

Co-op Fever in New York City

Private cooperative apartment buildings have existed in New York City since 1909, but it was not until the mid-1960s that the market for these apartments came alive. Although this market has had its ups and downs since then, it has flourished in recent years. From 1976 until the end of 1979, co-op prices tripled and the number of co-op apartments increased sharply. Almost all the "new" co-ops have been converted from rental apartment buildings. This burgeoning conversion activity is all the more striking since other sectors of the city's housing market have been contracting. What makes co-ops so different? What explains their recent surge in popularity?

Overview of New York City's housing market

New York City's housing market has been in a state of upheaval for some time now. On the demand side, the total population of the city peaked at 8 million people in 1966 and since then has fallen by about 870,000 or almost 11 percent. The number of households has also dropped, but not so rapidly as the population because the size of the average household has been shrinking. Indeed, over the years, the number of single persons living in the city has grown sharply. Among those

households renting apartments, which represented 73 percent of all occupied housing in the city during 1978, 37 percent were single persons—up about 10 percentage points from 1965. (The most recent housing data for New York City are those from the 1978 survey.) In Manhattan, single persons accounted for slightly more than half of all households renting apartments.

While the population of New York City stopped growing in 1966, the number of occupied housing units (*i.e.*, both houses and apartments) continued to rise until 1970. Since then, there has been a loss of some 260,000 units from the existing housing stock, with more than half of the loss occurring between 1975 and 1978. The recent decline was concentrated in rental units and is mainly the result of deterioration, abandonment, and demolition. At the same time, there has been only minimal new construction. From 1966 to 1977, about 19,000 new dwelling units were added each year to the city's housing stock—fewer than half the average number added in each of the previous ten years, and not enough to replace the existing units being abandoned or torn down. On balance, after peaking in 1970, the occupied housing stock in New York City experienced a *net* decline of 130,000 units, slipping to 2.66 million units in 1978 (Table 1).

Compounding the problems in the housing market are New York City's extensive rent regulations. In general, the larger apartment buildings erected before 1947 are covered under rent controls, whereas those

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Table 1

Occupied Houses and Apartments in New York City

In thousands

Year	Total occupied units	Renter-occupied units	Owner-occupied units	Cooperatives*
1940	2,048	1,725	323	†
1950	2,358	1,908	450	†
1960‡	2,655	2,078	577	†
1965	2,720	2,077	643	76
1968	2,767	2,096	671	92
1970§	2,786	2,118	668	108
1975	2,719	1,999	720	143
1978	2,657	1,930	727	152

* This is the total of private and publicly assisted units. Also included are condominium units, which in 1975 numbered about 5,000 and represented less than 1 percent of the city's housing stock.

† Not available

‡ In 1960, approximately 75,000 one-room units were included which were omitted in 1950.

§ The data for 1970 were made consistent with those for other years by adjusting the 1970 data to exclude approximately 55,000 units in such special places as jails and hospitals where large numbers of people dwell and which require different survey procedures from those used for private homes or apartments.

Sources: Adapted from Chester Rapkin, *The Private Rental Housing Market in New York City, 1965* (1966), pages 1-2, Paul L. Niebanck, *Rent Control and the Rental Housing Market in New York City 1968* (1970), page 55, Lawrence N. Bloomberg, *The Rental Housing Situation in New York City 1975* (1976), page 62, and Peter Marcuse, *Rental Housing in New York City, 1975-1978* (1979), pages 77-78.

built since 1947 are subject to rent stabilization.¹ Of the city's 1.93 million renter-occupied units in 1978, 872,000 were rent stabilized and 402,000 were rent controlled. While these regulations have been relaxed to some extent in recent years, they still depress actual rents

¹ A maze of regulations covers rental apartments in New York City. In broad outline, the two basic forms of rent regulation are rent control and rent stabilization. Rents on private rental apartments built before February 1, 1947 are subject to approval by the city's Division of Rent Control. Under current laws, the rents on these units are allowed to increase in stages until the established ceiling is reached. When controlled apartments are vacated in buildings of six units or more, their rents are allowed to rise to the going market rates and are then subject to rent stabilization, however, in buildings of fewer units, the rents in general are totally decontrolled.

