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Transforming Foreclosed Houses into Affordable Housing

Proposed bill would create state agency to buy up foreclosed properties and turn some into affordable units

By Colleen O'Dea, February 15, 2012 in [More Issues](#)



Chaos or crisis: Either word (or both) will do to when describing New Jersey's affordable housing situation and its residential real estate market. Lawmakers on Tuesday launched a new effort to address both problems, providing low-cost housing and dealing with the flood of foreclosures at the same time.

The New Jersey Residential Foreclosure Transformation Act, [S1566/A2168](#), seeks to create a new state agency that would buy up foreclosed properties and turn some of them into affordable units.

“Not only will it provide more affordable housing, but it will reduce the number of boarded-up houses that drag down property values, build up neighborhoods, and boost the economy,” said state Sen. Raymond Lesniak (D-Union), cosponsor of the bill in the Senate. “It’s positive in so many ways.”

The bill would create an agency within the New Jersey Housing and Mortgage Finance Agency to purchase and deed-restrict foreclosed properties to be used as affordable housing.

Lesniak said that more than \$500 million is available from the State Affordable Housing Trust Fund, federal dollars, and money from the recent foreclosure settlement. The agency also could take advantage of the bonding capabilities of the HMFA,.

The bill, said Lesniak, has the potential to turn 10,000 foreclosed properties into affordable housing. He expects the measure to create new “workforce housing” for teachers, firefighters, and middleclass families.

State Sen. Barbara Buono (D-Middlesex), the other cosponsor of the bill in the Senate, called it a “novel approach” to solving multiple problems “without contributing to overdevelopment and sprawl.”

A large supply of properties is ready to be tapped.

“There are tens of thousands of vacant foreclosed homes in New Jersey, with many more being added every day,” said Lesniak. “They exist in every municipality in the state.”

The website RealtyTrac lists 35,456 New Jersey properties in some stage of foreclosure, including pre-foreclosure, auction, and bank ownership.

Jeffrey Otteau, president of Otteau Valuations Group, put that number much higher, at 150,000.

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[The New Jersey Residential Foreclosure Transformation Act](#)

Otteau said the bill would go far beyond creating more affordable housing and reducing vacancies. It would also help stabilize the entire housing market and boost consumer confidence, which could lead to more home sales and the economic activity associated with them, including the purchase of furniture, appliances, carpeting, and other items.

S1566 is slated for its first hearing in Trenton on Thursday before the Senate Economic Growth Committee.

The bill has support from a broad coalition that includes New Jersey municipalities, realtors, builders and bankers.

“This legislation helps both homeowners and mortgage holders and puts into place a program that will stabilize housing prices, preserve residents’ quality of life, and address the state’s dearth of affordable housing,” said Dominick Paragano, president of the New Jersey Builders Association.

Michael Affuso, senior vice president and director of government relations with the New Jersey Bankers Association, said the bill should also help address the public safety concerns surrounding vacant properties. Their number is expected to rise precipitously at some point, when the largest mortgage lenders, essentially stopped by a December 2010 Supreme Court order, start filing foreclosure actions again.

“The existing process to deal with abandoned properties in foreclosure will be strained to its limits,” Affuso said.

The concept also has the backing of affordable housing advocates, though they do not support a provision that would give communities a two-for-one bonus against their state Mount Laurel obligations for transitioning foreclosed homes into low-income units.

“They’re just giving away the store if they do that,” said Kevin Walsh, associate director of the Cherry Hill-based Fair Share Housing Center, who called the bill “overall, a good piece of legislation.” He added, “A person can’t live in a bonus, they can live in a house. At minimum, they should cap that.”

Lesniak’s response to the suggestion of a cap on the two-for-one affordable housing credit: “Absolutely not.”

This is not the first time Lesniak has declined to revise a bill to gain the favor of the center.

Two years ago, he sponsored a bill that would have replaced the then-Council on Affordable Housing quotas with a modified system that Walsh called inadequate. Gov. Chris Christie didn’t like the bill either, but for other reasons, and vetoed it. Lesniak has abandoned that fight, at least temporarily.

Regardless of the political give and take, few would deny that the state has a critical need for affordable units. The 2011 Out of Reach report by the National Low Income Housing Coalition found that almost 6 in 10 renters could not afford the average fair market rent for a two-bedroom apartment in the state. Before it was eliminated, COAH estimated 138,000 low- and moderate-income units were needed in New Jersey through last year and another 104,000 would be required through 2018 to ensure all residents an affordable place to live.

According to the DCA, about 135,000 new and refurbished affordable housing units have been approved statewide, with about 75,000 completed as of March 1, 2011. As of February 3, municipalities reported \$268 million in unspent Affordable Housing Trust Fund balances.

The New Jersey League of Municipalities supports Lesniak’s bill or other measures to give officials “clear guidance on affordable housing policy” and help them in allocating those housing funds.

“Municipalities have been hesitant to expend dollars without certainty that any units that result from an expenditure will count towards their respective housing obligations,” said Michael Cerra, senior legislative analyst with the league. “S-1566 provides an incentive and certainty for local governments to act, and creates a classic win-win scenario for families in need of affordable housing.”

Some of the turmoil in state's affordable housing arena can be traced to COAH's recent history, which is a

case study in chaos.

COAH was established in 1985 to ensure that cities and towns in New Jersey lived up to the first Mount Laurel decision, which determined that towns have a constitutional obligation to ensure that residents have affordable places to live.

Several years ago COAH decided to abandon its much-maligned low- and moderate-income housing quotas, which were calculated according to a complex formula, opting instead for a system that tied affordable housing to future growth.

The appellate court overturned the new rules and told COAH to go back to its old formula. The Supreme Court stayed that ruling in January 2011 but has yet to hear the case.

To complicate things, COAH itself no longer exists, at least not for the moment. Last June, Christie filed a reorganization plan abolishing COAH and transferring its duties to the state Department of Community Affairs.

The Fair Share Housing Center contested that plan, saying Christie “unlawfully consolidated power by transferring the powers of an independent agency over which the governor previously had no direct authority to a department led by one of his cabinet members,” according to Walsh.

The appellate division stayed the implementation of rules that would have implemented the plan. Attorneys for Fair Share and the state are scheduled to argue the matter before the judges in Trenton today.

Colleen O'Dea is an editor-at-large for NJ Spotlight.

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