition, existing tenants have protected tenancy status under the present law, which guarantees continued occupancy for at least three years.

"Measured against the total number of rental housing units in New Jersey -- approximately one million -- the total number of units registered for conversion during all of the period 1979 through 1987 is less than 6% of our rental housing stock. To be more specific, the 57,000 units registered for conversion in 1979 through 1987 represent 5.86% of 968,767 renter-occupied units. If we deduct from that number those which continue to be renter-occupied because of senior citizen protected status and non-seniors remaining in possession" -- and by the way, Mr. Chairman, we estimate that to be 15% to 20%, based on the report that was already submitted in evidence to you today -- "and deduct further the number of rental housing units constructed since 1980" -- because I think what we are really talking about is, is there a net loss of housing? -- "the 5.86% figure will be shrunk even further. In fact, the real percentage is much lower, because most of the units converted in shore counties are seasonal, not primary units.

"Also, in measuring the status of housing in New Jersey, consideration should also be given to the total of 257,000 new housing units constructed between 1980 and 1986. Despite the number of rental units registered for conversion, the total number of renter-occupied units actually increased between 1980 and 1985, from 969,000 to 1,016,000, or by approximately 47,000 new rental units during that five-year period. Total occupied housing units -- existing units, less demolitions, plus newly constructed units -- rose in New Jersey from 2,548,600 in 1980, to 2,742,290 in 1985, and have continued to rise to date.

"Thus, from a statewide perspective, it is clear that conversions of rental units to condos or co-ops have not produced any kind of a housing crisis. It is true that the number of registrations has increased in the past two recent years. Two principal factors contributing to this result are: One, the threat of Draconian restrictions on conversions by new

legislation; and two, harsh rent control in some municipalities which discourages the continuation of rental housing and encourages conversions, and had deterred the construction of new rental housing until the recently enacted exemption.

"While conversions have not created a crisis in rental housing in general throughout the State, we should look at conversions on a county-by-county basis to see what the impact has been. Again, we must use the number of units registered for conversion between 1979 and the end of 1987.

"Seven counties had no conversions -- Gloucester, Hunterdon, and Salem -- or an insignificant number -- Burlington, Cumberland, Sussex, and Warren.

"The largest number of conversion registrations was in two counties: Hudson and Bergen, with 10,894 and 14,435, respectively. The next largest number was in Atlantic, but as I indicated, that is seasonal; Essex with 5800, and Monmouth with 4355, many of which I also believe are seasonal.

"Let us look at Bergen County, which had the most. They had 14,435 units from '79 to 1987 registered. During the same years, new housing construction in Bergen has increased by 14,738, of which nearly 6000 were in five or more multi-unit complexes. Moreover, much of this conversion activity involved high-rise, 'luxury' apartment buildings, occupied by upper-middle-income and higher-income tenants. As for occupants with moderate- or middle-income levels, many benefited by purchasing these units at relatively low 'insider' prices, and they have been able to profit from their investments by reason of sharp appreciation in value and by selling their units in later years at profits of 200% or more. Moreover, measured against total housing stock in Bergen County, we see that 14,435 units registered for conversion were only 4.8% of the more than 300,000 total housing units in the county in 1980, and 4.6% of the total number in 1985.

"In Hudson County, the number of units registered for conversion in these years, 10,800, was 7.46% of all renter-occupied housing in the county in 1980, but was only 5% of all housing in the county in 1985. Again, these percentages need to be lowered by senior citizen protected tenancies and new construction.

"One could conclude that conversion of rental housing has not caused any substantial housing dislocation in Hudson and Bergen Counties, where the most activity has taken place in recent years. The opponents would be hard-pressed to prove a societal need for highly restrictive conversion legislation.

"As noted above, the threat of Draconian legislative restrictions and harsh, oppressive rent control measures in some municipalities have been the major stimulants to a rise in conversion registrations in the past two years. However, there have been two counter-forces at work in recent days that are depressing conversion sales: The stock market crash of 1987, and the Federal Tax Reform Act of 1986. This latter legislation has virtually wiped out all interest from outside investors due to the phase-out of tax benefits. Thus, the crisis has really slowed dramatically. Conversion sales have been much, much slower than they were a year or two ago.

"Moreover, I think we need to focus on the benefits to the public interest contributed by conversions. These benefits are:

"a) automatic increase in tax ratables and a reduction of taxes for homeowners;

"b) improvement in rental housing stock by renovations made to encourage purchases and continued maintenance by owners;

"c) fulfilling the State and national policy of low-cost ownership of housing; and

"d) enabling owners to offset inflation and increase their capital by ownership of an appreciating capital asset.

"These benefits do not need elaboration, with one exception." I notice today that there has been some discussion of the tax issue. This is really an aside, and not Mr. Ginsberg's testimony, but I think this is a really important point for the Committee to consider. "Largely overlooked as a by-product of harsh, local rent control provisions is that the values of multi-family housing projects have been depressed well below potential market values. This means that their assessments are reduced, and they do not pay a fair share of municipal and county taxes. As a result, other taxpayers, particularly homeowners, are paying a disproportionately high share of those taxes. Thus, homeowners in municipalities with rent control are subsidizing tenants. These homeowners may be poorer than some of the tenants being subsidized, and may, themselves, be senior citizens or handicapped citizens.

I would ask the Committee, is this really fair?

"As a result of conversions, the assessments of the same properties can finally reflect true market value, which means that the tax base in the municipality will be increased and tax rates lowered proportionately."

Let me give you one example, and I think that these are fairly conservative numbers for Hudson County. I would have liked more time to be absolutely sure they are correct, but I think they do represent a true picture.

"In Hudson County, assuming a conservative increase in assessments of \$40,000 per unit, multiplied by the 11,000 units registered for conversion, means that Hudson County's tax base has increased by approximately \$440 million from 1980 to 1987.

"With this background, we can now consider what criteria should be used to determine when the societal benefits of conversions are deemed outweighed by the dislocation of renters. Obviously, we have to distinguish between counties where the incidence and impact of conversions differ widely.

This is just one possible approach. If the Committee feels compelled to try and determine whether there is a crisis, this is just one possible standard that could be used.

"One reasonable approach would be to describe the point of detriment as the time when, in a given county, the total number of units registered for conversion with DCA approval in that county since 1980, minus the total number of newly constructed rental housing units since 1980, and minus the total number of units occupied under protected senior citizen and disabled tenancy status, has equalled or exceeded 10% of the total renter-occupied housing units in the county. This test allows for an average of 1% per year for 10 years, in the aggregate, of net loss of rental housing through conversions of existing housing stock, before serious enough detriment is assumed to require the imposition of controls to prevent tenant displacement thereafter.

"The next question is: What tenant should be further protected? Surely, tenants who can afford to purchase and maintain the unit after conversion are not in need of protection." I would just say as an aside here, Mr. Chairman and members of the Committee, our present law works an inequity, in that there are tenants who are protected. I am not saying-- I don't know what the percentage is, but there certainly are some tenants who are protected who can well afford to pay their fair share of taxes, and can well afford to buy their units, and yet they are protected under the present law. And more importantly, the proposed legislation -- S-2107 -- has no means test in it whatsoever. It would protect-- You could have a millionaire living in an apartment paying \$400 rent, and he is fully protected. It is just outrageous that the State should ever propose any such legislation.

"We should not talk about setting aside a number of units in a high-rise, luxury rental building -- for example, for low-income tenants as a condition of converting that

building -- if low-income tenants are not occupants of those apartments before the conversion. In other words, any additional protection for tenants should only apply to those in true financial need. There may be low-income tenants, or perhaps even some tenants of moderate assets who cannot afford to purchase the particular rental unit in which they reside.

"While I believe that the marketplace with appropriate governmental support can solve this problem, I am prepared to offer an approach that specifically addresses the issue of low- and moderate-income tenants. The following formulation should afford adequate protection for tenants in these categories, without total disregard of the rights of property owners who are being asked to subsidize another segment of the private sector.

Just so it is clear what we are proposing here, we are offering an exception to any more restrictive legislation. We are not saying there should be more restrictive legislation. We don't believe there should. But if there is going to be more restrictive legislation, there ought to at least be options out from that more restrictive legislation for people who are willing to offer certain programs to tenants.

"An owner of apartments which he wishes to convert to condominiums should be able to remove his project from the effects of any new restrictive legislation, such as Senate Bill No. 2107, Senator Cowan's non-eviction bill, if the owner offers one of the following options to the tenants of the building being converted who have a total gross annual household income of less than one-third of the inside offering price:

"Option A: 1) a sale at the inside offering price for that unit to the tenant for no cash down and a purchase money mortgage comprising the entire amount thereof;

"2) this mortgage would be for five years -- and five years only -- and debt service on the mortgage would be equal

to the rent at the time of conversion, plus annual increases based on the CPI'

"3) there would be no accrual of debt service beyond the amount referred to in 2 above, and there would be no monthly maintenance charge for the five-year period or until sold or refinanced, whichever occurs first;

"4) the converter would have the option to take advantage of any HMFA or other low-interest financing to comprise all or part of that purchase money mortgage; and

"5) before the end of the five-year period, the tenant would have to refinance or sell. At that time, the converter could foreclose if the tenant did neither. However, the chance of that occurring is remote, because by definition the tenant has bought the property at a substantial present discount and has, in effect, a free option at that same fixed discounted price for five years. The opportunity for profit on the sale or refinancing is overwhelming and the chance that he would not be able to do so, lose the apartment, and have to leave would be extremely remote.

"The other option -- Option B: Alternatively, the converter would reduce the offering price to three times the particular tenant's total gross annual household income.

"If the tenant refuses the options offered to him" -- either A or B -- "existing law with its protections would apply to him." That is, he would still have the benefit of the three-plus years of protected tenancy. "All tenants not eligible for this program would be covered by existing protections, including senior citizens.

"So that the owners can offer these programs, such legislation should provide: 1) that it is prospective only." It is totally outrageous and unfair, as S-2107 attempts to do, to go back and affect financial transactions that have already been made based on assumptions made by landlords and owners of property on the basis of the existing law, not to mention the

adverse effect it will have on people -- individual owners -- who have purchased their units, who now find out that they are not going to be in an apartment building of owners, but they are going to be in a project that is comprised largely of tenants. They will have each suffered severe economic loss, and it makes absolutely no sense. "Second, that rent control ordinances affecting the owner's projects shall allow annual increases at least equivalent to the Consumer Price Index.

"Should this Committee make specific recommendations for legislation, we urge you to include a recommendation for vacancy decontrol. By letting some units adjust to market level rents, this will, at least, partially relieve the pressure on owners to convert units. There is no legitimate public policy reason not to require vacancy decontrol in rent control ordinances. I also urge you to recommend legislation which would require--" This is a totally new proposal. I don't believe this has been discussed by anyone at any time in New Jersey in a public setting, and I think it is a crucial piece of public policy that this Committee should consider. "I also urge you to recommend legislation which would require a municipality that desires to extend rent control beyond January 1, 1990 to do a fiscal impact study of rent control on its tax base and to submit the study to every taxpayer prior to extending its rent control ordinance. The homeowners of the State just don't understand how rent control requires them to subsidize tenants, some of whom are better able to pay than are the homeowners. There has been a lot of discussion of real property tax reform in recent months. It would be real tax reform to remove the burden of subsidizing tenants from homeowners, and placing the burden of housing low-income citizens where it belongs -- on the Federal and State governments supported by general tax revenue."

This is our conclusion: "The hard facts demonstrate that perceived housing problems have not been caused by

conversion registrations in this State. There may be a time in certain counties in which the proportion of rental units converted to separate ownership is not sufficiently offset by construction of new housing units, particularly rental units, when the dislocation of financially disadvantaged tenants could be deemed a sufficient detriment to overcome the advantages of private ownership by occupants of the housing unit. In that event, the private property rights of the landlord should not be infringed upon to the extent that, in effect, the prohibition against eviction gives the tenant a lifetime lease in the apartment unit. Instead, the landlord should be encouraged to assist the tenant in acquiring the benefits of ownership and participating in the American dream -- getting a piece of the rock. This will give government additional time to marshal its forces to increase the availability of low- and moderate-cost housing."

That is the end of the prepared statement, Mr. Chairman -- both Mr. Chairmen. If you would indulge me for just a couple of personal observations--

One: 99% of the testimony I heard here today really relates to one county. At least certainly its elected officials perceive there is a significant problem in Hudson County. I am not sure that it hasn't just been a perception created, to a large extent, by the tenants' rights organizations, not by the tenants. Be that as it may, there is certainly no evidence that I have heard today before this Committee that there is any crisis that exists anywhere outside of Hudson County. I would certainly say that if the Committee should even find that there is a crisis, any legislation should be limited to those areas that are suffering such a crisis.

The second point that I would like to make-- It is a personal observation; it is not my client's point at all. It came out through the testimony today, and it was something I had been thinking of somewhat myself. But I thought it came

out from a couple of witnesses today: If you take the \$440 million that my calculations would show would be generated in extra tax revenues in Hudson County, and you applied the tax rate in Hudson County to just half of that amount, you would generate -- I would suggest -- an enormous amount of funds to provide low- and moderate-income housing in Hudson County, particularly if the vehicle was a county or a county authority which could use that flow of revenue to bond for the construction.

I think one other piece of that-- I mean, one of the reasons that I think things like that perhaps have not been done, is that there are so many-- There are several formulas which greatly affect revenues to our poorer municipalities. One of the things that could be done, would be to make sure that those revenues do not offset funds that are coming to urban municipalities, such as school aid formulas. That way, the county and municipalities would be encouraged, I think, to entertain these kinds of programs.

Mr. Chairmen, members of the Committee, thank you very much.

ASSEMBLYMAN KAMIN: Thank you, Mr. Sheridan. There were a number of very important comments you made today. I appreciate your testimony.

I would like to call on Assemblyman Impreveduto.

ASSEMBLYMAN IMPREVEDUTO: Mr. Sheridan, if I may-- You are throwing around the number \$440 million of increased revenue to the towns of Hudson County.

MR. SHERIDAN: No, no, increase in their tax base.

ASSEMBLYMAN IMPREVEDUTO: Tax base? That means assessed valuation?

MR. SHERIDAN: On a true value basis. I don't know if that is--

ASSEMBLYMAN IMPREVEDUTO: On a true value basis. That's fine. Do you have any idea-- Over how long a period of time is that?

MR. SHERIDAN: We were using conversions from '80 to '87, so I took an average assessment increase of, say, \$40,000.

ASSEMBLYMAN IMPREVEDUTO: All right. So, what you're saying -- and if I am wrong, please correct me -- is that in eight years, the tax base -- the tax base -- of Hudson County grew by approximately \$440,000 only because of conversion.

MR. SHERIDAN: No, I didn't say--

ASSEMBLYMAN IMPREVEDUTO: Well then, what did you say? I don't--

MR. SHERIDAN: I showed you how I calculated it. I calculated it at \$40,000 a unit. There have been about 11,000 units. If you multiply \$40,000 by 11,000, it comes to \$440 million.

ASSEMBLYMAN IMPREVEDUTO: Okay, over an eight-year period, because of conversion.

MR. SHERIDAN: But there may have been tax increases in Hudson.

ASSEMBLYMAN IMPREVEDUTO: Oh.

MR. SHERIDAN: There may have been tax base increases for other reasons in Hudson County.

ASSEMBLYMAN IMPREVEDUTO: There may have been reevaluations because of the normal reevaluation process, correct?

MR. SHERIDAN: My numbers have nothing to do with whether there would be a reevaluation or not. It wouldn't affect it.

ASSEMBLYMAN IMPREVEDUTO: Okay.

ASSEMBLYMAN HENDRICKSON: John?

ASSEMBLYMAN IMPREVEDUTO: I've got a number of other questions.

ASSEMBLYMAN HENDRICKSON: Go ahead, I'm sorry.

ASSEMBLYMAN IMPREVEDUTO: It's over an eight-year period of time?

MR. SHERIDAN: But it's a continuing number. As of this date, that \$440 million, without a single additional conversion, would continue and exist every year from now until forever.

ASSEMBLYMAN IMPREVEDUTO: Do you have any idea how much the State makes since it instituted its Lottery?

MR. SHERIDAN: No.

ASSEMBLYMAN IMPREVEDUTO: A goodly number, I'm sure.

MR. SHERIDAN: I think it is approximately \$200 million a year.

ASSEMBLYMAN IMPREVEDUTO: A year? Have you any idea how many years the Lottery has been in existence?

MR. SHERIDAN: Yes, since 1972.

ASSEMBLYMAN IMPREVEDUTO: Okay, so we're looking at another 12 years -- 16 years, rather. Sixteen years times \$200 million. It sounds like a big number, doesn't it? But every year the State is looking for more and more dollars. The reason for that, is because all of the costs to operate the State have increased.

MR. SHERIDAN: Sure.

ASSEMBLYMAN IMPREVEDUTO: So when someone tells me that my county's tax base has grown by \$440 million over an eight-year period of time, it isn't a whole lot when I consider how much expenses have grown. Let me finish, now; let me finish. How much has that been each and every year? It's not a whole lot. It's not a whole lot when you look at the actual dollars. And let's look at where those dollars may have come from, or where that tax increase may have come from, or that tax base increase may have come from. Basically, Jersey City, basically North Bergen; cities that themselves are in trouble financially. People can't afford to pay the taxes there now.

MR. SHERIDAN: But Mr. Assemblyman, with all due respect, that's--

ASSEMBLYMAN IMPREVEDUTO: It's Impreveduto. It's very phonetic.

MR. SHERIDAN: Right. That's my--

ASSEMBLYMAN IMPREVEDUTO: No, I appreciate that.

MR. SHERIDAN: --point. My point is, in the long run, it makes more sense to allow conversions to take place, because what you will have is an increased tax base. You will have property values reflect real value. You have the ability to provide municipal services. If you artificially restrict the marketplace, you are, in effect, depressing your own tax base, and you are, in effect, shifting the burden from a fair basis, where everybody pays their fair share indiscriminatorily, to the present homeowners. That is what that kind of restrictive legislation does. In fact, I would suggest to you that those homeowners in your towns don't understand that they are subsidizing tenants. One of the proposals was, let's be government under glass, as some people have suggested. Let's share with the taxpayers the information they need to make fairly informed decisions about whether rent control should continue in their towns. Let them understand that, in effect, their taxes are subsidizing tenants. And then see if they will elect people who will impose discriminatory and restrictive rent controls and anti-conversion ordinances.

ASSEMBLYMAN IMPREVEDUTO: Just two other questions quickly.

ASSEMBLYMAN KAMIN: If I may interrupt before you ask those questions-- Would the owner of a silver BMW, initials BL, please contact the policeman outside, and move your car.

ASSEMBLYMAN IMPREVEDUTO: Somebody mentioned the number 15,000 on the other side of the dais here -- 15,000 units converted up to July of this year -- July of '88. Fifteen thousand conversions that they can place up until July of '88 in Hudson County.

MR. SHERIDAN: Fifteen thousand may have been registered. The number I have through the end of '87 is 10,800. I don't have--

ASSEMBLYMAN IMPREVEDUTO: No, Hudson County.

MR. SHERIDAN: --'88 numbers.

ASSEMBLYMAN IMPREVEDUTO: You used those numbers before. Can you justify those numbers?

MR. KAHN: Those are Department of Community Affairs figures up through July of '88.

ASSEMBLYMAN IMPREVEDUTO: Okay. So the Department of Community Affairs is saying, "up through July of '88," and I think that is a safe number -- 15,000.

MR. SHERIDAN: For discussion purposes, let's assume it is true.

MR. KAHN: Well, 14,996.

ASSEMBLYMAN IMPREVEDUTO: Excuse me. Well, we'll use 15,000, because that is a nice round number. How many units have been built in those eight years -- rental units?

MR. SHERIDAN: In Hudson County? (Assemblyman Impreveduto nods affirmatively) I don't know the exact number.

ASSEMBLYMAN IMPREVEDUTO: More than that, less than that?

MR. SHERIDAN: Oh, I think it is less than that.

ASSEMBLYMAN IMPREVEDUTO: So overall, there is a shortage of rental units?

MR. SHERIDAN: Per Hudson County; not on a statewide basis.

ASSEMBLYMAN IMPREVEDUTO: No, I'm just talking about Hudson County.

MR. SHERIDAN: Not on a statewide basis.

ASSEMBLYMAN IMPREVEDUTO: I'm just talking about Hudson County. So basically--

MR. SHERIDAN: There is a decrease, yes. Okay? It is not 15,000, because 20% of those 15,000 are continuing, and

will continue, almost into perpetuity, to be tenanted by protected senior citizens and protected handicapped citizens. And a good number of them, in addition to that, are still occupied by tenants who have three or four or more years' protection under the existing law. And, in addition to that, investor-bought units are often rented back to tenants. So, to say that 15,000 units came off the rental housing market is just wrong. It is not even close to 15,000.

ASSEMBLYMAN IMPREVEDUTO: Well, you know, when you use "in perpetuity," I-- God only knows, I wish that every senior citizen would live forever, but they won't, and those are going to become vacant. I think Assemblyman Kenny brought out a good point before.

MR. SHERIDAN: "In perpetuity" was the wrong phrase. I should have said "indefinitely."

ASSEMBLYMAN IMPREVEDUTO: Yeah, thank you. I think Assemblyman Kenny made the statement before, "except that one-third of that" -- and we'll go beyond the 20%; we'll say one-third of that -- "is, in fact, true." You know, that one-third of the people are remaining in their apartments either because they are senior citizens or they are handicapped, who are permitted to keep them. Approximately one-third choose to buy the unit. That still leaves us with one-third of the people without living quarters; without proper housing.

MR. SHERIDAN: That assumes that the full third -- and I don't believe it-- I believe it is some portion; I just don't believe it is the whole full third. It presumes that those people -- that all of those people, the total 100% of that third, cannot afford to buy a unit, or cannot afford to rent housing in other places. I don't believe that is true. I don't believe these people go from these units to the street. I think they find housing that they can afford.

ASSEMBLYMAN IMPREVEDUTO: Well, if we are looking at Hudson County, which is the second largest in the number of units-- I think we looked at seven point something percent, which translated to almost 11,000 units going by your numbers, up to 1987. In Bergen County, what is it, about 14,000 units up to 1987? They can't, obviously, go to Bergen County, because Bergen County is the largest converter. And looking down-- In Essex, with 5000, maybe they can find someplace in Newark to go, or in urban Essex, but certainly not in suburban Essex, and certainly not in suburban Bergen, and probably not in too much of Hudson County. Where do they go?

MR. SHERIDAN: I perfectly agree with you that there are some tenants who are having a difficulty, and who will have a difficulty finding affordable housing. I don't doubt that. What I am--

ASSEMBLYMAN IMPREVEDUTO: Would you agree, though, that it is not really the affordability, it is the availability that is the problem here?

MR. SHERIDAN: What I am saying to you is, I don't believe the crisis is anywhere near the proportions that have been suggested by the tenants' rights organizations. Okay? I would also argue with you, strongly, that if there is a crisis, the crisis is probably only in your county. It certainly is not a statewide problem. Therefore, any legislation that ought to come out of this Committee, ought to be something to where we have a crisis. But first we ought to be absolutely sure we have a crisis.

ASSEMBLYMAN IMPREVEDUTO: So you would recommend then that if, in fact, there is a crisis, and that crisis is restricted to a particular region, then any legislation should be regional?

MR. SHERIDAN: Yes, absolutely limited to the place where the crisis exists. I mean, if we are going to take away people's property rights, we ought to be sure there is a crisis, and we ought to do it in as narrow a way as possible.

ASSEMBLYMAN IMPREVEDUTO: Thank you.

ASSEMBLYMAN KAMIN: Thank you very much. Are there any other questions from the Committee?

ASSEMBLYMAN HENDRICKSON: Just real quickly, would you give us a printout on your testimony when you can, John, or when you find it -- whatever you want to do?

MR. SHERIDAN: What I would like to do is share with you two things: One is the full text of the prepared testimony, but also a letter that I sent to the Senate on S-2107, if you want them.

ASSEMBLYMAN HENDRICKSON: One other question: Somehow, an average mean of the cost of maintenance and keeping in condition high-rise buildings-- Is there any way we could get that other through the Department of Community Affairs?

