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For Low-Cost Co-op, a Pricing Quandry: A Co-op Agonizes Over Price Ceilings

By NADINE BROZAN

WHEN Ann Jackson, a retired social worker, and her late husband bought their three-bedroom apartment at Morningside Gardens when it opened in 1957, they paid $4,400.
Now Mrs. Jackson is incensed over a proposal that would greatly increase her apartment's market value, but that she and many of her neighbors regard as a threat to the singular character of their community on the northern edge of Morningside Heights: to lift all self- imposed controls on resale prices in the co-op complex, which prides itself on its diversity.

"People of various backgrounds, professions, faiths, ethnic groups have been given an opportunity to live and work together in the interest of the whole," Mrs. Jackson said the other day. "I am against going to full market because this will no longer be a community of people caring for each other. It will be another real estate venture where the person with the most money will come in without giving a thought to the history of the community and its meaning."
But residents who disagree with her, like Irwin Ronson, a retired Bronx

Community College speech professor, are equally adamant that price ceilings be abolished — not only, they say, to end the inequity between what they would be able to realize if they sold their apartments under the current rules and what they could reap if their apartments were elsewhere, but also for the greater good of all the residents of the complex.

Melinda Moore likes sales-price caps at Morningside Gardens; Irwin Ronson wants to end them.

Michelle V. Agins/The New York Times

We have people here living on modest retirement incomes and our maintenance is going higher and higher," said Mr. Ronson, also an original purchaser, who paid $2,400 for a two-bedroom apartment, subsequently moved out and returned in 1990 to a two- bedroom apartment costing $19,000. "If we allow sellers to make a profit, then we can charge flip taxes, which we put back into the coffers and help keep down the maintenance. It is all well and good to be idealistic, but

not at the expense of those of us who remain behind."
With changes currently contemplated in several developments that were put up around the city with government subsidies to provide housing for working class and middle income residents, the debate resonates outside Morningside Heights.
At Co-op City, the giant complex in the Bronx, for example, serious consideration is being given to withdrawing from the Mitchell-Lama subsidy program and converting the project, which has had severe financial problems for decades, to a private enterprise.
"We have a mortgage for $220 million and construction problems requiring $210 million, and the state has told us there will be no new money coming to us," said Herbert Freedman, principal of Marion Scott Real Estate, the managing agent. "Privatization is a hot topic right now."
Privatization took place years ago at Morningside Gardens and all but one of the dozen other co-op projects put up around New York City under the state's Redevelopment Companies Law, a precursor to the Mitchell-Lama program. (The program was not limited to co-ops; Stuyvesant Town and Peter Cooper Village, the 11,250-apartment, 110-building rental complexes that run from East 14th Street to 23rd Street were also Redevelopment Companies projects. While the two communities remain rentals, change has also come to them. Their management is making the capital improvements in apartments necessary to deregulate them as they become vacant, so that market-rate rents can be charged.)
Some of the co-op projects, like Co-op Village on the Lower East Side, have elected to abandon the constraints, while Queensview in Long Island City has kept them. And even at Penn South near Penn Station, which has an agreement to remain under controls until 2022, the issue still occasionally provokes heated discussion.
At Morningside Gardens, strong opinions about resale prices have been bandied about for the last three years everywhere from meeting rooms to lobbies and elevators of the six 21-story buildings. But with a requirement that the bylaws be redrafted before a vote on the matter can be taken, it seems unlikely that any decision will soon be reached.
BUILT on a 10-acre site of land bounded by West 123rd and La Salle Streets, Broadway and Amsterdam Avenue, which was acquired for $1.3 million through Title 1 of the Housing Act of 1949, it was the first urban renewal development in the city. It was put up in conjunction with General Grant Houses, a public housing development at Amsterdam Avenue and 125th Street.
Although shareholders pride themselves on the spirit of egalitarianism — it was one of the first places to openly welcome mixed- race couples — and on the communal services that range from children's play groups to classes in such subjects as the art of stained glass and computer proficiency to a panoply of health, education and entertainment programs for senior citizens, the original mandate was less ideological. It was a slum clearance program.
Determined to stop the urban blight creeping southward, nine academic and religious institutions in the area — Columbia University, Union Theological Seminary, Jewish Theological Seminary, Riverside Church and Juilliard among them — banded together to sponsor the project.
Financing came through Article 5 of the Private Finance Law of New York State, which created 13 housing corporations known as "redevelopment companies" and granted them 25-year tax abatements. When those abatements expired, they were extended for 10 years during which the taxes were increased in annual increments.
At the end of that period, all but one redevelopment company, Penn South, the 10-building complex in Chelsea, elected to become private corporations in a process known as reconstitution that freed them from regulations of the city Department of Housing Preservation and Development.
But in doing so, the Morningside Gardens shareholders were determined to keep prices within the

