THE PUBLIC ADVOCATE FOR THE CITY OF NEW YORK
Letitia James

Investigative Report:

The Multimillion-Dollar Boondoggle - A Failure of HPD's Neighborhood Homes Program

New York City Public Advocate
Letitia James

February 2016

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In accordance with the responsibilities and authority of the Public Advocate contained in Section 24 of the New York City Charter, my office conducted an investigation into a cluster of buildings in the "Neighborhood Homes Program" administered by the City's Department of Housing Preservation and Development (HPD). The goal of the program was to allow community-based nonprofit groups to purchase and rehabilitate City-owned one-to-four family homes, and to sell those properties to income-eligible purchasers. In 2002, HPD transferred a cluster of 26 homes in Crown Heights, Brooklyn to the nonprofit Moore Better Homes Housing Development Fund, Inc. (Moore Better Homes). By 2007, the nonprofit was only able to sell five of the 26 properties and, facing an apparent financial crisis, transferred the remaining properties to a for-profit entity called Heights Houses, Corp. (Heights Houses).

My investigation found that HPD failed in its oversight of the Moore Better Homes cluster of the Neighborhood Homes Program over a period of 13 years and neglected to exercise adequate supervision and review of the rehabilitation and sale of 17 of the 26 homes in question. These 17 homes, which include more than 40 residential units, have remained vacant, abandoned or in an advanced state of disrepair since 2002. As a result, the City has been deprived of affordable housing units and City resources have been wasted. Furthermore, the principal of Heights Houses, George Armstrong, pleaded guilty in October 2011 to three federal charges connected to an unrelated HPD bribery scheme. HPD, though it has the legal authority to retake control of the properties involved in the Neighborhood Homes Program, has failed to do so and Armstrong's company is still in possession of the homes.

My investigation also revealed that eight prospective purchasers who placed deposits on homes transferred to Moore Better Homes have been unable to take possession of the properties, and at least three of those prospective purchasers made deposits more than a decade ago. In failing to administer and oversee the transfer of properties, HPD has allowed the City's affordable housing stock to deteriorate, created an unnecessary burden on neighbors and property owners near the abandoned homes, and left prospective purchasers in bureaucratic limbo for more than a decade.

My investigation, which was launched in response to complaints made by constituents directly affected by these events, aims to ensure that HPD is monitoring and executing its affordable housing commitments and advancing its mission to "improve and strengthen neighborhoods while preserving the stability and affordability of our existing housing stock."

Sincerely,

Letitia James

Letitia James
Public Advocate for the City of New York

EXECUTIVE SUMMARY

This report details the results of an investigation by the Office of the Public Advocate into the status of 26 residential properties in Crown Heights, Brooklyn. These properties were transferred in June 2002 by New York City's Department of Housing Preservation and Development (HPD) through a program known as the Neighborhood Homes Program to a nonprofit affordable housing developer called Moore Better Homes Housing Development Fund, Inc. (Moore Better Homes). The properties were to be rehabilitated within 18 months of the transfer and sold to income-qualified purchasers, but today – more than 13 years later – 17 of the properties remain vacant, some in a derelict state.

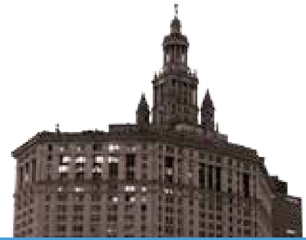
The Office of the Public Advocate initiated its investigation after receiving complaints from several constituents who made down payments on properties and executed a contract of sale with Moore Better Homes more than a decade ago, and who are still unable to take possession. The failure to complete the rehabilitation and transfer of the 17 vacant properties is the result of the inaction of the developers who have had control of these properties since they were transferred by the City.

The properties were acquired by the City through property tax foreclosures and then transferred to Moore Better Homes as part of the Neighborhood Homes Program for one dollar each. The program was designed to allow community-based nonprofit groups to purchase and rehabilitate City-owned one-to-four family homes or condominium units. Upon completion of their renovation, the properties were to be sold to income-eligible purchasers with incomes up to 165 percent of the Area Median Income.

Moore Better Homes obtained two loans from Local Initiatives Support Corporation (LISC) secured by mortgages on the 26 properties, the first in the amount of $3.3 million (LISC loan) and the second in the amount of $3,143,088 (HPD loan) for a total of $6,443,088. Proceeds from the sale of the properties were intended to repay the LISC loan. The HPD loan was to be passed on to eligible purchasers and would be forgiven upon satisfaction of program requirements. Five years after the initial transfer in 2002, however, Moore Better Homes had only executed the rehabilitation and sale of five homes. By October of 2007, the nonprofit developer represented that it was unable to provide the funds necessary to complete the rehabilitation of the remaining properties.