MR. SHERIDAN: I will certainly ask my client. There are some people here with tremendous housing expertise, and I suspect--

ASSEMBLYMAN HENDRICKSON: I would like to have that for our Committee.

MR. SHERIDAN: Okay. Thank you very much.

ASSEMBLYMAN KAMIN: Thank you very much.

MR. KAHN: I have just one short--

ASSEMBLYMAN KAMIN: Yes, Mr. Kahn?

MR. KAHN: --response that I don't want to let pass. This Commission has debated the issue of rent control, at least during our first three initial meetings. I know this is not the forum for it, but, you know, I really can't let pass the remark that homeowners are subsidizing tenants. By your own admission, 20% of the tenants are senior citizens and the disabled. They do not eat up that 70% of the municipal budget that goes for education. They do not utilize the same amount of municipal services. So I think if we are going to get into that question of who subsidizes who under rent control and municipal taxes, we need a wider forum than just this particular meeting. I just wanted to say that.

MR. SHERIDAN: Mr. Chairman, may I respond to that?

ASSEMBLYMAN KAMIN: You certainly may.

MR. SHERIDAN: My only point was this on the subsidy issue: What I am saying is, if you have artificially depressed values on existing housing, those units are not bearing their fair share of multiple taxes. That means that that burden is being picked up by somebody else. It is obviously being picked up by other property owners. A large portion of those property owners are homeowners. That is my point.

ASSEMBLYMAN BAER: Mr. Chairman?

ASSEMBLYMAN KAMIN: Mr. Baer?

ASSEMBLYMAN BAER: On this same point, Mr. Sheridan, I want to kind of express the view, and I guess throw out at you for comment, that -- a very contrary view, because I don't understand how this is a subsidy at all. Just because-- If the controls were lifted, there would be greater value to the property and greater taxes, but we have an enormous imbalance in the market. We don't have a free market operating here, because of the incredible shortage. No doubt if we were to eliminate the controls levied by the BPU on our utilities, so that they could double their rates, we would find a doubling of the gross receipts tax, which would then be distributed back to the municipalities, if the Governor didn't skim it.

That would also provide, supposedly, some benefit to the taxpayer. But what we are talking about is a windfall -- a windfall in profits that come about to businesses when you have such an imbalance in supply and demand. To just let the market seek its own level in that type of a situation does not involve subsidizing people, and also does not take into account the very considerable costs the communities would have to bear from the social dislocation, and the costs associated with that social dislocation, when people are priced out of housing.

I know it was a statement, but certainly I want you to have the opportunity to comment.

ASSEMBLYMAN KAMIN: Please, Mr. Sheridan?

MR. SHERIDAN: Mr. Baer, you and I have discussed these issues over a number of years, and we honestly come at it from largely different perspectives. I want to say to you, I don't doubt that there are people with housing problems in the State. I think there is a large housing problem in the State. I just don't think it is the proper approach to expect that individual property owners, rather than all taxpayers, to bear that burden. I think there clearly is a subsidy here by homeowners in rent controlled municipalities. I would also suggest to you that the market dislocation you are talking about, in my view -- one person's view -- is largely caused by the fact that we have had 20, 25, 30 years of rent control. If there were no rent control, the market would have addressed these problems.

There are enormous areas of this country where there are no housing problems. I would suggest to you that the vast majority of those are where there is no rent control.

ASSEMBLYMAN BAER: My only further comment is, when you talk about the homeowner not having the free use of the property -- I mean the landlord not having the free use of the property -- very few people in this State have totally free use of their property. We have zoning laws. No doubt if the zoning laws were eliminated, people would be able to have commercial uses for their properties that might exceed their present value. We have many other controls on the use of land. I don't want to take up time to list them all, but there are many types of controls in which the value of property is affected. It is merely a question as to what the controls are, and whether they are justified and in the public interest. We have already crossed that bridge many decades ago.

MR. SHERIDAN: Mr. Chairman, I guess we could go on all day like this. Not to be a wise guy, but, you know, a little bit facetious, may I suggest that perhaps the solution

to this is that everybody in Bergen County, like yourself, who has a couple of extra bedrooms, would be required to rent them free to people who need housing.

ASSEMBLYMAN KAMIN: Before you go, Mr. Sheridan, John Giaquinto has a question.

Let me announce once again, if there is a freeholder in here with a silver BMW, you are in danger of losing your car, because the State Police are very upset. They want you to move it.

ASSEMBLYMAN HENDRICKSON: They are going to tow it.

ASSEMBLYMAN IMPREVEDUTO: Or shoot it, one or the other.

ASSEMBLYMAN BAER: What is it?

ASSEMBLYMAN KAMIN: A silver BMW; the plate is BL. A freeholder plate?

ASSEMBLYMAN BAER: Yes, it is, I think.

ASSEMBLYMAN KAMIN: Mr. Giaquinto?

MR. GIAQUINTO: I think what we're leading to, and I think we discussed this in our own Committee-- Mr. Sheridan?

MR. SHERIDAN: Oh, I'm sorry.

MR. GIAQUINTO: Just come back for a minute.

MR. SHERIDAN: All right.

MR. GIAQUINTO: We discussed this in our Committee and at various other hearings and with the Department of Community Affairs. Getting back to legislation and all the red tape and all it takes to get a permit, and all that, has added how many percent to the cost of housing today -- forget the construction part -- all this bureaucracy we go through before we start construction?

MR. SHERIDAN: Do I--

MR. GIAQUINTO: I don't think you are an expert on that, but--

MR. SHERIDAN: No, I really can't-- I know from my own experience working with clients that there is an enormous

process to go through at the municipal and State levels to get any project in New Jersey approved -- a long hard process. You have to interface with many, many different governmental agencies, DEP being a major one, but my former Department also being a significant one in many cases.

MR. GIAQUINTO: My question is: By adding additional legislation onto this, wouldn't that continually add to the cost of housing, one way or the other?

MR. SHERIDAN: I think the answer is obvious.

ASSEMBLYMAN KAMIN: Thank you, John, and thank you, John Sheridan.

MR. SHERIDAN: Okay, thank you very much.

ASSEMBLYMAN KAMIN: Our next person to testify in the creation of a risk-free society, is Father John J. Gilchrist; to be followed by Ray Korona; and then Lawrence Berman, representing Bob Janiszewski, from Hudson County. Father Gilchrist, comments on a risk-free society.

FATHER JOHN J. GILCHRIST: Thank you for allowing me to come before you today. My statement will not be too long. I am absolutely certain that all of you are cognizant of all of the problems that we face in northern New Jersey--

ASSEMBLYMAN HENDRICKSON: And southern New Jersey.

FATHER GILCHRIST: --and you have had expert witnesses appear before you, so you don't need me to lay out the ramifications of the problem for you. This is seven minutes and 40 seconds. I had to read it for the sisters and priests last night.

I am here primarily here to emphasize the moral dimension of our problem. I am a parish priest -- no more, no less. I have spent 32 years of my life in Hudson County, in and among the people. I was a curate in Kearny, then Jersey City. For the past nine years, I have been stationed in North Bergen.

For the past five years, I have been the Dean for North Hudson. In that capacity, I have been intimately associated with the pastors and priests of the Catholic Churches in Union City, West New York, Guttenberg, Secaucus, and North Bergen -- 13 parishes in all.

Moreover, as a member of the Presbyteral Council -- the Senate of Priests -- for 10 years I have been a representative of Hudson County to Archbishop Gerety and Archbishop McCarrick. Therefore, in one way or another, I have represented all the priests of Hudson County over the years.

Over the last three years, I have had the good fortune to be a friend to some of the many tenant organizations in our area. I have come to know their leadership, and I want to assure you that these people who appear before you today -- and other days -- are good, honest, and very decent people. I know them. None of them, I assure you, operates from pure self-interest or radical motives. Many of the members of our tenant organizations -- like Frank Engleberg -- are themselves senior citizens and already protected personally. Many of the tenant leaders -- like Marilyn Bach-Nunez, Janice Walsh, Alice DeFino, Chuck McGroarty, Ira Karasnilch, and others -- are fine, fine intelligent young people who have seen the fear and pain of people who are threatened by a loss of shelter. And they, in the very best traditions of our American democracy, have organized to protect the poor, to help their neighbors, and to work for justice.

Therefore, that is my very first priority here today. I want to be a witness to the goodness and integrity of these people from Hudson County who are testifying before you today. These are quality people.

Beyond that, you may perhaps wonder why I, a priest, am here. Frankly, I have no other choice on several counts:

First, as a human being. I grew up in the Depression. My mother raised six of us alone. My father left

us. Had I been born in today's economy, even though all of us boys worked, we, -- my mother, brothers, and sisters -- could very easily be homeless now. Had we not had the security of an apartment -- a home -- very possibly my life would have been different; I might never have become a priest.

I know, personally, how it feels to be at the mercy of forces that are beyond our power to control. I can feel and resinate with the panic of the dispossessed.

Secondly, shortly after World War II, I saw the huge crunch that came in housing. Six million servicemen came home. I well remember how many of them were jammed in with their parents. Thank God, at that time, the government and the Veterans' Administration provided money for GI loans and housing. Local governments, seeing the emergency, enacted rent control and other measures to protect people against gougers and sharks.

Today, the situation in our area is just as bad; in some ways, even worse than in 1945, '46, '47, and '48. It is worse because then, most families were intact; now family life has disintegrated. Many people have no one to help them; no nest to which to return.

I know there is legislation that is being discussed, but this legislation must be regarded as crisis legislation, just as surely as if we were in a war. It should be enacted as a protective measure until the crisis in housing eases, especially in Hudson County.

Beyond that, I also speak to you on behalf of many priests in Hudson County, who watch helplessly as young families are forced to move in and out of the area because they simply cannot afford housing. Some 111 of the priests have already signed a petition begging the Legislature to help in this crisis of housing. I have the petition here. May I ask, Mr. Chairman, if it would be possible for me to give that to your reporter and have it put into your record, without my reading it to you?

ASSEMBLYMAN HENDRICKSON: Absolutely; our pleasure.

FATHER GILCHRIST: Thank you. The only way I can describe the situation, as I said, is demographic turmoil. None of our parishes are stable. Condominium conversions are making things worse as people are driven from their homes.

The question was asked, "Where are people going?" What you have missed are the thousands and thousands of small homes, two- and three-story apartments, basements, and attics, that are being used as shelter. Recently, I visited a young couple with two children living in the basement of a single-family house. There was in that basement, a sink, a stove, a shower, and a toilet. It was one room. There was no privacy. Blankets were hung on clotheslines to form cubicles for some decency. The rent was \$700 a month.

I will add this: We had a small house around our neighborhood. There were four people: two parents and two children in that house. They sold the house and moved. Three months ago we had a fire in that house, and 22 people emerged from that little house. That is how people are surviving.

Lastly, I want to address the moral issue. The Vatican -- specifically the Pontifical Commission for Justice and Peace -- has published a document entitled, "What Have You Done to Your Homeless Brother?" and subtitled, "The Church and the Housing Problem." It is a marvelous work because it clearly and eloquently depicts the housing crisis in a world-wide perspective. It is most even-handed, in that it sees all sides of the problem, including that of the property owner. I have copies for you all. Ms. Smarth told me there were 14 of you. I have 20. Would it be possible--

ASSEMBLYMAN HENDRICKSON: We appreciate that.

FATHER GILCHRIST: I have also in here-- I know you are busy people. I have made a precis of it, which is with it, so you can read it in a cursory manner, if you wish. I do hope you will take the time to read it. I think this is an epical ground-breaking document.

But may I read for you just a few statements from that document? "Any person or family that, without any fault on his or her part, does not have suitable housing is a victim of injustice. There is a right to housing suitable for living family life in a suitable way." And this is a key question: "Housing constitutes a basic social good, and cannot be considered merely a market commodity." I would inject here that I believe it is necessary for people who purchase multi-unit dwellings as a business enterprise, to understand that they are not free to treat those dwellings as a marketable chattel that they can utilize merely for maximum profit. If a person, real or legal, knowingly buys a multi-unit dwelling that is inhabited, that person is morally bound by a concern for those tenants that they find there. The new owner cannot simply say, "I am buying this. You get out, so that I can chop it up and make money." That is immoral, and the worst form of sheer capitalism.

Speculators who act in that fashion are morally delinquent, as also are the speculators who have bought up so much of the empty ground in our area. That is the reason we can't get affordable housing built.

Finally, the Vatican states: "Our reflection on the highly complex situation of the homeless cannot fail to raise the question of the heavy burden of personal suffering that is the result of evictions. While evictions may be legitimate according to the law, such evictions raise serious ethical questions when it comes to people who truly have no other housing possibilities."

My friends, in Hudson County, those are the conditions that prevail.

Finally, we have a situation of very clear values. On one side are the very rich, very powerful interests; on the other are collected the poor, the working class, the people struggling for the necessities of life. I have no other choice

as a priest. Jesus said, "The poor you will always have with you." They were his people, and I have no choice, personally, but to take their part and stand with them.

Thank you very much. (applause)

ASSEMBLYMAN HENDRICKSON: May we have that copy, and staff will make copies for everyone -- the copy of your testimony?

FATHER GILCHRIST: Oh, sure, and I will give you the statement from the priests. It is a poor statement. I know, I wrote it. But they signed it. It was two years ago. It is whereas, whereas, whereas. I tried to imitate you fellows, and I didn't do a good job. But you'll find 111 priests, and a couple of nuns slipped in there. I don't know how that happened.

ASSEMBLYMAN KAMIN: Thank you, Father.

ASSEMBLYMAN BAER: We would better imitate you, Father.

ASSEMBLYMAN IMPREVEDUTO: Just a short, quick-- Father, with the questions that were being raised before, the answers were, very simply, they must-- You know, people are being evicted from homes that are being converted.

FATHER GILCHRIST: Yes.

ASSEMBLYMAN IMPREVEDUTO: The people I have heard so far have been saying, "They must be going somewhere."

FATHER GILCHRIST: They're doubling up.

ASSEMBLYMAN IMPREVEDUTO: "They're not in the streets. They're going somewhere." I think your indication as to the 22 people living in the small house in North Bergen--

FATHER GILCHRIST: Especially if--

ASSEMBLYMAN IMPREVEDUTO: --or the fact that what we have are some one-family homes, which are converting to using basement apartments, probably illegally, and that is where many of them are going, paying, as you said, \$600 and \$700 a month rent, which I think is a shame.

FATHER GILCHRIST: That's a lacuna in the law, you know, especially you older ones who remember that in 1946, every possible apartment was used, basements, attics. Frankly, I think many of the housing inspectors are looking the other way, because they realize that as bad as it is, at least it is a shelter.

ASSEMBLYMAN HENDRICKSON: From December '44 to March of '46. I arrived back here in March of '46. So I wasn't, you know, around for a while.

ASSEMBLYMAN KAMIN: Father, thank you very much for your patience, and for your testimony, and for being with us today.

Next on deck will be Ray Korona, followed by Lawrence Berman, followed by Bob DeRuggiero.

RAYMOND I. KORONA, ESQ.: I'm Ray Korona. I am a partner in the law firm of Korona, Beides, Eaton and Mark.

ASSEMBLYMAN HENDRICKSON: Just a minute, if you will excuse me? We are going to have two more hearings with our Committee -- the Assembly Community Development and Urban Affairs Committee -- okay? -- guaranteed at least two. Mr. Chairman, I apologize, but I have to run. All right?

UNIDENTIFIED SPEAKER FROM AUDIENCE: Sir?

ASSEMBLYMAN HENDRICKSON: Yes?

UNIDENTIFIED SPEAKER FROM AUDIENCE: The Tenants' Association has come specifically so that the Chair of the Assembly Committee would hear us. If you are leaving, then we have no reason to be here.

ASSEMBLYMAN HENDRICKSON: Well, suppose I meet with you in the hall?

UNIDENTIFIED SPEAKER FROM AUDIENCE: Fine. I will read my testimony to you.

SECOND UNIDENTIFIED SPEAKER FROM AUDIENCE: How about the hearing?

ASSEMBLYMAN KAMIN: The hearing is continuing. It is being recorded, and will be transcribed. I will stay as long as there are people who care to speak on this, or on any other issue.

ASSEMBLYMAN HENDRICKSON: Well, I will be in the hall. We set this up real quick. You know, it was only about a week ago that we set this hearing up, and I gave as much time as I could possibly give. Unfortunately, I am not wealthy; I also work.

ASSEMBLYMAN KAMIN: Thank you. If there are any problems, please take your discussions to the hall.

Now I would like to ask Mr. Korona to please continue, and thank him for his patience.

MR. KORONA: Our law firm, for a considerable period of time, has been working primarily in the housing area. We have taken two approaches which, I guess, are similar to what this State has had to do in its responsibilities. One is, we have been working very hard with developers and so forth to try to develop affordable units of housing for low- and moderate-income people. There have been thousands of units that have been created, but it has been very difficult and very tricky. There is no doubt that we need a lot of help. I am not really here to talk about that aspect.

The other half of what we have been doing has to do with the protection of tenants, to the extent possible, in the conversion context, and there we have also represented many thousands of tenants, and have been through the courts with all sorts of cases that relate to this problem. So, that is the expertise I bring, in terms of wanting to speak with the Committee today.

I did want to say, though, at the very beginning -- just as a personal note-- that I would like to thank, with no reflection on anyone, all of you who did manage to be able to stay, to extend the time to us to be able to be heard. I would

also like to just make note of the work behind the scenes that Debbie Smarth has been doing, cajoling us and being diplomatic, and being reassuring and supportive in helping this to happen. I think that is appreciated by many of the people who have been here today, too.

Now, in terms of what I have to say, one thing that may help a little bit -- and if you already know this, it may help you in talking to strangers who are new to this problem -- is, when I grew up here in the Trenton area, I can imagine back in high school, the last thing in the world that would have made sense to me would have been the kind of stuff we are talking about. I would have thought that if someone owned a building, if they put their money in there, they were entitled to do pretty much what they wanted with it. They certainly were entitled to make a profit, and they could sell it. If selling it meant converting it, what is so wrong with that? To a great degree, hearing some of the testimony from the developers' side today, it was sort of *deja vu* for me, because I could remember those days.

But I have come a long way since then. Now I am coming to talk almost against that, you know, to at least put a different gloss on it, and a different perspective, which I think is one that came out of a lot of experience and hard work and thinking, and the personal development I have had. I think in a nutshell the one example that really brings it home, is to remember that gas line/oil crisis shortage that we all experienced not too long ago. I don't know if any of you missed waiting in line for a couple of hours to get your gas tank filled, but you really got a taste of what it is like when there is a very important commodity, or something that you really need, and its price has suddenly skyrocketed, and its availability has suddenly become almost nonexistent.

We went through that, and I think that is exactly what a lot of people are going through today, especially in the

urbanized areas, in terms of housing. When somebody talks about warehousing apartment units, or keeping them off the market, as part of the condominium process, all I can think about is how angry I would be in that gas line if I knew that that gas station down the road where the pumps were closed had gallons and gallons and gallons of gasoline, and were just holding it there because they thought maybe next week I would be willing to pay \$4, instead of \$2, to get that gasoline. I think just as our country and our State and our local governments and whoever are really on-line with the problem have to deal with these kinds of difficulties in making our system work from time to time by getting involved more directly than we ever thought we would-- Just as that was illustrated in the gas crisis, I think it is also time to do that in the housing crisis. I think it is the same kind of problem really, fundamentally.

First of all, in terms of the pluses and the minuses of conversion, there are really only a couple of good reasons to be for conversions; I mean, solid, good reasons. One of them is, we do want to have affordable housing available for people who want to purchase and get into the ownership mode, and ultimately that is something, I think, that most people of good will would like to see everybody be able to do.

Another good reason is, we do want it to be a viable market activity. We want housing to be something where there is a cash flow generated, and there is profit potential, and people can be encouraged to go into housing and try to make good housing and get it out there and be competitive and get either the tenants or the buyers to come into it.

On the other side of the coin, though, there is this incredible shortage right now in many areas, and certainly in the areas where I practice. In Essex County, and Hudson County, and in the surrounding environs, there is a desperate need for housing. It is like Father Gilchrist said. It is

absolutely incredible, to the extent that, as a lawyer who knows anything about housing, I am besieged by people who had something to do, at one time or another, with our legal services, who have asked me if I knew anybody, or any landlord's lawyer, they would pay thousands of dollars; they would do whatever they had to do. But, there is no place to go.

So, putting all of that together, if you look around now, though, in Jersey City and in Hoboken and in North Bergen, and those types of towns, and in some of the towns in Essex County as well, you will see signs all over the place for luxury condominiums, and even for affordable luxury condominiums, which is a new category on the signs lately. What we are finding is that there are actually thousands of units of housing sitting there, where we don't have a market; we really don't have the customers, because the units are too expensive for those very people we are talking about helping and bringing into the housing situation.

So I think with respect to that problem, the conversion discussion isn't really helped too much by talking about how we could help first-time buyers. The way to deal with that, is to talk about a different story, which is maybe some kind of subsidies for them, or some kind of low interest mortgages, or other types of scenarios. But in terms of justifying the conversions, that doesn't do it. So what we really get down to, is kind of a question of how you call it intellectually or politically. Is it okay to let one guy have unlimited profit potential, with the other side of the balance being that it is at the expense of the families which are being literally displaced from their housing and thrown out on the street, with no place to go, and all the rules that they lived under all these years, changing right in front of their eyes?

Most people expect it. Whether there was rent control or not, they believed in kind of a fairness in the way of the market, which was always sort of fair, really. People could

get housing; they could rent it. They would know that maybe next year the rent would increase, and maybe two years later it would increase a lot, and maybe after a couple of times of this -- a few times of this -- it would double, or even triple. But they could plan for that. They could get jobs and they could work and they could manage their budgets and stay whole and stay there in their rental housing.

And all of a sudden, the rules changed. And now the housing becomes unavailable. It doesn't matter, really, whether you give them one year or three years or four years, which is the maximum for real under the legislation we now have. It doesn't matter if you do that, because if you are going to take it away, it's gone, and if the only alternative is to buy something you can't afford, then there really isn't an alternative. I think that is why this is all becoming a statewide problem, and it needs a statewide solution.

There was a little talk earlier about Woodcliff Gardens. I represented the tenants' organization there. We went all the way to the Supreme Court of New Jersey, and we got the only published decision that the Appellate Division has given on the specific area of tenants' rights in condo conversions, as of that time. What the court said, basically, was, in a nutshell: This is up to the State Legislature. This is really not something that we, as the courts, can resolve. The laws that are on the books now, according to the court -- and the Supreme Court of New Jersey didn't want to intervene or change any of this -- are really not dealing with the balance between the needs for conversion availability and the needs for housing. If we want to deal with that balance as advocates, and as lawyers, we better come to those of you who are part of the Legislature, or those of you who are advising the Legislature with your studies. So, those are the reasons why I decided to come here.

In terms of what I think is really the key factor-- I would like to say a couple of things about it, because I have had a lot of experience in it. That is the factor of rent control. We heard a lot about Draconian rent control. I am here to tell you that that is just not for real. The Supreme Court of New Jersey has decided several cases dealing with rent control, and has really laid down the law plain and simple to all of us. Here is what it is: If you own property in any municipality, no matter where it is in New Jersey, and there is rent control, you are still going to have the absolute right, at your discretion, to decide what repairs and capital improvements you want to make on that property; to make those improvements, and charge all of the costs to the tenants; charge all of the debt services to the tenants. For somebody to sit here and tell you that they need a right to have a condo conversion to clean up a building that has the ceiling falling down, or has a bad boiler, or has something else, is just plain dishonest, because rent control doesn't, and can't work that way. It is absolutely illegal for it to try to even think about doing that.

So, first of all, all of the improvements can be made, and we are not putting anybody out of business, or putting financial pressure on any developers or property owners in doing that. Secondly, the rent control ordinances in New Jersey, virtually uniformly, have a cost of living automatic increase, so that the landlord doesn't even have to do anything. Automatically, right along with the rest of the cost of living for our region, the increases are permitted under rent control.

