



The New York City Department of Housing Preservation and Development

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PRESERVING GOVERNMENT-ASSISTED AFFORDABLE HOUSING

Overview

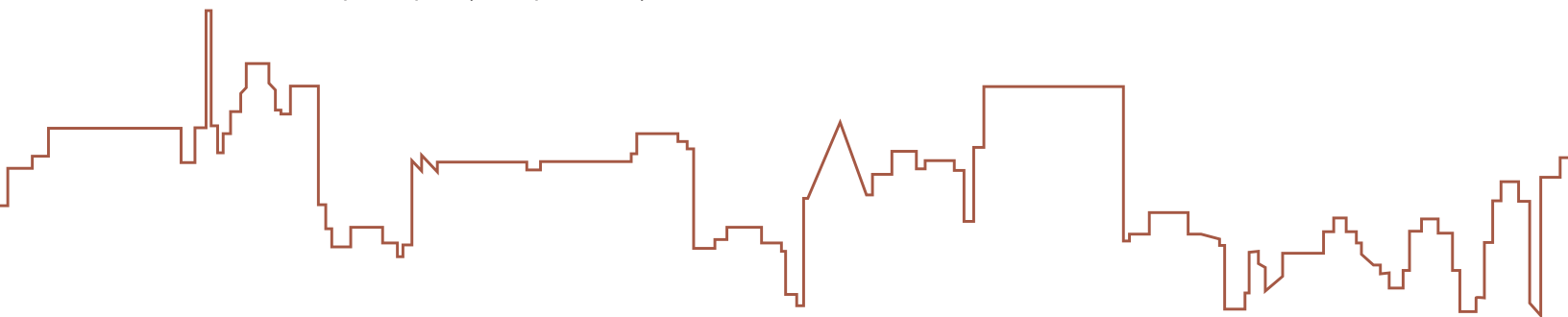
There are approximately 250,000 units of government-assisted housing in New York City, which fall into three distinct categories: those developed through the Low-Income Housing Tax Credit program, those developed through the Mitchell-Lama program, and those in the federal Department of Housing and Urban Development's (HUD) multi-family portfolio. These units represent an important long-term source of affordable housing for low- and moderate-income New Yorkers.

These projects were funded and built in past decades, when housing and neighborhood conditions in the City were far different from those today. Although they were built with expiring affordability restrictions, it was assumed that these developments would remain affordable housing resources for many future generations. However, in today's strong real estate market, many owners face the temptation to leave the programs and raise rents to market levels. Many of these projects are aging and have critical capital needs; in some cases, the physical deterioration of the properties has been exacerbated by poor maintenance and management problems. Finally, many of these buildings were developed a number of years ago, and current owners may no longer be interested in an active management role; the resulting transfer of these buildings can often lead to market conversions. The risk to these portfolios is significant without a comprehensive, sustained effort by government and its partners that is designed to ensure the viability and affordability of these housing units.

The Administration is committed to retaining these units as part of the City's affordable housing stock, and in June 2005 HPD hosted the MacArthur Foundation-funded New York City Housing Preservation Symposium, inviting local and national housing experts to develop comprehensive strategies for the assisted housing portfolios. Thanks to the participants' efforts and follow-up work with key stakeholders, the Mayor has unveiled an aggressive preservation strategy as part of the 10-year *New Housing Marketplace* plan.

This preservation strategy has four key principles:

- The City will use portfolio-wide rather than project-by-project "retail" strategies when possible.
- When it is necessary to deal with projects on an individual basis, the City will ensure that all available tools are used.
- The City will create new financial resources such as the New York City Acquisition Fund, the Battery Park City Affordable Housing Trust fund, and Housing Development Corporation (HDC) programs to complement existing preservation tools and support portfolio-wide strategies.
- The City will work to improve its ability to monitor and evaluate the portfolios and, when necessary, respond quickly and proactively to situations in which units are at risk.



Low-Income Housing Tax Credit Portfolio

HPD has developed 25,000 units through the Tax Credit program. These units were produced primarily through the agency's disposition and homeless housing development programs for its *in rem* stock, which coupled Tax Credit proceeds with City capital and other funding sources. Over the next few years, the first group of these projects will reach the end of their initial 15-year Tax Credit compliance periods, triggering the exit of the Tax Credit investors and a consequent need for ownership transfer. These housing units are generally in good condition, and are subject to long-term rent restrictions. However, in order to ensure that these projects are financially and physically viable, HPD is working with LISC and Enterprise to create an effective Year 15 strategy that provides both long-term affordability and ongoing asset management.

Subject to obtaining additional volume cap, this strategy will be carried out through re-syndication of most projects with 4% credits and tax-exempt bond financing. Several other project repositioning strategies are available as secondary alternatives to augment re-syndication using volume cap and 4% credits. Some projects with strong cash flow and sponsors may be able to privately refinance to raise necessary funds and restructure existing debt. The City may also roll over the existing City debt in lieu of refinancing, or may consider 9% credits on an exception basis for projects requiring larger infusions of capital or operating reserve funding.

