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# New York's Ongoing Housing Madness

May 11, 2016 / Francis Menton

I often think that there can't possibly be anything madder than the idea that our government can "save the planet" by forcing our most cost-effective power plants to close, subsidizing the building of thousands of windmills and intentionally inducing the tripling of everyone's energy bills. But then I see another day's news about developments in the world of government intervention in the New York housing market. Which is more insane? You be the judge!

Regular readers here know that the New York housing market is characterized by

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vast distortions arising from large amounts of subsidized public housing plus a rent-regulation regime that covers about half of private rental apartments. Many of the rents in the regulated apartments over time come to diverge significantly from market rents, causing landlords to have strong incentives to induce the regulated-rent tenants to leave, and thus in turn causing ongoing conflict and acrimony between the landlords and the tenants. Just a few days ago I remarked on the obliviousness of the New York Times, when it ran a lead story supposedly discovering a new trend of landlords becoming chummy with their tenants, without noticing the obvious fact that every identified case of such chumminess involved an apartment outside the rent regulation system. Over on the regulated side, you can be very sure that the landlords and tenants are not chummy.

So yesterday comes news that Eric Schneiderman has indicted one of the larger landlords of rent-regulated buildings in Manhattan, a guy named Steve Croman. Schneiderman is that ultimate scion of Manhattan, our prep-school-progressive AG (son of long time Cahill Gordon presiding partner Irwin Schneiderman). Like all NY AGs (and probably like all AGs everywhere), Schneiderman's main business is trying desperately to generate headlines to keep

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himself in the news and advance his career. (Most recently he has been seen investigating Exxon Mobil for supposed "fraud" in not sufficiently toeing the government line on climate change.) And Croman? It seems that Croman has in recent years been a very aggressive buyer of older apartment buildings in Manhattan that contain large numbers of rent-regulated units. The buildings are predominantly in the downtown area, including many in my own West Village neighborhood. Here is a list of well over one hundred buildings that Croman's entities allegedly own.

It seems that Schneiderman has brought not just an indictment against Croman, but also a civil suit. The indictment and civil complaint do not appear to be available online, but here is the summary from the AG's press release. From the press release, the gist of the matter would appear to be "fraud" and "tenant harassment." Some of the conduct Croman is alleged to have committed against his tenants is, to put it mildly, not pretty. At the same time, there are some very strange things about the AG's two legal proceedings:

- None of the alleged "harassment" committed against tenants is the subject of the criminal indictment; instead, the "harassment" is the gravamen of the civil complaint. The

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subject of the indictment is alleged "bank fraud" because, in connection with some \$45 million of bank borrowings to buy buildings, "*Croman allegedly submitted false mortgage documents to New York Community Bank and Capital One Bank, including rent rolls that falsely reflected market rate rents for units that were actually occupied by rent-stabilized tenants.*" Funny, but I can't find any report that any of the loans is in default, or any report that there is any dispute between Croman and his lending banks. Were the alleged "false mortgage documents" doctored historical records, or were they projections (essentially, projections that the landlord would be able to induce many of the tenants to leave)? They don't say. Has it now become "fraud" to make a projection that assumes you can induce a certain number of rent-regulated tenants to leave?

- On the civil side, the main allegations of "harassment" turn out to be -- brace yourself for this -- that Croman and his agents offered his tenants money in return for their moving out. The horror! "*[Croman] [h]arass[ed] tenants into surrendering their apartments—and their rights under the rent-stabilization laws—in exchange for 'buyouts.'*" And it gets worse: he gave his employees

incentives and bonuses if they could get tenants to agree to buyouts! ”

*[Croman] [i]ncentiviz[ed] his employees and agents to obtain buyouts, at the expense of their other responsibilities.*

*Employees allegedly refer to rent-regulated tenants as 'targets' and compete with each other to obtain the most buyouts.”*

Now, I don't know everything that Croman may have done here, and it's not my purpose to stand up for him specifically. But I do find it rather telling that our very over-the-top AG, announcing the biggest "tenant harassment" case ever, could not find a single thing that Croman allegedly did in the "tenant harassment" category that he thought was worthy of a criminal charge. And even as a civil charge, can it really be "harassment" to offer someone money to move out, even if you do it repeatedly and insistently and the amounts you offer are low? More generally, suppose that Croman's "harassment" went well beyond merely offering buyouts, and that he made life difficult for tenants, such as by failing to move quickly when the heat did not work or the plumbing was leaking. Do the people who keep the rent regulation laws in place not realize that the Cromans of the world are the inevitable consequence of their efforts to create a world of perfect fairness through government decree?