Next, if there are any taxes that go up that are unusual, most of the rent control ordinances -- and I have been contracted to write a book on this by West Publishing Company, so that is why I am kind of talking about this sort of survey approach to it-- But, most of the rent control ordinances have

a 100% tax pass-through provision, so that all of these taxes can be passed through to the tenants. In addition to that, all of the ordinances are required to have a hardship pass-through, which means that if the landlord is not only not breaking even, but if the landlord isn't making a profit -- and a good profit that is higher than what you can make by putting your money in the bank -- then the landlord is absolutely entitled to raise the rents to whatever he needs to raise them to, to get that profit.

So, all of this stuff about rent control is really a red herring. I think what we have is a question, not of whether somebody can make a profit, but how much profit are we going to let them make? Are we going to put the right for somebody to make a lottery-like profit above the ability for somebody else to be able to survive in their family and in a unit of housing?

That is really what this issue comes down to. Those are the two sides. Some of the cases I have handled, and I have gotten the data on each one of these cases, because it was part of our legal argument, and part of the work we had to do for the tenants' group-- In case after case, the developer would make, by his own projections, and according to the testimony of his own accountant in the courtroom-- The developer was in this because he would make, in a period of a few years, \$18 million, \$21 million, things like that, not because he was going to make a fair return on his investment. To make matters even worse, in almost every one of these cases, the developer put practically no money into the investment in the first place. The developer would put in a small amount of money. A bank would come along and, on the basis that the legislation would succeed in kicking all the tenants out, would put up the rest of the money necessary to make the deal. Of course, this is good business for the bank, because they have a nice solid loan, and they get paid on it. And it's great

business for the developer, because at the end of the line, the developer then gets not just the profit on, say, the 7% -- typical number -- or 8% of the cash money that he put into the project, but he gets a profit on that, plus on the whole difference in the purchase price the--

ASSEMBLYMAN KAMIN: Mr. Korona, I think we are straying a bit--

MR. KORONA: Yes?

ASSEMBLYMAN KAMIN: --from where we are trying to go with this Commission.

MR. KORONA: Okay. Then just directly, because I don't want to do that--

ASSEMBLYMAN KAMIN: We're working with the Rental Housing Study Commission. We are trying to look at ways to provide more housing, and not necessarily talk about the uses or abuses of the past. I would like you to focus your remarks to that, and I also ask you to conclude, because there are about another 20 people who wish to speak this afternoon. I am going to ask that we start to try focusing down to five minutes per person, if we can.

MR. KORONA: Okay. In that case, I don't want to say anything else. I will just bring home that point, so you will know where I was going with it.

ASSEMBLYMAN KAMIN: Thank you. Questions from the Committee?

MR. KORONA: Just to bring that one down to earth, where I was going with that was just that I think the conversion legislation, whatever it is that you envision, recommend -- whether it is what exists now or other legislation -- should consider that that is the real ball game out there. I think that because that is the way things happen in real life, the legislation should heavily weigh the protection of the tenants and their right to stay in a non-eviction situation, against that kind of incredible and really destructive profit.

ASSEMBLYMAN KAMIN: I thank you for your comments. Questions from the Committee? Mr. Giaquinto?

MR. GIAQUINTO: Just one question. I could ask him a thousand questions, but I won't take up the time.

In your testimony, you talked about Hudson County. Are you familiar with any other parts of the State?

MR. KORONA: Yes.

MR. GIAQUINTO: Would you say there is a crisis in other parts of the State?

MR. KORONA: My own familiarity is primarily with Hudson and Essex. Those are the counties I worked in and had many cases in. At present, I am representing, for example--

MR. GIAQUINTO: I think most of the testimony we have been hearing here today has centered mostly around the Hudson/Bergen County area. I have not heard of any other areas throughout the State that have this crisis.

Now, if these units you are talking about are empty, and are at set prices, are you aware that there is a housing slump at the present time, and a decrease in values of anywhere from 15% to 20%, in the last six months?

MR. KORONA: Well, I could tackle that, because there is a lot to say about it. I am just not sure if I wouldn't be, you know, intruding on other people's time.

MR. GIAQUINTO: Well, I am just saying that these empty condominiums that are sitting there unsold-- There are reasons why they are not sold, not that they are just sitting there empty.

MR. KORONA: Yes. Well, I think, in a nutshell -- to try to say it as briefly as I can -- the reason is that the prices that are being asked are not realistic, given the people who have the housing need. People with the kind of money that could buy those units, with the prices that people have imagined they should get for them, would much prefer to buy much better housing in other areas. And the people who have

the money to buy affordable units, or to rent affordable units, can't come close to qualifying for those units.

The other side of this, too, is that many developers, and their attorneys, have been candid in telling me that their-- The only reason they are converting is that they hope this will get them out of rent control, because they don't think they are going to sell the units. But then after the conversion is over, they will start renting them again, and they will be able to, in many municipalities, escape rent control entirely.

So, in many instances, the conversion itself is a fraud, in terms of what the legislation--

ASSEMBLYMAN KAMIN: We have covered that ground today, a number of times.

MR. GIAQUINTO: Yes, we have covered it. I won't get into that.

ASSEMBLYMAN KAMIN: Thank you, John.

ASSEMBLYMAN IMPREVEDUTO: Just one-- Maybe this is a reply to your answer, Mr. Giaquinto. When you talk about the fact that the market has flattened, in fact, it has.

MR. GIAQUINTO: Why?

ASSEMBLYMAN IMPREVEDUTO: You know, you're looking at-- And maybe some of the reasons why-- The fact that you are looking at a conversion in the City of Hoboken, where they have taken an old building and converted it to condominiums, and are asking \$300,000 and \$350,000 for that-- I think the statement was made that the market just isn't there for that. So it did come down 20% maybe. Maybe it came down to \$200,000, but the people there still can't afford the \$200,000. So what? Okay? Where we are is the fact that even at \$200,000, or coming down 20% or 30%, that hasn't helped. They are still sitting there, and they are sitting there empty. I think that is the crime.

MR. GIAQUINTO: But what I am trying to get at is, I think that every area in the State -- and I am from Middlesex County, which is certainly different than your county -- has a different problem which I guess our Committee has to address.

ASSEMBLYMAN IMPREVEDUTO: Yes.

MR. GIAQUINTO: From what I have been hearing today, it seems like most of the problems are in the Hudson/Bergen County area. I think there is a crisis. I think one of the persons who testified said, "Okay, if you are going to need this legislation to do that, then why not focus where the real crisis is?" That's all I'm getting at.

ASSEMBLYMAN KAMIN: I think that is an excellent point. The legislators who were here this morning are well aware of that perhaps county-specific piece of legislation, and may propose it that way.

MR. KORONA: There is just one caveat about that, and this is because of what the Appellate Division has told us, as litigators: Whatever you do, be sure that you do something, because unless you either empower the municipalities, or make county-specific legislation, or make statewide legislation-- Unless you do one of those things, we can't do it. The courts have been real clear. Many of the municipalities in Hudson County have tried. Their ordinances have been thrown out, because this is considered to be something the State has the power to do, whether it is a statewide problem or not.

ASSEMBLYMAN KAMIN: Mr. Korona, thank you very much for your testimony.

EDWARD BENNETT: Mr. Chairman?

ASSEMBLYMAN KAMIN: Yes, sir?

MR. BENNETT: Could it be my turn to speak, because I have a time constraint. I have to get back to New York.

ASSEMBLYMAN KAMIN: Your name, sir?

MR. BENNETT: Edward Bennett.

UNIDENTIFIED SPEAKER FROM AUDIENCE: I would like the same privilege as well.

ASSEMBLYMAN KAMIN: Sir, I have eight people who have said, "I have time constraints," and they are on my list. I don't know if you want to do a lottery, if you think that would be somewhat more fair. I am trying to move this as expeditiously as possible. I might also say, I have been trying to show courtesy to the people who called in advance, and who signed up on this list. I am going to take care of those folks, as well. People who called last night, or put their name on today, should not be given the same kind of courtesies to be advanced to the top of the list.

So, with all due respect, I will now call on Mr. Lawrence Berman, representing Robert Janiszewski, who was one of those who called in advance.

UNIDENTIFIED SPEAKER FROM AUDIENCE: Excuse me, Mr. Chairman. I did call and speak to Mr. Levin (Committee Aide) last week. For some reason, my name did not get on the list.

ASSEMBLYMAN KAMIN: It was given to our office last night. I have Bob DeRuggiero next. Then I have Matthew Shapiro.

UNIDENTIFIED SPEAKER FROM AUDIENCE: Will you go down the rest of your list?

ASSEMBLYMAN KAMIN: Stephen Thomas, Marilyn Bach-Nunez--

UNIDENTIFIED SPEAKER FROM AUDIENCE: She's not here.

ASSEMBLYMAN KAMIN: Not here? Terrific, I can cross that one off. Lou Schwartz, B.S. Singletary. (phonetic spelling)

UNIDENTIFIED SPEAKER FROM AUDIENCE: He left.

ASSEMBLYMAN KAMIN: Pardon me?

UNIDENTIFIED SPEAKER FROM AUDIENCE: He left.

ASSEMBLYMAN KAMIN: Richard Falcon?

UNIDENTIFIED SPEAKER FROM AUDIENCE: He left.

ASSEMBLYMAN KAMIN: Mark McFaul?

M A R I L M. M c F A U L: I'm still here.

ASSEMBLYMAN KAMIN: I'm sorry?

MS. McFAUL: I am Maril McFaul.

ASSEMBLYMAN KAMIN: Maril McFaul, okay. George Aviles? (no response) Christine Ricardi? (phonetic spelling)

C H R I S T I N E R I C A R D I: I'm here.

ASSEMBLYMAN KAMIN: Edward Bannon, Edward Nadasti (phonetic spelling)?

E D W A R D N A D A S T I: Here.

ASSEMBLYMAN KAMIN: Joel Horowitz?

J O E L H O R O W I T Z: Here.

ASSEMBLYMAN KAMIN: Daniel Schulgasser? (no response) Ellis Barnett?

UNIDENTIFIED SPEAKER FROM AUDIENCE: He left.

ASSEMBLYMAN KAMIN: Joan Pransky?

UNIDENTIFIED SPEAKER FROM AUDIENCE: She left.

ASSEMBLYMAN KAMIN: I know Phyllis is still here. (referring to Phyllis Salowe-Kaye, Citizen Action)

That is essentially the list. If there is anyone I have missed, I will be happy to call your name. Yes, sir? (responding to unidentified speaker in the audience, whose question cannot be heard by transcriber; no microphone)

Oh, I'm sorry. I have Joe Filt, David Capco, and Roger Levy (phonetic spellings). (further exchange with unidentified speaker from audience; indiscernible to transcriber) Mr. Filt, I have you on right after Bob DeRuggiero.

Mr. Berman, welcome. Thank you for your patience. Accompanying you is?

C Y N T H I A A. R E E S E: I am Cynthia Reese. I am from the County Executive's Office. I am the Director of State Legislative Affairs. Mr. Berman is from our Housing Department, so he has a prepared statement from the County Executive.

L A W R E N C E B E R M A N: Members of the Commission and the Committee: As you are aware, Hudson County, and all of New Jersey, faces an affordable housing crisis. Thousands of its residents cannot afford either the soaring rents caused by condominium conversion or the costs of the condominiums themselves. This massive removal of rental units from the marketplace has caused displacement, overcrowding, and homelessness. The crisis will also impact New Jersey's future growth. Employers will have greater difficulties attracting new employees who can afford the cost of housing within sensible commuting distances. Residents will be required to spend higher proportions of their income for housing.

From 1979 through July 1988, 14,989 units were registered for conversion in Hudson County. In Jersey City, for example, over the 11-month period between March 1987 and January 1988, 99 condominium conversions were filed, containing a total of 2017 dwelling units. Forty out of 97 of the conversions contained no vacant units, and 81 out of 97 were more than 60% occupied. Only 309 units, or 15.6%, in these condominium conversions, were listed as vacant. Therefore, there are potentially 1708 units with families who could be displaced. The impact of this on a countywide basis would be disastrous for the persons displaced, as well as stretch county services beyond their capabilities.

A study by the Department of Housing and Economic Development of Jersey City found that after conversion, low- and moderate-income tenants were unable to remain as tenants or purchase their units. It found that prior to conversions, the average rent of the apartments studied was \$377, the average rental of available apartments was \$626, and the average sales price of the condominium units was \$99,624, which would require over \$1200 in monthly payments and taxes. However, a family of three would be able to afford a \$298 per month rent if the family was low-income, and \$477 per month for the

moderate-income family. Obviously, neither the \$625 rental nor the \$1200-plus condo approaches affordability.

In addition to the issue of affordability, is the loss of the units caused by condominium conversion. Each unit converted and taken off the market cannot be replaced. Vacant land is scarce and expensive, so the only new projects being constructed are market rate, targeted to Manhattanites, not New Jerseyans. Owners are warehousing vacant apartments to avoid the three-year rental requirement. Even when the condominium market is glutted, as it is in Hoboken, developers would rather accept losses and risk foreclosure, than return condominiums to the marketplace as rentals.

The Federal government's response to the affordable housing crisis under the previous administration was to cut programs and slow previously adopted spending. The new administration, though promising "a kinder and gentler nation," has advocated vouchers, enterprise zones, and tenant ownership of public housing. However, this would take some of the most affordable rental units out of the marketplace. In addition, tenant ownership would not include Federal funding to rehabilitate these units. It is, therefore, our responsibility to create laws and programs that address this national issue at the State and local levels.

To this end, we in Hudson County are creating the Hudson County Affordable Housing Trust Fund in response to this crisis. Using pooled loan funds, the Trust Fund will make below-market-rate loans to municipal governments, housing authorities, qualified nonprofits, and "turnkey" developers through governmental units to develop new or rehabilitated multi-family housing and new low-cost manufactured housing.

This program is one of many steps for Hudson County. We have begun expanding our staffing capabilities to create and develop new affordable housing opportunities and have reached out to, and begun working with, the diverse housing

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constituencies to further our efforts. But we cannot work alone. Our problem is a statewide problem. That is why this testimony is presented to you today. That is why we urge you to support S-2107. That is why we urge you to preserve affordable housing by stemming condominium conversions, so that all tenants can be assured that the State will do all in its power to prevent the unnecessary loss of their homes.

Thank you for your attention.

ASSEMBLYMAN KAMIN: Thank you, Mr. Berman. Questions for Mr. Berman from the Committee? (no response) Thank you for your testimony, and our best to your boss.

MS. REESE: Thank you.

ASSEMBLYMAN KAMIN: Mr. Berman, would you leave a copy of your statement for the Committee, so all of the members can have it?

MR. BERMAN: Yes.

ASSEMBLYMAN KAMIN: Before I continue calling witnesses, I would like to make note of the fact that I have some statements that were submitted by Mr. Jeffrey Byrne, from Hightstown, New York (sic), concerning condominium conversions and the non-eviction of renting tenants. That will become part of the record; I will submit that. I also have a statement from Georgia Lanbros, from Cranbury/East Windsor, with the same subject being addressed in her statement. That will be submitted as well. I also have a statement from the North Bergen Tenants' Organizing Committee, which will also become part of the record.

UNIDENTIFIED SPEAKER FROM AUDIENCE: Mr. Chairman, the first two people you mentioned represent the tenants of East Windsor, which I also represent. And for this gentleman here -- I will let you know, because you stated earlier that you have yet to know any tenants who are being evicted-- The tenants in The Orchard in East Windsor will be evicted May 31 of this year, because this bill is not the best.

ASSEMBLYMAN KAMIN: Sir, if you can wait, I will be happy to have you testify before our Commission and the Committee. This is a joint hearing. There will be, I am sure, other opportunities to address the legislation specifically. We are not hearing the bill today. We are not proposing legislation today. We are here to receive input from the public.

I would now like to call on Mr. Bob DeRuggiero, and I thank him for his patience.

R O B E R T D e R U G G I E R O: Thank you, Mr. Chairman. Thank you, ladies and gentlemen of the Committee. My name is Bob DeRuggiero. I am a Realtor. I am the current President of the Hudson County Board of Realtors. I have been involved in the real estate business in Hudson County for the past 28 years. I was born and raised there.

Primarily, the last 28 years of my life have been spent working with both tenants and property owners in fulfilling their goals. I have been involved in some 10,000 transactions. I have been involved with testimony as an expert witness in tax appeals. I am very familiar with the effects of rent control and condo conversions, and I am here today representing the State Association of Realtors -- 47,000 members.

A lot was said today about what the problems are. I think everyone can conclude that there is an agreement that we need affordable housing. I don't think anyone is going to dispute that fact, including me. The question that I pose is: Who is really responsible for providing affordable housing? The issues have been, in the State of New Jersey, that enabling laws were passed for rent control which actually shifted the responsibility from the public sector, or government sector, or the whole public at large, to the private sector, to the people who own property. And basically the property owner has been, for the past 15 years or so, the whipping boy for affordable

housing. They had no choice in the matter. It is simply that the State Legislature said: "Municipal governments, you have the right to pass rent control laws." And some of those laws were very fair, and some of those laws were very unfair. In a good deal of the municipalities in Hudson County, you can't pass along taxes. West New York has a 2% annual increase. You have basically, confiscatory legislation, ladies and gentlemen. This is the problem.

Now, the question was: Why isn't anyone building affordable housing? Well, it's real simple: There is no incentive to build affordable housing. There is no profit in building affordable housing. We have to come up with a unilateral way of solving the problem.

Assemblyman Menendez was here. He's got a bill that would establish affordable housing enterprise zones. I support that. I think it is a great idea. Assemblyman Gerry Zecker has a bill that would allow for low-interest, first-time buyers to finance condos. The big question is: Who is responsible? Is it just the property owner. That is who has been made responsible, and held accountable.

Condo conversions are a direct result of rent control. No doubt about it -- a direct result. I was in this business before rent control, and I was in this business after rent control, and I can tell you, in Hudson County, I testified before Boards of Taxation, on tax appeals. Massive tax appeals were won. What did that do? It reduced the taxes on multi-family housing. And where did it shift the burden of responsibility? It shifted it to the private homeowner, the condo owner, the business owner, the industrial owner, because these people could go into court and prove that their properties were devalued.

Now, we live in a capitalist society. I am sure there are some in this room who may want to change that. But the fact is, we have a Constitution of the United States. We were

told when we were raised that we had the right to have and to hold property. When I went to real estate school, they talked about the bundle of sticks that encompassed owning real estate: You had the right to have it, to hold it, to mortgage it, to finance it, to rent it, to live in it, whatever you want. With the advent of no housing being built, and the crisis -- the alleged crisis -- that was established in 1972, when rent controls came in, the tenants got organized, and the tenants are voters, and you are all politicians, and you are going to listen. I can't blame you. I think you have a responsibility to govern the State.

So, what happened? They passed enabling legislation allowing municipalities to put in rent controls. There was no stabilization of rents. In the St. John's Apartments in Jersey City, you have a millionaire living next-door to a moderate- or low-income tenant. They both pay the same rent. That's not equitable. You have low-income tenants subsidizing wealthy tenants. That's not equitable. The person who pays the bill is the property owner. That's not equitable.

I would be in favor of a broad-based affordable housing tax that everybody paid -- every single citizen: the tenant, the property owner, both. That is what I would favor. And I would favor some political commitment to addressing the true issue of building affordable housing. That issue has not been directly faced. What you have is the polarization. You have the tenants on one side, the property owners on the other side, and the politicians in the middle, and you want to serve the needs of the community.

When we had rent control in 1972, I testified before a committee like this, and I said: "Do you know what is going to happen? What is going to happen is, you are going to have abandonment; you are going to have deterioration of the housing stock; you are going to have foreclosures." And that happened, specifically in Hudson County. Jersey City was the largest

property owner in the county. In Jersey City, there have been very creative ways of producing affordable housing. Dixon Mills, which was an industrial building -- a pencil company -- was converted by the Morris Companies to 400, and I think 64 units of market rental income housing. The developer, voluntarily, created 80 units -- 20% of the units, voluntarily; no mandate by the city; no affordable housing law-- He voluntarily created 80 units.

In Jersey City, in Journal Square, the Seville Apartments-- They were going to do a conversion. They sat down with the City of Jersey City, and they did not convert. They allowed those vacant apartments to go to market rent. The developers went in and rehabbed those buildings. They now have beautiful apartments right on Journal Square at moderate rents.

The answer, ladies and gentlemen, is not to restrict condo conversions. It is not to take away one more chip of the rights the private property owners have. The answer is to address the issue of building affordable housing. Until you address that, this problem is never going to go away. It is going to polarize, you know, the factions, and it is going to play to the politicians' ears. You know, who wants people on the street? I am a Realtor. I spent 20 years of my life providing housing for people. That's what I do for a living -- both tenants and landlords. I want to see everyone have a home.

And by the way, this issue of the homeless-- I went to Journal Square. I interviewed the homeless, as President of the Board of Realtors. I wanted to know for myself where these people came from, and why they were on the street. I didn't find one person in Journal Square -- and I spent the better portion of a day there -- who was there because he or she was evicted for condo conversion. I found people who had economic problems. I found people who had substance abuse problems. I found people who had family problems, and people who were not employed. That was the basis, and that is happening in this

country. Whether we like to address it or not, it is happening throughout the country. It is a distinct problem from affordable housing, because these people are not working. They cannot afford anything. They need to be helped, I agree, but this is not the answer.

What this will do is tantamount to stopping condo conversions. If you don't have the incentive to do that, you won't have your housing stock rehabilitated. The condo conversions were responsible for upgrading the properties. You now have viable housing. Hudson County housing-- In Hudson County, the average apartment house is 50 or 60 years old -- lots of deferred maintenance. With the rent control laws, and yes, they will argue and say, "Well, the courts say you are entitled to an 11-1/2% return--" Try and get it. You know, there is a codicil to that law that says, "You have to make a prudent investment." And you go before a militant rent control board that is lopsided with tenants, and you try to get an increase.

I spoke to a man in this audience. He got one after two years, and he had to go to court. He had to lose money for two years. It is absurd.

I believe you need vacancy decontrol; vacancy decontrol statewide, mandated by the State Legislature. You need to have an escape valve. You need to have a pressure release valve. What is the problem if a tenant can afford the rent, and the landlord can say, "This is the market rent," on vacant apartments; voluntarily vacated apartments, where no one is harassed, no one is thrown out, no one is evicted, where the tenant voluntarily left, and you have a lot of turnover?

The other problem I see, is that none of this is tied into income. You know, what is affordable for the millionaire in the St. John's Apartments, and what is affordable to the low- and moderate-income, are two very large distinctions. So what you really have, are tenants who are low- and

moderate-income subsidizing wealthy tenants, and the landlord is subsidizing everybody. Now, the tenants might not like to admit that, but the fact is, if you can't rent your property for market rate, someone is paying the bill.

Now, I say the landlord is originally paying the bill. Ultimately, it goes back to the cities, and they are stuck with the burden. They are a business, like the government is a business. They want to run their business, and they have a responsibility to educate, to govern, to give public safety, and to keep the streets clean, and they are having trouble doing it. And they've got massive tax increases from the condo conversions -- massive tax increases. Where is the money going?

I think you need a collective will, a collective plan to build affordable housing. I think until you solve that problem, this issue will never go away. It is going to be thrown and kicked around like a political football. You folks want to stay in office. You want to legislate; you want to pass laws; you are going to listen to people. But I think you need to do the right thing for the State of New Jersey. This is not just a Hudson County problem. It is an Essex County problem; it is a Bergen County problem; and it is going to be a Monmouth County problem and an Ocean County problem. You are taking away the very basic incentive that has built this country. Until you channel that energy into building affordable housing -- \$200 a month, \$300 a month -- and come up with-- Bob Fioretti said, "Get the Federal government back involved." I don't know if that is possible, but certainly someone should be moving in that direction.

You know, Bob Menendez has a bill to build urban enterprise zones. He told me he couldn't get any support for the bill. I'm amazed. That bill should be pushed. And there are other bills that could be looked at to establish what the funds are. You could pass a broad-based tax. Listen: This is

a time when no one wants to be taxed. But when it comes down to society, and it comes down to the homeless, and it comes down to affordable housing, just live with this question: Whose responsibility is it to provide it? Is it just one segment of the private community, or is it, ladies and gentlemen, everyone's responsibility?

