
REPORT

Office of Neighborhood Preservation

Rent Receivership in Jersey City

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RENT RECEIVERSHIP IN JERSEY CITY

STATE OF NEW JERSEY

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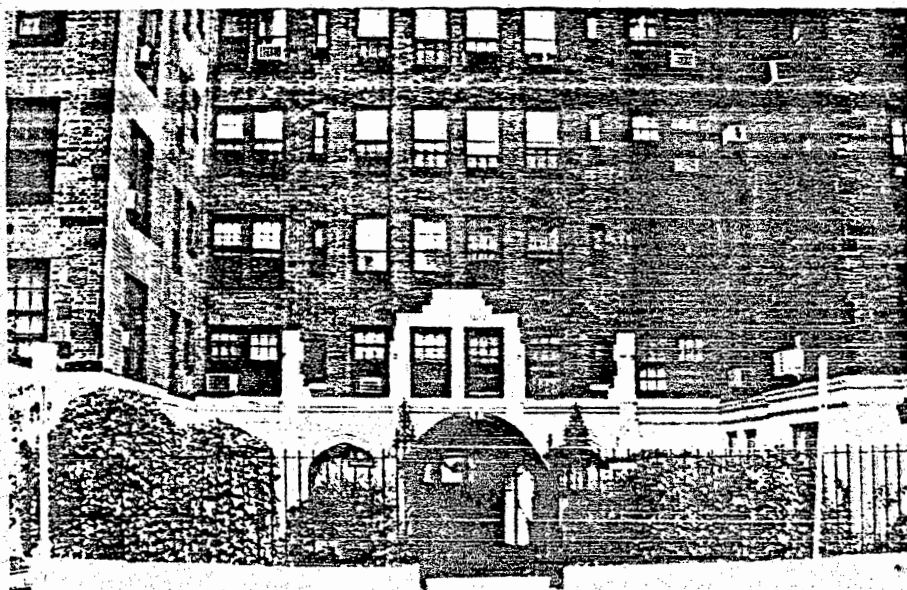
INTRODUCTION

Upgrading substandard multifamily units is a tough problem faced by many urban housing officials. Jersey City has about 19,000 rental units, a large proportion of which are in multifamily buildings. The City has developed an aggressive approach for the rehabilitation of this valuable stock of apartments.

The Program is called Rent Receivership and involves the court-ordered transfer of buildings with substantial code violations to City management until the violations are corrected. When a building goes into receivership, the City collects the rents and allocates them toward repairs and operations. The landlord, however, still has the responsibility for mortgage payments and real estate taxes.

The promise of this Program is partly measured by the six buildings that have been or are currently in receivership since the Program began in 1977. But a much more impressive indicator is the impact that the threat of receivership has had. The City notified 38 building owners that receivership proceedings were imminent. The possibility of losing their rent roll for a temporary period was sufficient to persuade these property holders that it was in their interest to correct code violations on their own. City officials estimate that about 4300 code violations have been corrected in the 44 buildings involved in the Program so far.

Code violations at 50 Glenwood Avenue were corrected and receivership was avoided.



And that is only part of the story. Without the repairs, these buildings would have probably joined scores of other abandoned structures in the City. Since most of these buildings are located in neighborhoods that are on the edge of decline, the Receivership Program may also have helped to turn buildings that were pulling areas down into important anchors of stability.

Rent receivership, as practiced in Jersey City, is not applicable to the most seriously deteriorated housing in a community. But it does show promise for a specific type of building. Likely candidates for receivership may have multiple code violations, but are still viable both economically and physically. Furthermore, the owner probably has considerable equity in the building and does not want to lose it to the City. Under receivership, the owner can repossess the property provided he agrees to a strict set of conditions for its maintenance. And he can avoid the City's temporary takeover provided he agrees to make the corrections on his own.

A successful receivership program involves a highly skilled staff, considerable coordination among city departments, and a commitment of funds from the city. While Jersey City has pioneered in using this approach, there is sufficient evidence already to indicate that rent receivership may be an effective technique for other cities to use for marginal, but potentially viable, multifamily buildings. This report describes the Jersey City Program and offers some preliminary observations for other cities that may be considering a similar strategy.

I. AN OVERVIEW OF RECEIVERSHIP

A. What Rent Receivership Is

Receivership is a legal technique by which a court appoints a person to collect rent from and manage a property which is the subject of a pending bankruptcy or foreclosure action. According to the Arnold Encyclopedia of Real Estate, "the appointment of a receiver normally is within the discretion of the court and is done when in the court's opinion it is necessary to preserve property which has been abandoned or where allegations of fraud or mismanagement by the owner have been made."

Jersey City has turned this concept into a tool for housing code enforcement. The Rent Receivership Program is based on a 1971 State law (N.J.S.A. 2A:42-85, et seq.). That law, passed to promote safe and sanitary housing for tenants of substandard dwellings, allows the court to appoint a public officer or "receiver" in cases where units violate State or local housing codes.

