

**Organizing To Fight
Mortgage Prepayment
At The
Beaver Brook Apartments
In Ansonia, CT**

**Merrill Gay
January 1992**

Table of Contents

1

PROBLEM STATEMENT

ORGANIZING
AT
THE
BEAVER BROOK APARTMENTS
TO FIGHT
MORTGAGE PREPAYMENT

2

PROJECT GOALS
METHODS
STEPS TO REACH OBJECTIVES

3

RESULTS

By Merrill Gay
January 1992

4

ANALYSIS / CONCLUSIONS
RECOMMENDATIONS

5

APPENDICES
- Valuation Profomas
- News Clippings

Problem Statement

The Beaver Brook apartments are a 172 unit garden apartment complex in Ansonia, Connecticut. The apartments were built in 1970 with a 40 year HUD subsidized 221(d)3 mortgage. This 3% mortgage, brought with it HUD regulation, including rent control, for as long as the mortgage was in place. Thanks to the low mortgage payments and the owner's reluctance to go through the HUD rent increase process, rents at Beaver Brook are substantially below market. The chart below compares Beaver Brook rents to the HUD approved "Fair market Rent" for the area.

	Beaver Brook	HUD FMR*
1 bedroom	\$282.00	\$568.00
2 bedroom	\$337.00	\$670.00
3 bedroom	\$371.00	\$793.00

(* Source: Ansonia Housing Authority)

Beaver Brook is the only privately owned subsidized rental housing of its type within the four town region frequently referred to as the "Valley". The four towns; Ansonia, Shelton, Derby & Seymour are actually at the southern end of the fifty mile long Naugatuck River Valley in west central Connecticut. The "Valley" towns have a combined population of roughly 50,000 and have until recently been working class, industrial towns.

During the 1980's thousands of high paying manufacturing jobs throughout the Naugatuck Valley were lost to plant closings. Unfortunately at the same time, speculation and a booming Fairfield County economy to south,

drove real estate prices in the Valley through the roof. In the spring of 1990 the median price for a home selling in Seymour was \$159,000 and even a condo was in the mid \$90,000's. The inflated condo market led to a rash of conversions of relatively cheap apartments into high end luxury condos. The resulting loss of low end rental housing drove rents that much higher.

The problem that this project attempts to address originates with a standard clause in the HUD guaranteed mortgages used to finance Beaver Brook and about 3,000 other apartment complexes around the country. This clause allowed the mortgagee to prepay after twenty years. Prepayment would free the owner from HUD regulation and would enable the owners of Beaver Brook, as well as owners of the other complexes across the country to convert their units to market rents or even into condominiums.

In the summer of 1990, after 20 years of putting virtually nothing back into Beaver Brook, the owners, Mary & Vincent Celentano, told state and local officials of their desire to prepay. In December they made it official with a "Notice of intent to prepay" filed with HUD.

If the Celentanos are able to get away with prepaying their mortgage and converting to market rate the tenants at Beaver Brook will be devastated. Rents at Beaver Brook are less than half the market rate and under current law only about 50 (out of 172) of the lowest income families at Beaver Brook could expect any kind of rent subsidy. Beyond

Beaver Brook, mortgage prepayment could potentially jeopardize the affordable apartments of over a million tenants who live in HUD financed privately owned housing across the country.

The issue of prepayment, has however, been made substantially murkier with the passage of two laws:

- a) the 1987 **Emergency Low Income Housing Preservation Act**, viewed by many as a temporary moratorium on prepayment, and
- b) the 1990 **Low Income Housing Preservation and Resident Homeownership Act**, its "permanent" successor.

Both laws are designed to make prepayment difficult. As an alternative, they encourage purchase by tenant or nonprofit groups, or allow the owners to raise rents and get additional subsidies to compensate for taking away their "right" to prepay.

Further complicating the issue at Beaver Brook is a 33% rent increase granted to the owners by HUD in December 1990 which has not been implemented due to a temporary restraining order (TRO) imposed by a federal judge. Case law in attempts to overturn HUD rent increases is very bad, but in the mean time the sympathetic judge continues to find more important things to do than make a final judgement on the tenants case.