I leave you with that question. I sincerely respect, and hope that you will not pass this bill. I think it is detrimental to the entire growth and vitality of this State. Thank you.

ASSEMBLYMAN KAMIN: Thank you for your comments.

ASSEMBLYMAN IMPREVEDUTO: Mr. Chairman, just hold on for one second.

ASSEMBLYMAN KAMIN: Mr. Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: We have never met before, and I just wanted to say, "Hello," number one. And number two, I agree with some of your statements; I do. I have a problem with the fact that you could have someone making \$200,000 and \$300,000 a year in income and living in a rent controlled apartment and paying \$400, overlooking the Hudson River, or something like that. That, to me, is a problem, and I think it is a problem that we need to address; certainly need to look at.

However, I do take issue with some of the things you said. I take issue with the fact that when you went to Journal Square and you interviewed the people that you interviewed, you were not differentiating between the street people and the homeless people. Have you gone to a welfare motel and asked that mother with three kids why she is there?

MR. DeRUGGIERO: No, I haven't. I went to the people on the street.

ASSEMBLYMAN IMPREVEDUTO: A difference; a big difference. Having somebody who is living at the Port Authority building in Journal Square, and someone who has been housed in what used to be a North Bergen welfare motel, is a

major difference. The people living in that motel may very well be -- I am not saying they all are -- people who have had a find a place to go because their building converted. On the other hand, they may have had to find a place to go because their building burnt down. I don't know that. I suspect, however, that the majority of the people you interviewed -- in fact, all of them who live on Journal Square and live in the Port Authority building -- are not people who were living in a nice apartment, and now have been thrown out. I agree with you on that aspect, but I think you have to differentiate among the people you spoke to. Okay?

How would you go about looking at attaching rent control to income as a guideline? Do you have any ideas on that?

MR. DeRUGGIERO: Sure. The Federal government, under Section 8, has guidelines. They have-- I don't have the numbers with me, but they have established income ratios that one should pay. I would like to point something out: You know, in the Soviet Union, for 70 years, they have rent control, and they have a Communist society. But in that society, the rent was tied into income. I believe it was 30% of their income. The rest of Europe pays about 40% of their income for housing, by the way. We are rapidly approaching that in the United States, and we don't want to bite the bullet. We're saying, "It is too expensive." The rest of the world is paying those kinds of numbers.

I think we can use Federal guidelines, or some conglomeration of Federal and State guidelines for welfare and what have you, and tie it in. I don't think that is a very difficult task. I don't know that I am the person to do it, but I'm sure there are people who are qualified to do it. But the whole issue is, what's affordable, you know, and whose responsibility is it to provide that?

One thing, Mr. Impreveduto, is that you mentioned-- Yes, I didn't go into the welfare hotels and the shelters. I did not do that. My question is this: If you take the conversions and you take the number of people who actually are at risk of eviction, people who do not buy-- What about the people who buy, by the way? Now you're saying we have to protect the people who don't buy. How about the people who want to buy? You're saying that these people, who may be indigent or underprivileged or, you know, don't have the income, or whatever-- Now, to protect these people -- this segment -- we are going to stop the economy.

Listen, the real estate economy is responsible for 8% of the gross national product. You cannot just tamper with that, without giant, catastrophic effects. You tamper with the economics of the real estate industry as a country, and you've got a problem; a bigger problem than you can ever imagine. You know, our deficit will go way beyond what it is right now.

What about the people who are protected? I believe the existing law protects people. You have seniors protected for 40 years. You have handicapped people protected for 40 years. You have people who are applying for extensions. They have up to seven years, I believe it is, if they can't provide comparable housing, and people are applying for that. That has happened. But what about the guy who just came into my office from Newark, who wants to buy a \$45,000 condo in Jersey City, and is thrilled with the opportunity? You know, you are going to prevent that man and his wife from having the opportunity to buy, because developers won't convert. They just won't convert.

ASSEMBLYMAN IMPREVEDUTO: Mr. DeRuggiero, under Mount Laurel, if a developer comes into my town and develops a portion of his property, and develops townhouses, he is required to put up a certain amount of either dollars or build affordable -- low and affordable housing. Would you see something like that as a possibility with condo conversion? If

you are going to convert a 75-unit building, or a 150-unit building, would you see the possibility of that converter being required to put 10% of that, either in through that building, or some other structure, which would be set aside for affordable or rented--

MR. DeRUGGIERO: I think under certain conditions, Mr. Impreveduto, that could be accomplished. I think if you are doing a high-rise on Boulevard East, like the Tower West, which was one of the first conversions in Hudson County-- I don't think that would be too practical. Someone in North Bergen had the solution to the homeless. They said, "Let's put them all in the empty condos." I don't think that is the answer. The first people who were up in arms were the tenants who live there.

ASSEMBLYMAN IMPREVEDUTO: Why do you see Hartz Mountain being forced to set aside 10% of their properties building in Secaucus, and somebody building in West New York not, or North Bergen not, or someone who is converting? What's the difference?

MR. DeRUGGIERO: Well, one of the differences is, you are dealing with a different location. Secaucus is a great location. I believe the people can-- You know, what is affordable in Secaucus, given the rents that are going on in Secaucus -- which are pretty high -- may not relate to what the rents are in Hudson County that are affordable.

You know, there are apartments in Hudson County -- I mean, four-room apartments, five-room apartments -- where the average rent is \$250. I am talking about rent controlled units. You need to build; you need to build. Years ago, we called them "projects." You need to build. You need to bite the bullet--

ASSEMBLYMAN IMPREVEDUTO: Yeah, but my point is--

MR. DeRUGGIERO: --and build an enormous supply. Once the supply is there, you have a normal market.

ASSEMBLYMAN IMPREVEDUTO: My point comes back to the issue that one developer is required to set aside 10% for affordable housing.

MR. DeRUGGIERO: Yes?

ASSEMBLYMAN IMPREVEDUTO: Another developer isn't, because one guy is building from scratch on empty ground, and the other guy is converting, who might just be making as much, if not more. Why shouldn't he be required? Maybe he can't build in North Bergen or West New York, but maybe he can RCA it. Maybe some of that money can be used to convert other buildings to better living units.

MR. DeRUGGIERO: It could be. I have a problem with Mount Laurel, like I have a problem with this legislation.

ASSEMBLYMAN IMPREVEDUTO: But it's there; we have to live with it.

MR. DeRUGGIERO: Yeah. The problem is, again: Who is responsible and accountable to do this? So you put it back on the developer in the private sector. Some developers, if they are building a big project, can afford to do that. But many of the projects that I am involved with, that I see in Hudson County that we are marketing-- This \$45,000 unit was a four-family house. It's ready; it's affordable. But I mean, you couldn't afford to do that at \$20,000 a unit. It would just be impossible.

ASSEMBLYMAN IMPREVEDUTO: Just two real quick questions for you: One is, you made the statement that we can't afford to build affordable housing -- we, the developer. Yet, there is a guy out there by the name of Hovnanian, who is building this stuff all over. How can he build something for \$60,000, and 90% of everybody else can't? I don't understand that one.

MR. DeRUGGIERO: First of all, your first cost is your land cost. Where Hovnanian is building, the land doesn't cost what it does in Hudson Count -- you have an urban area -- or

Bergen County, or even Essex County. So, your primary cost of your development is your land cost. So, if he is picking up lots for \$10,000, \$15,000, \$20,000, in Hudson County they may be \$100,000. So you just can't afford to do it. If you are doing it on a major, major scale, like Hovnanian is doing all over the country, you can afford to do it, but you are buying land for a reduction in value, compared to the rest of the communities we are speaking about.

ASSEMBLYMAN KAMIN: Your second question?

ASSEMBLYMAN IMPREVEDUTO: Actually, it just slipped my mind. I'm sorry.

MR. ENGLEBERG: May I ask just two fast questions?

ASSEMBLYMAN KAMIN: Mr. Engleberg?

MR. DeRUGGIERO: Yes, sir?

MR. ENGLEBERG: You placed something in the record which I think is very important. These landlords are entitled to 11% profit. Do you know any other industry in the country where people are guaranteed a profit? I have heard a lot about the free market, free enterprise. Here is a group of people who are guaranteed 11%. I'm glad that is in the record.

MR. DeRUGGIERO: Well, there are public utilities that are guaranteed a certain percentage of profit.

MR. ENGLEBERG: Yes, right.

MR. DeRUGGIERO: I believe in the free enterprise system, Mr. Engleberg.

MR. ENGLEBERG: So do I.

MR. DeRUGGIERO: I am a true capitalist. I'm proud of it. You know, I was raised in it. I think it is the best system we have. I have a problem when someone comes into my industry, and says -- or comes into my business, and says, "You can't do that; you can't do that any more." If someone came -- I don't know what your background is, or what your business is -- and said to you, "Mr. Engleberg, we are going to limit you because there are too many people taking advantage of this," that is a problem for me.

I believe in free enterprise, and I believe in a free market. I believe that the municipalities which don't have rent control, don't have these problems. You have a double-edged sword: You have rent control, and you have conversions. You have to loosen something for the market to give. Otherwise, the whole deck of cards is going to collapse.

The other thing that was mentioned here was about, you know, the glut of the product on the market. In my multiple listing service last year, we had 2800 listings at a given time. This year, we have 3700. The majority of them are condos and co-ops. In Hoboken, there was a law that said, "You can't rent a rehabilitated condo or co-op at market rate." So, if you bought a vacant building -- the building was vacant and no one was dispossessed -- if you bought a vacant building, and you wanted to rent that -- and you renovated it into condominiums, and you wanted to rent that at market rate, you can't. They say you have to roll it back to the base rent before the building was rehabilitated. That's absurd. The City Council, by the way, just overturned that law. Now there is a referendum we are hearing about that may, you know, turn it around. So I have a problem with limiting profits.

MR. ENGLEBERG: I don't want to enter into a debate, and time is limited. One more fast question, and I would be interested in your answer: I wonder whether you feel any social responsibility to the community in which you live?

MR. DeRUGGIERO: Absolutely; absolutely.

MR. ENGLEBERG: Let me finish. You talk about some income factors. Now, how about senior citizens who have lived in a municipality for 40, 50, 60 years, are now 65 years old, and are on their way out? Why should they be forced to buy, even if their income is \$200,000 a year?

MR. DeRUGGIERO: They are not forced to buy.

MR. ENGLEBERG: Why should they make an investment? They have no protection. Why should they be forced to make an investment in the twilight years of their lives?

MR. DeRUGGIERO: First of all, they are not forced to buy. They don't have to buy.

MR. ENGLEBERG: They can get out.

MR. DeRUGGIERO: No. If they are protected, they have a 40-year--

MR. ENGLEBERG: But if they are making \$200,000, they are not protected.

MR. DeRUGGIERO: That's true. Well, then it is the matter of affordability again. See, then they can afford to move someplace else.

MR. ENGLEBERG: The point I am making--

ASSEMBLYMAN KAMIN: We are not going to settle that piece of legislation today, folks. We are not going to settle free enterprise today either, folks.

MR. DeRUGGIERO: Thank you.

ASSEMBLYMAN KAMIN: Mr. DeRuggiero, thank you so much for your testimony and your comments. Now, let's try to move on.

How are our stenographers holding up? Would you like to take about a five-minute break? I would be happy to do that. I am going to take five minutes here. I will then call Joseph Fine, George Aviles, and Matthew Shapiro.

M A T T H E W B. S H A P I R O: (speaking from audience) Matthew Shapiro is leaving a statement with you.

ASSEMBLYMAN KAMIN: You're Matthew Shapiro.

MR. SHAPIRO: I am Matthew Shapiro.

ASSEMBLYMAN KAMIN: I'm sorry we can't take it firsthand.

MR. SHAPIRO: Okay.

ASSEMBLYMAN KAMIN: Thank you, Mr. Shapiro.

ASSEMBLYMAN BAER: When does Lou Schwartz come on? Could you announce where Lou Schwartz is on the agenda?

ASSEMBLYMAN KAMIN: He's fourth -- now third, because Mr. Shapiro is not going to speak.

ASSEMBLYMAN BAER: You're third, Mr. Schwartz.
Some of these things are in the process of being
Xeroxed?

ASSEMBLYMAN KAMIN: Yes, they are.

ASSEMBLYMAN BAER: Fine.

(RECESS)

AFTER RECESS:

ASSEMBLYMAN KAMIN: The materials that have been submitted will be copied for every member of, not only our Commission, but also the Urban Affairs Committee. Some people have left, but are going to be submitting written testimony to us, and we will make those copies available to all the members of the Committee and the Commission also.

Mr. Fine, thank you very much for your patience.
You're on.

J O S E P H F I L T: My name is Joseph Filt.

ASSEMBLYMAN KAMIN: Filt, I'm sorry.

MR. FILT: That's okay. I am with the Hudson County Chamber of Commerce. I am Director of Governmental Affairs and Research for the Chamber. I have been with the Chamber for a little over five years. Basically, I have been through the whole stage that has gone on in Hudson County. We had a declining waterfront. Now the waterfront is being rejuvenated. Housing stock was in disrepair, and a lot of it has been rehabilitated. Also, the unemployment rate has dropped significantly. Even though it is still the highest in the State, it has dropped from 11% to a little over 6%. A lot of it has to do with the whole regional economy, which has grown over the past couple of years.

Also, all this growth in the region -- and New Jersey is one of the states that has benefited from all this growth --

has put pressure upon housing and affordability. Well, the key to affordable housing for a building is the interest rates. In the '60s and '70s, we had interest rates that were in the 5% to 8% area. Now we have interest rates-- The recent prime is 11-1/2%. Let's say it costs a constructor, per unit, in Hudson County-- A one-bedroom unit costs close to \$80,000 to \$100,000. That's \$80 to \$100 a square foot. That is what it costs to construct a unit. A one-bedroom unit would cost that much. Now, with an interest rate of 5%--

ASSEMBLYMAN KAMIN: That's with or without land?

MR. FILT: That is without land. I am just saying, if you could construct it with land-- Let's just take a housing unit at \$100,000. With a 10% interest rate, you're talking \$10,000 a year interest-only payments. At a 5% interest rate, it would be \$5000. So your monthly covering costs -- just interest costs -- would be \$500 or \$1000.

Now, taxes. Taxes are another issue of affordability. In Jersey City, taxes have increased 100% in the past five years. You're talking about a \$100,000 unit having taxes this past year of \$3000. Added to the \$10,000 interest cost -- this is without paying the principal off -- you're talking about \$13,000 a year, without maintenance or anything.

So, another area for the Committee to consider, besides an interest rate mechanism to lower interest rates, is a way for municipalities to offer decreased local property taxes for affordable units. There is a shared responsibility there. Plus, the Federal government shares in the responsibility also, by giving you deductions for local property taxes and interest. That is a 15% credit basically. It depends on what bracket you're in -- a 15% to 33% credit. So a \$100,000 unit that is created, let's say, on the open market right now, with a low interest rate, and, I would say, decreased property taxes, that could give you a monthly

carrying charge of, let's say, \$600. With the Federal tax credit, you're talking about \$450 a month carrying costs.

But that has to be done by legislation, possibly through the New Jersey Mortgage Agency, which calls for low-interest, affordable housing loans. Currently, I believe, there are loans available for 8-1/2% to 10% through the Mortgage Agency, to certain qualified individuals in various municipalities and urban areas.

That is one of my suggestions how to create more affordable housing. That is at the market rate. Let's say, building at \$100 a square foot, each unit basically being 1000 square feet, therefore costing \$100,000. I backed into the numbers, being able to have a carrying cost of \$450 a month. That could be affordable. It depends on what your criteria are for affordability, based on income, or whatever. Below \$450, probably it would have to be severely subsidized, or some other type of housing -- directly subsidized by the State or the local municipality.

Now on the condo conversion issue -- what my experience has been with it in Hudson County-- In the early '80s, you had a big resurgence in the need for housing. Hudson County was affected by the New York market, plus part of the baby boom generation coming into their house-buying years. Significant pressure was put on the housing stock. Also, in looking at Jersey City-- There are some severe rent control measures that are in place in Jersey City. I was on a committee reviewing these restrictions. One restriction in Jersey City is that property owners -- rent controlled property owners -- are not allowed to pass on increases in their real estate taxes. Now, the increase in real estate tax, as I said, is close to almost a doubling in four years. Not one penny of that was able to be passed on to the tenants.

So, what was a property owner to do? Well, a property owner would have to go-- The option for him to follow, would

be to say, "Okay, you have a hardship now, because you have the increased cost of carrying that property." One of the costs is taxes. "You can't pass that on. Go to the rent control hearing." Okay, so a hearing was initiated. Sometimes these hearings take six months to a year; some people, two years to hear. He is allowed an 11-1/2% return on equity. Now, what is the definition of "equity"? This is the definition they have of "equity" in Jersey City: It is cash down at purchase. So if you purchased your property 20 years ago, and put \$10,000 down, you are allowed 11-1/2% return on that, built up with the cost of living index, I believe, of 4%.

So, the property owner would say, "Well, I could probably convert, and I won't have the aggravation. I can get more income, and just get out of the rental housing market altogether." As Mr. DeRuggiereo pointed out before, there is no new rental housing being created, because there are no incentives. Whatever housing was left-- Some of these proposals created an additional disincentive to owning rental property, and a significant number of them were converted.

Also, I would like to submit to the Committee-- I did a listing here of units that are on the market right now -- I went to the Multiple Listing Service yesterday -- on one-bedroom units in Jersey City under \$80,000. The areas I looked at were: downtown Jersey City, Greenville -- I don't know whether you are familiar with these or not, but these are the basic areas -- Jersey City Heights, and Journal Square to West Bergen. Of a total number of 306 units on the market in those areas, 114 of them were below \$80,000. Also, I did the same in Union City. Of 69 total units on the market in Union City, 48 of them are under \$80,000. So there are some units on the market that are affordable to some segment of the population. I guess for a first-time buyer, or a couple, those numbers aren't too bad. I would like to submit this to the Committee. It has price ranges going up to \$250,000 and over,

so it gives you that whole range. I just singled out under \$80,000 as being kind of an affordability range.

I would like to thank you. If we can help with anything -- the Chamber of Commerce-- I have been involved in it quite extensively over the past couple of years. Thank you.

ASSEMBLYMAN KAMIN: Questions of Mr. Filt? (no response) If not, we thank you for your patience and, of course, your testimony.

MR. FILT: You're welcome.

ASSEMBLYMAN KAMIN: Mr. George Aviles. Welcome, and thank you.

COUNCILMAN GEORGE AVILES: On a number of occasions this afternoon, you have heard about the situation involving the St. John's Apartments. I just want to bring to your attention that what has been happening in the abstract, is that the eviction of the 400 or so families that have not purchased has actually commenced. I brought with me today-- I hope to be able to supplement the record by sending a copy of the notice that 400 of the families received, that the eviction proceedings will commence April 22, 1989, which means that people will start being taken to court sometime in May. That, as Charlie Catrillo mentioned, is just three buildings -- three apartment buildings -- in my ward, which is full of apartment houses. So that's--

ASSEMBLYMAN KAMIN: Excuse me, Mr. Aviles. Mr. Baer has asked me to further identify you as a member of the Jersey City Council, Ward C, for those in the audience who may not know who you are. Thank you.

COUNCILMAN AVILES: I happen to be Charlie Catrillo's Councilman. I just learned that he has moved into my ward.

ASSEMBLYMAN BAER: And you are an attorney?

COUNCILMAN AVILES: A real estate attorney.

ASSEMBLYMAN BAER: A real estate attorney and a former Legal Services' attorney.

COUNCILMAN AVILES: Right. It is a very serious problem that I, especially, have to deal with. When the families come to me, there is really no answer I can give them, other than to try and lobby your State legislators; at this point, lobby the Assembly. Their only salvation, their only hope, is really in your hands. Remember, that is just three buildings. Your goals, your reason for existence--

The shortage of affordable housing I would attribute directly, at least in Hudson County, to the problem of condominium conversions. I see it every day. It is no longer something that is going to happen in the future. The future has finally arrived. The instigation of these conversions started in maybe '82 and '83, and peaked at '84 and '85. Those three-year notices are now coming to fruition. We have a real serious problem. There are no answers for these people, other than the State Legislature.

As far as what do you do to perhaps provide incentives, I believe I join in what the Governor said -- mentioned several months ago; that is, the only answer is to bring the Federal government back into the construction subsidy business. Without that, forget about making significant dents, at least immediately, on the lack of affordable housing. That is why it becomes so important to have this immediate legislative response. There is no other answer. There is an answer if we can convince the Federal government to get back into the business, but the end result of that is going to take some time.

ASSEMBLYMAN KAMIN: That has been a recurring theme, at least before our Commission -- to bring the Federal government back in.

COUNCILMAN AVILES: Again, it is a twofold analysis there. We all agree that the Federal government needs to get back into the construction subsidy business, but until they do we need the help of the Assembly.

This gentleman over here mentioned that there are some revenues that are being generated by these condominium conversions. I checked the figures before I came down and, in fact, the end result of the condominium conversion situation in Jersey City is a net loss. The way I calculated it is this: New revenues that we are bringing in are somewhere between \$350,000 to \$450,000, so far. To deal with the problem, just in one particular instance, we are now in the process of trying to build a homeless shelter. The homeless shelter is being built so that-- Not a homeless shelter, I take that back. We are building a transitional housing building, so we can take the families that are in our homeless shelter out and put them into some kind of temporary housing, so we can then move them forward.

Now, just the acquisition of that building alone is going to cost \$2 million. The rehabilitation of it is costing \$3 million. All of these are women and children who were in the homeless shelter, directly attributable to the disappearance of affordable housing. That is just one aspect of the problem. How much money are we spending to put these people in hotels, to run our inadequate shelter now? It is just enormous, the impact that this condominium conversion has.

Yes, there is somewhat of an increase in the revenues coming into the city, but the overall impact seems to be showing a real serious net loss, and the loss seems to be a lot greater, and getting worse, as opposed to the revenues coming along to offset it.

Another side effect we have seen -- a very tragic side effect, as mentioned by Father Gilchrist -- is, as these people are leaving, where are they going? Father Gilchrist hit the nail right on the head. Where are they going? They are starting to double up in apartments and, in some instances, they are tripling up. It does not directly affect the city, I guess, when it is in the private market, but we are starting to

see a lot of it in some of our housing projects, and we have several in the city. I believe we have about eight or nine housing projects. Tragically, about -- I think it was in December -- we had a situation where we had a fire. A woman who was living in an apartment with nine children, lost eight of those children. It was directly attributable to this overcrowding. That is exactly what we are starting to see. We are starting to see the overcrowding developing in our housing projects.

Mr. DeRuggiereo, who was here, mentioned that you are starting to see some methods materializing involving creating rental opportunities, and he mentioned two. One of them was the Dixon Mills Project, which was built half condominium and half rental units. But the Dixon Mills Project-- The way they were able to do that was that basically the city became the Federal government in subsidizing, very heavily, that project. We gave them an enormous tax abatement. That was what was at the bottom of the creation of that rental housing.

He mentioned the Seville Apartments. I was actually the person who-- When he said, "city official," I was the person who brokered that agreement. It was a situation where, you know, we had a landlord who you could talk to, and a tenants' group, which was about 200 units, which was fairly reasonable. I was able to bring the parties together and work out an agreement within our rent control laws, that basically amounted to this: "We don't want you to convert, so we will voluntarily raise our rent, and we will do it within the confines of the rent control law." We worked out an agreement to that effect. I have been able to do that in a number of instances throughout the city. It is healthy, but it is simply not the solution.

A comment was made about the tax surcharge. I think Mr. Filt mentioned that Jersey City does not permit a tax surcharge. It actually became an irrelevant factor, because we

just went through a reassessment in Jersey City, and the taxes on the multi-families all went down. So, there was nothing to pass through.