Thus Jersey City's Receivership Program was established under the police powers of a municipality and is similar in its authority to housing codes and zoning ordinances. This distinguishes the Jersey City Program from the more typical real estate receivership action. Rents collected under Jersey City's Receivership Program must go first to abate the nuisance at hand, and not to pay the mortgage or taxes. However, should the property owner fail to make mortgage or tax payments he would then be subject to foreclosure by the lender or the City. In the case of taxes, foreclosure is typically brought after a one-year failure to meet tax payments. If the building owner has paid taxes during the receivership period, foreclosure will not be an issue. In addition, if the owner does not wish to reclaim the building at the end of the receivership period, the City will convey the property into the tax foreclosure process as the mechanism for formally acquiring and disposing of the building.

Mortgage lenders in Jersey City have come to understand that loan payments are the responsibility of the owner, not the City, in receivership matters.

In some cases, banks have declared a moratorium on debt service while the building's problems are worked out and have restructured the loan afterwards. This helps both the owner and the lender. The owner has a chance to get his financing and management in order and the lender ultimately saves his investment. In some cases, however, the situation will not work out and the bank forecloses. At least one receivership property went into mortgage foreclosure at the end of the process. In general, however, receivership staff tries to work with the lender and the owner so a sound financial plan for the building can be put together.

B. Jersey City Program in Brief

Under the Receivership Program, buildings are referred by the Receivership Unit to the Chancery Division of Superior Court for a finding that the property is in violation of housing and health codes. In the case of such a finding, the owner is directed to correct violations as quickly as possible or risk having the property transferred to a Rent Administrator--the City Receivership Unit. If the latter happens, the Rent Administrator becomes, in effect, the building manager, collects all rents from the property, and allocates these to repair and management of the property. The receiver must correct code violations as quickly as possible and can, in addition, make other improvements that would make the property safe and habitable over its remaining economic life. While the property is in receivership, rents are allocated first to removing the violations, second to operations and management, and third to repayment of loans to the receivership "revolving fund" and other expenses of the receiver. The building owner continues to have responsibility for debt service and taxes. While the building is in receivership, it is overhauled both physically and managerially. Delinquent tenants are evicted, rents are raised if necessary (although the City is subject to municipal rent control ceilings, just like any other landlord), and the building is put on a solid maintenance regime.

Receivership is really an extension of code enforcement and relates both to other code programs in the City, such as the Housing Court and the Housing Clinic, and to rehabilitation activities more generally. The Program itself is partly funded with CDBG funds and property owners are eligible for other housing assistance programs operated by the City.

Under receivership the penalty is severe--the denial of the rent roll--and more than 80% of the owners threatened with receivership have found this sanction sufficiently stringent to cause them to make repairs on their own. The ability to bring about solutions through administrative remedies is by far the most important part of the receivership process. But these administrative remedies would probably not be possible in the first place without the ultimate threat of receivership.

II. ADMINISTRATION OF THE RENT RECEIVERSHIP PROGRAM

A. Funding

The Rent Receivership Program was launched with an \$81,800 grant from the Department of Community Affairs' (DCA) Housing Demonstration Program in 1977. The following year, DCA gave a second grant of \$110,431. Since then the Program has been funded through Community Development Block Grant (CDBG) funds. This year's budget is \$125,000. While receivership administrative expenses are part of the assignment of the rent roll, in Jersey City's experience the rent roll has barely covered repairs, so the Program is almost entirely dependent on public sources of funds, such as CDBG. In addition, last year the City allocated \$150,000 of its community development resources to establish an emergency repair revolving fund. This is to be used for extraordinary circumstances, such as emergency fuel deliveries, and disbursements from the fund are paid back once a building has been released from receivership, as part of the court settlement. Disbursements from the fund are through the Receivership Unit, not the building owner.

Conditions at 21 Clinton Avenue continue to improve now that the building is in receivership.





Rent receivership staff (left to right): Marge Curran, rent administrator; Dominick Forte, cost estimator; Cathy Kidney-Bremner, secretary.

B. Staff

The major portion of the budget--\$100,000 annually--is allocated to staff. The Jersey City Program has six staff members:

- Rent Administrator, who directs the Program and makes the final decisions about disposition of a building and repairs. The Rent Administrator is also the key staff member in working out administrative resolutions under the Program.
- Cost Estimator, who provides evaluations of potential costs of repairs for projects and negotiates with property owners about work done on their buildings. The estimator reviews bids, prepares contracts, and monitors construction work. He also certifies completed jobs and is the main staff member who deals with contractors and vendors.
- Tenant Counselor, who works directly with tenant groups and handles relationships with individual tenants in a receivership property. The tenant counselor prepares a tenant survey and brochures for renters about tenant rights and responsibilities once a property goes into receivership. The tenant counselor collects rents, initiates eviction proceedings, and advertises and fills vacancies. In some situations, the Receivership Unit will contract out to an independent management firm to work with tenants (see case study).
- Attorney, who handles court proceedings and any other legal matters arising out of receivership proceedings.

- Real Estate Liaison, who is the staff coordinator between all of the other housing-related agencies of the City and the Receivership Program. The real estate liaison also works closely with tenant associations and block groups to identify possible buildings for the Program.
- Legal Secretary.

This is a bare-bones staff for such a program and leaves certain tasks undone. The most important is monitoring of buildings once they have been turned back to the owner or sold by the City. Personnel associated with the Jersey City Program feel that a full-time housing inspector assigned to the Receivership Program would be extremely helpful. Such a staff member could help identify future properties for the Program and keep a watch on properties that had already been involved in the receivership process. Another useful addition to the Receivership staff would be a rehabilitation specialist, as distinct from the cost estimator. A rehabilitation specialist would work much more closely with construction crews in terms of design and execution of repairs.