In the face of a financial crisis, Moore Better Homes transferred the deeds of the remaining 21 homes to a for-profit corporation called Heights Houses Corp. (Heights Houses) on December 19, 2007, in exchange for assuming the approximately $4.7 million debt that Moore Better Homes owed to HPD and LISC. A project completion date was set by HPD for December 1, 2009, according to court records.

Constituents have reported that the developer, Heights Houses, appeared unwilling or unable to complete the project. After making additional payments to Heights Houses on top of the down payments already made to Moore Better Homes, constituents described a series of emails, phone calls and meetings with representatives from HPD and Heights Houses in which neither party provided any assistance or accountability. Constituents described being told on multiple occasions that their closing date was "weeks away" and to prepare their mortgage documents, only to have those dates pass without resolution. Perhaps most troubling, the principal of Heights Houses, George Armstrong, pleaded guilty in 2011 to charges of racketeering, wire fraud, and money laundering in connection to an unrelated HPD bribery scheme. In spite of this information, HPD continues to work with Mr. Armstrong, and his company is still in possession of the properties.



The properties at the center of this investigation were originally to be developed "within 18 months" of transfer. It is now 13 years after the City originally transferred control to Moore Better Homes and more than seven years since the properties were transferred to Heights Houses. Only nine of the 26 homes have been sold, and the remaining 17 properties are still officially unoccupied, though constituents have reported the presence of squatters in some. Five of the properties are in an advanced state of disrepair. The neglected properties have become health and safety hazards. Collectively they have been cited for dozens of Department of Buildings (DOB) violations and several properties have been cited as "Unsafe Buildings" – DOB's most severe infraction. And, the properties have started amassing tax debt yet again.

There are eleven prospective purchasers who signed contracts of sale for these properties, including at least three constituents known to the Public Advocate's Office who made deposits more than a decade ago and are still unable to take possession of their properties. There are an additional six properties that were given to developers for rehabilitation and sale to middle income homebuyers, for whom it appears buyers have not been identified.

As New York City endeavors to create and preserve more than 200,000 units of affordable housing, it is imperative that HPD resolve lingering issues related to the 17 remaining properties involved in the Moore Better Homes transaction and ensure that the people who paid deposits for these houses are allowed to take possession.

As part of its investigation, the Office of the Public Advocate recommends the following:

- HPD must expedite the rehabilitation, sale, and transfer of project properties to prospective purchasers with contracts in place, at no additional cost to the buyers.
- HPD must perform a thorough audit of the financial transactions of the developers associated with this cluster of Neighborhood Homes Program properties.
- HPD must create objective standards for selecting entities to which it seeks to transfer properties and records of the process and determinations must be retained for future review and audit.
- When the City Council passes resolutions relying upon representations that City property will be transferred to an approved nonprofit organization, there should be restrictions on transferring any such property to a for-profit entity without the Council's subsequent approval.
- A third-party non-HPD entity must review and monitor Neighborhood Homes and all similar programs when City-owned property is conveyed to a non-City entity and benchmarks for rehabilitation are not met.

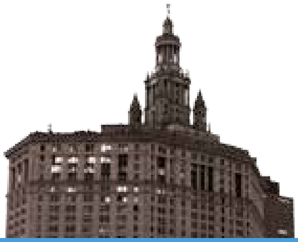
INTRODUCTION

During the 1970s and 1980s, New York City acquired thousands of residential buildings and units through tax foreclosure proceedings. According to New York University's Furman Center, in 1979 the City owned more than 60,000 units in vacant buildings and 40,000 units in occupied or semi-occupied buildings.[1] In order to make productive use of these units, the City established a series of programs to transfer ownership of these "in rem" properties to tenants, nonprofits, and developers.

In an effort to accelerate the return of City-owned properties to private ownership, the administration of Mayor Rudolph Giuliani developed a "new comprehensive anti-abandonment strategy" in 1996. According to the Mayor's Management Report that year, this strategy was intended to "maximize real estate tax revenues, as well as preserve affordable housing."[2] As part of this anti-abandonment strategy, HPD created new asset disposal programs including Neighborhood Homes, Neighborhood Entrepreneurs, Neighborhood Redevelopment, and others.

Neighborhood Homes was introduced in 1998 and was designed to create home ownership opportunities for purchasers with incomes up to 165 percent of Area Median Income (AMI). Under the program, community-based nonprofit organizations (referred to as "sponsors") were selected to "rehabilitate small city-owned residential buildings for resale as one-to-four family homes or condominium units…through private financing and HPD subsidies."[3] The sponsors were then required to market and sell the properties to purchasers who met the AMI threshold.

As set out in this report, the results of the program as it related to Moore Better Homes were far from its stated objectives. Very serious questions remain about oversight and administration of the houses conveyed under the program to Moore Better Homes and several prospective buyers who invested money in order to buy homes under the program are still waiting, more than a decade later, to complete their purchases.