One final point I would like to make which disturbs me about the influx of the condominium conversions in Jersey City, is that it really changes the character of the city you live in. The neighborhood -- the area where I grew up, and still live, is not too different than what I envision a place like Hunterdon County, like Flanders or Flemington, or Forked River, places like that, are like, where there is a heavily family-based climate that exists. What you see with an influx of condominium conversions-- You are seeing a depletion of the number of people in your church. You are seeing less people, less families; less people in your schools. It is a very different kind of area, or city, that you are starting to deal with at this point. I, personally, don't think I am terribly pleased with it. I have a wife and three children myself. I am very happy with my family-oriented neighborhood. But, it is a real fight to keep it that way, and the reason really is this condominium conversion plague that has infected our county.

ASSEMBLYMAN KAMIN: I thank you for your testimony. Are there any questions of Mr. Aviles?

ASSEMBLYMAN IMPREVEDUTO: One quick question, George. The question before was: Where are people going? You're talking about a homeless shelter for families. How many people in that shelter?

COUNCILMAN AVILES: Well, it's interesting that when I first took office in '86, the population was at 75. It has now reached 400, and we have just opened up another shelter in Journal Square that specifically houses, exclusively, the women and children. We wanted to take the women and children -- the family units -- out of, you know, the really Draconian homeless shelter we had.

ASSEMBLYMAN KAMIN: Do you have documentation on those 400 people that shows that some of them came out of condo conversion units?

COUNCILMAN AVILES: Not only could I provide that, but worse than that, these are some of the people-- Remember, I was born and raised and lived my whole life in Jersey City. These are some of the people I grew up with. I lived next-door to an apartment house.

ASSEMBLYMAN KAMIN: I'm sure the Committee and the Commission both would like to have that substantiated in a document; you know, that you have done a survey of the 400 people who are part of that shelter, and what percentage came from condo conversion.

ASSEMBLYMAN IMPREVEDUTO: Dick, one more question?

ASSEMBLYMAN KAMIN: Yes.

ASSEMBLYMAN IMPREVEDUTO: George, would you be opposed-- Hypothetically again, I asked this question of Bob Menendez-- Hypothetically, if there were enough affordable housing right now in Jersey City, would you be opposed to condominium conversion?

COUNCILMAN AVILES: No. Not only that, we wouldn't even need rent control. At the root of the problem-- I think everyone agrees with the root of the problem; that is that the Federal government moved out of the housing construction market. The best example is the St. John's Apartments, which is now under this condominium conversion. The 858 units were all built with a federally subsidized mortgage. There is no way that you could-- Our Housing and Economic Development has put together a plan, which you heard the Mayor talk about this morning, that courageously intends to do 1500 units. That will take another five to six years before we start to see a significant portion of them built. But that is herculean even to be able to come up with that, with the circumstances under which municipal budgets function.

ASSEMBLYMAN KAMIN: Thank you very much.

COUNCILMAN AVILES: Thank you.

ASSEMBLYMAN KAMIN: Visiting with us today also is another elected official from East Orange, Councilman Stephen Thomas. He will be followed by Lou Schwartz, Councilman from Teaneck, if he is still here; followed by Mr. Ira Karasick.

UNIDENTIFIED SPEAKER FROM AUDIENCE: Ira left.

ASSEMBLYMAN KAMIN: Ira left. Thank you.

ASSEMBLYMAN BAER: Lou Schwartz left.

ASSEMBLYMAN KAMIN: Lou Schwartz left? This list is doing just fine.

C O U N C I L M A N S T E P H E N S . T H O M A S : Thank you, Mr. Chairman. My name is Stephen S. Thomas. I am a member of the East Orange City Council. I also serve as a selected member of the New Jersey Delegation of Black Local Elected Officials. It is a pleasure to talk to this joint Assembly Urban Affairs and Rental Housing Study Commission, because the question about condo and cooperative conversions is also very, very important in the City of East Orange. Not only does Hudson County have a problem, but we in the City of East Orange have had some severe problems. We have had, to date, approximately 30 apartment buildings which are under some kind of conversion.

As I sat here today and listened to much of the testimony, which I am sure you have heard over and over again -- to the pros and the cons -- I somewhat felt that it wasn't totally a question as to who is responsible for providing affordable housing, but more that government officials have a responsibility and a commitment to ensure that every resident of the State of New Jersey is entitled to a fair and safe, clean, and decent affordable house or apartment in which to live. I think basically that is your charge.

Out of this testimony, I hope you will maintain, and always be mindful of fundamental fairness within your

decision-making powers. You have a responsibility to those individuals who have settled here in New Jersey, who are living in these particular cities, and who basically want to reside here. For them to not have protection is, in many instances, to perpetuate homelessness.

The City of East Orange is approximately 87,000 residents, according to the census. In the unofficial count, we have in excess of 100,000 people residing in the City of East Orange. The city officials of the City of East Orange enacted a rent control ordinance. That ordinance was enacted to provide a certain amount of protection to the residents of the community who often are exploited. One of the provisions of the rent control ordinance allows for vacancy decontrol. Under the vacancy decontrol aspect, an owner of a building is entitled to be able to rent the apartment for market value rent, providing he has made some improvements to the property, and also he has received a certificate of having ability and acceptance by the Property Maintenance Department.

The City of East Orange last year, however, adopted an ordinance in which the annual rents were reduced from 6% to 4%. Within that same ordinance, it allows a landlord to apply for hardship rent increases, if he can demonstrate to the rental leveling board that he is not making a profit. Also, if he has an increase in his taxes, he can basically pass that on to his tenants by applying for a hardship increase. Additionally, if he makes significant improvements, or capital improvements, he has the opportunity to apply for a capital improvement increase.

The City of East Orange, in adopting this ordinance, also recognized that many landlords were not renting their apartments. They were not renting them because they were holding back on the rentals so they would be able to convert their particular buildings into cooperatives and condos. So we passed an anti-warehousing ordinance, which required the landlords to rent the apartments within a 60-day period of time.

The City of East Orange has experienced significant increases in the amounts of rents. Actually, when an apartment became vacant, the landlord had the opportunity to increase the rent 10%, in the absence of making any improvements. Many times, there has been a turnover within the apartments, so therefore, the landlords have significantly been able to increase the rents, so rents in the City of East Orange are not cheap, even though we do have rent control.

East Orange is one of the most densely populated cities in the State. Within our 3.9 square miles, we have approximately 374 apartment buildings, in which there are approximately 27,000 rental units. We have 8500 homeowners in private dwellings, and they are paying 50% of the real estate taxes. For a three-year period of time, the City of East Orange did not have a tax increase. At the same time, many landlords had significant increases in their rental incomes, but did not pay one additional dollar in taxes.

So, I am under the belief that the landlords are making a profit. Therefore, one of the major questions before you, is the question of whether or not greed will prevail over need; whether or not developers who have a desire to make significant profits -- that they will be allowed to do that over the needs of the people of the State of New Jersey -- the needs of individuals to have an affordable place in which to live?

One of the other questions before you, is whether moral wrong can prevail over moral right? I believe it is morally wrong for an individual who resides in a rental unit to be advised that he has to vacate that unit, unless he purchases his apartment. To say there are protections within the law, that those protections are granted only to senior citizens and to the disabled-- What about the protections for an individual who is low-income? What about the protections for an individual who doesn't have readily available market skills so

he can go out and make the kind of money necessary to be able to buy an apartment? What about the protections for an individual who has a poor credit standing, who can't get a loan to buy his apartment? Where is that person to find a place to live, or should that individual not be part of the equation; not part of your decision-making powers?

The City of East Orange has a large amount of homelessness, and homelessness is no longer limited to individuals who are unemployed or low-income. I sat and heard people talk about Hudson County, and the fact that many buildings have been converted into cooperatives and condos. Many individuals lost their jobs when there was a change in the stock market on Wall Street. As a result of that, they were evicted, because they couldn't pay their monthly expenses. That has an effect upon a municipality.

There are many things the condo conversions do that impact adversely on a city. I have heard individuals here today speak in terms of the fact that they yield a higher amount of taxes. That might be true. It is true because the individuals who own those particular apartments are paying in excess of 50% of their income monthly, and the costs for the rental units, in many instances -- as has been pointed out -- are exorbitant. As a result of those individuals' movements, the next person who comes along doesn't want to buy, or can't afford it.

So now you have a lot of vacant units, and vacant units do not bring in tax dollars. The government has a responsibility to plan ahead for the future, to ensure that there will be a consistent amount of tax revenue coming into the city. You can see just by what is happening in Hudson County that the condo/cooperative is very dangerous.

You heard the Mayor from Union County today -- or Ocean County -- Union County, I believe it was -- Union City. He said there is a problem today, a crisis tomorrow, and a

tragedy next week. It is important, imperative, that the law and the pending bill before the State Assembly be adopted; be put on the floor for a vote. It will have a significant effect upon the City of East Orange.

I am here today to ask you to be sensitive, and to be responsive to the needs of the people. Certainly, as an elected representative of the City of East Orange and our community-- The elected officials -- the Mayor and the Council -- adopted a resolution in support of Senate Bill No. 2107. That was communicated to the Senate, and the bill was passed in the Senate. Our State Senator in the area where I am from, Senator Codey, supported it. Our two Assemblypersons, McEnroe and Bush, are in support of the Assembly Bill, No. 2653. We are in support of it because we are committed to our people, and we are in support of the people we represent.

We recognize that unless there are laws that control the actions of individuals who labor under the misconception that free enterprise means that we go into great competition for the basic essentials of life-- Everyone should be entitled to food, clothing, and shelter. No person should have to be out in the street trying to find a place to live that they can afford in America. No individual should be homeless. No individual should not be able to eat. So, for someone to say, "Who is responsible--" It is government's responsibility to ensure that its citizens receive the basic essentials of life, and a clean, safe place to live is inherent in our Constitution. It is inherent in our Constitution because every person is entitled to it, regardless of your color, your age, your sex, your national origin. How many of you can sit here and say that that is a fact? We know that discrimination takes place in our housing throughout the State of New Jersey. The State enacted the Mount Laurel decision, and we saw many of our suburban communities say, "We don't want low- and moderate-income housing in our communities. So, Newark and

East Orange, we will give you a certain amount of money, so that you will take those people, who, by law, should be living in our community."

Unless you have in place a means of providing housing for those individuals you must know will be displaced, you cannot allow this law to perpetrate homelessness, to perpetrate discrimination, and deny the individuals the basic necessities of life.

In summary, I would like to say that every time there is a problem, you have to come up with some kind of a solution. One of the solutions rests right within our State law. Part of that is home rule: Each municipality should have the right of self-determination; the right of its elected officials to vote and to act upon what they consider to be in the best interests of their constituencies.

The City of East Orange has expressed its position in the way of the resolution that I said we adopted. At the same time, State law mandates that every municipality adopt a master plan. Within that master plan, it should set forth a statement in terms of condos and cooperatives. Let me say that it is the position of the elected officials of the City of East Orange that condos and cooperatives have their place, but under no circumstances do we believe they should be to replace rental housing -- rental units. Yes, there is a place for condos and cooperatives, but we cannot allow developers to use them as a means of circumventing the rent control laws we have on our books for the protection of our people. We cannot allow them to be used as a means of making exorbitant profits and change the total complexity and the lives of our people. We cannot allow the residents of our communities to pay in excess of 50% -- and in some instances, 200% -- of their disposable income just for housing.

Have you thought about the negative effects they have upon the economics of a community, the business districts, the

education? New Jersey already has some of the highest insurance. If an individual has to pay in excess of 50% for his housing, how much money is left for his insurance? How much money is left to educate his children? How much money is left for food and clothing and health care? Now you create other problems. Then what do people resort to for survival? We can think of so many things.

So I say, in summary, each municipality has the responsibility of home rule; the responsibility to develop a master plan. Within that plan it should address condo and cooperative conversions, which every developer should have the opportunity to look at to see where he fits in. It is not for him to come in and, because of a law that says he can apply for a conversion, that upon being successful he can displace large numbers of people in a community. We are a group of people who recognize that many of those people don't have anywhere to go, but in some instances we haven't had the guts to enforce the laws that are on the books, or sought the means to change them.

I think the decision is clear about whether or not you individuals will utilize fundamental fairness in your decision-making process; whether or not you will maintain the commitment to all of the residents of the State of New Jersey, regardless of their economic status, whether they be low-income or upper-income. Many of you have to look about your communities and think what kind of communities you want to live in, and make a decision. What effect will your decision have upon other people's communities?

Again, it is my pleasure to be here today on behalf of the City of East Orange. I will be happy to answer any questions you may pose to me.

ASSEMBLYMAN KAMIN: Thank you, Councilman Thomas. Are there any questions from the members of the Committee?

ASSEMBLYMAN IMPREVEDUTO: I just found it interesting to hear that you have vacancy decontrol in your city, Councilman.

COUNCILMAN THOMAS: Yes, we do.

ASSEMBLYMAN IMPREVEDUTO: And you allow a 10% increase in rent for those vacated apartments, without any improvements?

COUNCILMAN THOMAS: Yes.

ASSEMBLYMAN IMPREVEDUTO: And overall, if-- What is it, 4% or 6%, did you say?

COUNCILMAN THOMAS: Four percent. It was 6%, but we reduced it to four.

ASSEMBLYMAN IMPREVEDUTO: When did you reduce it to four?

COUNCILMAN THOMAS: Last year.

ASSEMBLYMAN IMPREVEDUTO: Okay. So it was 6% during the condo conversions, or are conversions taking place now, or what?

COUNCILMAN THOMAS: Well, conversions are taking place now, yes. But it was at the time, yes, it was.

ASSEMBLYMAN IMPREVEDUTO: So the arguments that I heard before as to if we had vacancy decontrol, or if we didn't have rent control, may not hold a whole lot of water then?

COUNCILMAN THOMAS: That depends on how you are viewing it.

ASSEMBLYMAN IMPREVEDUTO: Thank you.

ASSEMBLYMAN KAMIN: Once again, I thank you for your patience, for waiting and for spending a good part of the day with us. I think it may have been as informative for you as it has been for us.

COUNCILMAN THOMAS: My pleasure. Thank you.

ASSEMBLYMAN BAER: It has been very informative to us; very eloquent.

COUNCILMAN THOMAS: Thank you.

ASSEMBLYMAN KAMIN: Is Don Legow still here? (affirmative response from audience) He has been here all day. He is part of the New Jersey Multi-Housing Industry Council; he is the President. Don, welcome.

D O N A L D L E G O W, E S Q.: For the record, I am Donald Legow, President of the New Jersey Council to the Multi-Housing Industry. I am also an attorney. For the last 29 years, I have been practicing in New Jersey, and my practice has virtually been limited to landlord/tenant work for the last 15 years or so. Before that, practically the only other thing I did was real estate law. In addition, I own and manage apartment complexes in the State of New Jersey. I ticked off while I was waiting-- I have approximately 19 separate locations, 12 of which operate under rent control; all but one operates with vacancy decontrol. In one municipality, I have two apartments that do not have vacancy decontrol. But I function in 11 counties throughout the State. As part of my operation, I attend the various landlord/tenancy hearings. As recently as last Friday, I attended a hearing.

I just wanted to let you know what my background is and exactly what I do. In addition, of course, as the President of the MHI -- as we like to shorten it to -- I am in touch with any number of people throughout the State at our meetings. I am also a Regional Vice President of District 2 -- which is New Jersey and Pennsylvania -- part of New Jersey -- for the National Apartment Association. I have attended some conventions to find out what else is going on throughout the country.

I am concerned about the information that is being given to you here today -- some of the testimony that deals with these various social ills that everybody has pointed out. We all know that those social ills are there. We have homeless; we have people who are street people. I am surprised that we didn't get AIDS thrown into this. But the question I think you were raising here was two things: Is it really co-op and condo conversions that are causing this? And, what do we do about affordable housing?

I am not a converter. I did one of those several years back. I don't think I will ever want to go through it again. Our association, while it does have in it -- and we are the largest trade Association in the State of New Jersey representing the multi-housing industry-- While there are some persons in our Association who do conversions, by and large we are the large apartment house owners. We represent the large apartment house owners. If anybody does conversions, it is that they do that and they do the owning and managing of apartments.

I am always concerned when we keep on saying there is a crisis, because when you say something is a crisis, it is a self-fulfilling prophecy. I think you have to look at what is happening, and then determine whether or not it is a crisis. When does it become critical? Just what is happening?

I know this: I have talked to two principals of converters who, over the last three or four years, have probably converted better than 50% of the housing that has been converted in the State of New Jersey. I asked both of those people -- and they have given testimony before various committees here before-- They have never evicted anybody because they were converting something. It just doesn't happen.

Your St. John's is going to start, as I understand it -- and I don't know the St. John's project at all; I don't do any work in Hudson County myself-- If you start your lawsuits in April, I guess, of 1989, you are now talking four years down the line, before someone might be evicted on those grounds. But in that time, what happens is, people just find other places to live. Now, that is one of the things where I think I can really give a little insight, and that is because of my personal experience, in addition to what I hear from everyone else.

Outside of Hudson County, and very honestly, I don't know very much about Hudson County-- But everybody I talk to

throughout the State is functioning with a 2% to anywhere around 7% vacancy factor, and that includes Bergen County, where for the first time in three years, I've got to put ads in the paper. It just doesn't happen very frequently, but now it is. I operate a unit in Bergen County, and we now find that if you just don't-- You are not an order taker, you are a renter; you are going to have to get good renting people and rent apartments. The further south you go, you are going to be running into 6% and 7% vacancy taxes. The west also. In Morris County, which for years was one of the best counties in which to own property, the papers are just filled. People who used to have a little ad, are now taking out display ads. One only has to pick up The Star-Ledger, which I guess between that the The Record, is the largest general newspaper in the State-- If you get down to The Star-Ledger, you will see 120 pages on a Friday of available housing and apartments for rent, with major display ads.

I know a place that as recently as three years ago probably you couldn't even get into it, and it is now running 55 vacancies out of about a 350-unit job. The times are vastly different. There is a significant vacancy factor in this State right now. Now, that is not to say that in some of your urban areas, as testified here-- I don't know exactly what is going on in Hudson County. But what is happening is, Hudson, I think, and every other urban area, has to recognize that you are going to have to join what has happened to everybody else. Remember, when the Garden State Parkway was built a couple of years ago, the whole world went from Essex and Hudson Counties down to Toms River. Brick Town, for years, was the fastest growing town.

Now the question you have to ask is: Does everybody have a right to stay in that one little place forever, or does there come a time when it is, "Look, circumstances have changed." Princeton is a perfect example. There was

significant low-cost housing in Princeton, but not any more. It became such a hot area that nobody could afford to stay there. Nobody could afford to keep their small little apartments they had for low-cost housing. I represented one or two of those people several years ago. Now they can't afford to keep them, because on reevaluation the taxes go so high, that they have to do something else with their properties.

But you know, Nassau County, or Suffolk County in Long Island grew because they couldn't afford to be in Queens. So they went out and out and out. In Hudson and Monmouth and Atlantic Counties, they are doing the same thing. In Gloucester County, the same thing is happening. If those urban areas and those other very highly desirable areas become so hot and prices get so high, people may not be able to stay. They may have to go. But I heard an awful lot of testimony here today, where everybody said, "But that is not right." But that is what happened in this State, in this country for years. When something got too expensive, you went somewhere else. That is how Rockland and Orange County opened up in New York State, too. That is a fact of life. But what we are saying here is, "That's unfair," and we are blaming it-- From the testimony I heard, this is being blamed on the condo converters. It just isn't so. It just can't be in the significant numbers we are talking about, of people who are being displaced. They are not all coming from the condominiums.

Now, the 45,000 families facing eviction-- I can't buy it. It is just a staggering number. To say that they are all going to happen, and that they are all going to come at one time, is just not going-- It just flies in the face of reason. I think you have to look at the fact that these occur over a long period of time. There has never been a showing that people are going to be evicted, or actually are being evicted. I just haven't heard anyone say, "Here are four or five people who had to leave, who had no place to go."

I heard a gentleman get up and say he was from the Northgate Apartments. The Northgate Apartments, I think, are in West Windsor or East Windsor, probably about 15 minutes -- 10 to 15 minutes from Hamilton Township, where I own some property, and there are 14 major complexes in Hamilton Township, each one of which advertises on a daily basis in The Trenton Times and The Trentonian. At one time, as recently as four months ago, I had something like 36 vacancies in one of the nicest complexes there.

The question is: After somebody exercises his rights and he converts, and you're looking at, "Where shall I go? What shall I do?" to say you've got four years, and then the four years come up, and you say, "What am I going to do?" without ever having looked someplace, or looking to see if there are any alternatives, is just not a fair thing. If they are going to do that, you can't get up here and blame the condo converter, because there are other things that you could have done. But you've got to do them; you've got to look to see what else is there. Now, I know there are other places where you can go.

Another thing, is rent control one of the things that hurts? I have never, in the years that I have been testifying on rent control, and I am the Chairman of the Hamilton Township Taxpayers' Association-- How I got into this business, I don't know, but I am also the Chairman of the Elizabeth Taxpayers' Association. I am constantly testifying in favor of a more reasonable rent control. But in all the years, and this goes back to 1971, right after Fort Lee got theirs approved and everybody followed, I have testified, I have never heard a more eloquent, or sounder reasoning as to why rent control has hurt and why it has fostered these conversions, than from the gentleman from Jersey City who just got up here and testified. He made a deal; he brokered a deal from the Seville, was it, in Jersey City, where because we gave him more rent, the man said,

"Fine. As long as I am making a couple of bucks, I won't have to convert."

I submit to you that that is exactly what has happened in a great many of the cases. That is not to say that there aren't other people who say, "Look, I have reached the end of my rope. It is not so much that I am not making money, but I'm tired. I have owned this property for 25 years. Let me get out. I want to retire. I want to go to Florida." Who is he going to sell to, another person? He'll sell to the converter. Sure, there is a separate converter market which will take a building that is very successful on a rental basis, and convert it. Let's take the Claridge in Verona, which is a very successful rental, but it could be a very successful anything where it is located. The same thing with the Mediterranean Towers. It was successful, but the guy said, "Look, I don't need it any more. Let me get out; let me retire; let me go somewhere else."

But, I am looking at the other ones, the other guys, who say, "With this rent control, the only way I can get out is on a conversion." And here is a gentleman who testified that that is what happened. We raised the rents, and the guy said, "Forget it." Let it stay right where it is, and all the operators will rent them, because now you are allowing them to make money.

I think that anybody who thinks that rent control is not a significant factor is wrong. I think in that regard-- We believe very strongly that along with this bundle that the Realtor testified to from Jersey City-- When you start taking away a significant attribute of property ownership, and certainly the right to dispose of your property in a legal matter is a right, you have to give, I think, a concomitant benefit to that person. If you say, "I'll take this away," then remove rent control. See, then you really want to see whether the people don't want to convert, because I don't

really think they say, "Oh, I don't want this." They don't want the condos; what they want is very cheap rents. And we have seen that time and again. I think if you are going to say to somebody, "No, I won't let you evict anybody ever. I have taken away that right of yours," then at least take away the rent control, and let's just see what happens. Then the guy can increase it.

Now, remember one thing: The State law, irrespective of rent control says that you cannot increase rent unconscionably, so there is a built-in rent control of sorts, because every judge now has to say, "Is this an unconscionable rent increase?" so that you are not going from \$250 to \$750. It isn't going to happen in this State.

UNIDENTIFIED SPEAKER FROM AUDIENCE: It happens.

MR. LEGOW: It doesn't happen in this State, but the courts have an opportunity to do something about that. The point is, there is-- That is a way of being fair. You are now saying to somebody, "Well, okay, you can't ever put anybody out." Fine. Then let him at least charge a reasonable rent.

I might point out that of the 19 apartments that I operate in this State -- 19 or 20 -- the only one that has a completely filled operation, right now, is the one where there is no vacancy decontrol, where I have people at the present time-- Because of how many people have moved out -- every time somebody moves out, you get a little bonus on rent control -- I have people living in a two-bedroom, two-bath apartment, with a full dining room, at \$700, and I have people living in a one-bedroom for about \$700. It is just phenomenal. The people who are living in the two-bedroom, two-bath apartments-- I have 28 of them in one building, and I have two of them that are occupied with children. One has one child; one has two children; and I believe about 20 of the others are occupied by widows.

