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Gale A. Brewer, Borough President

Report from the Sustainable Affordable Housing Development Task Force

After Mayor Bill de Blasio announced major cuts to the NYC Department of Housing Preservation and Development's FY20 and FY21 capital budgets in June 2020, housing experts feared a negative impact on affordable housing production.

The combined $1 billion in cuts would reduce the City's affordable housing production by 21,000 units and lead to 12,096 fewer construction jobs and $7.98 billion less in total economic spending, according to the New York Housing Conference. [1]

Capital funds are an essential component to "make the math work" for producing affordable housing in New York City. Removing a key affordability financing mechanism at a time when the city needs more affordable housing than ever made little sense.

Although the $457 million of FY21 cuts were subsequently restored after sustained advocacy from over 150 community-based organizations, the damage had already been done. HPD halted almost all project closings in June 2020 (June and December are traditionally busy times for closings), stalling the production of hundreds of units of affordable housing. Throughout spring and summer 2020, developers were left wondering whether their projects could move forward without the HPD financing that they were counting on, and whether a months-long delay would increase a project's total development cost.

This is why I supported housing advocates' #nocapitalcuts campaign and announced that I would convene affordable housing stakeholders to determine how to best support the efforts of mission-driven developers during this time of financial constraint. It is my firm belief that nonprofit developers, community development corporations, community land trusts, and Community Development Financial Institutions must lead the way to produce the bulk of housing affordable to the lowest-income New Yorkers.

My Task Force on Sustainable Affordable Housing Development featured housing experts from 30 organizations who generously contributed their time and insights. The task force's five monthly meetings, from August to December 2020, covered a wide range of topics with *deep dives into three core issues: zoning and land use as tools for affordable housing production; distressed property acquisition for affordable housing; and strategies for financing deeply affordable housing. A subset of task force members formed a committee to further explore the acquisition of distressed commercial hotels for conversion into affordable housing.*

The recommendations developed by task force members offer thoughtful, workable strategies for producing affordable housing during the current economic downturn. The intent is to implement these strategies now, in response to present needs exacerbated by the pandemic. Other more forward-looking efforts to reimagine the future of New York City's affordable housing future have taken place and will continue ahead of a new mayoral administration.

Finally, beyond this report, New York City should look ahead to the 2022 expiration of the Affordable Housing New York Program, better known as the 421a property tax exemption. Affordable units created under 421a are not permanent, and their rent-stabilization status is tied to the tax exemption. The 421a program was not initially designed to create affordable housing, and subsequent amendments to the program merely generated time-limited affordability.

For example, Normandie Court on the Upper East Side, built in 1986 with 1,477 units, received 421a and made 25% of its units affordable. The benefit has ended, and the owner is now charging 80 tenants whose units were previously stabilized market-rate rents. These residents cannot afford the steep increases in rent and can no longer live in their homes. The same problem will continue to manifest in many other buildings unless a new property tax exemption program is designed around real and permanent affordability. Affordable housing experts should begin now to consider how 421a must be reformed-- or replaced altogether.

It is my hope that New York City's affordable housing sector will remain resilient as mission-driven developers, housing advocates, academic researchers, and my fellow colleagues in government work together to implement these recommendations toward the goal of providing housing that truly meets the needs of New Yorkers.

