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ANARCHO-CAPITALIST RANTS WITH A FOCUS ON REAL ESTATE, BOOKS AND TECHNOLOGY

FRIDAY, APRIL 29, 2005

The Rug Merchant of Persia



It was around the passover dinner, that my dad mentioned to me that my "friend", Mr. Fred Ohebshalom, was featured in the NY Post for having the worst reputation as a slum/landlord in New York City.

I've only met with the guy once, when trying to "flip" him 50 condo units in a Downtown Miami waterfront project known as Cite. (I put flip in scary quotes because the building was of then,

nonexistent, and I never had a financial stake in the project, other than trying to sell him onto the deal for the developer.)

So anyway, the story goes that he owns about 90 apartment buildings in NYC, and allegedly he does everything he can to rid the buildings of rent stabilized and rent controlled tenants. You see, because in NYC, we have this WWII-era emergency legislation (which must be renewed, and is continually renewed every year since) which put a freeze on apartment rents all over NYC. It also alleges to protect the tenants, by making it close to impossible to evict them.

A building owner has limited recourse to achieve market price on the rental units. The general guidelines are as follows; when a monthly rent reaches \$2,000, a unit can be converted into

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"free market" and the owner can begin asking whatever the market will bear, and begin to evict the tenants if they no longer want to pay the market price.

In a case where the rent is nowhere near the \$2,000 mark, the owner can do several things to increase the rent. If the owner makes improvements to the building, he can increase each rent by 2.5% of the costs for the improvement. The owner can also bargain with tenants, by paying them money to leave or to relocate to a different unit. The tenants may find it favorable to leave a unit in an otherwise vacant building, or maybe relocate to another unit since their rate was closely approaching the "free market" rate and anyway were going to be eventually evicted.

Even once that unit is vacated, it must remain so for a minimum of 2 years, in order to deregulate it. Only then can it be delisted from NYC's Division of Housing Community Renewal, the body which manages and regulates the yearly rental increases. For instance, the allowed increase this past year was 4%. It sounds like much, but then again some people are paying \$250 per month in places where market rent is twenty times the amount. Note that this policy leads to thousands of apartment units being placed into a legal limbo, and prevented from being available on the market. This policy will naturally cause housing demands to go unmet, and keeps the supply costs high.

My "friend", Fred goes the battle-axe approach. His management company buys rent-stabilized/controlled buildings, which are relatively cheaper than buildings with free market units, on the hope that he can evict those low-paying tenants and take the arbitrage as profit. His first order will be to make sure that everyone pays their rent on time. Any short or missed payments and the eviction notices and legal papers start coming. He threatens them with lawsuits if they don't leave, tacking on the legal costs.

He also investigates the tenants, to make sure every thing is

within the legal boundaries. If they find irregularities, such as sublets, unoccupied units, illegal improvements, etc. they will sue for eviction. He is also creative in this regard; he will hire a crew to ostensibly install intercoms, fix electric services or plumbing, etc., but at the same time these crews will document any illegal things they notice.

Evidently the tenants (both legal and illegal) of these buildings are upset about these overzealous practices and have initiated lawsuits to stop the alleged harassments. They have even found a few local officials sympathetic to the cause, perhaps to counter the efforts of Fred and other shrewd landlords like him, and to punish them for having the gall to be so meticulous about enforcing the vaguerities* of the rent control laws.

Whats my point?

Readers of this blog probably know where I stand on this issue. But for the benefit of newcomers, I will reiterate my position on rent regulation- it's legalized robbery. The property owner should have the sole discretion to determine what rental rate he wants to charge for the units. Of course he must abide to any agreements he made with tenants in regard to increases, common charges, etc.

But some people, such as my brother-in-law (disclosure: he is a rental broker) have a confused notion over this concept. He will agree in principle that property owners who were effected by the rent control laws when they were first enacted are being victimized since their property rights are being infringed upon. But he has also thinks that someone who buys a building after the enactment, knows what he is getting; and so the new owner "agrees to the rent control laws", and therefore subject to abide by them.

This is the absurdity I wish to demolish.

If we are agreed in principle, that rent regulation are a form of legalized robbery, there is no room for assumptions about the moral sanction of buyers to the existing rent laws.

Let me give you a different scenario. A shop owner named Joe has a jewelry store on Neptune Ave in Coney Island, Brooklyn; the thick of a russian mafia territory. Every month like a good citizen, aside from his mortgage payment, he also pays a tributary to the local protection racket, in order so that his store and person isn't subject to arson, robbery, theft, busted kneecaps, murder, etc.

Now lets say Joe wants to retire and sell his shop to Michael- would you say that Michael gave his moral sanction to the mafia? After all he knew about the "protection" service prior to purchase, and therefore according to the *moral sanctionists*, he **agreed** to abide by them.

In the same fashion, there is no concept of implied moral sanction between victim and agressor, be it government bureaucrat or the common ruffian. Just because a person bought a property, or lives within a geopolitical system, it does not imply that he agreed to abide by the corrupt law system in place.

*vaguerities - is this a proper English word?

POSTED BY ICEBERG AT 2:44 AM

2 COMMENTS:

Anonymous said...

vagaries is the word you're looking for.

3:38 PM

iceberg said...

Thank you Sir Anonymous, but are you sure that "vagaries" is the right word?

The definition given on dictionary.com is "An extravagant or erratic notion or action."

My usage of the word would not then seem to fit in the

sentence, as there is neither anything extravagant or irregular

about property owners following the rent regulations to the letter of the law.

What I do wish to connote is that there are obscure legal opportunities that these landlords attempt to uncover and use against the tenants.

My personal feelings regarding the whole tenant-landlord relationship is that if people are going to play by the sword (i.e. using government to their advantage), they ought to accept the consequences and be ready to be dealt the sword sometimes too.

6:19 PM

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