That is what rent control does, but you have to understand that. At least you've got to give some other benefits somewhere along the line. I can't move these people. I don't even ask them to move. Where am I going to move them to, to an apartment that is \$600 or \$700, for a three-room apartment? They are just not going to do it.

I wanted to add our general agreement with some of the other comments that were made in the testimony given to you. One, there is just no earthly reason not to have, and not to legislate, vacancy decontrol to every rent control ordinance. I think that would help immensely. It would give the owners, where this does not exist, a very-- It would give them a little light that they can see, that somewhere along the line they will get out from under an onerous rent control. Maybe they will say, "Why should I take the step of converting now?"

Also, I would have to disagree that the rent control ordinances-- Some lawyer testified from Legal Services that they are able to pass through taxes, and most municipalities operate on the Consumer Price Index, so you are always getting a cost of living increase each year. My experience is absolutely to the contrary. I know that one municipality just went from 4% to 2%, and many of them are at 2-1/2%, or no taxes. In addition, a couple of years ago, as you all know, we had to break out the sewer and water from the taxes, so they are no longer in the general taxes. So even when there is a tax increase, you don't get the pass-through on sewer and water, because that was never deemed to be taxes. Even though it used to be taxes, it is no longer taxes.

I think the other problem is-- Every person I know who has ever gone up before a board, who had to take a case up on appeal, knows that you get a decision, and you go to court if you don't like the decision. Right now, I am presently on 14 months-- We still haven't had a decision from a case that was decided in December 1987. I am still waiting for the court

to set a hearing date; I think it is March 30. By the time I get a decision on that, I will have already gotten my second increase, and I am really just going to forget about it, because I just can't go back, and say, "Remember that increase that the judge now says I should have gotten two years ago? Well, I want it now." The law is the way in rent control, and it is a terrible thing, and the cost of doing these is a terrible thing, too. The rules and regulations of the various boards make it prohibitive. You just can't go in there and very easily accomplish anything.

Gentlemen, I don't want to go on forever. The last thing I want to say is, I have to agree with Mr. Flowers, who spoke very early on, when he said that one of the big places where money is available -- if you are looking for money for affordable housing -- is to recapture the taxes. I don't think he mentioned this, but in New York, I believe, all condos and co-ops are limited to the value of the taxes. They are limited to the value of that particular parcel as if it were a rental, the same as the original condo law was in New Jersey. When they struck that one provision out, they then let every municipality tax everything as a one-family house, reap all of those benefits, and they are getting the windfall of all times. Talk about the landlords getting windfalls, the municipalities are.

If that law were to be put back -- if you are going to limit the taxes -- and then you take the additional taxes and recapture them and recycle them, then you are going to have significant money. I think that is the easiest way, because that is where it really belongs. You would be capturing that money and putting it back into housing.

I just want to close with that, gentlemen. I want to thank you very much. I really appreciate your giving us the time. I hope I haven't bored you too much.

ASSEMBLYMAN KAMIN: Thank you. I know there are some questions. Mr. Baer?

ASSEMBLYMAN BAER: Yes, very briefly. The patience of the few people who are waiting to testify is incredible. You speak of having a lot of experience with these conversions.

MR. LEGOW: No.

ASSEMBLYMAN BAER: No?

MR. LEGOW: No. I converted one.

ASSEMBLYMAN BAER: Oh, all right.

MR. LEGOW: I talk to a great number of people who do convert.

ASSEMBLYMAN BAER: So this is mostly secondhand, so far as--

MR. LEGOW: Well, that depends on what you are going to ask.

ASSEMBLYMAN BAER: Yes, all right. You can't testify then as to the amount of conversions that were, let's say, four years before the people leave, or anything like that?

MR. LEGOW: I don't exactly where it stands. I will tell you this: I spoke to the principals of the two largest converters in the State of New Jersey, and I asked them -- and this is going back to a long time ago -- "Have you ever evicted" -- I am not talking about starting eviction proceedings; I am talking about executing a warrant of removal to evict somebody -- that means, put them out of an apartment under a court order -- "as a result of a condominium conversion or a co-op conversion?" The answer, in both cases, was, "No."

ASSEMBLYMAN BAER: And these converters were who? Could you identify them?

MR. LEGOW: I talked to Cirkus Realty, and I talked to the Solomon Organization.

ASSEMBLYMAN BAER: Did they indicate whether they pay the five-month payment in lieu of five months' rent at the end sometimes?

MR. LEGOW: Well, they do that on occasion, is my understanding, but you are doing that under the law. You are

doing it under a court order. So, you know, whatever they need in order to effectuate it. As a matter of fact, if someone said, "Look, I need another two months, and then I will be able to get out," they may have done that. In other words, they will work out something, because, very honestly, I don't think anybody wants someone to say, "Here's the guy" -- and I don't think they want a picket market around -- "who evicted this poor old lady."

ASSEMBLYMAN BAER: But it is common to pay that?

MR. LEGOW: The five months?

ASSEMBLYMAN BAER: Yeah.

MR. LEGOW: I think so.

ASSEMBLYMAN BAER: The reason I ask that, is because any converter can easily get out of that by merely providing comparable housing. All they need to do is find it. They don't even have any financial role in paying for it. It's as simple as that. If they are paying that, that would indicate the lack of comparable housing.

MR. LEGOW: No, it wouldn't; not at all.

ASSEMBLYMAN BAER: Do you mean they just like to give away five months' rent, to be a good fellow?

MR. LEGOW: They don't like to give it away. I think what you'll find is-- I'm sorry, I didn't mean to interrupt. I think you'll find that what they do is: One, the people would rather have the money, because eventually they are going to find something; and two, they have built in a certain amount of cost in their condominium conversion. That may very well be one of the costs. I don't do it, so I don't really know. I know this: In the only one that I ever did, the tenants made more money than I did. That is one of the reasons why I don't want to do it any more.

ASSEMBLYMAN BAER: Thank you.

ASSEMBLYMAN KAMIN: Thank you. Mr. Impreveduto?

ASSEMBLYMAN IMPREVEDUTO: Don, if I may-- The question I would like to ask is: You own a lot of rentals and you are still renting. If, in fact, we attach rent control, or if a municipality were required to say, "Look, if you want to have rent control, you can have it. However, you must attach rent control to income. There must be guidelines, where if you make \$9000 a year, your rent may go up 1%. If you make \$20,000 a year, it may go 4%. And if you are making \$50,000 a year, your rent may go up 10%." Would you have a problem with that?

MR. LEGOW: Only with the administration. I mean, from the point of view of what we should do, I certainly believe we should have a means test. What the means test should be, is something I am not sure about.

One of the problems-- Let me give you an example; it is the funniest thing. I had somebody who wanted to convert in the City of Elizabeth. Everybody went in -- it is about a 120-unit job -- and filed for the exempt status. People 25 years old earning \$40,000 were exempted. I mean, you know, somebody has to read what is going on. If nobody cares, you know, everybody will walk away, saying, "Look, I don't need this grief."

ASSEMBLYMAN IMPREVEDUTO: My one final comment is, you made comment about the fact that you spoke to two principal converters, and they have never put -- never evicted anyone. I think it is important to understand -- they have never evicted anyone.

MR. LEGOW: They have never executed -- near as they told me -- a warrant of removal.

ASSEMBLYMAN IMPREVEDUTO: Fine. I attended, last year -- and I don't know if Byron Baer was there or not; if fact, I think he was with me -- a hearing, I believe it was in West New York. During the hearing, there was a bunch of tenants talking to, I guess it was you who was representing the Assembly at the time?

ASSEMBLYMAN BAER: Right.

ASSEMBLYMAN IMPREVEDUTO: These tenants had horror stories, not of evictions -- not of evictions -- but of a converter coming in, and saying, "Well, we have to refurbish your apartment," and turning off the water, or turning off the electricity, so people would move out, and then never doing anything in that apartment, so that the people couldn't move back in.

No, there was no warrant for eviction, and they were never evicted, but, in fact, they did it in a worse way.

MR. LEGOW: If you want a comment, I will tell you what I have said any number of times: I don't care what you do with bad landlords, because they give us a bad name. I really don't care. And I am not saying that there aren't bad people out there, just like there are bad tenants. You know, someone said, "This place is roach infested." I never knew a landlord in my life who imported a roach -- never, never did it.

The point is, there are bad everythings. I don't stand for that. I don't want to defend those guys.

ASSEMBLYMAN IMPREVEDUTO: Well, it is quite evident that you don't stand for that.

MR. LEGOW: As a matter of fact, I have stood up in any number of places, and said, "I want vacancy decontrol" -- at rent control hearings. They said, "Oh, you'll harass the people all over the place." And I said, "I will personally defend -- and if you don't want me to defend it, I will pay for you to get any lawyer you want -- you against a charge of harassment. I will pay for it." I said, "Our organization will pay for it" -- any of the ones I belong to. No one took me up. I really don't think that is as common.

Now, there are horror stories all over, but in a million apartments, you are going to get one or two horror stories. If you ever see-- Have you ever seen the picture, "Neighbors," or the new one, "Burbs"? Every once in a while

you get so uptight about what somebody is doing to you, like the dog next-door to me that barks incessantly. When I go to court, he gets fined \$15. One of these days, I am going to go over there with a two by four. Something can really drive you crazy. Now, those things happen, even to nice guys like me. (laughter)

You know, I really think-- I can't testify as to those really terrible people. I don't care if you take them to jail and lock up the key. They are giving us a bad name.

ASSEMBLYMAN KAMIN: Mr. Baer has a final question.

MR. LEGOW: Yes?

ASSEMBLYMAN BAER: On the point about the evictions, where you talk about to the best of your knowledge, what you have heard secondhand about how few evictions there were where a warrant was actually executed-- My question is: What is the significance of that, when people have received eviction notices, and people have received eviction judgments, and know fully that they are in a situation where if they don't move, they will be physically dragged out, and their furniture will be -- their possessions will be put in jeopardy, as sometimes is the case? What is the great significance for us, that people, when they see a gun virtually pointed at their heads, don't get dragged out kicking and screaming, but manage to get out before the constable actually serves that?

ASSEMBLYMAN KAMIN: If I may jump in there before you answer this one, Don-- I think a lot of the testimony we have had today has been underlying allegation that because of condo conversions, somehow folks are ending up out on the street, and that part of our homeless, and others, are a result of condo conversions. I have yet to see, or hear today, any empirical evidence. I think the testimony we have heard today, in fact, has been quite the contrary. Because there have been no evictions, it means that people are finding alternatives, whether it is alternative housing, or places to go. If someone

is going to end up on the street, the last thing they are going to do is-- They are going to wait for that sheriff to come to the door.

MR. LEGOW: Well, that is how they wind up on the street, when the sheriff comes. And that is exactly what my point is. You asked what the significance is? The significance is, everybody has been talking here about some major social ills; social ills being homelessness, street people, doubling up, and the like. I am saying to you that those things happen when you are put out and you have nowhere to go. I am saying that the fact that people are not being put out under court order would indicate-- I think it is inferable from those facts, that the people in the four years' time that they are -- when they know it is coming down the line, and if they don't want to pay them, it's eight years down the line, right?-- In that time, people are going to find another place.

Now, I am not saying that in Fort Lee, when I ran into this situation, if they were to go next-door-- There was no next-door. There were no apartments left in Fort Lee. The 12,000 was down to 2000. So they went somewhere else, but there were other places to go. I am saying that there are places, but what is happening is, the person no longer has the prime location where he can overlook the George Washington Bridge. Now he is going to have to go down aways into Englewood maybe, or into Teaneck, or somewhere else that isn't the best place in the State of New Jersey to live, because the best place in the State of New Jersey to live just became too expensive for him.

I am saying that the Legislature should not make a determination that this person is allowed to stay there forever. I think there are places; they are finding them. I am now losing tenants, Assemblyman, to Pennsylvania. I have Morris County tenants now going to Pennsylvania, and commuting to the Picatinny Arsenal, where before they were 10 minutes

away. Now, they are doing it because they said they could buy a house there for \$110,000. All right? That is what is happening. Route 78 has now opened. Everybody who is now out in -- Hunterdon, is it? -- out in Clinton, is coming from Pennsylvania. It's cheaper and easier for them to go there and buy a house.

I don't want to lose people. I don't want to lose businesses. But, I don't really think-- The problem is affordable housing; I don't think it is condo conversions. We have to do something about that affordable housing. The amount of displacement caused by condo conversion is minuscule, compared to the number of affordable housing units. You need, I think, to legislate for the entire State, when the only place I have heard anybody say anything about, really, is Hudson County, and then East Orange. Those are the only places I have heard mentioned. I know firsthand, that there are any number of apartments out there everywhere else. Places where I never had a vacancy, all of a sudden, there is so much building out there, I have vacancies all over.

ASSEMBLYMAN BAER: Mr. Chairman, I don't want to take more time from the Committee. I would want to answer-- Perhaps in my discussion with the Committee members, at the appropriate time, I would like to take the time to rebut this at some length. I just merely want to indicate here that there are a great many things in your assumptions, things which you have said, you inferred, you assumed, for the most part not things that you know from direct knowledge, that I disagree with. I disagree with your assumptions, your opinions, and the inference.

MR. LEGOW: Assemblyman, one of the reasons that I have to infer is because I have never heard any direct testimony that I could specifically rebut. And I am assuming that--

ASSEMBLYMAN BAER: Well, you made reference-- Excuse my interrupting. You made reference to Englewood and Teaneck. I live in one of those towns, next-door to the other, and I know their housing markets very well. I know your assumptions on those towns are absolutely incorrect.

MR. LEGOW: I only said that somebody might move there, but maybe they don't. I am just saying, there are places to move, and they're moving.

Thank you very much.

ASSEMBLYMAN KAMIN: Thank you very much.

ASSEMBLYMAN IMPREVEDUTO: I just want to clarify one thing to you -- not to you, Don. The statement that I made before about the horror stories was not intended to mean that it was Cirkus Realty or the other guy you mentioned.

MR. LEGOW: No, no, no. They are out there; I know they are out there.

ASSEMBLYMAN IMPREVEDUTO: They are not the people I am concerned with. In fact, I'll even tell you who it is. It is a guy named Segal (phonetic spelling) -- whoever this guy Segal is.

MR. KAHN: Larry Segal. May I just say something, because I know it really relates to the affordability issue. Again, you mentioned Cirkus Realty. I think we had impressive testimony from a representative of that organization. They have a good reputation even among, I think, tenant constituencies, in terms of the prices they offer their units at and the way they deal with people, and so forth and so on. I am not sure that is the norm.

One thing is just very clear: I don't think we should get away from this issue of affordability. You said, "Give us vacancy decontrol." Your organization also said, "Give us a 30-year exemption on new construction, and you'll see new construction." Okay, five years later, you're saying, "Well, you gave us 30 years, you know, but there are all these other

factors -- high interest rates, the stock market crash." Of course, you want anything that you consider a fetter on the free market, because it will give you a greater advantage, and potentially greater profits. What we really have to focus on, I think, is how much affordable housing is going to be created?

One thing is certain to me: The 70,000 units that have been converted are less affordable than they were prior to conversion. Now, tenants may be able to afford them, but they have to be taking a greater percentage of somebody's income. Certainly, if the tenants buy them, it's going to be a greater percentage of their income. I think that is one thing we've got to focus on now, with 70,000, 80,000, 90,000. We've heard three different figures here. There clearly has been an impact on affordability.

The other thing I wanted to take issue with is vacancy rates. You say--

ASSEMBLYMAN KAMIN: Don't forget the economy build-up -- the fact that folks now have a tax deduction, where they didn't have that before.

MR. KAHN: Yeah, okay. We can talk about the pluses and minuses, but clearly within Bergen County, and some of the towns you mentioned, you know, there is not the kind of 2% to 7% vacancy rate. Virtually, I mean, I run a housing counseling service in Bergen County. I would say that in almost every town, the vacancy rate is less than 1-1/2%. In rent control towns, it is virtually zero.

MR. LEGOW: Well, I know it is going to be zero in rent control towns.

MR. KAHN: You have vacancy decontrol in probably three-quarters of those towns where it is zero.

MR. LEGOW: But the problem is, nobody is moving out. They can't afford to move out.

MR. KAHN: Okay.

MR. LEGOW: No, they can't afford to move out because the rents are so artificially low. If there were no rent control in this whole State -- right? -- there would be a leveling, I would believe, because you would have any number of apartments so under the market, you couldn't bring them up to what some of the other people are paying. You would have an oversupply. That's what you've got right now, by the way, in condominiums. From two years ago, the prices have dropped.

MR. KAHN: And some of the family homes -- and single-family homes.

MR. LEGOW: And single-family homes. Prices have dropped in the last two years.

ASSEMBLYMAN KAMIN: Absolutely.

MR. LEGOW: They have dropped in the last two weeks, as my daughter told me. (laughter)

MR. KAHN: It sure helps, you know, to contribute to the affordability issue.

ASSEMBLYMAN KAMIN: It does.

MR. LEGOW: Listen, I don't anyone who is going to come up before this Committee and say, "I am not for affordable housing." Certainly, we are for affordable housing. We have consciences. We have people who need that affordable housing, and if you think I like to walk out into towns in this area and see people without places to live, you're wrong. I am in the shelter business. I want everybody sheltered. The difference is, who is going to do it? As the Councilman from East Orange said, "It is the responsibility of government," but the responsibility of government says, "Okay, then let us" -- us being the people -- "do it." And not say, "Okay, you are a convenient guy. You can't fight back, because you're one guy and you have 100 tenants. We are going to make you pay for it." That is not fair; that is an unconscionable thing to do. I don't think the landlords have done anything that justifies your doing that.

Do you want to set aside 1% of all taxes and create our own Section 8 housing? It won't bother me. I volunteered to do that in West Orange 20 years ago, and they looked at me, and said, "Oh, you're just a landlord." What am I going to tell you?

I think we, over the years, have testified before these committees -- I mean the MHI, Jácque Eaker, our Exec, and other people who come up here. We'll give you some ideas. We think the affordable housing is only going to help us. It isn't going to hurt us. It is going to create a viable housing industry, and those people have to live.

So, we're for it. The question is, should we be the ones paying for it? Do you stop a whole industry in the State of New Jersey? You know, that industry now provides the people who manufacture the windows. Everybody who converts an apartment project now, practically, puts in new windows, puts in new doors, scrapes floors, new cabinets. This is a whole industry providing significant jobs. Is that industry to go out? Should we forget about that whole industry? If you want to, say so, but I don't think that is right. And I think you even pointed out that it is creating a section of housing for those people who want to use that to get into the ownership mode.

I think it's there. The question is, do you stop that? Is that a way to do anything? No. The way to do it is to attack the affordable housing. And we're all for it.

MR. KAHN: Well, I am sure we are going to get into many, many different kinds of proposals here. We might have some common agreement.

MR. LEGOW: Absolutely. Thank you very much. I appreciate the time, gentlemen.

ASSEMBLYMAN KAMIN: Thank you once again. This exchange has been interesting and enlightening, I believe.

MR. LEGOW: Thank you.

ASSEMBLYMAN KAMIN: I would like to read into the record the additional names I have to call up here. Some of them may have left, but I want to make sure that everyone knows we called them: Phyllis Salowe-Kaye. Is she waiting outside?

UNIDENTIFIED SPEAKER FROM AUDIENCE: No, she left.

ASSEMBLYMAN KAMIN: Joel Horowitz?

ASSEMBLYMAN BAER: Mr. Chairman, I'm glad you're reading this, but I would like this in the record -- the names of the people who--

SHORTHAND REPORTER: It is all on the tape.

ASSEMBLYMAN BAER: Oh, okay.

SHORTHAND REPORTER: The tape is rolling. I ran out of paper.

ASSEMBLYMAN KAMIN: I know. We didn't expect to be here for five hours.

SHORTHAND REPORTER: It will still be in the record.

ASSEMBLYMAN KAMIN: Surely, okay. Is Joel Horowitz still here?

MR. HOROWITZ: Yes.

ASSEMBLYMAN KAMIN: Maril McFaul?

MS. McFAUL: (speaking from audience) That is correct.

ASSEMBLYMAN KAMIN: Edward Bannon has left, and William S. Finlaysen has left. Daniel Schulgasser has also left. That completes the entire list.

Maril, would you like to be first?

MS. McFAUL: Thank you very much. What I have to say is really very brief, and is something that, well--

ASSEMBLYMAN KAMIN: If you would wait, and then come up here, because it is being recorded on tape, since now we are down to recording. We have lost our stenographer. Please speak into the mike to your left. That is the one that counts.

MS. McFAUL: This one here?

ASSEMBLYMAN KAMIN: Yes.

MS. McFAUL: Okay. I came here today, not because I know that much about New Jersey, but I certainly know a lot about corrupt politics, having lived in Chicago for 35 years. I think that part of our problem, at least in parts of Jersey, is politics.

ASSEMBLYMAN KAMIN: Are you still involved in the political process in Chicago even though you live here?

MS. McFAUL: Oh, I hate to even think about it. I mean, you know, who cares who wins, who loses. The whole city is gone. We had an election today, and what difference does it make who wins, because-- I mean, when you get a million and a half middle-class moving away from the city to the northwest part of the county, you've lost the city, because the only people who are left are only the people who can't afford to go anywhere else.

I'm saying I think Hudson, Bergen, and Essex have the same problem as Chicago, for two reasons potentially: First, they have very high density, and secondly, they are largely Catholic. They are the only two places in America -- thank God nobody is here -- that really fit those two criteria.

Now, why there is a problem with density, is because there is really no political hegemony anywhere. There is a political vacuum. How New York got around that political vacuum was to establish, as you all probably know, in about the year 1930-- They established something called, "Citizens' Budget Commissions," comprised of landlords, tenants, real estate people, politicians, etc. Then they also established, a few years later, the Urban League. That was in about the 1960s, but it was a base to have some communication between the landlords, the tenants, the politicians, as to what was going on.

Today, in Hudson County, we have, I think -- which is part of our problem -- a terrific power vacuum. I mean, there are-- As everybody knows, there are 15 mayors doing their own

thing, each trying to get the most ratables, each trying to get lower taxes, thereby, you know-- To get the lower taxes, they have to get rid of the low-income people. What it is, is a political -- what's the word? -- mess.

Now, to fill the political void-- I think the only way they can do it is to get something like what they have in New York City, which is either a Citizens' Budget Commission, or some kind of Urban League to negotiate between the landlords, the politicians worried about the tax rates, and the tenants. Other than that-- Of course, this is a very quick bit of history. This book I was reading out there was called something like, "The American Catholic Experience," by J. Dolan, in which he said that the church in this country changed in the year-- I am mentioning this because, actually, Hudson County is the most Catholic county in the United States of America, as Chicago is the most Catholic city in America. Something happened to the church around-- I mean, I am a graduate of Jesuit University, and I have several relatives who are Jesuits. I am not saying this coming out of a Methodist background.

But, in the year 1900, there was a lot of disagreement as to the type of church there should be. Several factors entered into this. First, some Frenchman came over here, and said, "All your services are much too plain. You have to have baroque type architecture and more complex services, etc." Then there was also a theological discussion between the school of--

ASSEMBLYMAN KAMIN: Pardon me, Maril. Am I missing your point? I would like you to--

MS. McFAUL: All right. What all this resulted in was a church which, thanks to Leo, thanks to several Popes -- Leo XIII, or whoever -- who gave a seal of approval to nationalist churches, and a devotional religion much different than what they had before, which was simply, you know, everybody in the same church, and religion was based on your own acts of

charity-- This happened very recently, and I think it has affected the politics of both Hudson County and Chicago, because they cannot get their acts together. They have become so split, so diversified, that--

For instance, in Hudson, the Irish in Bayonne and in Kearny will let no low-income housing in their towns. The Italians in Fairview, which is about 75% Italian, and Secaucus -- I don't know what it is, but it's a lot -- have very little low-income housing. So the only place that does have low-income housing is North Bergen. I mean, we are still, many of us, living with rents -- including myself -- of under \$300. Therefore, we are the only place within the entire Hudson County waterfront area, as well as New York, to have as low rents as what exists in north Hudson, as well as West New York.

