

The Best of Intentions

HPD under scrutiny as residents, left holding mortgage, question where \$4.5 million in renovations went.

by *Daniel Geiger*

Six years ago the city's Department of Housing Preservation and Development had a plan for Clifferest, a roughly 50-unit residential building in the Upper Manhattan neighborhood of Washington Heights.

The property, located at 938 St. Nicholas Avenue, had fallen into disrepair from years of neglect. Numerous liens hung over the building, including dozens of violations assessed by the city and over \$40,000 in unpaid water and sewer fees.

But by putting the building through an HPD program known as a third-party transfer, Clifferest could get a second life: The building was handed to a monitor who oversaw its refurbishment, and residents then assumed a mortgage that had been taken to pay for the construction. In return, they received ownership of their apartments.

The process, which cost more than \$4.5 million, aimed to patch the building up while keeping it affordable for the low-income tenants who live there. But a quick perusal of Clifferest six years after the renovation was done reveals the job didn't go as it was supposed to—if it was even done at all.

"Look at this place," Carlton Burroughs, a

resident of Clifferest, told *The Mortgage Observer* on a recent tour of the property, gesturing to walls in the building's courtyard that were caked with peeling paint and crumbling plaster. A board of plywood was haphazardly affixed to the ceiling of the entryway to patch a large hole.

"This is the renovation," Mr. Burroughs said.

Inside revealed more deficiencies and few obvious signs of the building-wide repair that was purportedly done only a few years ago. Among the most glaring examples of the property's lingering problems were the roof, which looked as if it had been patched—not replaced, as Mr. Burroughs said the residents had been promised—and also the façade, which he said had not properly been sealed and allowed rainwater to seep in and cause chronic damage to interior walls and ceilings.

Mr. Burroughs said the building's boiler had been replaced but with an underpowered unit that he said was shoddily installed.

"There is no way that \$5 million was spent repairing that building," said Adam Leitman Bailey, a real estate attorney who is representing the residents at Clifferest. They have not filed a lawsuit, but are considering litigation, Mr. Bailey said.

"It's simple, it's either the most egregious kind of mismanagement or outright fraud," he said.

In recent weeks Mr. Bailey has sent letters to various city officials, including Mayor Michael Bloomberg's office, demanding that an investigation be conducted. In February, he advised residents at Clifferest to stop paying the mortgage on the property, which they heeded. Pushing Clifferest into default was a calculated move, Mr. Bailey said, to force the property's lenders, including HPD, to resolve the property's issues.

"Before, they wouldn't even listen to us," Mr. Bailey said. "Now they are."

Though there is no evidence that money was pilfered from the Clifferest project as Mr. Bailey alleges, the episode appears to raise troubling questions about some of HPD's practices and oversight.

Melissa Shetler, an executive with the group Justice 4 Homeowners, which lobbies on behalf of unionized construction labor, said that HPD doesn't vet the contractors it uses for construction jobs as thoroughly as other city agencies do.

She said there were numerous examples of townhouses HPD was involved in developing as affordable housing in Brooklyn in recent years that suffered from poor work or defects.

"You have houses where the plumbing is back-pitched so the water tends to back up in the house and flood," Ms. Shetler said. "It's the kind of ☹"

Cliffcrest





A courtyard leads to Cliffcrest's lobby; walls in disrepair.

“ You have houses where the plumbing is back-pitched so the water tends to back up in the house and flood. ”

Melissa Shelter

“ fundamental problem that any qualified contractor would not make the mistake of creating.”

In the case of Clifcrest, HPD didn't do the work itself. The building was ushered through its conversion into a renovated co-op by a partnership called SHUHAB, a venture between two nonprofit agencies—UHAB and Settlement Housing. Citing the potential for upcoming litigation, neither would comment on Clifcrest, including Lee Warshavsky, Settlement Housing's associate director and general counsel. According to Clifcrest's co-op board president, Mr. Burroughs, who said he has been a resident at the building for 10 years, it was SHUHAB that helped select a contractor and managed the construction process. The contractor that did the renovation, Dellwood Construction, appears to no longer be in business.

“As residents, we were not invited to participate and were essentially cut out of the process,” Mr. Burroughs said.

That contention was contested by both a spokesman at HPD and a source at UHAB, who did

not want to speak on the record. Both said that, in the end, Clifcrest's residents were responsible for overseeing the work and that if the construction job went bad, it was their own fault.

Yet questions loom about why HPD would bankroll a multimillion project with novices at the helm. The agency provided and continues to hold a roughly \$3-million loan against the property. Bank of America financed the rest, about \$1.5 million of the loan, but sold off the debt years ago to the nonprofit group Community Preservation Corporation, an organization that itself has come under scrutiny in recent months for investment choices that have gone sour.

A resident at Clifcrest named Tom said that HPD and UHAB's claim that residents were involved in the renovation wasn't wholly false. He said that a single resident at the property, a woman named Ms. Fincher, who had been the president of its tenant association when it was still a rental building, was appointed by SHUHAB as a tenant representative. But both he and Mr.

Burroughs said that she received compensation from SHUHAB for that position of responsibility and hence was incentivized not to scrutinize the work nor encourage questions or skepticism from the building's tenants.

For Tom, a former bus driver for the MTA, the problems are especially distressing. Lured by the prospect of owning his own apartment in a building that was going to be fixed up, he poured his life savings, about \$20,000, into buying a unit at Clifcrest in 2006.

As for HPD, the prospect of a potential improper allocation of funds comes at a sensitive time. Earlier this year, Wendell Walters, one of the agency's senior level executives, pled guilty to accepting kickbacks from contractors whom he then helped to win bids to do work on HPD construction jobs.

“We don't have any proof yet that this is a fraud,” Mr. Bailey said of Clifcrest. “But it certainly seems suspicious. No work was done and yet close to \$5 million was spent. Where did the money go?”