Project Goals

Intended outcomes:

Minimum: The minimum goal of the project is to organize a strong tenants association to fight displacement that would result from prepayment of the subsidized mortgage.

Maximum: The maximum goal is to organize a tenant or non-profit buyout that would preserve Beaver Brook as affordable housing forever.

Methods

As a community organizer, I approached this project with the goal of making the tenants who live a Beaver Brook the primary actors in the effort to preserve their housing. As I went into it, I knew that doing so would create its own set of problems, but since tenant ownership and management was my long term goal, I felt that the process of empowering of tenant leaders was critical for the long term success of a buyout.

Specific Steps to Reach the Objectives

Develop the existing leadership and identify additional leaders by mobilizing the tenants to fight the December 1990 rent increase and the owners efforts to persuade tenants to accept a ridiculously overpriced condo conversion type buyout of Beaver Brook.

Research the laws governing prepayment. A number of tenants worked with me to analyzed the 1987 law, which Celentano seems to prefer, as well as some of the HUD regulations so that when questions come up I'm not the only person who knows the answers. Research is also a good tool for developing leaders because it is less threatening than public action and it gives you an excuse to develop a relationship with a leader as you do it.

Conduct a tenant buyout feasibility study. An initial, very informal feasibility study was done over the summer by a summer intern from Yale's school of Organizational Management. As a result of that study we attempted to negotiate with the owner in the fall. When those talks broke down and the original association president got fed up and moved out, the leadership that followed him was much less committed to a tenant buyout. Finally in January of 1992 the association voted to conduct a more formal feasibility analysis to see if it is really possible. This study will utilize pro bono technical help to the fullest extent possible, but may require hiring some professional assistance.

Educate the tenants of the advantages of some form of limited equity ownership (assuming that the feasibility study is positive).

Put the buyout proposal to the tenants. Since a tenant buyout cannot work without the support of a large majority of the tenants, the tenant association will need run a referendum on a specific buy out proposal.

Line up financing for the deal. Throughout this effort there will be an effort to mobilize community support for the tenants. Already the mayor, clergy and the press have been very supportive. When it comes time to get financing for the deal all of these resources will be drawn upon to secure the type of financing necessary to make this deal work.

Training for resident control. Assuming that we close on the deal we would then need to follow through with training to prepare the tenants to manage the complex either directly or through a board that supervises a hired manager.

Results

After 15 months of organizing at Beaver Brook, the results are clearly mixed. The tenants association is perceived publicly as the voice of the tenants and its leadership quoted regularly in the three competing local papers. However, the association is itself relatively weak. Its core group is six or seven people who are virtually impossible to get all into the same room at the same time due to conflicting work schedules. Last summer the association brought out about 65 people to a meeting with the owner, but since then turnout to general meetings has dwindled to about 20.

Over the summer and into the fall, the stress of the whole situation as well as the currently depressed real estate market combined to result in a fairly large turnover of units. Among those leaving were: the former president and his wife (who really did much of the work); the association's only polish translator; and several other potential leaders. In keeping with his standard practice, the owner filled virtually all of these vacancies with recent Polish immigrants who speak little English.

The association's single greatest accomplishment has been a federal court injunction blocking the 33% rent hike approved in December of 1990. However, this victory came through work of a legal service attorney, not as the result of organizing. The organizing may have given the judge a reason to drag his feet on a final ruling but only

indirectly. What the organizing has done, along with the loss of about \$200,000 in rent money due to the injunction, is to persuade the owner that Beaver Brook isn't worth the hassle of holding on to.

The association's effort to negotiate a "letter of intent to purchase" broke down in September. After rumors surfaced in November that the owner was preparing a "Plan of Action" to submit to HUD, the association requested a meeting with him. We were all sure that he had decided to stop fooling around and just refinance under the 1987 law, but to our surprise he said he definitely wanted to sell and we were one of the prime contenders to buy.

