

Island House Tenants Association, Inc.

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<http://islandhouse.us>**Date:** June 14, 2007**From:** IHTA Board**To:** Members**Via:** Door Drop, Glass-Case Posting, Web Posting**Subject:** Newsletter

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Our Negotiations Are Going Forward!

Current Status

Over the last month, you have read two major articles and interviews with RIOC and DHCR in the WIRE about the continuing conversion process of the WIRE buildings. Much of the focus has been on Westview; leaving some with the wrongful impression that Island House is lagging behind. This is very much contrary to the reality!

In fact, David Cabrera, Deputy Commissioner for DHCR, contacted IHTA about two weeks ago to find out how far we had gotten in developing an innovative affordability plan. When we subsequently met with him to explain, he was impressed and offered to assist in whatever way possible. When we shared the same update with Steve Shane later that day, he, too, was optimistic about our proposal. As a result of that meeting, he decided to get an appraiser to determine the fair market value of the WIRE buildings. This will take approximately one month. CPC and DHCR are working together to determine the kind of financing available to us.

Once we have a comprehensive package together that includes affordability, financing and a reasonable timetable, we will be able to reconvene a three-way meeting with Charles Lucido and RIOC. At that point, we believe that our outcome will serve as the prototype for other WIRE buildings. So, our negotiations are going forward!

Background Leading to this Juncture

As we shared with the tenancy during the IHTA Members' Information Meeting of May 22nd, the following steps had been made up to that point:

1. April 17 Meeting with RIOC, Charles Lucido, and IHTA

We had our first face-to-face joint meeting with RIOC's President Steve Shane, Paul Mas and Charles Lucido on April 17th at the RIOC office. Shane, Mas and Lucido had already met during the previous hour. Included in our meeting were Deborah Widerkehr of CPC, Charles Lucido's lawyer, David Hirschorn, and RIOC's lawyer, Ken Leitner.

At this meeting, Shane said the following:

- He is committed to affordable tenant ownership of IH.
- He will manage the Ground lease, the tax equivalency payment (TEP) and DHCR by serving as the "one stop shopping" catalyst to all government agencies involved in this

process. He highlighted his very strong working relationship with the principals of all the relevant agencies plus Governor Spitzer.

- RIOC believes that the building's value is offset by the remaining years on the ground lease. He instructed Paul Mas to find out the current fair market value of the building.
- RIOC also believes that the brunt of the repair work on the building must be absorbed by Lucido and not the tenants.
- The vacant apartments are off the table. Funding of repairs must come from savings on the sale price.
- RIOC and DHCR can and will prevent any attempt to remove IH from Mitchell-Lama by Lucido or any other owner prior to agreement on sale terms to the tenants.

Charles Lucido's responses were:

- **At the April 17 meeting:** Lucido seemed to recognize that we would all have to adhere to the new terms set out by Shane. He recognized that Westview does not have a CPC-equivalent on their team and that he has more partners involved in the WV deal than with the Island House deal. Said he would have to share this new information with his partners and would have to inform WV of the outcome of our meeting.
- **In his April 18 E-mail to IHTA and WV:** Lucido said he would review Mas' actual numbers "to determine whether it makes any sense to evaluate a new deal with IHTA and WV". He ended it by saying "I remain willing to work with IHTA and WTI to reach a mutually acceptable structure; however, after yesterday's change in direction, I am not optimistic. Obviously, although ownership favors a tenant sponsored transaction, it will evaluate the other alternatives available to it. In the meantime, it can now continue with its withdrawals from the Mitchell Lama program."
- In his letter of April 23rd to IHTA: Lucido says that Letter of Intent (LOI) is void given the new framework of negotiations. However, Lucido agreed to negotiate on the basis that the overall LOI framework is sound and to negotiate on the price in good faith.

Lucido and Shane remain in tough negotiations concerning the purchase price.

IHTA's response at April 17 meeting:

- IHTA asked, "What is the timetable given that IHTA has been working on this for one year and WV for six months?"
- IHTA said it is willing to continue being the forerunner in effort of buildings to find solution to attain tenant ownership. Would continue having CPC work with Mas and Lucido's people on getting to a set of numbers that work with all sides involved.
- IHTA said that we had already built in our proposal the concept of long term affordability since March 2007.
- IHTA said that CPC and Mas exchanged some numbers although Mas' primary focus has been on getting a revised sale price from Lucido.

2. Subsequent meetings with RIOCR and DHCR leading to current status

- A non-negotiable point for DHCR/RIOCR is that our conversion plan must include two kinds of affordability — for current tenants/ buyers and for future renters and/or buyers.
- IHTA's plan was developed last September and already includes both of these provisions as laid out in a previous IHTA newsletter. It has received the approval of RIOCR's Real Estate Committee (REC).
- Negotiations proceed between RIOCR/DHCR and IHTA. We have asked Shane to reconvene a meeting with the three parties since it's been 30 days since we last met.
- Our overall sense is that our current proposal meets DHCR's major concerns, future affordability, a disincentive on sales upfront to discourage flipping and, overall, a plan they can publicly tout as meeting the Governor's affordability goals.
- DHCR accepts that buyers are entitled to build equity over time.
- RIOCR says that if DHCR is fine with our proposal, then RIOCR will be fine with it.

3. Differences between Westview and Island House

While we support Westview in its effort to reach tenant ownership, we separate our status from Westview for several reasons. Their deal structure is fundamentally different from ours in that:

- As stated in the WIRE article, they have no future affordability provisions in their proposal. This is something that we recognized several months ago as being critical to a successful sale.
- Our existing partnership structures are fundamentally different. Lucido has much more flexibility in Northtown Phase 2 to negotiate and agree on price.

- We want to see Westview succeed and continue to work with WTI. But, at the end of the day, our mission is affordable tenant ownership for Island House and all our decisions are based on that goal.

4. Strategy moving forward

- We fully expect to have to deal with many "unknown unknowns" moving forward. We are as frustrated as anyone at the slow progress of the conversion. However, we believe that at least we now have a process that can lead to close. We feel that because of the groundwork we have done over the last few months — developing a detailed proposal, projections, getting REC approval etc. — that we are now in the midst of serious negotiations.
- Until there is an impasse on the sale price, we don't believe we should publicly get involved in taking sides.
- We continue to refine our multi-page financial model that factors in every aspect of expense and income over the next 15 years (some 400 entries) including initial sales, subsidizing continuing affordable rentals, flip taxes, building maintenance needs etc..
- We are actively working with our real-estate consultants, CPC, RIOCR and DHCR on the financial details of the transaction. We see that as the critical incentive to both sides. As soon as they agree on an overall price, we are ready to move with a proposal that everyone has confidence can close as quickly as practicable.
- For renters, rents will be tied to rent stabilization board guidelines dependent on income as was outlined in the LOI.
- For buyers, our model still projects approximately a 25-40% pre-tax increase in total monthly costs (personal mortgage, maintenance, underlying mortgage and taxes).
- We believe our model is flexible enough to manage everyone's needs: continuing affordability for RIOCR/DHCR along with protected rents and affordable sales price with the potential of a reasonable profit on sale down the line.

New: IHTA Blog

If you would like to engage in dialogue regarding the status of the conversion, IHTA has created a blog at "<http://blog.islandhouse.us>". In order to ensure that the dialogue remains internal to Island House, you will have to enter that chat room via an individual password (one per apartment), which will be distributed to each apartment. Specific details regarding this process are forthcoming.