

**NEW YORK CITY CASE STUDY SUMMARY**  
**THIRD PARTY TRANSFER INITIATIVE: A SOLUTION TO PROPERTY ABANDONMENT**

**OVERVIEW:**

The City of New York has made great strides in an ongoing effort to put lien encumbered residential buildings back on the tax rolls and back to good use. While tax liens against relatively stable properties are packaged and sold to investors, the Third Party Transfer Initiative was created to ensure the expeditious transfer of distressed, tax delinquent properties to responsible third parties, accompanied by development assistance from the City for third parties receiving properties. In the South Bronx, where a pilot third party transfer program is in its final stages, the positive impact of the new system is already evident.

**MODEL ELEMENTS OF NEW YORK'S SYSTEM:**

**1. Enabling Legislation:**

In 1996, New York City adopted Local Law 37, which allows the Commissioner of Finance to sell tax liens on tax-delinquent residential buildings and allows the City to convey distressed properties directly to responsible third parties without taking title itself. This legislation is what made the Third Party Transfer Initiative possible.

- When the Department of Finance determines, based upon objective criteria, that a lien encumbered building is in distressed condition, it can initiate an *in rem* foreclosure action and require the owner to pay owed taxes under the threat of losing their property entirely.
- If the owner still does not pay, the Court renders an *in rem* judgement and the City is then free to convey the property to a responsible third party with intent to rehabilitate the building to provide decent, affordable housing for \$1.

**2. Neighborhood Restore**

The Local Initiatives Support Corporation, in collaboration with others, established Neighborhood Restore, a vital part of the Third Party Transfer Initiative. Neighborhood Restore is a nonprofit organization with a board of directors comprised of representatives from leading financial institutions, CDCs and intermediaries. Neighborhood Restore:

- Acts as an interim owner of distressed properties for approximately 12 months, allowing the City to meet the 8-month deadline mandated by law for transferring properties.
- Establishes management agreements with new managers and potential owners it selects in consultation with the City of New York, and assists them in making needed property improvements during the interim ownership period.
- Allows for rehabilitation financing to be arranged, necessary legal documents to be prepared, and properties to be stabilized before the final property transfer is made to a responsible owner selected through a public request for qualifications process.
- If Neighborhood Restore is unable to transfer ownership of a property to a third party, it has the right under its agreements with the City to exercise an absolute put. The put requires that the City take title to the property and manage it in its inventory of partially occupied or vacant buildings.

**3. Financial Incentives for New Owners**

- Lien forgiveness.
- Low cost of acquiring and rehabilitating buildings through the Third Party Transfer Initiative as compared to on the open market. The City of NY provides subsidy for the development of properties disposed through Neighborhood Restore.
- City and federal funds are blended with private financing to reduce the cost of loans (for example, the Department of Housing Preservation and Development's ("HPD") Participation Loan Program combines market rate financing from banks with federal funds and City financing at 1%.
- Tax incentives:
  - Non-profit status of Neighborhood Restore allows for full property tax exemption during interim ownership period.
  - The City can designate a property as an Urban Development Action Project, providing a twenty-year period of tax exemption on building improvements.
  - After rehabilitation is complete, HPD's J-51 program provides further tax incentives.

**IMPACT:**

- Over \$6.4 million in back taxes have been collected.
- 46 buildings have been transferred to responsible for-profit and non-profit owners.
- A multitude of significant improvements have been made to previously distressed buildings including the repair and/or replacement of boilers, appliances, windows, doors and floors.

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During the 1960s and 1970s, many apartment buildings in New York City's most distressed neighborhoods were abandoned. Like many Northeast and Midwestern cities, New York City's economy was undergoing a dramatic, wrenching transformation involving the loss of hundreds of thousands of manufacturing jobs. Inflation rates were high, fuel costs rising and conventional bank financing difficult to secure, and as impoverished minorities moved into inner-city neighborhoods, many working families moved out in search of better living conditions in other neighborhoods or the suburbs. The combination of these factors made it difficult for building owners to obtain an adequate return on their investment. Often, this would lead to unpaid property taxes and neglected buildings.