The rent-stabilization program is administered by the Rent Guidelines Board. Under this program, rents in newly constructed buildings are negotiated between the landlord and tenant, and increases are thereafter determined by the Board in conformity with an index of operating costs. For the most part, these laws cover vacated rent-controlled units, as well as apartments in buildings of six or more units built after 1947.

on apartments below what they would otherwise be.² As a result, there is little incentive to construct new apartment buildings or to maintain older buildings.

In contrast to the shrinking rental market, the number of homeowners in New York City has been increasing in both absolute and relative terms for the last forty years. For a long time, the rise in homeownership mainly involved single-family homes. Since the mid-1960s, however, most of the growth has been in multi-family cooperative buildings.

Co-ops: facts and figures

In New York City, there are two kinds of cooperative apartments—private and publicly assisted. Although publicly assisted cooperative units have outnumbered private units for a long time, the gap narrowed noticeably during the 1970s. In 1975, the earliest year for which detailed data are available, there were roughly 83,000 publicly assisted cooperative units and about 60,000 private cooperative apartments in the city, some 52,000 of which had been converted from rental units.³ Of the 35,000 "new" cooperative units added from 1970 to 1975, conversions accounted for about 16,000 units, while another 16,000 units comprised a single publicly assisted housing project.

Since 1975 the growth of private cooperative apartments in the city has accelerated, with almost all the "new" co-ops being conversions of existing rental units (Table 2).⁴ Indeed, in 1979 alone, the number of conversions was more than twice as many as the year before, while in 1978 the number had exceeded the total for the four previous years. Altogether, from 1975 to 1979, the stock of private cooperative apartments grew by more than one third.

Co-op conversions thus far have been concentrated in relatively well-to-do neighborhoods, especially in Manhattan, with the newer and more desirable buildings converting first. Lately, however, conversions have

² It has been estimated that, as a result of the rent-control laws, the total rental receipts for New York City housing in 1968 of \$2.6 billion were from \$500 million to \$800 million lower than they would otherwise have been. The lower estimate is from Edgar Olsen, "An Econometric Analysis of Rent Control", *Journal of Political Economy*, 78 (November/December 1972), the higher one is from I. Lowry, J. Desalvo, and B. Woodfill, *Rental Housing in New York City*, Vol. II, *The Demand for Shelter* (New York City Rand Institute, June 1971).

In recent years, however, maximum legal rents have risen by fairly substantial amounts. Indeed, for leases coming due during the year beginning July 1, 1979, the city's Rent Guidelines Board has set maximum increases on the city's stabilized apartments of between 8.5 and 15 percent.

³ These estimates are from HUD *Condominium-Cooperative Study* (Vol. II, Washington, D.C. July 1975).

⁴ These estimates, which are reported in Table 2 in the text, are compilations of the cooperative conversion plans accepted for filing in New York City. Most but not all these plans are realized.

been spreading to the other boroughs and into previously nonresidential areas of the city. Large loft areas in former manufacturing facilities as well as other commercial buildings are increasingly being turned into cooperative residences. Between 1977 and 1979, there were eighty-eight loft conversions registered with the state Attorney General, compared with a total of twenty-five from 1974 to 1976.

The legal basis for co-op conversions

Over the years, the New York State legislature has enacted a number of laws governing the conversion of rental buildings into cooperatives. One of the legislature's landmark bills was an amendment to the Martin Act passed in 1961. Under this amendment, every conversion offering for cooperatives located either within or outside the state had to be submitted to the Attorney General for approval if the offering or sale were made in or from New York State. All material facts had to be disclosed, including those pertaining to the financing of the offering, the background of the promoters, and any other relevant information as determined by the Attorney General.

Two kinds of co-op conversions were allowed under New York State law until 1974. One type did not require eviction and was known as an "outside-the-law" plan, even though it was perfectly legitimate. Under this plan, landlords waived their right to evict any non-converting tenants but were still permitted to convert the building into a cooperative. Those tenants who elected not to convert remained subject to the existing rent-control and rent-stabilization laws. Although no minimum proportion of tenants had been legally mandated for these noneviction conversions, landlords

usually sought to get consent of 15 percent of all apartments before proceeding.