INVESTIGATION OF MOORE BETTER HOMES PROGRAM MANAGEMENT 1999 - 2005

Moore Better Homes: Early Success

In 1999, HPD conducted a Request for Qualifications and selected Brooklyn Ecumenical Cooperatives (now known as BEC New Communities Housing Development Fund (BEC)) to participate in the Neighborhood Homes Program.[4] In October 2000, Moore Better Homes Housing Development Fund Company, Inc. was incorporated as a nonprofit affiliate of BEC.

The company, according to its Certificate of Incorporation, was organized specifically to participate in the Neighborhood Homes Program and was intended to provide "housing projects for needy persons of low-income in Brooklyn, NY." The directors of the company, per its incorporation papers, were Noel McDonald, Mary Lee Bedford, John Eversly, and Rev. Paul Watson.[5]

In 2001, the New York City Council adopted Resolution Number 1726[6] to create an Urban Development Action Area Project "UDAAP"[7] at more than three dozen Brooklyn addresses.[8] The City sold 10 of the buildings in the disposition area to Moore Better Homes for the nominal price of one dollar per building, with the Mayor's Office of Contracts authorizing and approving the sale of the properties on April 16, 2001, after HPD designated the company as a qualified and eligible sponsor.[9]

On October 25, 2001, Moore Better Homes mortgaged the 10 properties for a sum of $2,280,049[10] and obtained a second mortgage of $1,240,000,[11] from LISC to finance the rehabilitation of the homes.

Moore Better Homes executed its responsibilities successfully and sold all 10 of the properties to private owners between 2002 and 2006.

Properties Successfully Rehabilitated and Conveyed by Moore Better Homes

Address	Price	Property Size	Date of Contract	Date of Sale
237 Ashland Place	$595,882	Two Family	5/12/2003	12/23/2003[12]
239 Ashland Place	$595,882	Three Family	5/1/2003	12/30/2003[13]
305 Gates Avenue	$325,000	Three Family	3/29/2002	4/12/2005[14]
386 Gates Avenue	$460,882	Two Family	4/15/2002	9/20/2002[15]
412 Greene Avenue	$340,000	Three Family	6/4/2002	3/17/2006[16]
432 St. Mark's Avenue	$350,810	One Family	11/22/2002	6/26/2007[17]
625 Grand Avenue	$344,412	Two Family	2/7/2002	2/7/2003[18]
636 Franklin Avenue	$618,823	Four Family	7/2/2002	9/10/2003[19]
640 & 642 Franklin Avenue	$322,941	One Family garage[20] +	8/21/2005	5/2/2006[21]

In June 2002, HPD transferred the additional 26 properties designated in City Council Resolution 1726 to Moore Better Homes.[22] The company obtained two loans from LISC, secured by mortgages on the 26 properties, the first in the amount of $3.3 million[23] and the second in the amount of $3,143,088[24] for a total of $6,443,088.00 (the second of which was transferred to HPD in 2005).[25]

The mortgage documents enumerated numerous circumstances that could give rise to the City revesting, or retaking possession of the properties, including the sponsor's default by failure to commence construction, failure to perform construction, abandonment, or substantial suspension of construction.

The project summary in the mortgage called for the "moderate rehabilitation" of the 26 homes, consisting of approximately 61 dwelling units, and a proposed time schedule of 18 months from closing to the completion of construction.[26] Moore Better Homes successfully rehabilitated and completed the sale of five of the 26 properties between 2002 and 2005.

Properties Successfully Rehabilitated and Conveyed by Moore Better Homes

Address	Price	Property Size	Date of Contract	Date of Sale
723 Bergen Street	$552,085	Two Family	10/24/2003	4/27/2004[27]
1574 Bergen Street	$391,390	Two Family	8/27/2003	8/20/2004[28]
928 Pacific Street	$441,390	Two Family	12/17/2003	5/18/2004[29]
1995 Pacific Street	$168,400	Two Family	1/14/2004	11/10/2005[30]
1346 St. Mark's Avenue	$331,390	Two Family	12/8/2003	3/14/2005[31]

Problems Arise

By 2005, Moore Better Homes' financial position had become tenuous. In June, the developer delivered a Notice of Intent to Default to Penta, the construction contractor that was doing much of the work on the properties. When a resolution could not be reached, according to court records the construction contract was terminated in July 2005. Penta filed a lien against the properties on January 18, 2006 for $507,479.25.[32] At that time, Moore Better Homes had only facilitated the sale of five of the 26 homes that it obtained from HPD and had failed to meet many of the obligations owed to LISC and HPD associated with the loans. Additionally, the nonprofit, although incorporated in 2000,[33] did not file yearly reports with the New York State Attorney General's Charities Bureau and only registered with the bureau in 2007.[34]

According to a letter from LISC to Moore Better Homes on June 9, 2006, the nonprofit was out of compliance with its contractual obligations by failing to provide financial statements, budgets, monthly progress reports, and quarterly marketing reports, and had failed to pay taxes and water and sewer charges. Moore Better Homes failed to cure the defaults within 30 days after receiving the demand letter. On July 26, 2006, LISC sent a note for payment of $2,845,895.90.[35] Two days later, HPD sent a letter to Moore Better Homes demanding $2,529,826.27.