C. Other City Agencies

The receivership process touches on many other City agencies and often their staff can help stretch the capabilities of receivership personnel. The most important agencies involved in the Program are the following:

- Housing Court and Clinic. The Housing Magistrate, upon a finding of fact that the particular defendant or building is not responding to the Court-imposed fines, will refer the building through the Clinic to the Receivership Unit for a check as to whether or not it is eligible for a receivership action.
- Planning Office. The Receivership Unit routinely contacts this department to see if a building is located in an urban renewal area or to determine if the building qualifies for Neighborhood Intervention Program money for rehabilitation.
- Department of Finance. This agency provides the Unit with the current tax and water status of a particular building.
- Redevelopment Agency. The Receivership Unit contacts this Agency to determine if the building in question is located in a blighted neighborhood or Neighborhood Preservation Program area (a source of possible funding for the building). This Agency also receives referrals for relocation of families in emergencies or if the building is not eligible for receivership. Finally, the Redevelopment Agency can provide financial assistance for property owners to make repairs.
- Housing Authority. This agency has an active tenant referral list to be used if a vacancy develops in a receivership building.
- Real Estate Division. This Division evaluates the potential of properties for resale in the private market at the end of the receivership process.
- Division of Buildings. The Superintendent of Buildings presides within

this Division and is the "Public Officer" pursuant to N.J.S.A. 2A; 42-85, et seq., and is therefore the named Complainant in all litigations. The Superintendent possesses the greatest expertise in construction and has a well-qualified staff to act as a backup to the Receivership Unit.

- Division of Property Conservation. This Division provides the Receivership Unit with all the housing inspections. It also brings the most complaints in the Housing Court.
- Human Resources. This agency is a referral source for tenants with welfare and social service needs.

III. THE RENT RECEIVERSHIP PROCESS

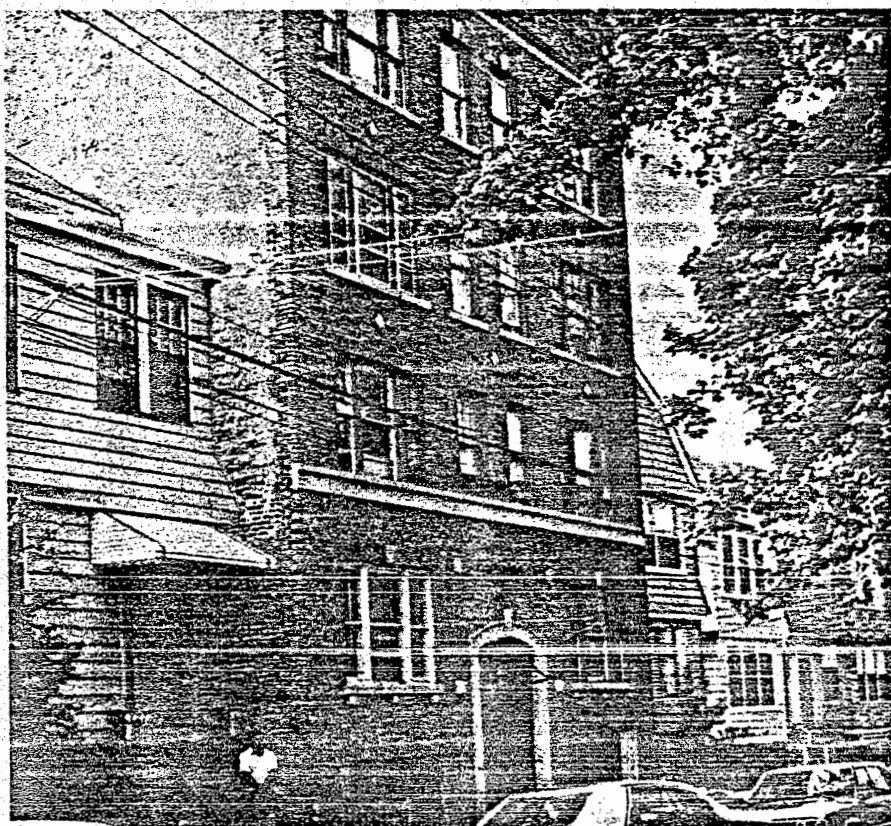
A. Referral, Selection, and Evaluation of Buildings

1. Referrals

Receivership is one tool in the City's kit of code enforcement and rehabilitation programs, and the majority of referrals under the Program come from City sources--especially the Division of Property Conservation (code enforcement).

Receivership can also be the end point of a process that begins with the City's Housing Clinic and Housing Court. The Housing Court can impose fines of up to \$500 per violation, although \$75-\$100 per violation is more typical. These fines can be waived if the building owner makes repairs expeditiously. If the owner fails to respond to the initial court order, he can be recalled and the fine can be imposed a second time. As a last resort, the judge can refer the property to the Receivership Unit.

110 Rutgers Avenue has enough positive characteristics to become viable again through improved management under receivership.



In addition to these sources, buildings can be referred to the Receivership Program by the following:

- Redevelopment Agency and other City housing and community development officials;
- tenant organizations or individual tenants;
- neighborhood groups and block associations;
- social service staff;
- Council members.