Union City's rents are about \$100 higher than ours. Ours are still dirt cheap, and as a result, it is the buildings with all these cheap rents, like mine -- which are turn of the century and cannot be converted as is, but they are doing it-- I mean, you know, forget the ceiling falling in three times. I don't even think about that, because that is what I would expect from a building being converted in the year 1902. It is not; they have to gut it. You can't possibly patch it up. But that is beside the point.

The problem of why this is happening is because we are the only area -- the only city, as well as West New York, with really dirt cheap rents -- too cheap, frankly. I mean, no landlord is going to make it at \$250 or \$275, but that is what the rents are in North Bergen, as well as West New York, in many buildings still today.

Now, the buildings that are being converted are those, largely, that have the working-class population who work down in the Meadows. Everybody knows they are going to be kicked out. But I'm saying, it is impossible for Hudson or Bergen County to get a political -- to get their -- how should I put

it? -- to get a consensus as to what to do about it. The surrounding area has a different rental policy. It has a different political-- It has a different ethnic group than North Bergen.

There is one other point that I will make very quickly. People said a few things today that were really not correct. They said-- The Flowers gentleman said that New Jersey had a much better system of getting the condition of the building -- the engineer's report. I fail to understand that, because for a building to go condo in New Jersey, all you have to do is pay \$700 down this year, \$500 down last year, and your condo. You don't have to put in the engineering reports that you do in New York. In New York City-- As a matter of fact, tonight, Michael McCann, who offers a course in this with the New York State Tenants' Association, is giving a lecture up at Hunter College tonight. But I have taken his courses down at 198 Broadway, at which he said, "To go condo in New York, you must pay \$50,000 down for engineers' and lawyers' reports."

ASSEMBLYMAN KAMIN: Maril, understand, we are not focusing on that legislation.

MS. McFAUL: Oh, I see; okay; all right. I'm sorry.

ASSEMBLYMAN KAMIN: We are focusing on affordable housing.

MS. McFAUL: All right, affordable housing, okay. But part of the problem, as I said, with affordable housing is, I think, and I will go back to what I said first of all-- There is a political problem of getting some kind of a -- the Marxist word is "hegemony." "Clout," as they say in Chicago. There is no control -- no political control over what is happening in either Hudson or Bergen Counties, because they have got -- what is it? -- 30 towns in the area, whatever, each one-- Unlike Morris, where you have one big city to control something, there is no control. There is no political control for anything that is happening. So as a result, what you get is chaos. The only

way to solve this problem, as far as I am concerned, is to do what they did in New York, form some type of a coalition between all the different people involved in it, to try to get them to solve the two issues they cannot solve on their own, which are the tax rate and the laws of the State. The laws of the State regarding condo conversions are more screwed up than any laws of any state in the United States.

Thank you for your time. I apologize for talking as much as I did. I did not intend to talk that much. Thank you.

ASSEMBLYMAN KAMIN: Thank you.

ASSEMBLYMAN BAER: Just one question. I was very interested when you spoke about having lived in Chicago. It is my understanding that they do not have rent control. Is that correct?

MS. McFAUL: I believe so. I left in '65, but I don't think they do.

ASSEMBLYMAN BAER: But they have had raging condomania -- very big conversions, condo and co-op conversions. Is that not correct?

MS. McFAUL: Well, it is like it is here. It is all along the waterfront. You go inland, and there is none.

ASSEMBLYMAN BAER: My point is, anyway, since many of the previous witnesses said that the conversion was as a result of rent control, apparently the Chicago experience shows that conversion occurs without rent control.

ASSEMBLYMAN KAMIN: Maybe we can call the University of Chicago and ask for some testimony.

MS. McFAUL: Well, it's a different situation, because they had a huge migration of-- Anybody who had any money left Chicago. So all that is left-- The condo conversions are in the northwest suburbs, where the middle-class moved to, not within the city. There are no big condo conversions in Chicago, because Chicago, most of it, is uninhabitable today.

ASSEMBLYMAN BAER: Aren't there people living there?

MS. McFAUL: Along the lake, but anywhere else you get-- You have tremendous gang wars; 30,000 kids fighting each other. The city itself is rotted; it's shot.

Thank you.

ASSEMBLYMAN KAMIN: Thank you, Mr. Baer.

And, patiently waiting, Mr. Joel Horowitz, from the Hoboken Campaign for Housing Justice.

MR. HOROWITZ: I promise, three minutes. Where do you begin?

ASSEMBLYMAN KAMIN: You get a medal for patience.

MR. HOROWITZ: Thank you for your patience.

Kind of a summary. There may not be a whole lot that you haven't heard, but a three-minute wrap-up. The rate is approaching 17,000 units a year being converted here. From 1979 through the summer of 1988, 69,954 units have been converted; 3500 new units since 1975 have been constructed by the State; and a State Council in 1986 estimated that 145,707 were needed then.

The crisis is here. The homeless not seen or recorded are doubled up, overcrowding other people's apartments. The only affordable housing available to many people is the apartment they live in right now. We have 50,000 homeless in New Jersey already; 50,000 women, men, kids, living in dangerous hotels, shelters, the street, or doubling up with friends or family.

More people -- if I am not correct; I wasn't alive then; tell me if anyone knows differently -- had a home during the Great Depression. We have to at least stem the crisis. Federal housing projects built in the future will do nothing for the majority of people without a home now, and the growing number between now, and when that housing is built.

The conversion process is not properly explained to regular people, many of whom cannot afford a lawyer, and many of whom do not know the English language well, or at all, being

first generation Americans. There are not enough public resources to answer questions about the process. I deal with that with the organization I work with.

Conversion has created one more incentive to not repair inhabited, deteriorating buildings. Developers pay too much money for buildings in great need of repair, counting completely on conversion and displacement to make the investment prudent. Meanwhile, there is no incentive to make major repairs in the building while it is still inhabited, so that the three to four years supposedly guaranteed to present tenants, becomes in reality how long someone can stand living in horrendous conditions.

That is basically it. Any questions?

ASSEMBLYMAN KAMIN: Thank you, Mr. Horowitz. Any questions?

ASSEMBLYMAN BAER: What organization were you referring to?

MR. HOROWITZ: The Hoboken Campaign for Housing Justice. I am a staff person. I have been a citizen involved, not as a job, for eight of the 10 years I have been in Hoboken. I started it as a job last April, part-time.

Thank you.

ASSEMBLYMAN BAER: Thank you.

ASSEMBLYMAN KAMIN: Thank you. I appreciate the patience of all those who testified, and of staff especially, who stayed with us throughout this long afternoon, and the Committee members.

ASSEMBLYMAN BAER: Mr. Chairman, may I ask you, before you close, since we are finished with witnesses--

ASSEMBLYMAN KAMIN: Yes?

ASSEMBLYMAN BAER: What do you intend in terms of procedure and timetable for the Committee as it continues? Are you considering more hearings? Have you set any times in your mind for sessions when we are to begin deliberating, or when we are going to begin developing drafts?

Oh, just as an aside -- disconnected -- what efforts are you going to make as far as reaching out for the testimony of the people who couldn't wait, or communicating with them, as far as the record is concerned?

ASSEMBLYMAN KAMIN: Some of those who left indicated to us that they were going to submit material to us in writing. If they do, those copies will be made available to everyone on the Committee and the Commission.

As far as what the Commission is going to be doing, we are hoping to schedule a meeting. I expect now that early April will be our next one. I don't see how we can transcribe all this material and get it out in a timely fashion. So, late March if possible, if the material has been transcribed; early April if not, so that we can meet and start focusing our report.

ASSEMBLYMAN BAER: Well, I would like to inquire if you are going to request expediting the transcript?

ASSEMBLYMAN KAMIN: We are.

ASSEMBLYMAN BAER: I understand that that makes a difference, and that may hold us up if it isn't requested.

ASSEMBLYMAN KAMIN: We will request the expedition of the transcript of this testimony. It is duly noted, and thank you very much for your help today.

ASSEMBLYMAN BAER: Thank you, Mr. Chairman.

ASSEMBLYMAN KAMIN: You are the second shift.

Okay, the hearing is adjourned.

(HEARING CONCLUDED)



APPENDIX

WEST BANK CONSTRUCTION CORP.

313-315 First Street • Hoboken, N.J. 07030 • (201) 792-1739

Memo To: Housing and Rental Study Commission

From: George Vallone - Treasurer
Robert Ranieri - Director of Marketing/Acquisitions

Date: February 27, 1989

Re: JUMPP Program with HMFA Permanent Financing

Gentlemen:

After having competed in the first round of JUMPP funding, we were the only firm selected for funding out of almost 100 applications requested.

While we applaud the creation of the program, we feel there is much that could be done to improve it. To that end, we offer the following comments:

OBJECTIVE - to stimulate developers and/or construction companies to provide low and moderate rental housing

INCENTIVES - Development/Construction Companies;

10% Construction Management fee
4% Developer overhead fee
10% Development fee

The JUMPP Program can provide 90% financing. However, it allows a developer/construction company to pledge its 10% developer fee in place of the 10% equity requirement. This leaves the developer/construction company with a short-term upfront 4% profit and a construction management 10% fee in the first year. The medium-term benefit is the administration fee and property management fee. The long-term benefit is that all low and moderate restrictions are lifted at year 15. It also allows in the 12th year the filing of the 3-year Condo Conversion Application.

- PROBLEM 1 - Governor Kean allotted \$10,000,000, expecting 1,000 units. JUMPP people expected 500 units! Reality is that \$10,000,000 can only provide approximately 150 units (Rehab.). The initial goals set were unrealistic in light of today's construction costs.
- PROBLEM 2 - The Program in urban areas can only work with rehabilitation projects. New construction in urban areas (vertical) is too expensive for the program to work even with no land acquisition costs. The total cost per unit must be kept below \$70,000/unit.
- PROBLEM 3 - Even though the program uses Section 8 monies, we cannot compute these monies into our P&L because there is no federal guarantee that the Section 8 monies will continue for the next 15 years.
- PROBLEM 4 - There is a direct conflict between the JUMPP guidelines (provides affordable housing) and the HMFA guidelines (provides funding). JUMPP wants affordable housing in declining urban neighborhoods, but the bonding requirements of HMFA requires good neighborhoods.

Overall, the JUMPP and HMFA staff, in particular Rhoda Miller, Bill Rainwater, Meyer Pincelli, Jackie Lovette and Karen Farian all have been very helpful and enthusiastic. We are preparing several more projects to apply for additional funding and we look forward to groundbreaking on the approved project in the next two weeks.

GTV:mp

RIKER, DANZIG, SCHERER, HYLAND & PERRETTI

WILLIAM F. HYLAND
PETER N. PERRETTI, JR.
NICHOLAS DEB. KATZENBACH
WILLIAM C. CONNELLY
EDWARD A. ZUNZ, JR.
PETER F. ELD
PETER L. BERKLEY
BENJAMIN P. MICHEL
THOMAS E. COLLETON, JR.
GERALD A. LILOIA
JOHN P. SHERIDAN, JR.
SHIRLEY A. O'NEILL
ROBERT FISCHER III
JAMES S. ROTHSCHILD, JR.
VINCENT J. SHARKEY, JR.
DOUGLAS S. EAKELEY
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ALAN E. KRAUS
GLENN A. CLARK
ROBERT J. SCHOENBERG

MARK A. BABER
KAREN E. BEZNER
MARYANN P. KICENUIK
VICTORIA A. MORRISON
THOMAS E. NOSELEY*
STUART PEIM
LEWIS M. MILFORD
CHARLES E. REUTHER
PAMELA P. WARNEMENT
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STUART M. LEDERMAN
PATTI S. LIBERMAN
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JEFFREY B. WAGENBACH
ROBERT J. GILSON
JEFFREY J. MILLER

ROSALIND KENDELLEN
LINDA H. PRENTISS
GABRIEL DEL VIRGINIA
LAURA J. BERKOWITZ
JEANNE M. BRATSAFOLIS
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SIDNEY M. SCHREIBER
ALEXANDER P. WAUGH
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January 19, 1989

Re: S-2107

Dear

I am writing on behalf of our client MLG Properties, Inc. to oppose S-2107. The president and principal of MLG Properties, Inc. is Morton Ginsberg. He is the owner of a large number of rental apartments throughout New Jersey. Although he has converted some apartment complexes he would prefer to retain ownership and rent them. He is convinced that with reasonable rent control ordinances, fairly administered, coupled with vacancy decontrol he can make a fair return on his investment. He believes there are such municipalities including Union Township in Union County. However, there are other municipalities particularly in Hudson County that practice what he would describe as "confiscatory rent control". He believes they are totally unrealistic and unfair. This practice, coupled with continual pressure on the Legislature over the past several years by the Tenants Rights Organization (not the tenants) for an expansion of the already generous protections provided tenants, has forced landlords to convert apartments to condominiums in unprecedented numbers.

S-2107 will for all intents and purposes end the conversion of apartments to condominiums in New Jersey. There are numerous good reasons to oppose S-2107.

1. New Jersey already provides significant protections for tenants when their apartments are converted to condominiums including:

63X

- a. Senior citizens with less than three times the county per capita income or \$50,000 per year, whichever is greater, have lifetime protection from eviction;
 - b. Every tenant, regardless of income has a minimum of three years protection from eviction;
2. S-2107 is retroactive, i.e., it would prevent the eviction of tenants even if the conversion has been filed with and approved by the Department of Community Affairs, and even though the apartment may already have been sold to a purchaser who is waiting to move in;
3. This bill makes no distinction between poor tenants and wealthy tenants, i.e., a tenant with income of \$100,000 or more a year, and rents a 6 room rent controlled apartment for \$300 per month, is provided lifetime protection against conversion under this bill;
4. This bill is bad public policy because it eliminates the opportunity of tenants to become homeowners and participate in the profit potential of escalating real estate values in New Jersey. Converted apartments are one of the ways many of New Jersey's young people get started in the housing market;
5. This type of legislation is also bad public policy because by not allowing conversions, property owners in places like Jersey City, including many senior citizens and others who have less income than many tenants, are forced to unfairly subsidize rental housing by paying higher property taxes on their homes. The reason is simple: converted apartments pay much higher property taxes than rent controlled apartments and this difference is being put on the backs of homeowners;
6. This bill is also bad public policy because it prevents conversions which are one of the few ways urban municipalities can increase their tax base in order to deal with a host of urban problems. It also discourages upgrading of property that takes place before and after a conversion;
7. This bill is unfair and inequitable because in effect it requires multi-family property owners to bear the burden of solving a problem which is the responsibility of the State and Nation as a whole, i.e. the provision of adequate low and moderate income housing;
8. This bill is being justified on the "alleged" basis that many tenants will be evicted in the next few weeks or months if this bill is not passed. No tenant can be evicted for a condominium conversion in New Jersey

without at least 3 years notice, and many are protected for 4 years or more;

9. This bill is unfair and inequitable because it changes the rules in midstream. Many of the buildings being converted were purchased, or substantial monies were expended to convert, after the existing tenant protection bill was enacted as a compromise measure; and,
10. This bill will eliminate one important vehicle for creating low and moderate income housing in our cities. Some urban municipalities, such as New Brunswick, are utilizing Mt. Laurel funds from suburban communities to provide low and moderate income set aside housing units in condominium conversion projects.

My understanding from speaking with Senate staff is that the Tenants Rights Organization has rejected all efforts to compromise on "their" Bill. One of the compromises rejected was a compromise proposal suggested by my client to provide a rent only, no interest 5 year mortgage to tenants with gross household incomes of less than 1/3 of the inside offering price so that low income tenants could become homeowners. Presumably others would qualify for normal bank financing. The details of this proposal are spelled out in Exhibit A.

This all or nothing approach taken by the Tenants Rights Organization demonstrates that their real interest is in perpetuating their organization rather than seeking real-world solutions.

I urge you to oppose this legislation unless a reasonable and realistic compromise is available for your consideration.

Sincerely,

John P. Sheridan, Jr.

65X

EXHIBIT A

An owner (converter) may remove his project from the provisions of S-2107, if, and only if, he offers tenants with total gross annual household incomes of less than 1/3 of the inside offering price, either option A or B:

OPTION A

1. A sale at the inside offering price for that unit to the tenant for no cash down and a purchase money mortgage comprising the entire amount thereof;
2. This mortgage would be for five years and debt service on the mortgage would be equal to the rent at the time of conversion plus annual increases based on the C.P.I.;
3. There would be no accrual of debt service beyond the amount referred to in 2. above, and there would be no monthly maintenance charge for the five year period or until sold or refinanced, whichever occurs first;
4. The converter would have the option to take advantage of any HMFA or other low interest financing to comprise all or as much of the portion as he can obtain of that purchase money mortgage; and
5. Before the end of the five year period the tenant would have to refinance or sell. At that time the converter could foreclose if the tenant did neither. (However, the chance of that occurring is remote because by definition the tenant has bought the property at a substantial present discount and has, in effect, a free option at that same fixed discounted price for five years. The opportunity for profit on the sale or refinancing is overwhelming and the chance that he would not be able to do so, lose the apartment and have to leave would be extremely remote.), or

OPTION B

Alternatively the converter would reduce the offering price to 3 times the particular tenant's total gross annual household income.

If the tenant refuses the option offered to him, existing law with its protections would apply to him. All tenants not eligible for this program would be covered by existing protections, including senior citizens.

This proposal is conditioned on amendment of S-2107 so that it is (1) prospective only, i.e., it applies only to conversions filed after February 1, 1989, (2) that the rent control ordinances shall provide annual increases of not less than the C.P.I., and (3) that all rent control ordinances shall allow not less than vacancy decontrol to the then present market rent each time an apartment becomes vacant.

TESTIMONY OF

MORTON L. GINSBERG

PRESIDENT OF MLG PROPERTIES, INC.

BEFORE THE JOINT PUBLIC HEARING OF
THE RENTAL HOUSING STUDY COMMISSION AND
THE ASSEMBLY COMMUNITY DEVELOPMENT AND URBAN AFFAIRS COMMITTEE

FEBRUARY 28, 1989

I am the president of MLG Properties, Inc. and I own or control approximately 7,500 multi-family apartment housing units in New Jersey including approximately 650 units in Hudson County. We would continue a large portion of these properties as rental housing if unduly restrictive rent control in some municipalities was ameliorated by uniform vacancy decontrol provisions and if the threat of unduly restrictive conversion legislation is removed.

With respect to the conversion of rental housing units to condominium or cooperative ownership, the first question to ask is whether those conversions have reached critical proportions which threaten our rental housing stock. Have conversions created a crisis in rental housing or is the crisis largely nonexistent or manufactured and overblown?

The records of the Department of Community Affairs show that from 1979 through December 31, 1987 -- almost a ten year period -- less than 57,000 rental housing units were registered for conversion. This does not mean that all units which have been registered have been sold and taken off the rental housing market. Many are unsold; many are still occupied by tenants, some of whom are senior citizens or disabled whose tenancy status is protected by existing legislation; and many have been purchased by outside investors but continue to be occupied by the preexisting tenants or new tenants. Preexisting tenants have protected tenancy status under present law which guarantees continued occupancy for three years or more.

Measured against the total number of rental housing units in New Jersey -- approximately one million -- the total number of units registered for conversion during the 1979 through 1987 period is less than 6% of our total rental housing stock. To be more specific, the 57,000 units registered for conversion in 1979 through 1987 represent 5.86% of the 968,767 renter occupied units in New Jersey in 1980. If we deduct from the number of units those which continue to be renter occupied because of senior citizen protected status and non-seniors remaining in possession, and deduct further the number of rental housing units constructed since 1980, the 5.86% figure will be shrunk even further. In fact, the real percentage is even lower, because many of the units converted in the shore counties are seasonal, not primary units.

Also, in measuring the status of housing in New Jersey, consideration should also be given to the total of 257,000 new housing units constructed in 1980 - 1986. Despite the number of rental units registered for conversion, the total number of renter occupied units increased between 1980 and 1985 from 969,000 to 1,016,000, or by approximately 47,000 units. Total occupied housing units (existing units, less demolitions, plus newly constructed units) rose in New Jersey from 2,548,600 in 1980 to 2,742,290 in 1985, and have continued to rise to date.

Thus, from a statewide perspective, it is clear that conversions of rental units to condos or co-ops have not produced any kind of housing crisis. It is true that the number of registrations have increased in the past two recent years. Two principal factors contributing to this result are:

1. The threat of draconian restrictions on conversions by new legislation; and

2. Harsh rent control in some municipalities which discourages the continuation of rental housing and encourages conversions and had deterred the construction of new rental housing until the recently enacted exemption.

While conversions have not created a crisis in rental housing in general throughout the State, we should look at conversions on a county-by-county basis to see what the impact has been. Again, we must use the number of units registered for conversion between 1979 and the end of 1987.

Seven counties had no conversions (Gloucester, Hunterdon and Salem) or an insignificant number (305 in Burlington, 116 in Cumberland, 67 in Sussex, and 251 in Warren).

The largest number of conversion registrations were in two counties: Hudson with 10,894 and Bergen with 14,435. Their total equals 44.6% of all 56,794 conversion registrations statewide in these years. The next largest number were in Atlantic (5,825), Essex (5,808) and Monmouth (4,355). Compared to their rental base, the percentage of units registered for conversion in counties with the highest proportions are as follows:

Atlantic	22.47%*
Bergen	13.88%
Cape May	12.41%*
Monmouth	8.34%*
Hudson	7.46%
Somerset	6.75%
Morris	6.62%

*Many if not most of these are probably the conversion of seasonal rental units to condominiums and are therefore not relevant to the issues before the Committee.

Remember however, that these percentages should be reduced by: unsold units, units which will continue to be occupied by senior citizens and other tenants for many years to come, and newly constructed units which are renter occupied.

Let us look at Bergen County, for example, where the largest number of units have been "converted" (14,435 or more than 25% of the entire statewide number) from 1979 through 1987. During the same years, new housing unit construction (measured by permits) has increased by 14,738, of which nearly 6,000 were in five or more multi-unit complexes. Moreover, much of this conversion activity involved high-rise "luxury" apartment buildings occupied by upper-middle and higher income tenants. As for occupants with moderate or middle-income levels, many benefitted by purchasing these units at relatively low "insider" prices, and they have been able to profit from their investment by reason of sharp appreciation in values, reselling their units in later years at profits of 200% or more -- measured by gross resale values, and in many cases by 500% or more -- measured by profit over capital investment exclusive of mortgage financing. Moreover, measured against total housing stock in Bergen County, we see that 14,435 units registered for conversion were only 4.8% of the more than 300,000 total housing units in the county in 1980, and 4.6% of the total number in 1985. Many tenants who purchased converted units were able to resell at a profit and use that money as a deposit on a house which they might not have been able to afford had they not gotten into the housing ownership mode.

In Hudson County, the number of units registered for conversion in these years, 10,894, was 7.46% of all renter occupied housing in the county in 1980 (146,105), and was only 5% of all housing in the county in 1985. Again, the percentages were lowered by senior citizen protected tenancies and new construction. New construction tends to make older housing available to lower income occupants.

One could conclude that conversion of rental housing has not caused any substantial housing dislocation in Hudson and Bergen counties, where the most activity has taken place in recent years. Thus, the opponents of conversion cannot prove a societal need for highly restrictive conversion legislation.

As noted above, the threat of draconian legislative restrictions and harsh, oppressive rent control measures in some municipalities have been the major stimulants to a rise in conversion registrations in the past two years. However, there have been two counter-forces depressing conversion sales: the October 19, 1987 stock market crash, and the Federal Tax Reform Act of 1986. This latter legislation has virtually wiped out all interest from outside investors due to the phase out of tax benefits. Thus, conversion sales have slowed dramatically.

The benefits to the public interest contributed by conversions has been largely overlooked. These benefits are:

- a. Automatic increase in tax ratables and a reduction of taxes for homeowners;
- b. Improvement in rental housing stock by renovations made to encourage purchases and continued maintenance by owners;

c. Fulfilling State and national policy goals of low cost ownership of housing; and

d. Enabling owners to offset inflation and increase their capital by ownership of an appreciating capital asset.