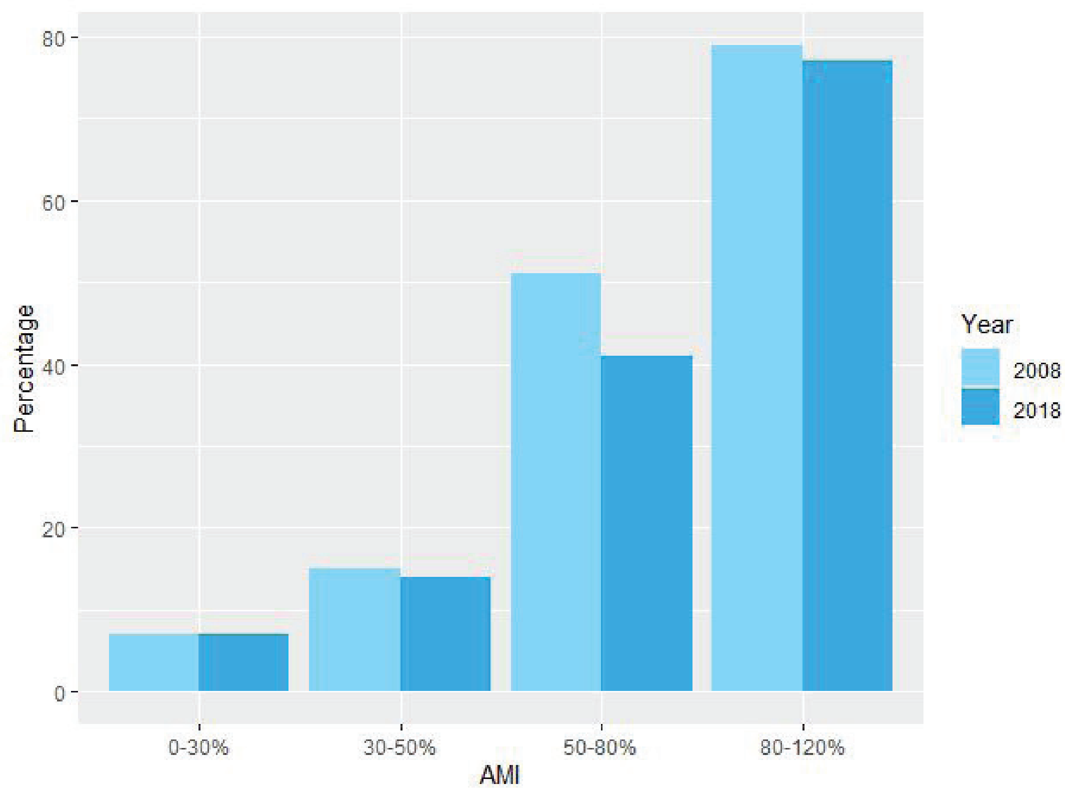
GALE A. BREWER
Manhattan Borough President

[1] http://thenyhc.org/wp-content/uploads/2020/10/NYHC-Policy-Brief-City-Budget-Cuts-10.6.2020.pdf.

Executive Summary

Over the past two decades, the percentage of rental units affordable to low-income households in New York City has declined. Analyzing American Community Survey data, the NYU Furman Center has found that in 2008, 51% of available rental units were affordable to households with income at 80% of area median income (AMI); by 2018, only 41% of available rental units were affordable to households at the same AMI level. The mismatch between housing availability and affordability is the most pronounced at the lowest AMI level that was analyzed. In both 2008 and 2018, only 7% of available affordable rental units were affordable to households with incomes at 30% AMI, defined as "extremely low-income" households.[2] For every 100 units of affordable housing added to the rental market in 2018, only seven were affordable to extremely low-income households. Simply put, the supply of affordable housing in New York City, particularly for households at the lowest income levels, did not meet the demand even prior to the COVID-19 pandemic.

Percentage of Recently Available Rental Units
Affordable to Different AMI Levels (2008-2018)



Data Source: NYU Furman Center

[2] NYU Furman Center presentation to MBPO Task Force on Sustainable Affordable Housing Development, August 13, 2020. The data is also available on the Furman Center's portal at CoreData.nyc.

This analysis should be viewed in tandem with the most recently available data from the City's Housing Vacancy Survey (NYCHVS). Conducted by HPD and the U.S. Census Bureau every three years, the NYCHVS tracks the availability of vacant rental units in New York City at various monthly rent levels. Data from the 2017 NYCHVS reported that while available housing units with monthly rent of $2,500 or more had an 8.74% vacancy rate, available units at $800-899 a month only had a 2.09% vacancy rate, and available units below $800 a month had an even lower vacancy rate of 1.15%.[3] For context, based on HPD's 2020 AMI calculations, households at 40% AMI can afford a one-bedroom apartment for $717 a month, and households at 50% AMI can afford a one-bedroom apartment for $930 a month.[4]

While the impact of COVID-19 on housing production has not yet been fully analyzed, a recent study published by the Real Estate Board of New York found that, year-over-year, filings for multiple dwelling residential construction in 2020-- at 27,402 projected total units-- were 17.62% lower than in 2019.[5] On existing rental housing, the December 2020 Elliman Report reveals that, compared to December 2019, Manhattan's median rent dropped from $3,499 to $2,996 per month and the vacancy rate rose from 1.81% to 5.52%.[6] These statistics point to a lower demand for rental housing over the past year and will require further tracking to determine whether they constitute the beginning of a trend. However, what must not be overlooked is that the fall in the median rent and the rise in the vacancy rate do not appear to have made more housing available at the lowest income tiers. Whether at $3,499 or $2,996 a month, Manhattan's median rent is beyond the reach of low-income households.

