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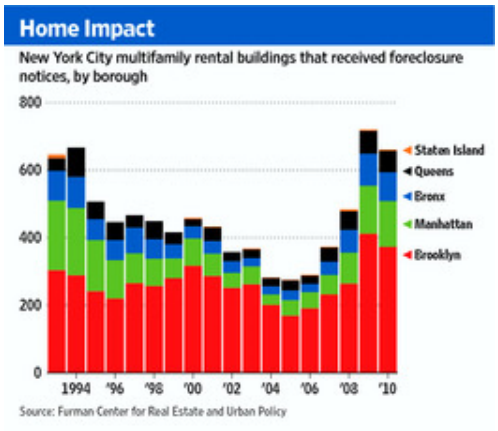
More Landlords Not Paying Up

By JOSEPH DE AVILA

The number of foreclosure notices for apartment buildings in New York City soared during the past two years, reaching levels last seen in the early 1990s, according to a new report.

If buildings go all the way through foreclosure, tenants could be evicted. Well before then, buildings with financial problems are often slow to perform maintenance. Apartment buildings that received foreclosure notices in the past 10 years had 15% more housing-code violations than other buildings, according to the report by the Furman Center for Real Estate and Urban Policy at New York University.



There were 720 foreclosure notices filed in the city during 2009 for privately owned buildings with five or more units, the report found. In 2010, it was 661. The last peak in apartment-building foreclosure filings was in 1994, when 666 were logged.

"We are concerned about the spike in code violations," said Ingrid Gould Ellen, faculty co-director of the Furman Center. There are about 55,000 multifamily rental buildings in the city. They account for about 40% of the city's housing stock.

The city Department of Housing Preservation and Development launched a program earlier this year to take a hard look at apartment buildings with multiple maintenance violations. So far, 215 buildings have been reviewed, and 22 of those properties have been referred to the department's enforcement bureau, said Eric Bederman, a spokesman with the city's department of Housing Preservation and Development. He said the findings of the Furman Center report "validate and quantify what we have been doing for the past two and a half years."

The recent rise in foreclosures and the surge in the early 1990s each followed economic contractions and big drops in building values.

Large apartment complexes in financial trouble get the headlines, but smaller buildings make up the bulk of the buildings that received foreclosure notices. About 80% of the foreclosure notices filed between 2006 and 2010 were for properties with fewer than 20 units.

Smaller apartment buildings got more foreclosure notices because the owners were less sophisticated and had less knowledge about their options to negotiate better mortgage deals, Ms. Ellen said. Small properties can also feel a heavy impact from a single tenant who doesn't pay rent.

Larger buildings followed a different pattern. During the real-estate boom, investors and real-estate firms gobbled up apartment buildings, hoping to attract upscale tenants and raise rents. Instead, rent increases slowed

during the downturn, and many apartment owners began defaulting on loans.

The number of foreclosure could go higher. Many lenders have avoided foreclosing on big properties in order to mask weak financial assets on their balance sheets, said Harold Shultz, senior fellow with the Citizen Housing & Planning Council, a housing research group.

Instead, lenders often opt to modify loans for the troubled properties, hoping things improve. Critics call this strategy "extend and pretend." As the financial strength of banks improves, many will begin selling mortgages or starting foreclosure proceedings on struggling properties, Mr. Shultz said.

That's not the only factor that could drive up foreclosures. Many property owners now owe more to lenders than their properties are worth. Some carry balloon loans that must be refinanced every several years. Property owners whose buildings are worth less than their mortgages will have a tough time doing that.

"We are kind of just at the start of the worst of the problem," Mr. Shultz said.

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