Meanwhile, as Moore Better Homes' financial outlook deteriorated, both LISC and HPD made protective advance payments to an insurance company and a property management company to protect and preserve the properties. Moore Better Homes' statement of financial position as of October 1, 2007 indicated that the nonprofit had no money in its checking account.[36] It is unclear to the Office of Public Advocate what happened to the proceeds of two loans in the amount of $6,443,088 that Moore Better Homes obtained in 2002 from LISC or the proceeds of the five homes it sold as part of the June 2002 transfer. The company had fixed assets (the 21 unsold homes) which were valued at $7,629,000, based on the projected sales prices related to the Neighborhood Homes Program price restrictions. The estimated value of the properties on the open market was $12,671,000.[37]

The New Owners: Heights Houses Corp.

Given their untenable financial position, Moore Better Homes' Board agreed to transfer development responsibilities and ownership of the properties to Heights Houses on September 6, 2007.[38] Heights Houses is a for-profit company incorporated in July 2007 and controlled by Metropolis Development.[39] It is not clear if HPD had a role in selecting Heights Houses as the successor to Moore Better Homes. In recent email correspondence between the Office of the Public Advocate and HPD, HPD stated that the Neighborhood Homes Program, which was originally designed for community-based nonprofits, had been expanded at the time to allow for-profit housing sponsors like Heights Houses to participate in the program.[40] The principal of Heights Houses, George Armstrong, had previously served as the president and chief executive officer of the Housing Partnership Development Corporation, a nonprofit that develops affordable housing.[41]

Moore Better Homes, according to a Petition submitted to the Kings County Supreme Court as part of this transaction, agreed to sell the remaining 21 properties for "$4,642,097, plus accrued, unpaid interest, in the form of the transfer of the obligations to repay currently outstanding amounts under the LISC loan and the HPD loan. Additional consideration includes the obligations to successfully complete the rehabilitation work and to sell the properties to eligible low and moderate-income purchasers." The remaining development costs for completing the project were estimated by LISC and the City to be $5.5 million and Moore Better Homes noted it had current contracts in place for 16 of the properties. The Petition also notes that the prices for the homes would increase after the transfer to Heights Houses.[42]

Moore Better Properties with Contracts as of October 22, 2007

Property	Projected Price	Previous Contract Price
1344 Saint Mark's Avenue	$310,000	$285,000
942 Pacific Street	$400,000	$360,000
519 Park Place	$500,000	$450,000
54 Rogers Avenue	$340,000	$300,000
1095 Sterling Place	$350,000	$300,000
1901 Pacific Street	$215,000	$189,000
1582 Pacific Street	$300,000	$260,000
102 Utica Avenue	$200,000	$165,000
1570 Bergen Street	$305,000	$290,000
253 Albany Avenue	$335,000	$325,000
1397 Sterling Place	$245,000	$225,000
160 Utica Avenue	$250,000	$210,000
510 Ralph Avenue - 1649-51 Park Place	$415,000	$400,000
223 Schenectady Avenue	$315,000	$300,000
1525 Saint John's Place	$315,000	$300,000
766 Dean Street	$285,000	$260,000

**Five Moore Better Homes properties (1581 Bergen Street, 1600 Bergen Street, 1337 Saint Mark's Avenue, 1340 Park Place and 1145 Saint John's Place) were without contracts. And, notably, one Moore Better Homes' Board Member – Hugh Delpeche – is listed as having a contract in place to purchase the property at 1095 Sterling Place. The property is abandoned today and is still owned by Heights Houses.*[43]

In addition to assuming the prior loans, Heights Houses, which assumed control of the properties on December 19, 2007, received a loan from LISC of $750,000 to finance the resumption of the project.[44] Heights Houses received another $500,000 loan from HPD in February 2009 secured by a mortgage on six properties in the cluster (253 Albany, 519 Park Place, 1649-51 Park Place, 1525 Saint John's Place, 54 Rogers Avenue, and 1145 Saint John's Place).[45] According to the mortgage, the mortgagor (Heights Houses) "will not commit, or permit to be committed, any waste on the Mortgaged Property, or any part thereof, or make any change in the use of the Mortgaged Property, or any part thereof, that will in any way increase any ordinary fire or other hazard arising out of construction or operation."[46] The mortgage also required that Heights Houses would, at all times maintain the properties "in good operating order and condition and will promptly make, from time to time, all repairs, renewals, replacements, additions and improvements" that are necessary.[47] The Office of the Public Advocate's investigation, as detailed in Appendix A, reveals several violations of these terms.

