New Landlord, Old Tenants, Hard Questions

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Innovative tactics in converting an S.R.O. residence to a hotel.

By ALAN S. OSER

"IT was a beautiful offer," said Marie Johnson, a former homeowner from Queens and a tenant since 1991 at the Martha Washington Hotel. "But some of the women did not believe it was possible. They thought he was tempting us and would not live up to his promises."

The developer in question, Kevin P. Maloney, is now in the process of trying to live up to those promises, made to 83 longterm tenants at the Martha Washington. These tenants accepted an offer under which their rooms will be upgraded and re-equipped and they will be able to stay as long as they wish at no increase in rent. In return, they backed the developer's application for a certificate of no harassment to permit the conversion of the single-room-occupancy Martha Washington into a modern tourist hotel.

The building is near the middle of the block between Madison Avenue and Park Avenue South, with entrances on 29th and 30th Streets. Mr. Maloney and his partner, Mel Feldman, principals in the Manhattan-based Property Markets Group, paid $18 million last year to buy it from Bernard Sillins, a longterm owner-operator of single-room-occupancy hotels. Three-quarters of its 423 rooms, most of which have no bathrooms, were vacant at the time. The conversion is creating the Hotel ThirtyThirty, with 370 modern rooms and suites. Its first three floors are scheduled to open in April.

While 83 of the tenants supported the conversion plan, 37 did not. The 29-member Martha Washington Tenants Association, represented by MFY Legal Services, which provides free legal services to tenants under a city contract, charged harassment by the owner. It demanded as a remedy that the owner agree to keep 150 rooms permanently at a rent level affordable to low- to moderate-income singles. But Property Markets Group received the certificate despite the charge, after which it declined to give the tenants that MFY Legal Services represented the same deal it gave the signing tenants, noting that they had rejected it over a period of eight months. There are 13 such tenants, according to Property Markets Group.

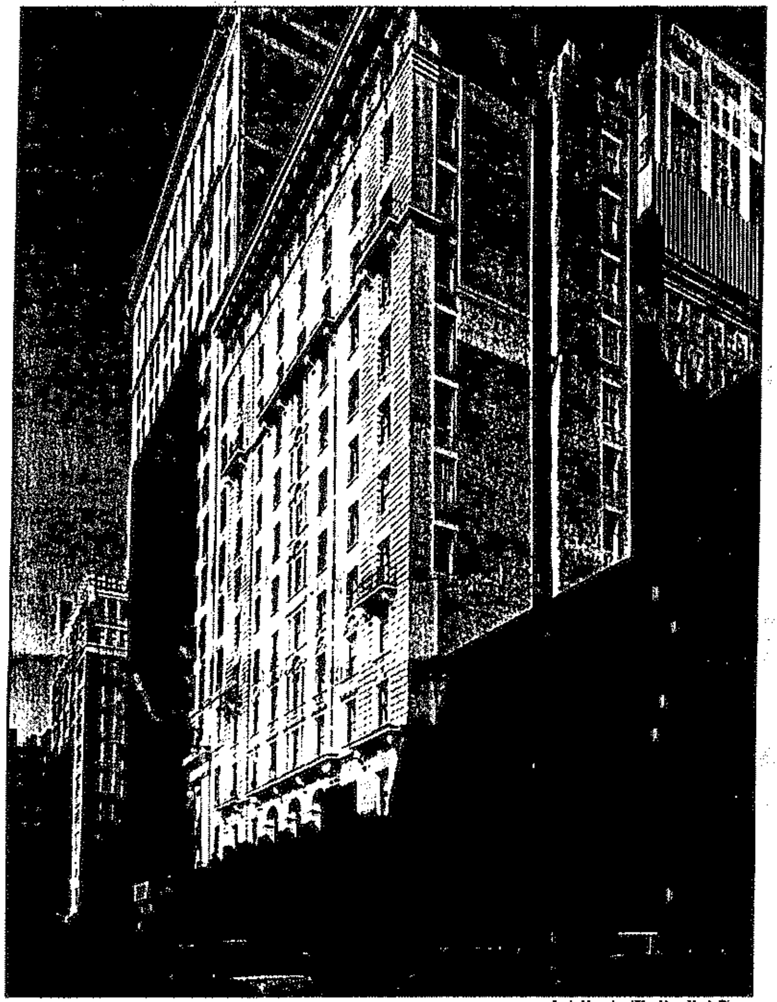
Now MFY Legal Services is in court, claiming that the certificate of no harassment is invalid. The certificate is a prerequisite to making significant room alterations in an S.R.O. hotel. Without it, the developer cannot get a permit from the Department of Buildings to add bathrooms to any rooms, whether vacant or occupied.

The owner's refusal to make anything other than a "punitive" offer once it had its certificate of no harassment left the tenants association no alternative to filing the lawsuit, said Janet Ray Kalson, the MFY Legal Services attorney. In the suit the tenants association maintains that the housing agency erred in failing to hold a public hearing on the harassment charges. The agency replies that it found no reasonable cause to believe that harassment occurred, and therefore no hearing was required. Justice Charles J. Tejada is hearing the case. An unfavorable decision could block the scheduled hotel opening in April.

One question that the Martha Washington situation raises is whether it is in the interest of single-room-occupancy tenants who think they have been harassed in a conversion to insist on a remedy that is unrelated to their own welfare as tenants. If the charge fails, the tenants may be left with nothing but the status quo. And it is unlikely that they care what happens to future rents in their rooms once they move out.