The other method of co-op conversion involved eviction plans and required at least 35 percent of all tenants *in occupancy* to purchase their apartments. In those buildings with both rent-controlled and rent-stabilized apartments, the consent of 35 percent of each group of tenants was necessary. Alternatively, however, each group of tenants could be covered by a separate plan. In this case, an eviction plan required the consent of 35 percent of the group in question, while a noneviction plan needed the approval of only 15 percent.

To make it easier to achieve the minimum number of consents, some landlords began to "warehouse" their vacant apartments. That is, since the required minimum had been specified in terms of occupied units, landlords realized that they could expedite the attainment of this minimum by holding apartments vacant. Tenant groups complained about this practice, as well as about landlord harassment and building neglect.

In response to the numerous complaints, in 1974 the New York State legislature passed the Goodman-Dearie amendment to the Martin Act. Among the key provisions of this new amendment were those that eliminated "outside-the-law" conversions, imposed a two-year moratorium on the eviction of nonconverting tenants, outlawed the warehousing of apartments, and established a mandatory waiting period during which tenants could review proposed conversion plans.

The Goodman-Dearie amendment was allowed to lapse in mid-1977, whereupon New York's regulations governing co-op conversions reverted to the pre-1974 rules. Once again, both eviction and noneviction plans

Table 2

Cooperative Conversion Plans in New York City*

Year	Total number of projects involving:		Total number of units	Location of projects	
	Ten units or less	More than ten units		City total	Manhattan
1974	12	14	1,384	26	19
1975	18	12	704	30	27
1976	18	20	1,054	38	32
1977	35	44	1,757	79	68
1978	61	96	5,309	157	137
1979	104	145	12,578	249	196

* Counted here are the cooperative conversion plans which have been accepted for filing (i.e., approved) by the state Attorney General, the apartments covered under these plans are available for sale

Source: New York State Department of Law, Bureau of Real Estate Finance

were permitted. (The legal requirements for evicting rent-controlled and rent-stabilized tenants are summarized in the appendix.) In mid-1979, several new state laws pertaining to co-op conversions were enacted. One of these was designed specifically to protect elderly tenants, while another was intended to discourage landlords from warehousing apartments

Boom and bust: the 1960s and early 1970s

While co-ops have a long history in New York City, the first significant price boom did not occur until the latter half of the 1960s. At that time, buoyed by the expanding national economy and the rising stock market, the demand for co-ops burgeoned. As the available supply was limited, prices began to rise. Between 1966 and 1969, the asking price per room rose by almost 85 percent. After the economy peaked in 1969, the demand for co-ops waned and prices dropped precipitously. Asking prices fell by more than 33 percent, to about \$11,500 per room between 1969 and 1972.⁵

In addition to the impact of the national recession, other factors unique to New York contributed to the weak co-op market of the early 1970s. Apparently there had been some overbuilding of luxury apartments in New York at that time, and apartment rents were comparatively low, providing little incentive for homeownership. Rents became even more relatively attractive by the quadrupling of fuel prices in 1973-74. Co-op boards quickly passed along these fuel increases in the form of higher monthly maintenance fees. In rental units, however, the rise in fuel costs had to be absorbed by landlords, at least temporarily, until existing leases expired. At the same time, New York City's economy continued to contract at an alarmingly fast rate. Amidst this decline, the city government's fiscal plight created uncertainties over prospective real estate taxes as well as over the quality and quantity of municipal services, further dampening incentives for personal investment in the city.⁶

During this protracted period of inactivity in the co-op market, several efforts were made to revive the market. In some instances, building owners themselves provided short-term financing to apartment buyers. Indeed, prior to 1971, the only other financing available to prospective co-op buyers was short-term personal loans from commercial banks. But, since these loans were for a maximum term of five years and were gen-

erally made at very high interest rates, they were largely limited to the well-to-do and thus did not spur the slumping market.

If prospective buyers did not have access to either of these loan sources, and most did not, then they would have had to pay cash for their co-ops. In an effort to eliminate this impediment to the buying and selling of co-ops, the New York State legislature in 1971 authorized thrift institutions and state-chartered commercial banks to make long-term, relatively low cost personal loans for co-op purchases. Yet this measure had little initial impact. In principle, this law broadened the public's accessibility to co-ops by providing them with an alternative means of financing. In practice, however, many buildings continued to require all-cash purchases, and financial institutions often were reluctant to make loans for either the maximum amount or the longest duration permitted.