Homebuyer Horror: Heights Houses Fails to Honor Contracts

Nearly eight years have passed since the 21 properties were deeded to Heights Houses in late 2007, but only the following four properties have been sold:

Address	Price	Property Size	Date of Contract	Date of Sale
1570 Bergen Street	$350,000	Two Family	6/10/2009	8/26/2011[48]
766 Dean Place	$285,000	One Family	9/12/2003	10/17/2011[49]
519 Park Place	$618,150	Four Family	3/11/2003	3/7/2013[50]
1340 Park Place	$265,000	One Family	7/13/2009	12/11/2009[51]

In interviews conducted by the Office of the Public Advocate, contract holders described meeting with officials from Heights Houses in 2008 to discuss the progress on their homes. At that meeting they were told that the deposit price was to increase. Four constituents interviewed by the Office of the Public Advocate said they signed new contracts with Heights Houses that reflected the new price.

One constituent, who had a contract to purchase 1397 Sterling Place, declined to pay the increased sum and received a return of her down payment. (The home, originally under contract for $225,000,[52] was listed on a website until recently by Heights Realty, at $750,000.[53] A broker at Heights Realty told the Office of the Public Advocate that the company was unaffiliated with Heights Houses and that the property was still on the market.) Another constituent, who had entered into contract to purchase the property at 1901 Pacific Street, received a refund of her deposit in 2008.

Initial optimism that the prospective purchasers would be able to move into their homes in a timely manner faded away as Heights Houses failed to sell the homes under contract. After making additional payments to Heights Houses, the prospective buyers described a series of emails, phone calls and meetings with representatives from HPD, LISC and Heights Houses, with no assistance or accountability from any of the parties. These individuals described being told on multiple occasions that their closing date was "weeks away" and to prepare their mortgage documents and commitments. Two such individuals told the Public Advocate's Office that construction work was done to their homes, and they were told by Heights Houses that the property required only a Certificate of Occupancy from the Department of Buildings (DOB). In both cases, the constituents claimed that there was evidence of other people renting and/or living in the homes they had under contract.

The Guilty Plea: George Armstrong, Principal of Heights Houses

The fitness of George Armstrong, the principal of Heights Houses, as an affordable housing developer should have been severely compromised in 2011 when he pleaded guilty to federal charges related to an HPD bribery scheme.[54] George Armstrong pleaded guilty on October 5, 2011, under seal, to charges of racketeering conspiracy, bribery, wire fraud conspiracy, and money laundering. The plea was unsealed on May 6, 2015[55] by United States District Judge Nina Gershon upon the application of Kelly Currie, the acting U.S. Attorney for the Eastern District of New York. According to court paperwork, at some point in 2000 or 2001, Armstrong solicited and received an illegal payment from John Doe #1, a general contractor and real estate developer, in return for helping that person obtain general contracting and real estate development work with HPD.[56] In addition, certain unnamed developers solicited and received kickback payments from Armstrong "in return for the award of general contracting and real estate development work on various HPD projects."[57] According to the second count, between January 2007 and May 2011, Armstrong conspired with others to devise a scheme to defraud HPD, and to obtain money and property by means of materially false and fraudulent pretenses.[58]

George Armstrong's name surfaced in media reports in 2011[59] as being connected with Wendell Walters, a former HPD Assistant Commissioner who was arrested at the same time by federal authorities on racketeering and bribery charges. Walters, according to the FBI, "oversaw various programs, including the Neighborhood Entrepreneurs Program and the Division of Housing Production, which were aimed at enabling private property managers, developers, and nonprofits to build and rehabilitate buildings to provide affordable housing." This program, which allowed "neighborhood-based private property managers to own and manage clusters of occupied and vacant City-owned buildings,"[60] was created around the same time as the Neighborhood Homes Program and reflected the City's desire in the late 1990s to accelerate the transfer of properties from the City to private ownership. Starting in 2002, Walters accepted approximately $600,000 in bribes from contractors and real estate developers in exchange for HPD contracts, according to the FBI.[61] Walters began cooperating with federal prosecutors after his arrest and testified in a case against three developers. The case ended in acquittal.[62] Wendell Walters was sentenced to three years in prison and was ordered to pay $2.5M in restitution for his role.

To date, however, Armstrong has not been charged with any wrongdoing related to the Heights Houses cluster of homes. Armstrong's company, Heights Houses, is still the legal owner of the 17 properties that have not been conveyed pursuant to the Neighborhood Homes Program.

INVESTIGATION OF PROPERTIES

The Properties Exhibit Physical Evidence of Neglect

Prompted by constituent complaints, the Office of the Public Advocate visited the 17 properties that remain under the control of Heights Houses in the spring of 2015. Staff was unable to enter the buildings, so observations are based on an exterior review of the homes. The visits revealed that the physical state of the properties varied from abandoned to good condition. Staff documented their observations of the buildings' exteriors and took photographs of those properties that were abandoned. They also interviewed neighbors at several of the properties. Based on these visits, the Office of the Public Advocate has determined that 29% of the properties appear abandoned, and conversations with neighbors revealed grievances that ranged from complaints about squatters to plumbing problems in vacant properties that have caused flooding in their own homes. More details about these properties and their conditions can be found in Appendix A.