One approach to ensure continued affordable housing production despite the constraints to HPD's capital funding is to leverage zoning tools. Programs such as Mandatory Inclusionary Housing (MIH) and Voluntary Inclusionary Housing (VIH) are not dependent on subsidies but do not preclude their use either. MIH is intended to incentivize the production of affordable housing units through private development by granting a Floor Area Ratio (FAR) bonus in exchange. I was the only Borough President to support MIH in 2015 after receiving assurance from Mayor de Blasio that the administration would revisit the program to improve it. Since its inception, there have been 49 MIH projects across the city. Thirty-six, or 73%, of those projects have used one or more government subsidies, according to my analysis of MIH projects. The additional subsidies often led to the production of more affordable units than what is required under MIH.

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[3] https://www1.nyc.gov/assets/hpd/downloads/pdfs/about/2017-hvs-initial-findings.pdf, Table 7

[4] https://www1.nyc.gov/site/hpd/services-and-information/area-median-income.page, accessed on January 8, 2021.

[5] https://www.rebny.com/content/dam/rebny/Documents/PDF/News/Research/ConstructionPipeline/ConstructionPipe lineReport_2020-Q4_FINAL.pdf

[6] https://www.elliman.com/resources/siteresources/commonresources/static%20pages/images/corporate-resources/q4_ 2020/rental-12_2020.pdf

Convened prior to the restoration of HPD's FY21 capital budget, the Task Force on Sustainable Affordable Housing Development explored how zoning policies can be improved to encourage more and Tdeeper affordable housing production, and how zoning policies and government subsidies can interplay to maximize the number of affordable units available and their levels of affordability:

- Implement MIH in strong rental markets.
- Reevaluate MIH and VIH options through a new market analysis.
- Expand the applicability of MIH.
- Expand analysis of residential displacement including racial impact.
- Require developers to fully mitigate residential displacement with public discussion.
- Devise a community-driven comprehensive planning process.

Decreasing a project's total development cost and subsequent operating costs is another approach to creating more deeply affordable units. For government-sponsored projects, the cost reduction can come in the form of property transfer at a nominal cost; subsidies and tax credits; property tax abatement and exemption; and low-interest financing. Financial support can also target specific components of housing production. The task force explored and developed recommendations for the acquisition of distressed properties during the current down market, with a focus on shuttered commercial hotels and vacant office buildings:

- Make substantial new resources immediately available to invest in the purchase and conversion of distressed hotels into permanent affordable housing.
- Take a targeted and strategic approach to hotel acquisition.
- Prioritize the production of affordable units, single-room occupancy, supportive, and/or senior housing.
- Address zoning barriers to hotel-to-housing conversions, without weakening community oversight.
- Strengthen financing mechanisms for distressed property acquisition.

Finally, new affordable housing units should be targeted to meet the city's affordability gap. Affordable housing developers, advocates, and tenants have long recognized the challenge of defining affordability. What is determined to be affordable by program term sheets can differ greatly from the reality of many low-income communities, where neighborhood median incomes are sometimes tens of thousands of dollars lower than area median income; AMI is determined by the U.S. Department of Housing and Urban Development for the New York metropolitan area and includes surrounding counties with higher localized median incomes. Targeting the lowest AMI levels may require greater subsidy, but the units that result are often the only affordable option for the almost one million households with annual income at or below 30% AMI in New York City. Producing affordable units alone is an insufficient strategy if there aren't also targeted policies and financing to support the production of deeply affordable units.

The task force examined strategies that would encourage deep affordability:

- Ensure permanent affordability for City-owned property.
- Support opportunity to first purchase for mission-driven affordable housing developers.
- Deepen affordability in programs targeted for the lowest income tiers.
- Target City-owned properties for community land trust ownership.
- Finance the rehabilitation and operation of community land trust-owned sites.

For producing and maintaining affordable homeownership opportunities, task force members examined existing programs and financing options available to developers and buyers. The guiding principle throughout the process was a commitment to create homeownership units that will remain affordable at all times for each successive household that holds the title to those properties:

- Finance multifamily homeownership projects that are affordable in perpetuity for low-income households.
- Reposition the Affordable Neighborhood Cooperative Program to offer homeownership
- opportunities for very low-income households.
- Increase per-unit subsidies for Open Door projects.
- Integrate down payment assistance and pre-purchase housing counseling support into the development and marketing processes.

