



## Investor interest surges in 2014 for SRO buildings

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With inventory at a recent historic low, investors are beginning to look at Single Room Occupancy (SRO) buildings as an investment which holds a significant amount of potential. Investing in an SRO building can be tricky and one must be fully aware of the risks associated with such an investment. SRO is a multiple dwelling law that was passed in the late 20th century for the purposes of reducing the homeless rate and to provide workforce housing. SRO buildings are situated where multiple rooms will be contained on a floor with communal bathrooms and kitchens. They are located in Harlem and parts of Brooklyn and the city has always viewed them as a mechanism to keep a balance in the housing market and allow for lower economic classes to live in the city. As time has gone on, several SRO buildings have become vacant and owners are using this as an opportunity to declassify the building from SRO status or sell to an investor at a premium who is willing to take on the task of declassifying the building.

Most investors are seeking to acquire SRO buildings to convert them to condos or multifamily buildings. These buildings are typically in poor condition and knowing what is entailed in declassifying an SRO building and the cost associated with the renovations are key in performing due diligence. The NYC Dept. of Buildings (DOB) enacted the requirements for having a certificate of occupancy (CO) in the 1930s. Most SRO buildings were built prior to the enactment of CO requirements and thus do not have a CO. One can tell if the building is an SRO building by visiting the DOB's website regardless of whether the building has a CO or not.

In order to declassify the building from SRO status, one must make an application for a "Certificate of Non-Harassment." This application is submitted to the NYC Dept. of Housing Preservation and Development (HPD). The purpose of the application is for HPD to ensure that any current or former tenants of the building vacated voluntarily and did not vacate as a result of harassment from the property owner. The difficulty in establishing this to HPD is when tenants refuse to sign an affidavit that they were not harassed or you cannot locate the last tenants of record. The HPD goes back three years in the records to see if there are any outstanding or former harassment complaints. If no complaints have been logged, it is then up to the applicant to demonstrate to the best of its abilities that the SRO tenants vacated voluntarily. This is difficult to establish when the building is vacant and it is recommended that the applicant make a good faith effort in tracking down each tenant. Ways of doing this are by sending the tenant a letter at its last address of record or placing an ad in the local newspaper to put the tenants on notice and presenting electric bills for the three-year time period demonstrating minimal usage due to the fact that the building has been vacant for a prolonged period of time.

Once the application is approved, the owner will then present the Certificate of Non-Harassment to the DOB to make an application to have the CO changed and a new one issued once the applicant's renovations have been completed. One issue that all buyers must be aware of is if any alternations

were made to the property without obtaining the proper permits, the new owner then faces potential liability if you close and the DOB notices that the current use is not configured as an SRO once you make your application to change the CO.

Pierre Debbas, Esq., is a partner at Romer Debbas, LLP, New York, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540