Constituents who have either purchased their homes or are still under contract spoke about the presence of squatters in their buildings. There are numerous complaints filed with DOB related to squatters or open/unguarded buildings. According to DOB records and constituent interviews, there have been complaints of squatters or vacant buildings at 1570 Bergen Street, 766 Dean Street, 942 Pacific Street, 1901 Pacific Street, 1995 Pacific Street, 519 Park Place, 54 Rogers Avenue, 1145 Saint John's Place, 1337 Saint Marks Avenue, 223 Schenectady Avenue, and 1397 Sterling Place. Multiple prospective purchasers described what appeared to be renters living in their contracted properties during various phases of the project.

In addition to site visits and constituent interviews, the Office of the Public Advocate aggregated the violations that have accrued for the 17 properties that remain unsold as of January 31, 2016. There are almost 100 DOB violations within the cluster and 11 ECB violations against the homes. According to DOB records, Armstrong's general contractor license expired in November 2010,[63] and the properties have tax liens in excess of $150,000. Appendix B contains a breakdown of the tax liens and violations by property.

Heights Houses, in some cases, has not done any work on the properties during the more than seven years they have been in charge of the project. Some buildings have not had valid work permits for more than a decade. The absence of work permits, coupled with the deterioration of some of the properties, suggests a violation of the terms of the mortgage that Heights Houses received in 2009 that required that it maintain the properties "in good operating order and condition and … [to] promptly make, from time to time, all repairs, renewals, replacements, additions and improvements" that are necessary."[64] These violations are not only a concern for the mortgage lenders and potential home buyers, but they have also negatively impacted the community surrounding these properties.

Not an Isolated Incident: 2006 New York State Comptroller's Office Audit of Neighborhood Homes

Rather than being an exception, Moore Better Homes' murky accounting seems to be representative of many of the Neighborhood Homes Program's participants. Additionally, funds supplied to HPD to support the Neighborhood Homes Program have remained unaccounted for, including an estimated $500,000 that was designated by state and local leaders to help with financing. Poor accounting has been problematic and prompted further inquire by State officials. In 2006, the State Comptroller's Office raised concerns about financial aspects of the Neighborhood Homes Program, specifically whether HPD was collecting and depositing its share of profits on homes sold through the entire program. A September 2007 audit titled "Neighborhood Homes Program Compliance with Requirements Relating to Profits on Building Sales – Report 2006-N-13" examined the five nonprofits that bought the most program buildings during the four-year period that ended in December 2005. Moore Better Homes, through its parent nonprofit BEC New Communities HDFC, was not examined.

The audit focused on 84 building purchases, with HPD loans totaling $14.2 million. The audit noted: "[W]e found an overall lack of department control over the accounting for, collection, and deposit of profits owed by sponsors. Furthermore, we are concerned that this lack of control results in a significant risk that other sponsors may owe profits to the department."[65] As part of the audit, the State Comptroller's Office issued five recommendations to HPD related to profit sharing and profit collection. The recommendations included requiring all sponsors to contain a profit-sharing requirement on the sale of buildings, establishing fiscal controls for recording, monitoring, accounting for and depositing HPD's share of profits. Problems, however, persisted with HPD's oversight of Neighborhood Homes. A 2009 follow-up letter from the State Comptroller's Office noted that HPD had only implemented one of the recommendations completely, while partially implementing two recommendations and failing to implement two recommendations.[66]

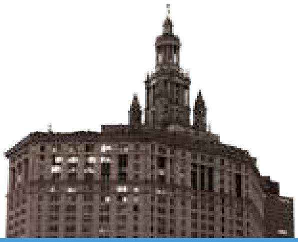
Recommendations

The Office of Public Advocate recommends the following:

- **HPD must expedite the rehabilitation, sale, and transfer of project properties to prospective purchasers with contracts in place, at no additional cost to the buyers.** HPD failed in its oversight of Moore Better Homes and had an opportunity to rectify the problem in 2007 by expediting the rehabilitation and transfer of the properties. However, the agency did not successfully monitor the Heights Houses phase of the project, and allowed the properties to fall further into disrepair, while prospective purchasers continued to wait to purchase the homes they had contracted to buy. Those who have been waiting to realize the promise made to them by HPD should be made whole.
- **HPD must perform a thorough audit of the financial transactions of the developers associated with this cluster of Neighborhood Homes Program properties.** Given that Moore Better Homes received two mortgages for a total of $6,443,088.00 and Heights Houses received mortgages of $750,000 and $500,000, the Office of the Public Advocate recommends that HPD audit and investigate the financial transactions of Moore Better Homes, Heights Houses and their members and, if the circumstances warrant, the names of individuals suspected of improper conduct or criminality should be forwarded to the Department of Investigation and relevant prosecutors. This audit and investigation should include a full accounting of the millions of dollars in mortgages and expenditures that have been associated with this project for the past 13 years.
- **HPD must create objective standards for selecting entities to which it seeks to transfer properties and records of the process and determinations must be retained for future review and audit.** It is troubling that HPD continues to work with Mr. Armstrong, who pleaded guilty to being involved in an HPD bribery scheme.[67] Standards for the selection of developers should exclude those who have been convicted of a crime related to other city-administered property disposition programs and should cleave closely to existing rules regarding conflicts of interest with former City employees. HPD must promulgate clear rules and regulations for similar programs with adequate oversight and monitoring processes to ensure that these systemic issues are not repeated.