To stem the tide of abandonment and decay, the City reduced (through legislation) the period of time an owner could not pay property taxes to one year. Utilizing *in rem* foreclosure proceedings, it proceeded to take title to thousands of units of housing, both vacant and occupied, throughout the City. By 1986, when Mayor Koch announced a 10 year \$4.2 billion dollar housing effort, primarily financed with City funds, the City owned over 53,000 vacant units of housing and over 30,000 occupied apartments. Subsequently, the City's stock of *in rem* properties was systematically reduced under an array of disposition programs utilizing the talents of for-profit and nonprofit developers, including community development corporations. In the mid-1990s, the New York City Department of Housing Preservation and Development (HPD) developed the Third Party Transfer Initiative to further privatize this effort.

The backbone of the Third Party Transfer Initiative is Local Law 37 of 1996, which reformed New York City's property tax foreclosure authority. In addition to allowing the City to sell tax liens, Local Law 37 enables the City to directly transfer distressed, lien encumbered properties to responsible third party owners who have been selected based on a proven track record of sound property management. In doing so, the City avoids the costs of ownership and preparing properties for sale, and the selection of responsible owners gives hope for a long-term solution, an end to the cycle of abandonment. The new legislation also allows the City to initiate *in rem* actions that strategically target critical areas as small as one city block. In addition to facilitating the direct transfer of distressed properties to third parties, the new legislation was designed to encourage delinquent owners to pay taxes owed under the threat of losing their property.

If the City fails to transfer the property within eight months after a foreclosure judgement has been entered, the property automatically remains in the possession of the original owner. Due to the complex nature of the property transfer process, the eight-month deadline would be very difficult to meet if it were not for Neighborhood Restore. A vital part of the Third Party Transfer Initiative, Neighborhood Restore is a non-profit entity established by the Local Initiative Support Corporation and the Enterprise Foundation, which has a Board of Directors comprised of representatives from those two intermediaries, CDCs and major financial institutions. Neighborhood Restore aids the City in transferring properties to third parties by acting as an interim owner. During a twelve-month interim ownership period, Neighborhood Restore establishes management agreements with newly selected owners and assists them in making needed property improvements. The interim ownership period allows potential buyers to arrange rehabilitation financing and prepare legal documents, and the opportunity for properties to be stabilized before the final property transfer is made.

The City of New York takes numerous measures to ensure that the transfer and rehabilitation of properties under the Third Party Transfer Initiative is financially viable. Under the Third Party Transfer Initiative, properties are sold to new owners for \$1 a building, eliminating the cost of acquisition. The City also forgives existing property tax liens, as well as water and sewer violations. In addition, HPD targets low interest rehabilitation loans to properties in Neighborhood Restore's inventory.

To reduce the cost of rehabilitation financing, HPD's Participation Loan Program combines market rate financing from banks with federal and City funds. There are also various tax incentive programs that reduce the financial burden on new owners, thus alleviating the need to raise rents. Because Neighborhood Restore is a non-profit entity, the properties under its ownership are eligible for full property tax exemption. In addition, if the City Council designates a property as an Urban Development Action Area Project, tax exemption on the building improvements (not on the property itself) is conferred for up to 20 years, including a 10-year phase-out period. HPD's J-51 program also provides a variety of tax benefits after rehabilitation is completed. In addition to financial assistance provided through the Third Party Transfer Initiative, it is important that the newly selected owner is able to obtain private financing. Once the new owner obtains private financing, the City blends it with City Capital Budget funds in order to enhance affordability.

The success of the Third Party Transfer Initiative has been three-fold. Firstly, it has been effective in facilitating the payment of back taxes. In a pilot program in the Bronx, the City initiated *in rem* action against 174 tax delinquent properties. Before the end of the repayment period, half of the owners either paid all back taxes or agreed to make regular payments. So far, more than \$6.4 million in taxes has been collected as a direct result. The Third Party Transfer Initiative has also been effective in

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transferring previously blighted properties to responsible for-profit and non-profit owners. Among the properties that remained tax-delinquent, 46 were transferred from negligent owners to new owners with proven track records of responsibility and effective building management. The impact of the new management has greatly improved the quality of life for tenants. A few of the many improvements made include the immediate replacement of failing boilers; the removal of lead paint; the repair of windows, doors and floors and the repair or replacement of broken appliances. Finally, the Third Party Transfer Initiative has resulted in faster turnaround times. In the Bronx pilot program, it took only 26 months from the date the properties were included in the *in rem* action for the final transfer to be completed, providing a quick remedy to a potential blighting influence on the surrounding block and neighborhood.