Zoning Tools for Affordable Housing Production

An influential planning power, zoning is an underutilized tool to establish unique opportunities that encourage the development and protection of affordable housing across the city. Through restrictions and allowances on bulk, height, setbacks, and other controls, amendments to the City's Zoning Resolution and land use process can provide a crucial boost to the City's affordable housing strategy when enacted in collaboration with appropriate financing and other recommendations laid out in this report. The City has employed zoning strategies to generate affordable housing since 1987. The Voluntary Inclusionary Housing program (VIH) incentivizes developers to opt into affordable housing creation in exchange for floor area bonuses. Since 2014, the VIH program has contributed over 8,500 units of permanently affordable housing throughout the city. Many of the developments that have contributed these affordable units received tax abatements, which typically expire after 30 years. However, because they are frequently located in neighborhoods with stronger residential markets, they do not usually require additional subsidies. The VIH program typically provides low-income housing (51-80% AMI), with very few units going to very and extremely low-income households (below 50% AMI).

In addition to VIH, the City Council approved the Mandatory Inclusionary Housing (MIH) text amendment in 2016, after a yearlong process of evaluating and modifying the proposal developed by the de Blasio administration. Similar to VIH, MIH offers floor area bonuses in exchange for the development of permanently affordable housing; unlike VIH, the affordability element is required if a project falls within designated areas. Identifying and mapping neighborhoods for MIH has been a major component of recent neighborhood rezonings across the city.

The initial $1 billion cut to HPD's capital budget in the last year prompted task force members to consider improvements to MIH and parts of the land use review process. The goal was to ensure affordable housing production could continue when other affordability tools, such as government subsidies, were severely limited. The task force's recommendations aim to strengthen inclusionary housing, the city's environmental review analyses, and comprehensive planning.

<u>Inclusionary Housing</u>
MIH was conceptualized as a tool to develop affordable housing without the need for subsidies. However, of the 49 MIH developments constructed since the program's implementation, most have received subsidies, either through capital funding, tax abatements, or low-income housing tax credits. The use of these subsidies for MIH projects means that other affordable housing developments did not receive those subsidies.

Implement MIH in strong rental markets
MIH is designed to work in neighborhoods that have strong housing markets and in instance where larger-scale residential buildings can be developed. Thus, neighborhood upzonings should target neighborhoods with stronger rental markets and high returns for developers in order to unlock the potential for affordable housing. This targeted approach could also facilitate affordable housing development without the use of other government subsidies and ultimately make those resources available for other affordable housing projects. As

developers are able to realize significant profits in these neighborhoods, we should be demanding as much as is financially feasible.

Reevaluate MIH and VIH options through a new market analysis
Furthermore, there are elements of MIH that have seldom or never been used by developers, including the workforce housing (at an average of 115% AMI) and payment-in-lieu [7] options. The program options should be reevaluated so that they better reflect the City's fair housing goals. In 2015, the City commissioned a market analysis in preparation for the development of the MIH program. In light of the new, post-COVID-19 housing market, the City should complete a new market analysis to inform enhanced MIH affordability options that will be financially viable and allow housing at lower AMI levels to be developed. This analysis should include a study of ways to modify the VIH program so that it can provide affordable housing at lower AMI bands. For both MIH and VIH, the study should calculate the optimum level of government subsidy, if any, that would generate the maximum number of affordable units.

Expand the applicability of MIH.
Finally, the applicability of MIH requirements should be expanded so that the City can better capture opportunities to create affordable housing. Generally, MIH does not apply in instances where a project seeks special permits to increase the buildable square footage but does not increase the floor area ratio (FAR) of the site. In 2016, a project at 42 West 18th Street, known as the Adorama, sought special permits from the City Planning Commission to obtain height and bulk modifications that would allow them to build a significantly larger residential building. While the permit was granted, the City argued that the developer was not required to provide affordable housing because the FAR of the site had not been increased. Furthermore, in larger-scale rezoning actions, MIH applies only in instances in which the FAR is increased by 30% or more. While these two examples may not, on their own, result in a great deal of affordable units on site, an amended and expanded payment-in-lieu option would allow these actions to contribute to the city's affordable housing stock. These options should preserve the financial feasibility of a project while still obtaining the public benefits. Such contributions could also offset the subsidies that are currently used on some MIH projects.