- **When the City Council passes resolutions relying upon representations that City property will be transferred to an approved nonprofit organization, there should be restrictions on transferring any such property to a for-profit entity without the Council's subsequent approval.** HPD's approval of Heights Houses purchasing the remaining 21 homes from Moore Better Homes is problematic. The properties were supposed to be deeded to a nonprofit, per New York City Council Resolution 1726 of 2001. HPD, however, allowed the properties to be transferred to a for-profit entity in 2007 as the rules for the Neighborhood Homes Program expanded to include for-profit companies. The Office of the Public Advocate recommends that when the City Council passes resolutions relying upon representations that City property be transferred to a nonprofit, there should be restrictions on later transferring any such property to a for-profit entity, without the Council's subsequent approval.

- **A third-party non-HPD entity must review and monitor Neighborhood Homes and all similar programs when City-owned property is conveyed to a non-City entity and benchmarks for rehabilitation are not met.** The homes in the cluster that were the subject of this report have languished for more than a decade creating the very blight that the program was designed to remove. To guard against such failures in the future, there should be an independent body that monitors compliance with regulatory agreements entered into by HPD.



Conclusion

As detailed by the evidence presented in this report, HPD has failed to properly implement the objectives of the Neighborhood Homes Program and failed to monitor the successful rehabilitation and sale of the subject properties. For more than 13 years, HPD has allowed precious affordable housing units to remain unoccupied. HPD has allowed many of these units to deteriorate and become dilapidated. Prospective purchasers who believed that they were close to acquiring their homes in 2008 describe years of delays while dealing with Heights Houses.

A stated goal of this administration is the preservation and creation of 200,000 affordable housing units in the next 10 years.[68] HPD, as the agency tasked with achieving that objective, is in the position to preserve these 17 homes, and the more than 40 residential units in them, as affordable housing. It must also prevent a repetition of the mismanagement for all future programs, by implementing new controls and policies, and implementing the recommendations from this investigation.

Acknowledgements

Writing and coordination of this report was led by Brendan Brosh, Director of Investigations for the Office of Public Advocate, with assistance from Larry Schimmel, General Counsel for Investments and Operations; Jennifer Levy, General Counsel for Litigation; Amber Greene, Director of Policy; Jarret Hova, Counsel and Legislative Director; and John Petro, Policy Associate. Photographs were taken by Oswaldo Pereira, Outreach Coordinator. Additional research support came from Office of the Public Advocate Interns Aubriana Best, Emma Collins, and Margaret Lyford.

Appendix A | Property Profiles from Investigation

942 Pacific Street *Three family walk-up, C-0*
2 DOB violations, 1 ECB violation, tax lien of $14,955

Observed Conditions: Trash; Graffiti; Broken windows; Plywood windows; Padlocked door

Neighbors described the building as vacant for many years. The padlocked building, which does not have a certificate of occupancy, has also been the subject of many complaints. Neighbors have reported **bricks falling off the façade, illegal tenants occupying the building, and "wild animals" entering the building through a hole on the roof**. An open ECB violation from March 2006 notes, "Failure to maintain bldg – hazardous." No construction permits appear to have been issued for the property in more than a decade.

Comparable homes in the vicinity have recently sold for more than $2M.

1901 Pacific Street *Two family, B-9*

Observed Conditions: Trash in front yard; ECB tickets tacked to door; Door to basement unit covered by cinderblocks; Open padlock

One ECB ticket tacked to the door stated "I did observe a large accumulation of scattered bottle(s), can(s), cup(s), piece(s) of paper, tissue(s), wrappers, and other assorted debris…" An elderly neighbor, who said she has lived on the block for approximately forty years, reported that she has been unable to find the landlord and said that her son was interested in buying the property. She said that the home has attracted squatters and that water from a broken pipe in 1901 Pacific Street came into her home and caused damage. No permits have been issued for the renovation of the home in more than ten years.

Comparable homes in the vicinity have recently sold for between $567K and $750K.

1145 St. John's Place *Four family walk-up, C-3*
1 DOB violation, 2 ECB violations

Observed Conditions: Trash; Broken windows; Plywood windows; Padlocked door

A July 2014 ECB violation cites a failure to maintain the building in a code compliant manner and includes that the premises were vacant, missing windows, have a defective staircase and holes in the floor. A September, 2014 ECB violation notes the building owner's failure to respond to the July violation. The last work permit filed on the property was in February of 2006. The property has been the subject of numerous complaints from nearby residents including reports that people were illegally entering the building in 2011.