The Receivership Unit also, through its own windshield surveys and general knowledge of neighborhoods, will often be able to identify buildings that would be prime for receivership. Only certain buildings referred to the Program, however, are actually good candidates for the receivership strategy. Thus, choosing likely candidates for success is an important element of a successful receivership program.

2. Selection of Properties

Because the Program is funded primarily by CDBG moneys, Jersey City has limited the Program to Neighborhood Strategy Areas. Given the extensiveness of code violations in the City, hundreds of buildings could theoretically be eligible for receivership, but the staff exercises great discretion in the properties it will accept under the Program. In essence, the Receivership Unit acts as a real estate investor and keys its receivership activities to the better housing stock in the City. The staff makes a careful assessment of a building's finances and only takes on those cases that appear to have a reasonable chance of being turned around. Particularly important is the review by the cost estimator. He reviews the rent roll to see if it is adequate to cover both the needed repairs and the operations of the building while it is in receivership. If it is not adequate, the Receivership Unit usually will not consider the property.

The Jersey City Receivership Program is geared toward buildings that have started to decline but have not deteriorated too much. The building must be close to completely occupied and have a reasonably stable rent roll. It also must be of a sufficient size that the rent roll can pay for repairs, unless other sources of funds are brought into the process. This means that in the case of Jersey City, only fairly large buildings with a reasonably stable tenancy are considered. However, there is no reason why smaller buildings could not participate in a receivership program, so long as other sources of funds (e.g., Community Development Block Grants) were available to supplement the rent roll to cover repairs. Finally, the Jersey City Program has tended to concentrate on "the bad apples in a good neighborhood" rather than the reverse. A deteriorating building in a basically stable neighborhood can hasten the area's decline. Additionally, if a neighborhood is stable, it can be an important asset in the rejuvenation of a receivership property.

In Jersey City, the best candidates for receivership are considered to have at least some of the following characteristics:

- location in a marginal (or stable) neighborhood but not an area that is totally in decline;

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- considerable equity by the owner, so that he will have an economic interest in reinvesting in the building if forced to;
- a reasonably sound physical structure, despite the multiple code violations;
- the possibility for stable tenancy and a secure rent roll;
- strong tenant or neighborhood organization;
- a rent roll of sufficient size to sustain the cost of repairs;
- problems which, while considerable, have been identified early enough so that they can still be resolved.

These characteristics do not apply to the most difficult problematic housing stock in a community such as Jersey City. But receivership is not designed for these hardcore problem buildings and is probably not an appropriate strategy for dealing with them. Rather, it takes buildings that can make it with some public management help for a limited period of time until they can be put on a sound footing and contribute rather than detract from a neighborhood.

3. Initial Evaluation

In Jersey City, all receivership buildings must be in HUD Neighborhood Strategy Areas. If a building meets this initial test, the Receivership Unit will request a recent inspection report from the Code Enforcement Bureau, analyze the tenant make-up and review the rent roll, order a title and tax search, and initiate both a cost estimate of immediate repairs and a review of future rehabilitation and management needs of the building.

B. The Administrative Approach

A schematic view of a receivership process would take the form of a triangle. At the base would be all those properties that the staff felt would benefit from receivership treatment. The largest part of the triangle would be taken up by buildings whose problems are settled administratively, through a written abatement agreement in which the owner, not the city, assumes responsibility for correcting violations. At the point of the triangle would be those few properties which actually go into receivership.

The middle point of the process--the administrative remedy stage--is by far the most important. Since the Program began in 1977, of 44 buildings only six have actually gone into receivership. Eighty-five percent of the properties have thus been handled without resorting to more drastic receivership measures.

1. The Administrative Remedy

Once the Receivership Unit determines that the property could be repaired and put on a sound economic footing, the Rent Administrator sends an administrative letter to the owner, notifying him that the property contains numerous violations and that it will be considered for a receivership complaint unless the violations are abated. If the owner responds affirmatively to the letter, a meeting is arranged with the Receivership staff to go over outstanding code violations and complaints. At that time the owner is asked to prepare a detailed written abatement schedule and is put on notice that a City cost estimator will monitor both the schedule and the quality

of the improvements. The owner then signs an abatement agreement and proceeds with the work according to a timetable to which he and the Receivership staff have mutually agreed. If he completes the corrections satisfactorily, his file is closed. If he does not adhere to the terms of the agreement, or refuses to cooperate in the first place, the Administrator begins formal legal receivership action.

2. The Administrative Approach: A Case Study

A 20-unit building in a stable lower-middle-income neighborhood had many of the symptoms of the typical distressed property. The building was on the brink of tax foreclosure and its active tenant association brought complaints to the City about numerous code violations. At the time the building entered the Receivership Unit, it had 100 City code violations.

But there were also some positive features about the building. It had a stable and active tenant body, with a strong and supportive tenant association. There was only one vacancy and the average tenure was two years. Over two-thirds of the building's tenants were employed and the rest were on welfare. There was no serious overcrowding in apartments, even though this problem is symptomatic of many other such properties in Jersey City. The rent roll averaged \$140 to \$150 a month per unit, or about \$36,000 a year. Furthermore, the landlord, while not experienced in real estate, had purchased the structure for \$25,000 in cash in 1976. He thus had considerable equity in the building.