<u>CEQR Analysis</u>
The City Environmental Quality Review (CEQR) is required for projects seeking a discretionary approval from the City. The review mandates that a host of conditions and potential impacts be thoroughly analyzed and subsequently mitigated where applicable. For years, advocates have noted CEQR's shortcomings in properly assessing the residential displacement of a proposed project or neighborhood rezoning. Seeing how comprehensive CEQR is in other realms of development impact, such as air quality and traffic, it is critical that the City mandate the comprehensive study of displacement caused by development, a well-documented phenomenon tied to a growing host of other social indicators.

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[7] The Payment in Lieu option allows developers of small lots to contribute to an affordable housing fund in lieu of constructing affordable units.

Expand analysis of residential displacement including racial impact
CEQR criteria should be modified so that residential displacement is properly identified as part of the disclosure process. That disclosure should also include an analysis of how those effects may break down along racial lines and how demographic trends may change as a result. Applicants should be required to implement a robust mitigation in instances where an action would cause significant residential displacement.

CEQR analysis entails several "layers" to determine if a proposed action will result in significant indirect residential displacement and whether an applicant must mitigate the displacement. If a project would displace more than 500 residents or 200 units, a preliminary assessment is required. That assessment includes an analysis of how many new residents will be introduced to a study area (as well as their income levels) and whether the area is experiencing a rise in rent prices. The assessment does not properly capture the conditions in areas where displacement has already taken place, nor does it allow for an analysis that can predict displacement in areas that have not seen rising rents. The CEQR Technical Manual does define a timeframe that the applicant must use for their evaluation. This notion was already problematic prior to the pandemic; in today's housing market, where many neighborhoods are seeing rent levels plateau or even decrease, this approach leads to an even less accurate assessment. The Technical Manual should be amended to require that applicants evaluate neighborhood trends for the 15 years preceding the analysis, and it should broaden the criteria under which an action is considered to have a significant impact on residential displacement. A wider variety of neighborhood trends need to be considered as having a potential for displacement.

Require developers to fully mitigate residential displacement with public discussion.
In some neighborhood-wide rezonings, such as the City's 2018 Inwood proposal, the provision of MIH was used to argue that any impact on displacement resulting from increasing rents would be mitigated. However, applicants are not required to provide a mitigation that would completely nullify the projected displacement. And while an applicant can choose to provide rent-regulated housing as a mitigation for residential displacement, the CEQR Technical Manual does not require an extensive analysis of how an action would affect the existing rent-regulated housing stock. Furthermore, mitigations are discussed at a later stage in the Uniform Land Use Review Procedure (ULURP) process, often after Community Board and Borough President review. CEQR should require that applicants properly counter residential displacement and also require a more robust public discussion of mitigations for residential displacement. These two changes would result in a more appropriate process that balances new development with the preservation of existing housing stock.

Comprehensive Planning
Displacement of residents living in rent-stabilized housing has become less of a concern with the passage of the Housing Stability and Tenant Protection Act of 2019, which eliminated high-rent vacancy deregulation and high-income deregulation and set limits on rent increases due to Major Capital Improvements and Individual Apartment Improvements.[8]

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[8] https://hcr.ny.gov/system/files/documents/2020/02/rent-regulation-hstpa-presentation.pdf

An impact analysis for each discretionary action would likely reveal little effect on a case-by-case basis. However, the threat of displacement in rent-stabilized housing has not been completely abated. The view from a citywide perspective looks much different, demonstrating the value of adopting a citywide comprehensive plan.

Devise a community-driven comprehensive planning process.
A comprehensive plan for the City of New York can not only look at the accrued, large-scale impact of smaller-neighborhood or site-specific actions. It can also help to prioritize the development of affordable housing and outline a broader, more equitable strategy for producing those units. In recent years, the City has incentivized affordable housing through one-by-one neighborhood rezonings. This approach is time consuming and often doesn't allow for the wider-ranging conversation about where affordable housing is lacking and should be built, and how the City can further equitable housing.

The current process of allotting affordable housing to different neighborhoods through rezonings has been a top-down approach. There is inconsistent community engagement in the visioning process that is dependent on the resources for pre-planning available to a given neighborhood and a heavy dependence on the ULURP process for community input and feedback. While the City's housing agenda must be equitable in its distribution across neighborhoods, individual communities must also have the agency to help decide how this housing is developed and preserved, what levels of affordability would best target district needs, and what veteran and novel strategies the City should take to achieve its affordable housing goals.