Revival of the co-op market

In the mid-1970s, a combination of forces revived the co-op market. An upturn in the national economy began in early 1975. Soon afterward, New York City was aided by a three-year Federal emergency loan program that helped it avoid insolvency. Also, the city's economic health began to improve. Indeed, after bottoming out in 1977, private employment in New York City increased in 1978 for the first time since 1969.

As inflation worsened during the mid-1970s, co-ops and other real estate became increasingly popular as hedges against inflation as well as for their tax advantages. The ranks of prospective co-op purchasers were increased, moreover, by the newly available loans from financial institutions. With the five-year capping of the city's real estate tax rate beginning in July 1978, co-op owners were assured of stable property tax rates which were generally lower than those in the nearby suburbs. Furthermore, apartment rents were rising, owing to the cumulative effect of mandated rent rises. Additional impetus to co-op conversion activity has been provided by the energy problems which raised commuting costs and increased the fuel-cost advantage of multi-family over single-family dwellings.

Several new social and demographic developments coincided with those economic changes to add to the expanding demand for housing accommodations in the city. With the coming of age of the "baby-boom" generation and the growing number of single people living alone, the number of households has swelled. The rise in two-income families further increased the demand for higher quality, convenient living quarters. Also, the postponement of childbearing, together with smaller families, lessened the need for the traditionally larger homes of suburbia. Finally, the surge in inter-

⁵ Douglas Elliman-Gibbons & Ives, Inc., *Newsletter* (Spring 1977)

⁶ To this list of factors responsible for the slackening in co-op conversions, some observers would add the Goodman-Dearie amendment. However, there is no way to disentangle the individual influence of this law from the effects of the many other impediments then at work contributing to the slowdown in conversions

national business activity in New York City has brought an influx of foreign residents, who are just as interested in buying co-ops as everyone else.

This multitude of forces resulted in an extended period of heightened activity in the market for co-op apartments. Demand, which began to pick up in mid-1976, sharply accelerated in 1977 and then continued

to outpace the growth of supply throughout 1978 and 1979. Consequently, prices rose sharply (Chart 1). While the availability of price data is limited, it appears that co-op resale prices tripled between 1976 and 1979. Toward the close of 1979, however, this run-up in prices began to taper off, as interest rates surged and the availability of co-op financing was reduced.

Why Co-ops, and Not Condominiums?

Most owner-occupied apartments in New York City are organized as cooperatives, whereas those outside the city are generally set up as condominiums. The distinction between a co-op and a condominium is a legal one. A co-op is a corporation which issues stock; stock ownership entitles one to occupy a specific dwelling owned or leased by the corporation. In contrast, condominiums are much more like conventional houses. The owner of a condominium holds title to a specific apartment along with a part interest in the commonly shared facilities of the building or development.

Although the legal bases of co-ops and condominiums differ, the out-of-pocket costs to an apartment-owner are essentially similar. Each owner must pay a monthly maintenance charge covering the current operating costs of commonly shared facilities or services. Part of this payment in a co-op usually goes to cover the debt service on the building's blanket mortgage held by the corporation; in a condominium, however, there is no legal basis for a mortgage on the whole building because each unit is individually owned. In both cases, there is a board of directors made up of apartment owners elected by their fellow owners to run the building, including the setting of the monthly charges.

The tax advantages of co-ops and condominiums are also essentially the same. In 1931, New York State became the first jurisdiction to grant tax deductions to co-op owners for that portion of the monthly maintenance costs which covers real estate taxes plus the interest on the building's mortgage. Since then, these tax deductions have been extended to the Federal and New

York City income taxes. Furthermore, when the purchase of either a co-op or a condominium apartment has been financed with a loan, the interest is also tax deductible.

Given the similarities between co-ops and condominiums, what accounts for the current popularity of co-ops in New York City? In large part, it appears to be a legacy of past eras. Co-ops have existed in the city since 1909, whereas the enabling legislation for condominiums was not passed in New York State until 1964. Thus, it may be that the predominance of co-ops in the city results from their long-standing familiarity to the public, lawyers, and lending institutions.