Getting the owner to repair the building was a complicated process. At one point, the property was on the brink of going into receivership. In spring 1978, the tenants' association contacted the City about numerous building code violations. When the Rent Administrator's staff investigated the situation, they discovered 374 State and City multiple-dwelling violations. They contacted the owner and met with him in late June, at which point the owner agreed to abate the violations immediately. By August, the Unit's construction analyst found that almost no work had been done and that what was completed was of extremely poor quality. The City warned the owner that receivership proceedings were imminent.

That action produced a marked change in the building owner's attitude, and when the City inspected the building in September it was clear that the owner had, in fact, made a substantial effort to correct the violations. But there was a problem. The work continued to be of unacceptable quality and the City made clear that new, competent contractors would have to be brought in on the job. The owner appeared in municipal court and agreed to abate the violations within 60 days, and the City staff again went to take a look at the building. They found that 96 of the 108 municipal violations had been corrected, and about 25% of the State violations had been addressed.

When the City inspected the building in February 1979, they found that the owner had expended considerable money on correcting the remaining violations, but he continued to get unacceptable results from his contractors. Once again the City seriously began to consider receivership. The City held off, however, because they felt that the owner was making a good faith effort to deal with the violations. But over the next two months, as the Rent Administrator's staff closely monitored the building, they found very little progress and continued shoddy work. When the State reinspected the property in June 1979, staff found 147 violations still unabated. City staff found that work on repairs had virtually ceased and that many of the original violations had occurred again because of the poor quality of the work. By this time, more than a year after they first began dealing with the owner, the City had lost all patience and began formal receivership proceedings.

The seriousness of the City's intentions finally shocked the owner into action. He agreed to hire new contractors and to adhere to a new abatement schedule. By January 1980, all but a handful of complaints had been corrected to the satisfaction of the City. The Rent Administrator's construction expert and the tenant association both monitored the owner's repairs.

While it took 1½ years for the property to be turned around, the story has a happy ending. The building's violations are corrected, and the owner did not lose his property or his rent roll. Both the tenants and the neighborhood once again have a building that is an asset not a liability.

This case is typical in several respects of the types of situations that are settled before receivership is necessary. For one thing, the landlord was not a professional real estate entrepreneur. The building was a one-time real estate investment for him and he had invested a lot of cash in the property. But his lack of experience was a large part of his problem. During much of the City's dealings with him, the owner in fact tried to correct the violations, but he lacked the experience to get proper quality from his contractors. The Receivership staff played an important role not only in forcing him to make adequate repairs but also in monitoring and offering technical advice to him on correcting the violations. Such free assistance would not have been available otherwise. Furthermore, a very active tenant association worked closely with the City to make sure that repairs were made. Ultimately, it was the owner's substantial equity in the building that probably saved the property. He realized how close he came to losing a \$25,000 investment and took the necessary steps to safeguard it. It is precisely cases such as this in which intervention by the Rent Administrator can save a building for the owner, the tenants, and the community.

C. Receivership

While most of the cases dealt with by the Rent Administrator end as this one did, much more drastic steps are required for certain buildings. In cases where the owner simply will not make repairs or refuses to comply with the Rent Administrator's directives in the first place, the last resort is receivership, a process which usually takes 6 to 12 months.

1. Receivership Procedures

To start the receivership process, the Rent Administrator enters a formal civil complaint in the Chancery Division of Superior Court. The Court hears testimony from all interested parties and either dismisses the case, grants the defendant additional time to complete the repairs, or appoints a receiver. If this third option is chosen, the Court also requests a bond from the receiver which is paid out of the rent roll.

Once the property goes into receivership, the Rent Administrator becomes the building manager. The receiver notifies every tenant in the building of the action and makes clear that timely rent payments are expected in exchange for the receiver's promise to correct the violations. If necessary, the City can raise rents, although like other landlords, they must adhere to the City's rent control statute. The Jersey City Rent Receivership Unit has a tenant counselor who works closely with building residents and enlists their support not only in maintenance of the property but also in becoming involved in the upgrading of the property. The tenant counselor can hire a new superintendent and train tenants to manage the building through a tenants' association.

The Receivership cost estimator receives estimates for repairs and monitors the actual work. All repairs under \$2,500 can be let without competitive bid. The Receivership Unit has established separate bank accounts for each building, and contractors are paid directly through these accounts without having to go through normal and lengthy City payment processes. Because they know they will be paid promptly and in full, contractors have been extremely cooperative and responsive, particularly in emergency situations.

Under the receivership action, the rents from the building are collected by the receiver and placed in an escrow account. The rent roll is used to defray the following costs, in order of priority: (1) abatement of code violations; (2) operation and management of the building; (3) expenses of the receiver; (4) expenditure of funds for emergency repairs, prior to receivership; (5) taxes and assessments; and (6) mortgages and other liens. Any receivership action requires considerable cooperation from lenders whose interest is in collecting mortgage payments throughout the duration of the loan. Receivership puts the lender on notice that while the owner is theoretically responsible for making mortgage payments out of his own pocket, the rent roll will first be allocated to abating code violations and last to making mortgage payments. Lenders have cooperated with the Receivership Unit in helping to "work out" the building's economics or restructure debt. In fact, one of the "advantages" of receivership, from the owner's point of view, is that it can result in a temporary moratorium on debt service, if the lender is willing to go that far to save its investment.