These benefits do not need elaboration with one exception. Largely overlooked as a by-product of harsh local rent control provisions is that the values of multi-family housing projects have been depressed well below potential market values. This means that their assessments are reduced, and they do not pay a fair share of municipal and county taxes. As a result, other taxpayers, particularly homeowners, are paying a disproportionately high share of those taxes. Thus homeowners in municipalities with rent control are subsidizing tenants. These homeowners may be poorer than some of the tenants being subsidized and may themselves be senior citizens or handicapped citizens.

As a result of conversions, the assessments of the same properties can finally reflect true market value, which means that the tax base in the municipality will be increased and tax rates lowered proportionately. Tax assessments on converted properties could reflect increases in value of as much as 200% to 250% or more in some cases.** Inflation and appreciating values will continue to be reflected in a growing tax base which would not be the case if the property was continued as rental housing subject to rent control restrictions.

**In Hudson County, assuming a conservative increase in assessments of \$40,000.00 per unit multiplied by 11,000 units registered for conversion means that Hudson County's tax base has increased by approximately \$440,000,000.00 on a true value basis from 1980 to 1987.

With this background, we can now consider what criteria should be used to determine when the societal benefits of conversions are deemed outweighed by dislocation of renters and how can we protect against such detriment. Obviously, we have to distinguish between counties where the incidence and impact of conversions differ widely.

One reasonable approach would be to describe the point of detriment as the time when, in a given county, the total number of units registered for conversion with DCA approval in that county since 1980, minus the total number of newly constructed rental housing units since 1980 and minus the total number of units occupied under protected senior citizen and disabled tenancy status, has equalled or exceeded ten percent (10%) of the total renter occupied housing units in the county. This test allows for an average of 1.0% per year for ten years, in the aggregate, of net loss of rental housing through conversions of existing housing stock before serious enough detriment is assumed to require the imposition of controls to prevent tenant displacement thereafter, notwithstanding the construction of some low and moderate cost housing in the county.

The next question is what population displacement is feared. Surely, tenants who can afford to purchase and maintain the unit after conversion are not in need of protection. We should not talk about setting aside a number of units in a high-rise luxury rental building, for example, for low income tenants as a condition of converting that building, assuming low income tenants are not occupants of the apartments before the conversion.

This type of situation simply does not call for a Mount Laurel type remedy which was imposed to overcome exclusionary zoning that prevented the construction of multiple-housing rental units in the first place. In other words, any additional protection should only apply to those in true financial need.

When the rental stock is sufficiently reduced in a county, some tenants of rental housing to be converted thereafter may have a displacement problem after their years of protected tenancy status expire. These may be low income tenants, or tenants of moderate assets who can not afford to purchase the particular rental unit in which they reside.

While I believe that the marketplace with appropriate governmental support can solve this problem, I am prepared to offer an approach that specifically addresses the issue of low and moderate income tenants. The following formulation should afford adequate protection for tenants in these categories, without total disregard of the rights of property owners who are being asked to subsidize another segment of the private sector.

An owner of apartments which he wishes to convert to condominiums should be able to remove his project from the effects of any new restrictive legislation such as Senate Bill No. 2107, Senator Cowan's non eviction bill, if the owner offers one of the following options to the tenants of the building being converted who have a total gross annual household income of less than one third of the inside offering price:

Option A

1. A sale at the inside offering price for that unit to the tenant for no cash down and a purchase money mortgage comprising the entire amount thereof;

2. This mortgage would be for five years and debt service on the mortgage would be equal to the rent at the time of conversion plus annual increases based on the C.P.I.;

3. There would be no accrual of debt service beyond the amount referred to in 2. above, and there would be no monthly maintenance charge for the five year period or until sold or refinanced, whichever occurs first;

4. The converter would have the option to take advantage of any HMFA or other low interest financing to comprise all or part of that purchase money mortgage; and

5. Before the end of the five year period the tenant would have to refinance or sell. At that time the converter could foreclose if the tenant did neither. However, the chance of that occurring is remote because by definition the tenant has bought the property at a substantial present discount and has, in effect, a free option at that same fixed discounted price for five years. The opportunity for profit on the sale or refinancing is overwhelming and the chance that he would not be able to do so, lose the apartment and have to leave would be extremely remote; or

Option B

Alternatively, the converter would reduce the offering price to three times the particular tenant's total gross annual household income.

If the tenant refuses the option offered to him, existing law with its protections would apply to him. All tenants not eligible for this program would be covered by existing protections, including senior citizens.

So that the owners can offer these programs, such legislation should provide (1) that it is prospective only , i.e., it applies only to conversion applications filed after the effective date of the legislation, and (2) that rent control ordinances affecting the owner's projects shall allow annual increases at least equivalent to the consumer price index.

Should this Committee make specific recommendations for legislation, we urge you to include a recommendation for vacancy decontrol. By letting some units adjust to market level rents, this will, at least, partially relieve the pressure on owners to convert units. There is no legitimate public policy reason not to require vacancy decontrol in rent control ordinances. I also urge you to recommend legislation which would require a municipality that desires to extend rent control beyond January 1, 1990 to do a fiscal impact study of rent control on its tax base and to submit the study to every taxpayer prior to extending its rent control ordinance. The homeowners of the State just don't understand how rent control requires them to subsidize tenants, some of whom are better able to pay than are the homeowners. There has been a lot of discussion of real property tax reform in recent months. It would be real tax reform to remove the burden of subsidizing tenants from homeowners, and placing the burden of housing low income citizens where it belongs, i.e., on the federal and State governments supported by general tax revenue.

Conclusion

The hard facts demonstrate that perceived housing problems have not been caused by conversion registrations in this State. There may be a time in certain counties in which the proportion of rental units converted to separate ownership is not sufficiently offset by construction of new housing units, particularly rental units, when the dislocation of financially disadvantaged tenants could be deemed a sufficient detriment to overcome the advantages of private ownership by occupants of the housing unit. In that event the private property rights of the landlord should not be infringed upon to the extent that, in effect, the prohibition against eviction gives the tenant a lifetime lease in the apartment unit. Instead, the landlord should be encouraged to assist the tenant in acquiring the benefits of ownership and participating in the American dream -- getting a piece of the rock. This will give government additional time to marshal its forces to increase the availability of low and moderate cost housing.

FATHER
GILCHRIST

A STATEMENT ON PRESSING NEEDS IN HUDSON COUNTY
BY THE
ROMAN CATHOLIC CLERGY OF HUDSON COUNTY

Whereas the clergy of the Roman Catholic Church live in all areas of Hudson County, and

Whereas whatever affects the people of this area is of utmost concern to those of us who work in parishes, institutions, and agencies that serve the entire population, and

Whereas our area has witnessed a huge sociological and economic change over the last ten years, and

Whereas those changes have brought blessings to our people -- such as an influx of business and jobs, the revitalization and rebuilding of our cities, a new influx of people and new cultural and social dimensions to Hudson County, we rejoice.

Whereas, however, we have also witnessed a gentrification that has driven many poor people from their homes and caused many others to live in fear of eviction, and

Whereas we have seen the numbers of homeless people dramatically increased because they have no place to go, and

Whereas we have seen rents and the prices of homes climb so high that our young people cannot live -- much less raise a family -- here, and

Whereas there are sizable numbers of elderly now being evicted, and

Whereas the needs of our youth are often neglected and they also are more and more being numbered among the homeless, and

Whereas the spiritual lives of our people are being negatively affected as the quality of life deteriorates, and

Whereas the Archbishop of Newark, Most Rev. Theodore McCarrick, has expressed publicly his concern over these problems, we the undersigned, priests of the parishes, institutions and agencies of Hudson County, ask that:

1. The legislators of New Jersey act quickly to pass a bill to protect tenants from mass eviction by condominium conversion by some means such as the condo conversion bills A-3283 and S-3266.
2. They immediately use federal, state and local money to plan for emergency assistance for the homeless so that no one in our county need suffer the pain and indignity this winter of having no place to go for shelter and food.

3. They take seriously the need for affordable housing, and that the Mt. Laurel decision and the recommendations of the "Council on Affordable Housing" also be taken seriously. We urge that private industry and non-profit groups combine with state agencies for quick, effective production of homes.
4. Finally, we ask the Bishops of all of our five dioceses to use all of their good offices to prod the state to protect those who cannot protect themselves and to become leaders in the struggle to fulfill the promise of Isaiah applied to our own New Jerusalem.

There shall always be rejoicing
and happiness
in what I create.
For I create Jerusalem to be a joy
and its people to be a delight.
No longer shall the sound of weeping
be heard there
or the sound of people crying.
They shall live in the houses they build
and eat the fruit of the
vineyards they plant.

Isaiah 65, 18-21

SIGNATURES

**Testimony of
Matthew B. Shapiro
First Vice-President
New Jersey Tenants Organization
389 Main Street
Hackensack, New Jersey 07601
February 28, 1989**

How do condominium and cooperative conversions affect the availability of affordable housing?

Converters and the people they hire will tell you that conversions actually create affordable housing by providing home buying opportunities for some people who might not otherwise be able to buy a home.

This is probably the biggest and most vicious perversion of the truth on any subject in the last decade.

1. Conversions do not create housing at all. The building is still the same building after conversion.
2. The total (monthly) cost of living in an apartment after it has been converted is typically from **two to five times the pre-conversion rent**. The total post-conversion cost includes mortgage, lost interest on down-payment, taxes, (common) maintenance fees, and interior and exterior maintenance costs not covered by common charges.

So, the same apartment becomes much much more expensive. And somehow this is supposed to mean that the apartment has suddenly become affordable.

Any fair minded unprejudiced person would say there is something terribly wrong with this reasoning.

Let's examine it more closely. Before the conversion, a tenant family lived in the apartment and paid, let's say, 25% of their income in rent. Most observers would judge this to be an example of affordable housing. After the conversion, either the tenant family buys their own apartment, or, eventually, someone else does.

Let's say the tenant family does find a way to buy (in general, if they can find a way, they will do so to save their home, since comparable housing is almost never available). If their monthly housing cost merely doubles, then they end up paying 50% of their income for housing. Is the apartment still affordable? Some would say yes-- after all, they are still paying or "affording" the cost. If we accept this explanation then the concept of affordable housing becomes meaningless. Clearly this housing, with its doubled cost, has become **much less affordable** to this family, even if it is still **possible** for them. So housing affordability today is only meaningful in comparison to what it was yesterday if the same people live there.

But what if the same people don't live there. The new occupant has voluntarily entered the situation and is paying the new housing cost, which happens to be twice (or 3 or 4 times) the pre-conversion rent. Isn't this new cost "affordable" to this new occupant. In truth we

don't know how affordable the new cost is to the new occupant-- only that it is possible. But let's assume that the new occupant has twice the income of the tenant family that left. The degree of affordability would appear to be the same to the new people as to the tenant family-- about 25% of income. So, isn't the apartment just as affordable as it was before? Again, for the concept of affordability to have any meaning, the answer must be no. The affordability level to the tenant family was reduced to zero (or impossible) before it became available as a suddenly "affordable" apartment to the twice as wealthy family. Which is more important in judging the affordability of this apartment-- its total lack of affordability to the tenant family (actually causing their displacement) or its affordability to the twice as rich replacement occupants. The answer is obvious. The zero affordability to the displaced poorer family is far more important.

But what about the fact that the new occupants will actually own the apartment. Doesn't this make their affordability somehow more important? Isn't affordable **home ownership** what we mean by affordable housing? The answer is **NO**. The affordability of a housing unit relates to the ability of its occupants to pay the cost of living there each month, whether the cost is in the form of rent or mortgage, maintenance, taxes, and lost interest. The name on a deed or stock certificate is irrelevant. The only reason to consider affordability for home owners to be more important than for tenants is **prejudice**-- pure and simple. There is nothing about owning a home that makes a person a better human being or someone whose right to an affordable home is more important. **It is time for the prejudice against tenants to end!**

So, we can safely conclude that conversions reduce the availability of affordable housing. But how serious a problem is it?

The seriousness of the problem is directly proportional to the number of rental units converted, and that number is astronomical. The chart which accompanies this testimony shows the number of units registered as converted year by year and county by county from mid-1979, when the Department of Community Affairs first began maintaining conversion statistics, through the end of July, 1988. It is based on information published by DCA for each registered project, and upon my personal examination of the 1988 conversion application files.

From 1979 to July of 1988, over 7% of New Jersey's rental housing, 69,954 apartments housing about 174,885 people, were converted and effectively removed from the category of affordable housing. By now, the figure is probably over 8%. Considering that the London bombings of World War II resulted in the loss of 2% of its rental housing and its worst housing crisis, New Jersey's 7-8% loss is almost unprecedented.

The devastating effects of condomania have reached nearly every part of the State, affecting 19 of the 21 counties, 17 of which have lost more than 2% of their rental housing. The hardest hit counties so far have been Atlantic, Cape May, Bergen, Hudson, Monmouth, and Ocean, in that order, having lost 23%, 16%, 15%, 10%, 3%, and 7%, respectively, of their rental housing since 1979. In terms of the number of units converted, the disaster order becomes Bergen (15,511), Hudson (14,989), Essex (7,059), Atlantic (5,940), Monmouth (4,158), and Middlesex (3,165).

What is most obvious from the chart is that the current rate of conversions is much higher. 1986, with 7,212 units converted, was higher than the four preceding years. 1987 almost doubled that figure, producing 13,569 converted apartments, more than any prior year. And 1988, if the rate for the first seven months continues, will have seen 17,000 families undergoing conversion of their homes from affordability to impossibility.

What is not obvious from these figures but is nonetheless true is that the typical conversion is no longer the high rent upper middle income building turning into a millionaires only abode. Today's conversions are normally in low, moderate, and lower middle income buildings with rents of 200 to 300 a month and purchase prices over \$100,000. We know this from the direct contact our office has with people all over the State living in converting buildings and from my perusal of the 1987 and 1988 conversion applications. What this means is that very few of the current tenants can find a way to buy and pay the tripled housing cost. In many buildings, no one at all can buy. This is how today's conversion "creates" affordable housing.

If we add the 1986, 1987, and projected 1988 figures, we get about 38,000 families or 95,000 individual tenants who are currently facing the prospect of displacement because they can no longer afford their homes due to conversion. In 1988, at 17,000 units or 42,500 people per year, this comes to about five people an hour or one person every twelve minutes added to the pool of potential evictees.

How many of the conversion displaced families will end up homeless on the streets of New Jersey is uncertain. Many will. Those who do not become homeless will pay more for less adequate housing, or leave New Jersey or double and triple up on already overcrowded apartments. And when the condo displacees pay more for less (which is almost guaranteed by the prevalence of vacancy decontrol in over half of our rent controlled communities) they will end up forcing others onto the street by competing successfully for the few remaining rental apartments. It is common knowledge that today's homelessness is caused largely by high rents that the tenants could not continue to pay.

So this is the societal "good" performed by conversions-- double to quintuple housing cost, massive displacement, increased cost for the remaining rental housing, homelessness-- all at an alarmingly increasing rate.

For the last 2-1/2 years, we have been trying to get some legislation passed that would ameliorate the deleterious effects of conversions while still permitting them to occur. A little over a year ago a bill that would have required a majority of tenants to agree to purchase prior to registering a conversion (commonly called the 50+1 bill) was defeated in the Assembly. Its detractors said that it would have been too great an intrusion into the private marketplace to give the majority of the tenants such power, and they feared that very few conversions would occur. At the time, the convertors said many times that they could live with a non-eviction bill, but not with the majority rule bill.

So we gave them what they said they could live with, S-2107 and A-2653, the No-Eviction bill, and now it too is considered anathema by the powerful conversion lobby. This bill is a major compromise, since it does relatively little to preserve the long term affordability of the housing that is being converted. The experience in New York, where convertors get to choose between majority rule and non-eviction methods, is that conversions are rampant, and they are practically all non-eviction conversions. The convertors simply wait out the tenants-- eventually enough of them will die or leave to make the conversion extremely profitable. This bill will not hurt convertors.

What the bill will do is preserve the short term affordability of the housing for the people that live there as tenants, and it will eliminate a reason for eviction that was never intended by the legislature when it passed the Eviction For Just Cause Law. When the legislature first passed this law conversion was not listed as a cause for eviction, but an erroneous court interpretation inserted it, and since then the State has enacted a couple of laws that limit this immoral "right" to evict to a very small degree (3 year notice and some senior citizen protection). The eviction law was only intended to allow the eviction of tenants who

"broke the rules" (non-payment of rent, destruction of property, violation of substantial lease terms, etc.). Clearly, given the conversion crisis we now face, and the lack of available alternative affordable housing, it is long past time that we return to the Legislature's original intention, and eliminate conversions as a cause for eviction. At least the courts would stop putting families out of their homes for the sole reason that some wealthy converter wants to make a great deal of money. Greed should not be a justification for eviction. Further, in the faint hope that some municipalities might want to do more to preserve the long term affordability of their housing, this bill would give them that power.

The Senate has done its part. They passed S-2107 in a bi-partisan vote, and its fate now rests in the hands of the Assembly Committee on Community Affairs and Urban Development, along with that of its sister bill A-2653. You will decide the fate of the 95,000 tenants facing the prospect of eviction. Will you allow them to be forced out of their homes to satisfy the greed of others, or will you act to insure that they can continue to afford to live in their homes without these threats of eviction.

Please release the No-Eviction bill from your committee intact with no amendments to weaken it in any way. It is already as much of a compromise as the tenants of New Jersey should be forced to accept.

County	New Jersey Conversions Number of Apartment Units Registered										% of Rental Units Converted		Total # Rental Units 1980 Census
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	79-88	79-88	
	(Jan-July)												
Atlantic	347	1537	2130	145	126	183	448	168	514	342	5940	22.91	25924
Bergen	1048	2875	3448	2443	875	989	1518	436	1053	826	15511	14.92	103988
Burlington	0	0	48	0	0	0	0	0	250	68	366	1.21	30335
Camden	0	633	338	553	0	300	28	196	0	668	2716	5.44	49932
Cape May	0	169	58	82	36	322	156	213	214	179	1429	16.30	8768
Cumberland	0	0	0	0	130	0	60	0	0	0	190	1.32	14441
Essex	275	259	918	687	564	577	212	949	1659	959	7059	4.02	175784
Gloucester	0	0	0	0	0	0	0	0	0	0	0	0	15293
Hudson	0	106	666	622	620	461	1377	2344	5072	3721	14989	10.26	146105
Hunterdon	0	0	348	0	0	0	0	0	0	0	348	5.46	6370
Mercer	0	52	397	0	0	618	12	467	182	240	1968	5.22	37679
Middlesex	0	0	623	139	125	654	103	161	361	999	3165	4.86	65086
Monmouth	30	561	198	690	339	178	136	421	1053	552	4158	7.96	52245
Morris	0	0	75	102	582	130	58	554	789	64	2354	6.73	34999
Ocean	25	12	140	146	132	280	36	84	624	141	1620	7.40	21896
Passaic	0	150	0	256	567	0	122	373	690	605	2763	3.84	71879
Salem	0	0	0	0	0	0	0	0	0	0	0	0	6252
Somerset	0	0	0	396	0	24	16	438	50	0	924	5.06	18272
Sussex	0	0	44	0	0	0	0	0	0	188	232	3.29	7046
Union	0	248	0	207	315	268	241	70	812	381	2542	3.78	67325
Warren	0	0	0	0	0	0	0	0	197	0	197	2.15	9148
Unknown	0	342	469	166	0	0	119	338	49	0	1483		
TOTAL	1725	6944	9900	6634	4411	4984	4642	7212	13569	9933	69954	7.2	968767

PDX

NOTES:

1. To approximate the number of tenants (human beings) represented by a given number of apartment units, multiply by an average family size of 2.5. For example, the total number of "units" registered for conversion between 1979 and July, 1988 translates from 69,954 units into 174,885 people.

2. The extent of the conversion problem is extraordinary, with over 7% of the State's (affordable) rental housing already lost, and is accelerating faster than ever before. 1988 will have seen over 17,000 units (42,500 people) converted if the year's trend continues. As of the end of July, there were between 6 and 7 thousand units that had applied for conversion, but were still waiting to be registered by the Department of Community Affairs. Considering the large number of pending applications, the 17,000 unit estimate for 1988 is probably low.

3. To get an estimate of the number of people currently facing the eventuality of condo (i.e., greed) eviction, just add the figures from 1985 to 1988 and multiply by 2.5, since most of the pre-1985 tenants have probably already been evicted. Statewide, this comes to 35,356 families, or 88,390 human beings.

4. The figures clearly demonstrate that the problem is Statewide in its impact. Only 2 of the 21 counties have not been affected, and of the remaining 19 counties, 17 have been severely affected, having lost more than 2% of their rental housing. The hardest hit counties so far have been Atlantic, Cape May, Bergen, Hudson, Monmouth and Ocean, in that order, having lost 23%, 16%, 15%, 10%, 8% and 7%, respectively, of their rental housing since 1979, when the State began to "register" conversions. In terms of the number of units converted, the disaster order becomes Bergen (15,511), Hudson (14,989), Essex (7,059), Atlantic (5,940), Monmouth (4,158) and Middlesex (3,165).

5. The first and foremost thing that the State must do is to stop these immoral evictions, wherever they occur. To put a family out on the street purely for greed is barbaric. Such cruelty has no place in a civilized country. When the Legislature originally passed the Eviction for Just Cause Law, conversion (greed) was not listed as a cause for eviction, nor was it intended to be. An erroneous court interpretation inserted it, and since then the State has enacted a couple of laws that limit this immoral "right" to evict to a very small degree (3 year notice and some senior citizen protection). Clearly, it is time to return to the Legislature's original intention, and remove conversions as a cause for eviction. That's exactly what S-2107 and A-2653 would do. Although the long range loss of affordable housing would still occur, since conversions would still occur as they do in New York, at least the courts would stop putting families out of their homes because of conversion greed. And municipalities would be given the power to do more to save their affordable housing if they deemed it necessary.

March 1, 1989

New Jersey State Assembly Community Development and Urban
Affairs Committee
New Jersey Rental and Housing Commission
New Jersey State House Annex
Room 317
Trenton, New Jersey
CN-068 08625

Attention: John Lee

ASSEMBLY BILL A-2653
THE NON-EVICTION LAW

As a member of the City of Hackensack Zoning Board of Adjustment, I have have witnessed an onslaught of applications before the board for multi-family dwellings. In fact, from 1980 to 1985 there were 960 multiple dwelling units authorized for construction in the City of Hackensack. That was by far the greatest amount of multi-family construction activity occurring anywhere in Bergen County. During this period 283 or 29% of the multi-family units built were condominiums or co-operatives. During this same time period nearly 1300 older units were converted from rentals to condominiums.

It may appear that this does not indicate a significant threat to the availability of rental units in a community with over 16,000 total dwelling units. However, historically the housing stock in Hackensack has been overwhelmingly rental. Currently, about 70% of all the dwelling units in Hackensack are rentals. In comparison, 21% of the units in Teaneck are rentals and 41% of the units in Englewood are rentals. Most residents of the City of Hackensack, for many reasons, choose to become tenants. The increase in the number of conversions and the trend of new construction toward condominiums is rapidly decreasing the availability of quality and affordable rental units.

It is estimated that the cost of living in a apartment converted to a condominium is from 50% to 200% higher than if the unit were to remain a rental. Home ownership is certainly part of the American Dream, but for many it is a dream deferred. The City of Hackensack, like many other communities throughout New Jersey, has not recognized the necessity nor obligation to provide reasonable and affordable housing. Many young couples who wish to build a future in Hackensack simply can not afford to buy a home. Many long time residents, faced with increasing taxes and maintenance costs can no longer afford to own a home.

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The social and economic diversity of a community, as well as the availability of employees for local businesses is threatened when the young cannot afford to move into the community and the old cannot afford to stay. For many tenancy is the only alternative.

Providing and maintaining quality and affordable rentals is in the best interest of the community. Likewise, protecting the rights of tenants who live in these units is also in the best interest of the community.

Assembly Bill A-2653 will not only protect the rights of tenants, but it will also provide municipalities with the ability to address important issues such as affordability. Such a law will give a municipality more control over its own destiny.

I urge the Assembly Community Development and Urban Affairs Committee and the Rental and Housing Commission to move quickly and appropriately on this bill. In my opinion it is in the best interest of my community and it is in the best interest of New Jersey


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