Another "advantage" of co-ops is that they give stockholders a degree of discretion over who is permitted to live in their building or development. When a co-op unit is being sold, the board of directors has the right to vote on whether it will allow shares in the corporation to be transferred to the prospective buyer. While potential purchasers cannot be barred for reasons which would violate the civil rights laws, there are legitimate grounds for exclusion. For example, co-op boards may prevent an actor or rock musician from buying stock in the corporation on the ground that his or her lifestyle would be disruptive to the other owners.

One other common form of exclusivity practiced by the boards of directors of co-ops involves their control over the downpayment—that is, the proportion of the purchase price which must be paid in cash. Prospective buyers are often required to make a downpayment of at least 50 percent on the co-op apartment. Indeed, many buildings in the city continue to require all

The economics of co-op conversions

To some degree, the recent co-op boom in New York is an extension of the real estate frenzy that has been sweeping the nation. Given the tax advantages, owning a co-op, like owning a condominium or a house, amounts to a practical, increasingly valuable tax shelter. Also, in general, real estate has lately come to

be perceived as one of the most effective hedges against inflation. Sparked by these economic incentives, many people in New York City have decided that they would prefer to own rather than rent apartments.

This preference for ownership appears to be gaining momentum. In recent years, apartment buildings have been converted into co-ops at an increasingly rapid

Why Co-ops and Not Condominiums *(continued)*

cash According to a poll taken in the summer of 1979 by Douglas Elliman-Gibbons and Ives., Inc., only one third of co-op apartment resales in the two hundred buildings surveyed were being financed with individual loans; and, in those cases where there was a loan, the buyer's downpayment averaged about 38 percent of the purchase price. Of course, these results may not be representative of overall co-op sales, as the buildings in this poll are probably among the more expensive ones in the city. In any event, when a condominium is sold, the other owners have neither the right to vote on prospective purchasers nor the right to control the proportion of the downpayment.

There are other incidental advantages of co-ops. Prominent among them is the relative ease with which co-op units can be resold in comparison with condominium units. When a co-op apartment is sold, the shares have to be transferred to the new owner, and a new occupancy agreement must be drawn up between the corporation and the new owner, but that portion of the blanket mortgage corresponding to the unit does not have to be refinanced. In contrast, when a unit is sold in a condominium, there are the costs of a new closing and title search as well as of the title transference. Whereas the actual closing costs on a co-op apartment may amount to \$250 or less, they often run \$1,000 or more for a conventional mortgage. Thus, the comparative ease, speed, and economy with which co-op apartments can be resold make them more attractive to highly mobile urban residents.

An additional benefit is that major repairs can be financed more readily in a co-op than in a condominium. Indeed, in a co-op, a blanket mort-

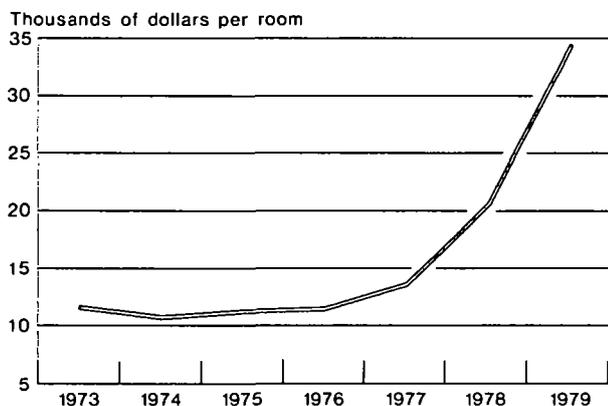
gage can be used to raise money for this purpose. In a condominium, such financing is unavailable, and each individual owner has to be assessed for his share of the cost of the repairs. The distinction is especially significant for those co-ops or condominiums which involve older buildings in need of major improvements.

Financial institutions in New York also have reason to prefer extending credit for financing co-ops rather than condominiums. State-chartered banks and thrift institutions are authorized to make co-op loans at an interest rate of 1 percentage point above the state's mortgage usury ceiling. (National banks can make these loans at an interest rate 1 percentage point above the Federal Reserve discount rate.) Alternatively, condominium loans are real estate loans which are subject to the state's mortgage usury ceiling. Thus, when market interest rates rise above this usury ceiling, the higher rate on co-op loans provides banks with an incentive to make these loans rather than the traditional mortgages needed by prospective condominium buyers.