There are however, still a number of obstacles that may still prevent a deal from going through. They include:

- 1) Agreeing on a price - Celentano thinks the place is worth \$76,000 per unit. Brand new condos in town are going for \$50,000. As apartments the very most that they could be valued at by my calculations is \$48,000 and that uses some pretty optimistic assumptions. (See proformas in Appendix for best and worst case valuations using an income method);
- 2) Getting Celentano to deal with the same tenants who have been making his life miserable for the last year;
- 3) Financing a multimillion dollar deal for a group of tenant buyers with very little equity.

Analysis / Conclusions

The project is not complete so it is hard to say that it has or hasn't been a success. Clearly it has taken longer to get to where we are now, than expected. I had hoped, that by now the tenants would have at least gained some form of site control, so that there could reasonably be the expectation that a buyout would happen sometime during the next year. However, given the owner that we are dealing with, it is also quite reasonable to make the case that had the organizing and therefore the lawsuit not taken place, the owner would be refinancing rather than selling.

In the course of doing this project I learned a number of things about the prepayment issue broadly, as well as a lot about organizing from my experience at Beaver Brook. On the broader level of the prepayment issue, there were a couple of things that became very clear to me. First, the threat of wholesale displacement resulting from mortgage prepayment is very remote under current law. Furthermore, the current depression in the New England real estate market makes it even less likely in this region. Without the threat of displacement, the issue for tenants really boils down to, "Has the management at the complex been so bad as to create the drive among the residents to want to take the place over?" For the tenants in the relatively few well managed complexes, there is a natural, "If it's not broke why fix it mentality." Conversely, in the really rundown complexes, inevitably the first reaction is, "Why would we

want to buy this dump?" This initial skepticism only gets stronger when they hear that to do a buyout their rents will have to go up to support a new mortgage.

Under current law, there is virtually no advantage in terms of how much rent the tenants will pay, for a buyout vs the owner refinancing or someone else buying the complex. In fact, from a purely tenant "How much rent I'm I going to have to pay?" perspective, the best scenario is for nothing to happen; no buyout, no refinancing and the old mortgage stays in place. Unfortunately for tenants, the two laws passed by congress essentially preclude that option unless:

- A) the mortgage is already in default, or
- B) property values in the area are so depressed that the complex appraises out at less than the original mortgage from 20 years ago.

The second lesson I have learned from this project is that buyouts of expiring use properties are complicated things, even for experienced nonprofit developers. Tenants in HUD subsidized complexes tend to be transient and in 95% of the buildings, there isn't a tenants organization. These two facts point to the obvious conclusion that without help, very few tenant groups will ever get to point of thinking seriously about a buyout, much less be able to pull it off.

During the course of the past year, I had the privilege of buying my first home. As a result, I know first hand the trauma involved in the process, even when one has real

estate professionals guiding you and the collective experience of family and friends to call on. When one thinks from the perspective of a life long tenant in one of these large apartment complexes trying to figure out how to do a multi million buyout deal, it is easy to see why people get overwhelmed.

Finally, it has become obvious to me from working with the Beaver Brook tenants as well as tenants at another expiring use complex, that there is much more to organizing a tenant buyout than putting together a highly leveraged real estate deal. As stated above, the vast majority of expiring use projects do not have a tenants association, and by in large very few tenants even have much experience in democratic organizations. As a result, there is confusion about what to look for in leadership and a tendency for tenants to coalesce behind someone with a big mouth rather than someone who instinctively tries to include others. That plays itself out in meetings where a few leaders stand in front of a group of sitting tenants and talk at them. This is inevitably followed by a poorly attended next meeting where leadership vents its frustrated about apathy and no one showing up to meetings.

Clearly, unless there is serious money put into organizing and leadership development in these apartment complexes nationwide, tenants will once again be relegated to the sidelines as the owners, HUD and maybe some non

profits make the decisions about the homes of a million Americans.