reach of their traditional constituency: teachers, professors, artists, social workers and hospital employees. So they established caps set at 80 percent of values determined by a broker at the end of 1992, with small annual increases pegged to the consumer price index of New York and New Jersey and to the financial state of the corporation.
According to the most recent rates, set last year and in effect through March, depending on where they are located in the building and whether they have balconies, studios go for $50,700 to $62,000; one bedrooms are $71,700 to $99,600; two bedrooms for $90,900 to $132,800; and three bedrooms, $136,200 to $171,300. All told, the caps have risen slightly more than 35 percent since their introduction.

Carrying charges range from roughly $500 for a studio to $1,200 a month for three bedrooms, according to Noel Ellison, the general manager of Morningside Gardens.

Residents who bought their apartments before the 1994 privatization are required to pay flip taxes of 15 percent of the total proceeds when they sell. No such levies are imposed on those who bought apartments after 1994 because they did not stand to make the kind of profits early owners could reap.

As time has passed, most of the redevelopment company projects in the city that reconstituted became embroiled in the kind of controversy that has gripped Morningside Gardens, and they have reached some distinctly varied conclusions.

For example, at Queensview in Long Island City, George P. Crethan, a former president who is now a vice president of the board, said: "We decided not to go to open market because we didn't want people who were used to paying $3,000 a month in Manhattan coming over and saying, `We can get a quarter of a million dollars here.' We wanted to keep it middle income, the way the sponsors did for us 50 years ago."

As a result, prices for the 726 units in the 14 buildings, which are bounded by 21st and Crescent Streets, 34th Avenue and 33rd Road, are about $78,000 for one bedroom, $94,000 for two bedrooms and $112,000 for three bedrooms. The co-op has no mortgage, and its carrying charges are low. "Nobody wants to leave here except by death," Mr. Crethan said.Shareholders at Penn South, the cluster of co-ops sponsored by the International Ladies Garment Workers Union that give the area from 23rd to 29th Streets between Eighth and Ninth Avenues its monolithic appearance, voted in April by a ratio of more than 2 to 1 to maintain resale limits until 2022 in exchange for continuing tax abatement.

But Walter Mankoff, treasurer of the board at Penn South, said that special agreements had been worked out with the state and city so its situation was not comparable to that of Morningside Gardens.

"Penn South voted on reconstitution in 1986 and again last year, and in both cases the choice was between very substantial real estate tax savings as opposed to full taxes," he said. "So while a significant percent of our population would have voted to remain limited equity for philosophical reasons, there is no question the tax impact played a significant role. Morningside Gardens had already privatized and exhausted any possible future tax benefits."

By contrast, the four corporations that constitute Co-op Village, 4,500 apartments in 11 buildings on the Lower East Side, plunged into full open market sales. One of them, the Amalgamated Dwellings, made the transition in 1997, and the other three — Hillman Housing, East River Housing and Seward Park Housing — last year. Despite the fact that longtime residents who had paid $5,000 or so could now ask for $350,000, there has been no mass exodus.

"There was no glut on the market," said Gary Altman, vice president of the East River Housing Corporation, who served as chairman of the reconstitution committee for three of the co-ops. "Most of our co- operators realize they can sell for a lot of money, but where are they going to move?"

Harold Jacob, general manager of East River and Hillman, offered statistical backup. "The total turnover has been about 3 percent a year since privatization," he estimated.

And although increasing numbers of designers, photographers, Wall Street lawyers and physicians are being drawn to the project, it also remains home to some multigeneration families.