Nevertheless, the sharp run-up in market interest rates since the Federal Reserve System's credit-tightening initiatives in October has severely curtailed the availability of co-op financing. While the situation has been ameliorated to some extent by Federal legislation effective in January which temporarily overrode mortgage usury ceilings in all states, the possibility that ceilings will be reimposed at the end of this three-month hiatus has left the short-term outlook for the co-op market in an unsettled state. In the long run, however, the strong economic and sociological underpinnings of the co-op market remain intact.

Chart 1

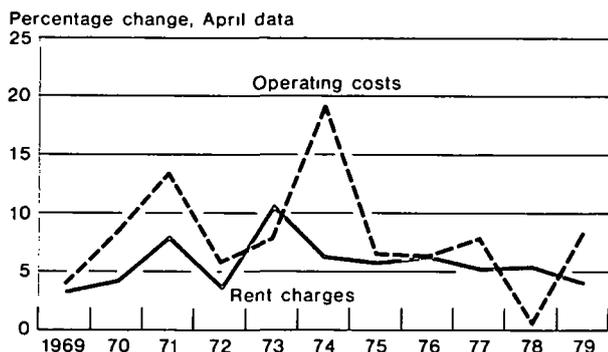
Average Selling Price in Resales of Cooperative Apartments



Source Douglas Elliman-Gibbons and Ives, Inc

Chart 2

Operating Costs and Rental Charges for Rent-Stabilized Apartments in New York City



Sources United States Department of Labor, 1979 Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City (Regional Report 63, June 1979) and United States Department of Labor, "New York-Northeastern New Jersey Consumer Price Index", various issues

pace. Indeed, the number of conversions in 1979 was almost seven times larger than in 1976. To a large extent, these co-op conversions appear to be the housing market's response to the intensifying cost pressures induced by the city's rent laws. Since the introduction of rent stabilization in New York City in 1969, the operating costs of rent-stabilized buildings have outpaced rents in all but two years (Chart 2). Over the ten years ended in April 1979, the rise in operating costs amounted to 122 percent whereas the increase in rental charges totaled 76 percent.

Landlords have reacted to the profit squeeze in several ways. Some have reduced their outlays for building upkeep and repairs, others have stopped paying their taxes; and a few have put up their properties for sale. Obviously, however, rental apartment buildings which are barely profitable do not command very high prices from prospective investors. In extreme cases where buildings are actually unprofitable, many landlords simply abandoned their buildings altogether.

Since the 1950s, builders have also been discouraged by soaring land prices and development costs. New zoning legislation adopted in the mid-1960s severely limited population density and further hampered the construction of multiunit dwellings. Therefore, available apartments have become increasingly scarce in the past few years. In fact, the rental vacancy rate in New York City was under 3 percent in 1978, an exceptionally low level considering that the vacancy rate for the nation has seldom been below 5 percent. Yet, because of the city's rent laws, actual rents are generally well below the "going market" rates.

The scarcity of rental apartments has had reverberations in the resale prices of co-ops. People looking for an apartment in the city basically have a choice between renting one or buying a co-op, and their decisions will be based on the relative costs. Accordingly, the price of a co-op apartment is usually no lower than the level at which the associated aftertax maintenance charge, the aftertax interest charge on the co-op loan (if there is a loan), and the foregone interest earnings on the downpayment are just equal to the going market rent for a comparable rental unit.

As the unfettered market prices of co-ops have risen in relation to rents, apartment buildings have become worth much more as cooperatives than as rental properties. Thus, many landlords have a strong incentive to convert their buildings into cooperatives. But, under the laws of New York State, landlords are not permitted to convert their buildings into co-ops under eviction plans unless at least 35 percent of the tenants agree to buy their apartments. In addition, a co-op owner is not entitled to use any portion of the monthly maintenance as a tax deduction unless 80 percent of the

income from the building accrues from co-op owners.

Tenants are often reluctant to buy for a variety of reasons. Some lack the financial resources, and others are afraid that their maintenance and mortgage payments as owners will soon exceed what they would otherwise have had to pay as rental charges. Typically, then, landlords will try to induce tenants into buying by offering them apartments at prices well below the cost to an outside purchaser. These discounts may amount to as much as 50 percent of the going market prices for co-op apartments. In effect, landlords and tenants share the capital gain that is realized when buildings are converted into cooperatives.

Co-ops—bane or blessing?