Once rehabilitation of the property is complete, the owner can apply through Superior Court to redeem the building. The City requests that the owner posts a two-year performance bond with the Court to ensure that any new violations will be corrected. If the owner does not apply to reclaim his building, the City requests through Chancery Court that the property's title be transferred to the City's Real Estate Division for resale at the highest marketable price.

Of the six buildings for which receivership has actually been instituted, two have been remarketed by the City, two have been returned to their owners after work was satisfactorily completed, one went into mortgage foreclosure, and the other is still in the receivership pipeline. The process of turnaround typically takes a year. The outcome, based on this very limited sample, tends to be a building with its physical and management structure sufficiently revamped so that the building has a reasonable (although by no means insured) chance of economic success.

2. Receivership: A Case Study

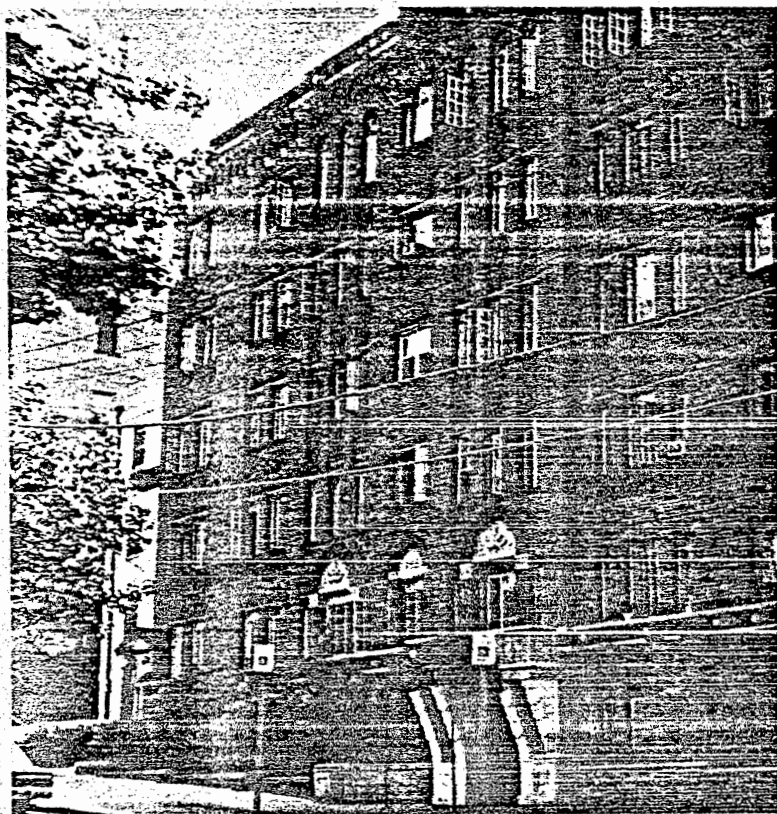
131 Kensington is a 33-unit building in a stable neighborhood. Its tenants include judges, teachers, and other professionals. The building itself is attractive, with distinguished metal and masonry trim on its facade. Typical rents in 131 Kensington run \$500 a month and when the building is fully occupied its rent roll is \$11,000 a month. When receivership papers were filed in late 1978, the property had considerable violations, particularly on its exterior. It needed pointing and roof repair. The exterior walls, the sidewalk retaining wall, and lintels were all in violation of local codes. The interior of the building was not much better, with painting and scraping problems and numerous plumbing defects. Five hundred dollars a month is a high rent for Jersey City and tenants, despairing that the building would ever be repaired, were beginning to look for housing elsewhere. From the City's point of view, 131 Kensington was a prestigious property and an anchor for the entire neighborhood. This was a building that the City did not want to lose.

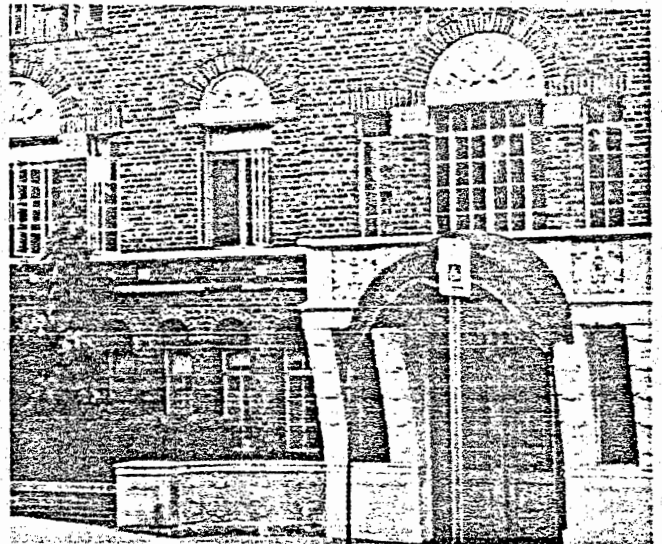
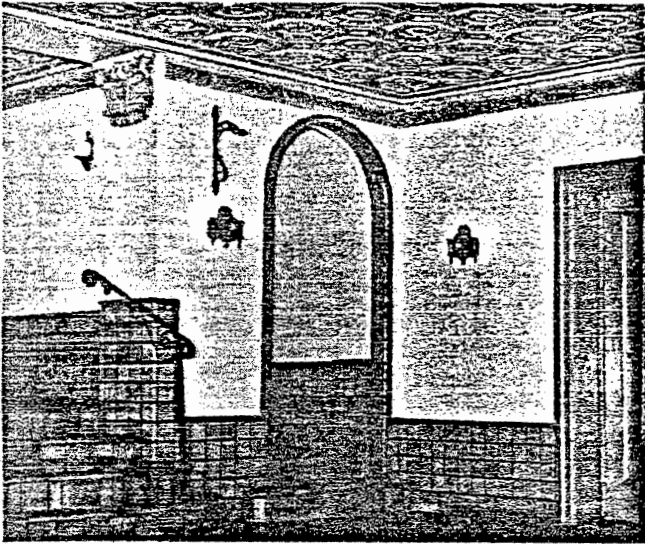
The financial situation of the building owner had basically brought 131 Kensington to the state of disrepair it was in when receivership proceedings were first brought. The property had been bought in 1964 and there was a \$300,000 mortgage on it. At the time the building was purchased, the owner was a major real estate investor in the City. But he had since moved on to other things and was now heavily committed in real estate elsewhere in the State. In fact, the problem was that he was over-committed financially in other investments and was unable to defray the costs of repair at 131 Kensington. Yet the owner had considerable equity in the building and did not want to totally lose it. His solution was to cut down on costs by cutting down on maintenance. However, his mortgage and tax payments were timely.