"My parents moved here in 1964, and my maternal grandparents and paternal grandmother were original owners," said Juda Engelmayer, vice president and secretary of the Seward Park board, who is a public relations executive. "Right now, my mother and aunt have apartments here; my sister owns three apartments that are connected; and I have two apartments." Mr. Engelmayer and his wife, Debra, who jointly own Kossar's Bialys with their brother-in-law and sister, Daniel and Malki Cohen, bought a one-bedroom apartment at Seward Park 11 years ago for $7,500 and right before privatization swapped it for two other adjacent apartments for a total cost of $15,000. He and his wife combined the two units, for which, he said, "I was offered $600,000 last summer."

Ruth Fremson/The New York Times

Living in Co-op Village on the Lower East Side is a four-generation family tradition for Juda Engelmayer, wearing tie in center of photo. Both his maternal grandparents and paternal grandmother were original owners, and family members now own what were originally 11 apartments. The current residents include his sister, Malki, and her husband Danny Cohen, lower on the stairs to his right; and Danny's brother David and his wife, Gila, higher on the stairs to his left. Mr. Engelmayer's wife, Debra, stands behind him, and below him are his aunt, Mareleyn Schneider, lowest on the stairs, and his mother, Roslyn Engelmayer.

Revenue realized through flip taxes on sales have enabled the Co-op Village boards to keep the carrying charges at the same level they were at 10 years ago, except for a recent 4 percent increase in Hillman, and to pay for major improvements. The flip taxes, initially 25 percent on the first sales of units to outsiders and 15 percent for insiders, are now 12 and 6 percent, according to Mr. Jacob. Second sales are subject to 5 percent taxes. Maintenance is typically about $420 a month for one-bedroom apartments, $550 for two bedrooms.

"The extra money brought in by the flip tax has been a factor in keeping our carrying charges down," Mr. Altman said. "In the last two or three years we have done extensive gardening, renovated the elevators and main lobbies, overhauled the laundry rooms and extended the security to 24 hours a day."

That is precisely the argument put forth by proponents of open markets.

"With government subsidy gone and the need to do capital improvements going up as properties reach 40 and 50 years, going to free market is inevitable," said Howard Schechter, a lawyer who specializes in co-op and condo housing law and who has represented co-ops undergoing reconstitution. "The cost of major brick work, boilers, roofs is astronomical, and there is no source for that money other than maintenance charges unless apartments go to market level with a significant portion of the profit being put back into the property. In effect, sellers subsidize people who are there."

"To my mind," he added, "going to market resale is necessary to remain affordable for the moderate income people who came in when it was a subsidized development. It is unfortunate that there is not more new moderate income housing coming on line to take the place of this house, but it was never intended to be permanently moderate."

Ed Yaker, co-chairman of the Coordinating Council of Cooperatives of Greater New York, a consortium of co-ops that at one time or another had government assistance, had a different perspective. Noting that he was reluctant to take a public position on the matter because the members of his organization have reached a variety of conclusions, he did say: "Each time this happens, we lose more middle-income housing. If apartments sell for $300,000 is that affordable?"

"But I also believe that the real problem is government," he said. "If it was still promoting the construction of new affordable housing at any rate comparable to the past when there were 100,000 units built under Mitchell-Lama, no one would care if one particular co-op left the program."

MR. RONSON and his supporters at Morningside Gardens frame the issue in terms of cost to people who want to stay put, not windfalls that will be reaped by those who move out.

Estimating that his own carrying charges had doubled in 10 years, he said: "We are robbing Peter to pay Paul. We're being asked to absorb higher and higher maintenance to save a low price for some person 5 or 10 years down the line. We're not being equitable with those remaining behind."

Furthermore, he said, "We pay market rate for labor, landscaping, balcony and elevator repairs, plumbing. The only thing not market price is what we sell our apartments for, and that feels to many of us to be unfair."

Mr. Ronson is co-chairman of the Committee for Open Market, which claims it collected 536 signatures favoring open market last year.

A position paper circulated in response by a group of opponents to open-market prices questioned the merits of relying on flip taxes. "The fact is there would be more flip tax potential," it said. "How much actually materialized for those of us who stay here would depend on how much apartments go for on the open market at the time they're sold; the seller's net profit, which would presumably be the basis for calculating flip tax; the flip tax percentage applied; and how often apartments change hands."

As they see it, greed is at the heart of the dispute and fairness has a starkly different connotation.