The growth which has occurred in co-op housing is generally viewed as a positive development for New York. Co-ops are playing an integral part in revitalizing decaying neighborhoods as well as in sustaining current residential areas. Co-op owners add cohesion and stability to city neighborhoods since they are not only less transient than renters but also more likely to be involved in community affairs. Indeed, as the purchase of a home is often an individual's largest lifetime investment, there is a strong financial motive in seeing to it that co-op housing units are as well if not better maintained than rental apartments.

Detracting from these benefits, however, is the concern that the recent flood of co-op conversions is exacerbating the scarcity of rental housing in New York City. Adding to the concern is the fact that private co-ops tend to be concentrated in just a few residential neighborhoods, and the more popular ones at that. Since New York City attracts a large, mobile population and encompasses many poor and elderly people, such a situation means inconvenience for some and outright economic hardship for others.

Yet the extent to which co-op conversions are *actually* contributing to the scarcity of rental housing in New York City is unclear. In large part, the current shortage can be traced to the city's rent laws which prevent rental receipts from rising apace with the operating costs of buildings. These rent regulations also greatly inhibit the construction of new multifamily buildings. Consequently, far from being the root cause of a scarcity of rental housing, co-op conversions are instead the housing market's reaction to the intensifying cost pressures induced by the city's rent laws. As such, co-op conversions are helping conserve and upgrade the city's stock of residential housing.

Despite the beneficial effects of co-ops, the planning boards in some neighborhoods have instituted zoning restrictions which limit changes in existing buildings. New York City, however, has not adopted a general moratorium on conversions, as has been done in some other metropolitan areas. Indeed, the productive value of moratoriums remains questionable since they themselves do not encourage new building or add to the total housing stock. These impediments to the working of a free marketplace may actually decrease the total stock because landlords who are not allowed to convert may then neglect and ultimately abandon their buildings.

On balance, co-ops may well represent a key ingredient in New York City's search for long-run economic health. Indeed, with co-ops as an option, the city's middle-class population no longer faces an either-or choice between the diverse appeals of city living and the lure of homeownership with its economic advantages. In view of the costs as well as the benefits of co-op conversions, it seems likely that New York's current policy of permitting the spread of co-ops while simultaneously safeguarding tenants' rights is the best strategy at this time.

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Appendix: Eviction Requirements for Cooperative Conversions—1979

Rent-control tenants

- (1) 35 percent of the rent-controlled tenants in possession when the plan is presented must purchase within six months of the plan's presentation.
- (2) Tenant has exclusive right to purchase for sixty days after the offering.
- (3) After plan is effective, tenant has exclusive right to purchase for an additional thirty days on previously offered terms.
- (4) If tenant has not purchased and his apartment is offered for sale on terms more favorable than originally offered, tenant has the exclusive right for an additional fifteen days to purchase on these more favorable terms.
- (5) If plan is effective and a nonpurchaser's apartment is sold, the purchaser has the right of eviction. However, two years must expire before the eviction can proceed unless 80 percent of tenants purchase, in which case a certificate of eviction may be issued immediately.
- (6) Senior citizens over age 62 with gross income under \$30,000 for whom the apartment has been the primary residence for the two prior years who choose to become nonpurchasers within ninety days after the plan is accepted cannot be evicted. In calculating the 35 percent minimum, one half the eligible senior citizens are excluded from the base.
- (7) If the plan is not declared effective, eighteen months from the date of presentation must elapse before another plan may be presented.

Rent-stabilized tenants

- (1) 35 percent of the tenants in occupancy when the plan is accepted for filing must purchase within eighteen months.
- (2) Tenant has exclusive right to purchase for ninety days after the offering.
- (3) No comparable provision.
- (4) If an apartment is sold within six months after the ninety-day exclusive period, that tenant has fifteen days to purchase on similar terms.
- (5) No evictions are permitted until the latest of the following dates: one year after the offering is presented, the date on which the plan is declared effective, or the expiration date of the lease.
- (6) Same senior citizen protection against eviction. In calculating the base, all eligible senior citizens are excluded.
- (7) No comparable provision.

Sources: "Chapter 432" of New York State's *Laws of 1979* and Edward Lehner and David Sweet, "Goodman-Dearie Expiration Leaves Coop Conversions Radically Altered", *New York Law Journal* (November 16, 1977).