Comparable homes in the vicinity have recently sold for between $750K and $1.3M.

1344 St. Mark's Avenue *Two family, B-1*

1 ECB violation

Observed Conditions: Trash; Rotting fence; Pigeons roosting in doorway; Feces on doorstep

A 2010 complaint noted that the house was vacant but not boarded up and unguarded. In 2014, an ECB violation was issued for violating parking regulations in a residential district with a 40-foot long shipping container parked in the driveway. No compliance has been recorded. A purchaser signed a contract of sale on July 21, 2003 to purchase the home for $285K. After Moore Better Homes was removed as the seller and replaced with Heights Houses on September 23, 2008, the purchase price was adjusted to $310K. The purchaser has now gone more than 11 years without being able to close on her home despite multiple appeals to HPD.

Comparable homes in the vicinity have recently sold for between $585K and $700K.

1095 Sterling Place *Two family, B-3*

Observed Conditions: Doors and windows bricked over

The last work permit for the property was issued in September, 2004. A neighbor said that the building had been empty since at least 2005. The abandoned property is landmarked and a complaint in 2010 noted that the building was vacant but unsealed and unguarded. According to Department of Finance records, the property had a lien of $12,026.68 issued against it in August, 2013.

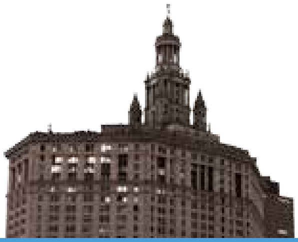
Comparable homes in the vicinity have recently sold for between $928K and $1.4M.

Appendix B | Homes That Remain Unsold As of January 2016: Neglect and Liens

Address	Building Description - How many families	#DOB Violation #ECB violation	Liens	Certificate of Occupancy
253 Albany Avenue also 1193 Sterling	Four family with one store or office - S-4	11 DOB Violations	$14,955	Unclear
1581 Bergen Street	Two Family - B-9	No Violations	No Liens	No certificate available
1600 Bergen Street	Two Family - B-9	No Violations	$3,608	No certificate available
942 Pacific Street	Three Family Walk-up C-0	2 Unsafe Buildings Violations from DOB, 2 ECB Violations	$9,901	No certificate available
1582 Pacific Street	Two Family - B-9	No Violations	No Liens	Certificate of Occupancy from 1928
1901 Pacific Street	Two Family - B-9	No Violations	No Liens	Yes
510 Ralph Avenue (Also listed as 1649-51 Park Place)	Five or Six Family - C-2 Walk-up	35 DOB Violations	$9,541	Unclear
54 Rogers Avenue	Three Family C-0 Walk-up	No Violations	No Liens	Unclear
1145 St. John's Place	Four Family C-3 Walk-up	1 DOB Violation, 2 ECB Violations	$66,539	No certificate available
1525 St. John's Place	Two residential and one commerical unit - S-2	No Violations	$16,763	Unclear
1337 St. Mark's Avenue	Two Family - B-9	No Violations	No Liens	Available
1344 St. Mark's Avenue	Two Famiy - B-1	1 ECB Violation	No Liens	No certificate available
223 Schenectady Avenue	Two families with one commercial unit - S-2	11 DOB Violations, 5 ECB Violations	$9,317	No certificate available
1095 Sterling Place	Two Family - B-3	No violations	$12,026.68	Unclear
1397 Sterling Place	Two Family - B-1	1 unsafe buldng Violations from DOB	No Liens	No
102 Utica Avenue	One Family - A-9	1 ECB Violation	No Liens	No
160 Utica Avenue	Two Family with one commercial unit - S-2	18 DOB Violations	$12,195	Yes
Totals:		90 Violations	$154,846	

Zoning Glossary

DESCRIPTION	BUILDING CODE
MISCELLANEOUS ONE FAMILY	A-9
TWO FAMILY, BRICK	B-1
TWO FAMILIES CONVERTED FROM ONE FAMILY	B-3
MISCELLANEOUS TWO FAMILIES	B-9
THREE FAMILIES	C-0
FIVE TO SIX FAMILIES	C-2
FOUR FAMILIES	C-3
PRIMARILY TWO FAMILIES WITH ONE STORE OR OFFICE	S-2
PRIMARILY 4 FAMILIES WITH ONE STORE OR OFFICE	S-4



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THE PUBLIC ADVOCATE
FOR THE CITY OF NEW YORK
Letitia James

1 CENTRE STREET
15TH FLOOR
NEW YORK, NY 10007

WWW.PUBADVOCATE.NYC.GOV
(212) 669 - 7200

FACEBOOK.COM/PALETITIAJAMES

@TISHJAMES

February 2016