"I think going to open market is the most selfish, irresponsible thing I can think of," said Liz Horowitz, a physician assistant in breast surgery at New York Presbyterian Hospital. "People who were able to buy their apartments for way under $7,000 have no sympathy for people in the position they were in 30 years ago. I am from the community that has been priced out of everywhere in Manhattan, and I want others to have the same incredible opportunity I've been given."

Besides preserving prices, open market opponents want to safeguard the waiting lists, which they say give everyone a fair shot at apartments as they come vacant and which would be eliminated were sellers permitted to sell to the highest bidder. There are two lists: one for insiders seeking to move to different apartments on the premises, who have preference over outsiders, and the other for outsiders. Families with children under the age of 18 are given priority for two-and three-bedroom apartments.

Melinda Moore, chairwoman of a committee called Morningsiders for the Integrity of Our Community, said she had collected more than 350 signatures opposing open market sales.

"Everyone is for affordable housing when they need it, but it shouldn't be like a lottery ticket in that you get the apartment and then you sell it for $400,000," she said. "It is a question of basic fairness. We got a good deal, and we believe others should have the same opportunity,"

Ms. Moore, a graphics designer, and her husband, George Stack, the chief engineer for a financial service company's television facility, bought their apartment, a three- bedroom unit that she calls "my trailer in the sky" because of its layout, in 1994 for $115,000 when they and their two sons outgrew their previous apartment.

"We would have had to leave the city otherwise," she said. "Where else could we get a three-bedroom two-bath apartment for $1,700 a month, including the mortgage, maintenance, electricity and indoor attended parking?"

EMILE ZEN, an accountant, who lives in a two-bedroom apartment with his wife, Anjani Shah, a cell biologist, their daughter, Naima, 5, and son, Nayan, 2, and whose parents bought an apartment there in the mid-1960's, is among those who fear that open market will tilt the finely balanced demography at Morningside Gardens.

"This is probably one of the best integrated housing communities — racially, culturally, socioeconomically," he said. "There are probably some very successful professionals who are beyond middle income and some who are borderline working poor or lower."

He too believes that "the specter of maximizing capital gains is very intoxicating."

"Sure I would like to get more than the maximum resale price," he said, "but we must think of what we've gotten as a gift. People who bought apartments here for $2,000 and $3,000 can now get almost $200,000."

Suggestions that they are motivated solely by the desire for a windfall anger the open market advocates.

"A lot of people are afraid to say publicly that they are for open market because they don't want the label `greedy,' " said Cynthia LaCaprucia, a Legal Aid Society lawyer and co-chairwoman of the Committee for Open Market. "What they are really thinking of is not their own greed but keeping it affordable for the people who already live here."

If there is one point on which both factions agree, it is that Morningside Gardens will never be overrun by the kind of status- seeking, affluent buyers who want concierges, on-site health clubs and prestige addresses. As Mr. Zen said: "There are mitigating factors. We are next to a noisy elevated subway and next door to public housing."

Some residents contend that Morningside Gardens, which unlike other middle-income co-ops never instituted income ceilings on its buyers, has already traveled much of the distance to open market.

As Ms. LaCaprucia put it: "Even though our prices may be middle income, we have no income cap, so we are keeping our apartments affordable for people who may not even be middle income. Let's look at the finances of people moving in here so we're really giving them to people who need them.

"And if our goal is to keep apartments affordable to insiders, then we can accomplish that by going open market and raising flip tax money so we can fund capital improvements and other amenities."

What will ultimately happen seems unpredictable. Even the question of deciding to make a decision is contentious. Going to market rate would require that Morningside Gardens' bylaws and possibly the proprietary lease be amended and then submitted to the entire body of shareholders for a vote.

"We need 51 percent of all the shareholders, not just of those voting, to approve it," said Allen Mellen, co-chairman of the bylaws committee. "To do the cumbersome and expensive task of redrawing the bylaws, we need some conviction that they would likely pass. The committee is not interested in doing work just to get an opinion poll." In the meantime, he said, he intends to test the waters of support by studying petitions collected by both camps.

After three years, that is just what infuriates the proponents of change. "It is important to the community and the democratic process that shareholders be given the opportunity to deliberate and vote," Ms. LaCaprucia said.

"It is not enough for leadership to respond by stating that `we don't know in advance that the proposal will pass, therefore we are not going to do anything.'"

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