Another question is whether it is sound to attempt to "preserve" obsolete housing in buildings that have been given substantial economic value by the upsurge in Manhattan tourism.

At the Martha Washington, Property Markets Group estimates the total cost of its conversion effort at $49 million. Allocated across the 370 suites and rooms the company is creating, the acquisition alone amounted to an investment of $48,000 per unit, or "key," in the language of the hotel business. The total costs, including construction and the fees and services that constitute "soft" costs, come to $130,000 a unit.



Jack Manning/The New York Times

The East 29th Street side of the Martha Washington, which is being converted to a tourist hotel at an estimated cost of $49 million.

For the public sector to match the acquisition price, it would have to have made or backed a competitive offer from a nonprofit group of at least $42,550 a room ($18 million for the 423 existing rooms). Nonprofits rarely pay more than $10,000 to $15,000 a room, and usually take much longer than a private buyer to close on a purchase.

It is not that the city has been inactive in helping to create or maintain single-room-occupancy housing units. Over the last 12 years a total of 5,548 S.R.O. units in 59 projects have been completed with city or state funding or both, figures from the city's Department of Housing Preservation and Development show. Twenty additional projects with 1,200 housing units are in construction or renovation, the agency says. Under the city loan program, 60 percent of new tenants must come from the city's shelters; the rest are neighborhood residents.

The S.R.O. housing unit is typically a tiny one-room apartment with no private bathroom or kitchen, although new publicly assisted units often have both bathrooms and kitchen equipment. Using the broadest definition of an S.R.O. unit, a study done for the city in 1993 found that there were 46,700 such units citywide. Seven percent of them were found to be in dilapidated buildings.

"When the real estate market is high it's difficult to preserve this resource," said James A. Krauskopf, president of the Corporation for Supportive Housing, a national organization that supports service-enriched housing for homeless and disabled people. In his view, consideration should be given to placing a moratorium on conversions of S.R.O. buildings to standard modern hotel rooms "unless the cap can be raised on the total development cost allowed per unit under the S.R.O. loan program."

THE city's cap currently stands at $95,000 per developable housing unit, a figure that includes both acquisition and rehabilitation costs. After acquisitions, the buildings generally require a substantial level of rehabilitation to rooms, building systems and common areas. For buildings that appeal to the private market, the nonprofits usually have no way to compete, mainly because of cost. But it also takes about nine months before city underwriting is complete, rent-assistance subsidies are committed, a loan is authorized and a sale can be consummated. Sellers prefer buyers who can make rapid commitments.

"I don't think we should be trying to compete in the private market for high-cost buildings," said Claire Haage, president of Housing & Services, which manages 700 units of supportive housing and acts as developer for nonprofit housing organizations. "But we should be trying to get hold of more buildings and vacant land that the city owns and no longer has use for. And we should also be building new housing."

While insisting that the law against ha[rass]ment must be vigilantly enforced, Ri[ch]ard T. Roberts, the city's housing comm[is]sioner, said that it was not possible in a healthy real estate market to preserve a[ll] single rooms permanently for low-incom[e] occupancy. "We have a supportive-hous[ing] production program, not a single-room-o[c]cupancy preservation program," he said. This will increasingly include new const[ruc]tion of units for low-income singles, he s[aid].

At the Martha Washington, a small gr[oup] of pro-rehabilitation tenants, dissatisfied with MFY Legal Services' representatio[n of] the tenants association, organized on the[ir] own, and with financial help from the dev[el]oper hired their own lawyer, Mitchell H. Kossoff, a partner in Kossoff Alper & Un[...] in Manhattan. From a one-page letter th[at] covered the basic benefits, he negotiated [a] detailed contract that the 83 tenants sign[ed] over a period of six months. He also repr[e]sented the pro-conversion tenants in publ[ic] meetings, hearings and court proceeding[s].

"We needed to find a lawyer who had h[an]dled a case of this nature," said Brenda Waites Bolling, a hat designer who has li[ved] at the Martha Washington for 10 years. M[s.] Bolling took a leading role in finding a pri[]vate lawyer. "I realized we were getting [an] offer that was just unbelievable, and I ha[d] faith in Mr. Maloney, although some peop[le] did not trust him," Ms. Bolling said.

For no increase in rent, the tenants wh[o] signed up are to get full bathrooms, color television with free cable service, free air conditioning, and new or relocated closet[s]. During construction the tenants are offer[ed] refinished rooms within the hotel. But the[y] are not obliged to move out of the own rooms. If a tenant decides not to have a pr[i]vate bathroom, a public bathroom is to re[]main on that floor.

Tenants who move during construction may move back to their room when it is completed. During the reconstruction the[y] pay no rent. Current rents range from $22[...] to $700 a month, and average $450 a mont[h], the management says. When and if the ro[om] is vacated, it becomes part of the general [in]ventory of hotel rooms, for which guest rates are expected to average $130 a night.

Property Markets Group, through a div[i]sion called the Citylife Hotel Group, also owns and operates the 300-room OnTheAv[e] Hotel, a reconstruction of the former Broa[d]way American Hotel at Broadway and 77t[h] Street, and Habitat Hotel at Lexington Av[e]nue and 57th Street. The Habitat is the for[]mer Allerton Hotel, a 430-room S.R.O.

Property Markets Group was denied a certificate of no harassment at the Allerto[n] last year after a finding by the housing agency that harassment had occurred under the former ownership.

After a three-year wait, an owner can re[]apply for a certificate of no harassment. "We're going to offer the tenants there a program similar to the one we offered at t[he] Martha Washington," Mr. Maloney said.