Croman comes to own more than 100 buildings in lower Manhattan precisely because he is willing to pay more than competing buyers; and he can pay more than competing buyers precisely because he is willing to use more aggressive methods than others to achieve vacancies and thereby get rents up to market. And thus in the world of rent regulation the decent landlords over time get replaced by the Cromans and contentiousness and acrimony between landlords and tenants become the inevitable norm. Oh, except in the unregulated piece of the market, where the New York Times is shocked to discover that landlords and tenants are friends.

So is it possible to top the Croman phenomenon as New York's housing madness of the week? Actually, I think I can do it. Just about a year ago I posted on a big report from the de Blasio administration, then just out, called NextGeneration NYCHA. (NYCHA is the New York City Housing Authority, operator of most of the low-income HUD-subsidized housing in the City.) Using data from the report, I described the "accelerating financial collapse" of New York's low income public housing: \$2 billion annual shortfall of rent to cover operating expenses, only partially covered by HUD subsidies, leaving a multi-hundred million dollar and growing annual deficit; \$16 billion of identified and

unmet capital needs, with no source of funds to pay for them; zero property tax contribution to the City; hundreds of thousand of residents living on some of the world's most valuable real estate and receiving massive subsidies, yet in "poverty" with no way to escape. NYCHA had hit the inevitable terminal phase of the socialist death spiral. (The "solution" to the crisis proposed in the City's report was basically to move many of the expenses off NYCHA's budget and hide them in the budgets of other agencies. There has been no further word from the City on how this is going.)

So what is the housing madness of the week? We're going to build yet more low-income public housing! From the New York Times on May 5, "500 Low-Income Apartments to Rise on Housing Authority Land":

*[T]he de Blasio administration plans to announce on Thursday that it will lease public housing land to build nearly 500 apartments for low-income tenants, most of them elderly. The apartments will be in three buildings that will rise up to 16 floors in the parking lots and grassland of housing projects in Brooklyn and the Bronx.*

Now exactly why won't these new low-income apartments promptly enter the same inevitable socialist death spiral that

has sapped the older generation of projects? The Times article gives no clues as to the financial model to be followed for the new buildings, other than to say that the City expects to *"generate up to \$200 million in fees from developers over 10 years."* OK, but where will those fees come from? There's no chance that tenant-paid rents from such a project will cover operating costs. Therefore, they are anticipating HUD subsidies that will cover all shortfalls -- of course with enough extra to pay the \$200 million in fees plus profits for the developers -- and also of course will increase regularly over time as expenses go up, and finance capital improvements when needed, and never be subject to cuts from a skeptical Congress that figures out that the taxpayers are getting scammed. I guess that it has worked out so well thus far that it is time to double down!

UPDATE: A reader writes to provide this link to the Croman indictment. It is an extremely unenlightening document, other than to confirm that nothing about the "tenant harassment" allegations finds its way into the criminal charges.

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## Just Speculating

4 months ago

I look at America's Housing Crisis, which is a term to describe the astronomical rent that many of its citizen pay, to be a combination of several ailments, that have been swept under the rug for too long, and it's now coming to bite the dust of the entire nation.

First, the rampant greed of landlords comes from a limited supply of housing stock to meet an over demand, which is the result of

demographic shifts like "White Flight", where a certain group avoids a disparate and dysfunctional area, inhabited by another group with whom they find disagreeable. Second, is the nature of work, cosmopolitan cities offer the most employment opportunities, and one normally tries to find a livable area, in proximity to their place of employment, in order to avoid long commuting times. Third, which is similar to the preceding reason, is the ease of access to amenities like food, where consumers desire more and better choices, offering tasty and healthier fare for those who want it. All of this comes with a price, and it appears many are seeing much of their livelihood going into rent, restricting them from accessing the perks, that comes with living in a desirable area, in the 1st place.



**Ray** 5 months ago

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(The "solution" to the crisis proposed in the City's report was basically to move many of the expenses off NYCHA's budget and hide them in the budgets of other agencies. There has been no further word from the City on how this is going.)

Isn't that what the management of Enron did? Moved the losses off their books to make ENRON look profitable. How did that work out for Enron or their accounting company? I seem to recall the IGNOBEL awards gave Arthur Anderson, the accountants for Enron, the mathematics award for the use of imaginary numbers in accounting.

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