For this owner, receivership appeared to be a blessing in disguise. He himself could not afford to make the required repairs. While the mortgage holder was at first leery of giving a moratorium on debt service, the bank ultimately gave the owner a break. And the Receivership Unit was able to make substantial repairs out of the rent roll that would make the building an attractive property once again. During the six months the building was in receivership, about \$53,000 was spent out of the rent roll to repair violations and undertake substantial rehabilitation of the property. Among other things, the Receivership Unit installed a new roof, upgraded plumbing and wiring, and repaired lintels throughout the building. The property was managed by an outside firm at a fee of 5% of the rent roll. Outside management is not typical, however, and was brought in to 131 Kensington because of the size of the rent roll.

At the end of the receivership period, the City turned the property over to the landlord, subject to a strict agreement that he would abate the rest of the violations. The remaining problems were primarily cosmetic but they were of great concern to the tenants, who wanted a well-maintained building. The owners were given

Use of the rent roll and a short moratorium on the debt service allowed for substantial rehabilitation at 131 Kensington Avenue.





The coffered ceiling and masonry details at 131 Kensington Avenue are only two of its many attractive features.

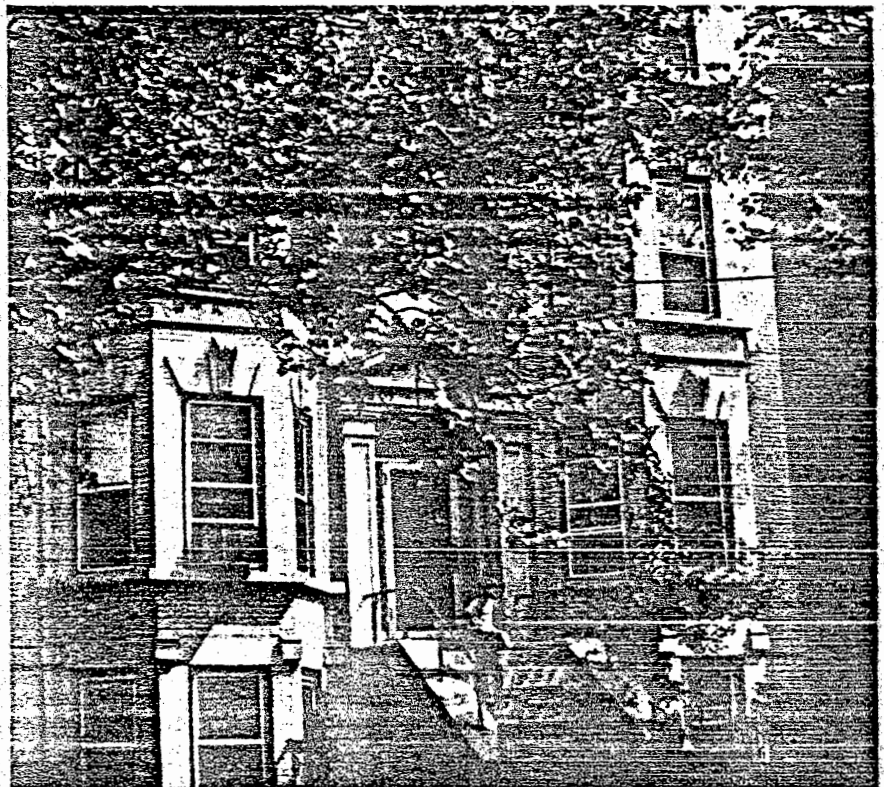
six months to correct a series of violations identified by the Receivership Unit. At the end of the six-month period, very little of the required work had been carried out. The City referred the owners to the Jersey City Redevelopment Agency for a multifamily demonstration program grant to cover 50% of the cost of rehabilitation work for the building, and the Redevelopment Agency awarded a \$10,177 grant for capital improvements. The Rent Administrator's office continued to monitor the building and found that the owner still was not making many of the repairs requested by the City and the Court. In November 1979, the Rent Administrator went back to Chancery Court with a request to put the building into receivership once more. This time the Court denied the receivership request because they felt the owner was making an effort to repair the property but the Court did require the owner to post a \$15,000 performance bond to ensure compliance with the earlier abatement agreement issued by the Court.