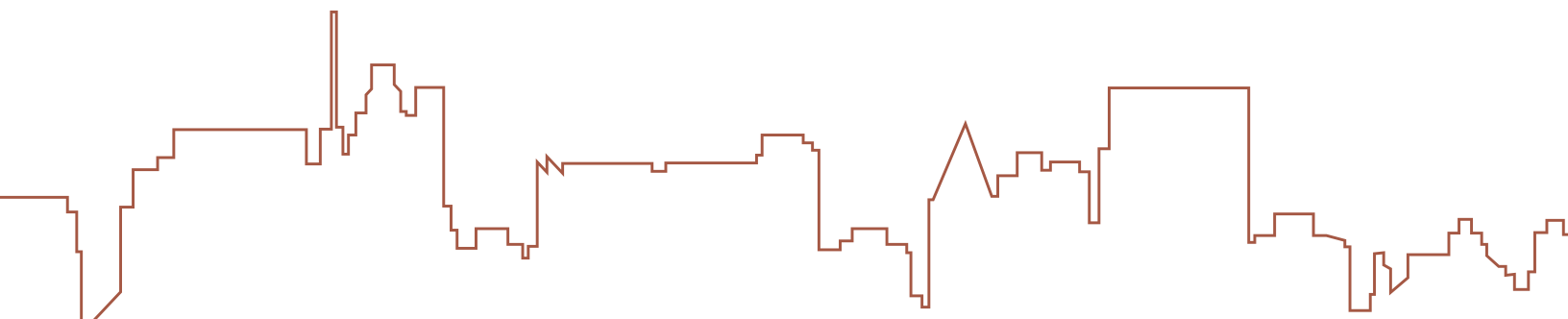
At the same time, HPD recognizes that some Tax Credit developments face maintenance and operating costs that are higher than expected and that, over time, these costs can be burdensome to the buildings. As part of its long-term asset management strategy, HPD and program syndicators will determine the reasons for these high costs. With owners and Tax Credit partners, the agency will work to develop strategies that decrease these costs and guarantee that these projects are financially stable now and in the future.

In addition to the units developed by HPD using 9% credits, there are also about 11,000 units developed by HDC that were financed with tax exempt bonds and 4% credits. These projects all have extended use agreements that ensure that rents remain affordable beyond the expiration of the initial 15-year compliance period, but further analysis is required to determine the best strategies for protecting the long-term viability of this portion of the portfolio. HPD, along with HDC and the State, will continue working to develop a more detailed profile of the City- and State-developed 4% Tax Credit portfolios and make recommendations to address issues of concern.

Mitchell-Lama Portfolio

There are approximately 115,000 units of Mitchell-Lama housing in New York City, developed for moderate-income households in the 1960s and 1970s. The Mitchell-Lama strategy aims both to protect low-income tenants from displacement when owners choose to buy out of the program; and to ensure that middle-income tenants' rents remain affordable. As part of the City's long-term preservation strategy, both HPD and HDC will continue to provide financing that addresses long-term capital needs of these projects, through HPD's 8A loan program and HDC's Mitchell-Lama refinancing and repair loan programs.

The Mitchell-Lama preservation strategy hinges on a series of new State legislative proposals that both provide incentives for owners to stay in the program and protect tenants from sizable rent increases. This strategy will be carried out primarily through State legislation, with legislative components contained in multiple bills. These bills will extend rent stabilization to post-1974 developments, permit increased equity return for owners,



and eliminate statutory language that may allow rent increases above rent stabilization standards. Legislative strategies will also be examined to alter the surcharge caps and refine the buyout process for cooperatives.

Additionally, the City will work closely with its House and Senate representatives to promote federal legislative initiatives that would provide additional rental protections to the Mitchell Lama tenants. In particular, the agency is seeking provisions to allow conversion of existing RAP and Rent Supplement benefits to Section 8 in developments with 236 subsidies. Tenants in these developments would thus be guaranteed ongoing rent assistance and might also be eligible for enhanced Section 8 vouchers.

Finally, HPD is also working with HDC to develop a coop conversion program. This would encourage and allow rental developments to re-finance and become economically viable low-income homeownership coops.

HUD Multi-Family Portfolio

New York City has about 77,000 units of low- and middle-income housing that were created or assisted by HUD programs in the 1970s and early 1980s. These properties fall under a variety of programs, including Section 8 New Construction, Section 8 Substantial Rehabilitation, Section 202, Section 236, and FHA loan insurance. A significant number of these units are at risk of physical or financial failure, and HPD has been addressing problem buildings on a reactive, project-by-project basis. The preservation strategy aims to provide more coordinated solutions to the problem.

The key component of the strategy for the HUD portfolio is the Housing Development Corporation's purchase of the HUD-held loan portfolio. This would give the agency greater flexibility and financial resources as it seeks to address issues in problem buildings. HPD staff have been negotiating this sale with HUD and are hopeful that an agreement for this portion of the portfolio will be agreed upon in the near future.

To complement the portfolio purchase option, HPD is also seeking authority to use non-judicial foreclosure for the purchased HUD mortgages. With this authority, the agency could move more quickly with foreclosure actions and ensure that only qualified owners will bid on and subsequently own the properties. It would also give the agency greater ability to deal with projects on an individual basis. Finally, we are working with HUD to retain Section 8 funding in buildings while repair work is underway in order to help bring buildings up to code and HUD standards.

For HUD-assisted properties at risk of market conversion in New York's strong rental market, it is vital that tenants are protected against displacement and long-term affordability is maintained. The strategy for this portfolio relies on the continued use of HUD programs such as Mark Up to Market and enhanced Section 8 vouchers. Where feasible, HPD will work with HUD to both increase marketing and awareness of the HUD Mark Up to Market program among owners who are not fully familiar with the advantages of the program. HPD is also seeking to expand opportunities for using Mark Up to Market when the rehabilitation work needs additional funding. Finally, HPD and HUD will jointly examine the long-term viability of properties that have completed the Mark Up to Market process.

New Financing Tools

One important new financing tool that will be used to preserve the assisted portfolio is the New York City Acquisition Fund. The \$200 million Acquisition Fund will be used for early stage capital for acquisition of