In regards to the lessons I learned specifically from my organizing at Beaver Brook, they fall into several areas. First, I see now that I got caught in a old organizing trap of reacting to a hot issue (the 33% rent increase) before taking the time to get to know the lay of the land and develop relationships with the people involved. Knowing what I know now, I would have spent more time doing one on one interviews with tenants, both leaders and potential leaders, to get to know them, understand their self interests and develop a trust relationship, before leaping into their fight.

One of the ways in which my short cut has played itself out has been factionalization within the association and distrust of me from some members ever since I started talking about a buyout and the potential involvement of our community land trust. Much of this distrust was simply the result of people not knowing me very well and being generally skeptical of anyone trying to talk to them about a multi million dollar real estate deal. This distrust may also have been aggravated by questions about what role I was playing.

In fact, throughout the past year I have felt a real tension within myself about my role in all of this. This tension has revolved around the question, am I the organizer trying to develop tenant leaders by getting them make

decisions and stretch to do things they didn't think they could, or am I the technically skilled housing developer who can do the deal? I am now tending to see myself as an organizer with a sense of the development process who will hire consultants when necessary, rather than a developer who understands organizing. This an important distinction because it really makes a big difference in how one approaches things. It changes the basic assumption from me as expert, to me as agitator who may not know the answer, but who probably has a good sense of who you might to call to get it.

Clearly the development skills are necessary if the deal is going to come together, but if the primary reason (from a tenant perspective) for doing the deal at all, is to get control of management out of the hands of an absentee landlord and into the hands of residents who have the greatest stake in it, then why do the deal unless you are going to empower the tenants to be able to take on those management responsibilities?

A nonprofit developer after closing the deal, could probably, with a good training program, teach tenants the skills necessary to take on management. But the organizer in me says that the best way to really empower people is to make the deal their fight - make them key players in the whole process. From my experience with another organizing effort that lead to the development of six limited equity coops, it is absolutely clear that the coops whose

leadership came out of the organizing effort are much stronger than the coops those whose officers were not involved in the fight.

With the advantage of hindsight, it is also clear to me, especially since I work for a coalition of church, labor and community groups, that I should have moved much earlier to build a base of community support for the buyout effort through our member organizations as well as non member institutions in town. Tenants who live in this type housing have many talents and skills, however there aren't many architects, engineers, appraisers or bankers among them. Also, while some of them maybe dedicated campaign workers, their are very few with the connections that get them access to the political powers that be.

Many of those needed skills and connections do exist within the parishes and organizations in the community. If the leaders of those organizations can be made to see this as a justice issue, it may make it easier to rally those resources when necessary.

Some Recommendations For Anyone Trying To Organize A
Tenant Buyout

1. The key to all successful organizing efforts is personal relationships. Time spent doing one on one interviews and meetings with people is time well spent, even if it means you can't respond immediately to the latest crisis.
2. Don't under estimate the time involved. I have tried to do this project in approximately one day a week. This was clearly not enough time to be able to do the level of one on one interviews that are critical to a successful effort. Additionally handicapping my effort was the fact that I live 45 minutes away from Beaver Brook, so stopping by on my way home to meet someone after work has not a possibility.
3. Don't assume people know how to run a good meeting or how to make their organization function effectively. Its your job to teach them those things.
4. Don't assume that just because you think a buyout to prevent prepayment is the most important issue, that the tenants do. Listen to them. At Beaver Brook fighting the rent hike was their priority. While it clearly diverted attention from the buyout effort, it was necessary to establish credibility with tenants. At the same time, understand that when faced with a situation this overwhelming, denial is a natural reaction, and some people may want to avoid the issue by insisting the association work on trivial issues.

5. Build community support as soon as you can. Start with the networks and organizations that the tenant leaders belong to.
6. Finally, understand this is a big undertaking. It is clear to me that very few tenant led buyouts will take place without significant resources for organizing coming from the outside. Short of that, the next best alternative is purchase by a nonprofit. Almost equally clear is that there are very few non profits with the wherewithal to pull off deals this big.
7. Finally, have fun. Don't be so serious all the time that people think you are really boring. Making fun of your opponent can be very powerful.