Today the future of 131 Kensington is still not clear. The owner has taken the property back and has made improvements. The City feels it should have kept 131 Kensington in receivership until all the necessary improvements had been made. This would have eliminated the protracted court process. Nevertheless, the building appears to have stabilized, and while management is not all the City might want, it is certainly more conscientious than before receivership activity. One of the most positive developments in the episode is the emergence of a strong tenants' group in the building. When the City first became involved with 131 Kensington, tenants were concerned about the building but unorganized. Over the course of the receivership period, that changed and today the building has an extremely active tenant association which puts constant pressure on the owner and the City to make repairs in the building. This group's activities, coupled with the owner's own considerable investment in the property, may ultimately save 131 Kensington.

IV. LESSONS FROM JERSEY CITY

Rent receivership may be a useful tool for turning around marginal buildings in many communities. Here are some of the lessons gained from the rent receivership experience in Jersey City:

- A. The choice of buildings is critical. Rent receivership works best for a rather specific sort of building--a property with problems but also potential--the sort of property in which a shrewd and creative real estate investor might be interested. Rent receivership is not for hardcore problem buildings and a successful program must resist the impulses of other city agencies to dump their most difficult cases into the receivership "in-basket." Similarly, timing is critical in accepting properties for receivership. As an intervention strategy, receivership must occur at a stage when the building can still be turned around, not when it has reached the point of near abandonment and advanced structural and economic decline. In short, a successful receivership program must treat properties as potential real estate investments.



The threat of receivership has persuaded 38 of 44 building owners to make needed repairs, as at 162-64 Fairview Avenue.

- B. Tenants play an important role in receivership. In many receivership cases the tenants present both the problem and the solution. When a building starts on the path to decline, tenants typically lose interest in the property. That is when the cycle of late rent payments, desultory maintenance, and even destruction of the building begins. Since repairs under receivership depend on rent payments, timely meeting of financial obligations by tenants is a minimum requirement for the Program's success. But there is much more involved. Tenants have to feel they have a stake in the building and its future, and that much of the maintenance responsibility is theirs. Both the superintendent and the Program's tenant organizer have to be rigorous in weeding out those tenants who are not willing to assume responsibility, and must lay down the law about rent payments and maintenance to those who stay. In Jersey City, tenants and their neighbors in other buildings have been highly receptive to the Program. Most of the tenants have cooperated with Receivership staff and have themselves become an indispensable part of the building's renovation and operation. The Receivership Unit makes sure that there is a superintendent in residence in every building. In most cases, the superintendent has been selected from among existing tenants.
- C. Eliminate red tape, particularly for vendors. Another group of indispensable actors in a receivership program are the contractors and vendors involved in repairs and services to the building. These people are not involved in the program to do a good deed. They view participation as a business relationship and expect to get paid on time and in full. Many businesspeople will have worked with government agencies already and will be quite leery of the endless red tape and late payments that characterize many dealings with city agencies. The willing participation of vendors and contractors is important not only for the expected repairs to a building but also for unforeseen occurrences, such as emergency fuel deliveries and middle-of-the-night burst pipes that often occur in receivership buildings. One reason the Jersey City Program has been successful is that it has bypassed the typical city voucher and competitive bidding system whenever possible. Each building has a separate bank account and contractors and vendors can be paid immediately. If there is a delay in payment, their relationship with the Program is such that they know the City will make good on its full financial obligation. For all contracts under \$2,500, Rent Receivership can forego competitive bidding, which also expedites many repairs in these buildings. The experience with contractors and vendors under the Program has been excellent largely because receivership has been treated as a business and not as a government program, and the rules that apply in the business world have largely been followed.
- D. Put together a staff with strong housing and construction skills. The importance of staff with housing, real estate, and tenant relations skills has been underscored throughout this report. It is a cadre of people with these skills--staff who can relate to housing both as a business investment and as a public purpose--that sets apart the successful receivership program from the lackluster one. An especially important set of skills is those in the construction area. Typically the cost estimator will handle most of the evaluation and monitoring of repairs and rehabilitation. His tough and objective approach to costs can help persuade a doubtful building owner that repairs can indeed be covered by the rent roll. His analysis of the needed repairs is crucial in helping the Receivership Unit decide whether to take on a building in the

first place. And his experience with construction can help persuade contractors that the City is serious in its intent to make high-quality repairs as cost effectively as possible.

Staff who understand other city housing programs are also important. In Jersey City, the Redevelopment Agency has loan and grant programs for multifamily owners. These can be used to complete the rehabilitation work that is often started under the receivership process. Often property owners who are not used to dealing with public agencies do not know about these funds. A knowledgeable staff can make the match between public programs and private owners that will continue the rejuvenation of a building.

Jersey City's experience with receivership has been a positive one. Each community faces special housing issues but receivership is a flexible tool that can be modified to fit many circumstances. While such a program does require a fairly large commitment on the part of the City, the payback is even greater--sound buildings returned to the tax rolls, an increase in good housing, and perhaps most important and most tangible, a spur to neighborhood revitalization.