Therefore, a comprehensive plan for affordable housing, laid within a single framework for the City's overall goals, is crucial in ensuring that the affordable housing this city needs is not only provided, but also done through a lens of equity and robust community collaboration. Council Speaker Corey Johnson's recently published report, Planning Together: A New Comprehensive Planning Framework for New York City , is a key step toward achieving a comprehensive affordable housing strategy that aligns itself with the other major goals of the City.[9] The report prioritizes proactive planning and promotes meaningful community agency in the planning process. It calls for a Generic Environmental Impact Statement, which would include a citywide analysis of the various impacts that planned growth will have on, for example, residential displacement. As this comprehensive plan unfolds, finding a balance between the overall housing goals of the City and the needs and leadership of individual communities is essential to a just and effective affordable housing strategy.

[9] https://council.nyc.gov/news/2020/12/16/planning-together/

Distressed Property Acquisition for Affordable Housing

Affordable housing practitioners, including many task force members, recognized at the onset of the pandemic-induced real estate market downturn that acquiring distressed properties at below-market prices can be a viable strategy to repurpose them into affordable housing. The strategy is not limited to residential acquisition; commercial buildings that have become

vacant and financially distressed may serve as another source of generating new affordable housing. This strategy also responds to the potential long-term trend of reduced use of office space as many employees are working from home for the foreseeable future.

Prior to the pandemic, the commercial development pipeline for hotels was particularly robust. In a November 2019 Lodging Econometrics (LE) Construction Pipeline Trend report, New York City had "155 projects/26,605 rooms in the construction pipeline, one of the top three largest pipelines in the U.S." [10] This included 25 projects totaling 6,012 rooms under construction in the top-performing geographic market of Manhattan's Midtown South, defined as between 24th and 36th Streets. LE further predicted that New York City would "top the list of new hotel openings with 61 projects/8,283 [rooms]" in 2020. [11]

COVID-19 halted many hotel construction projects and forced about 200 temporary or permanent hotel closures as of late September 2020, according to the Hotel Association of New York City. Of the hotels struggling to hold on, "[o]ccupancy during the second quarter of the year was down 58.5% compared to the second quarter of 2019, while the average revenue per available room was down 82% year over year." [12] As hotels shutter and a full recovery of New York City's tourism industry remains far away-- NYC & Company, the City's tourism arm, forecasts a return of tourists to pre-pandemic level no earlier than 2025 [13] -- commercial hotels have become a category of distressed properties suitable for acquisition and conversion into affordable housing.

<u>State of Manhattan Commercial Hotels</u>

To better understand the current state of Manhattan hotels and the feasibility of acquiring the particularly distressed ones for affordable housing, my office posed three questions to hotel owners and operators:

- How are you doing?
- What are your strategies to bring in revenue and to cut costs?
- What is your outlook on the hotel and the hospitality industry in the next six to 12 months?

[10] https://www.hotel-online.com/press_releases/release/new-york-city-among-the-top-hotel-construction-pipelines-in-the-united-states/
[11] Ibid.
[12] https://hanyc.org/crains-new-york-business-developer-chang-sells-midtown-hotel-project-for-31-5m/
[13] https://www.nytimes.com/2020/11/16/nyregion/nyc-tourism-covid.html

Between October and December 2020, my staff and interns reached out to over 20 hotel operators that manage one or more hotels in Manhattan. The outreach resulted in conversations with six hotel operators who oversee 45 hotels, as well as with the Downtown Alliance, a business association familiar with the challenges and outlook of 37 hotels located in Lower Manhattan. The conversations provided a sampling of smaller, boutique hotels and large hotels with over 300 rooms; of sole hotels owned by individual proprietors and of group portfolios with over 20 hotels managed by regional promoters; of hotels located throughout Manhattan south of 96th Street with a focus in Lower Manhattan, SoHo, the Village, and midtown; and hotels that are still in operation, have closed temporarily, and have shut down permanently.

Among the 45 hotels, eight have contracts with the NYC Department of Homeless Services (DHS) to host shelter residents, and two hotels are exploring DHS shelter contract opportunities; 13 are temporarily closed; and one has closed permanently.

In October 2020, the Downtown Alliance shared with my office that of the 37 hotels that operated south of Chambers Street pre-pandemic, 10 have temporarily closed, and three have permanently closed. Several hotels have contracted with city agencies, including hotels that hosted health care workers and quarantined individuals at the onset of the pandemic, although those contracts have since ended.

Hotel operators were in agreement that New York City's tourism industry will take years to fully recover; all of them shared that the room occupancy rate for their respective hotels had fallen by 80-90% compared to pre-pandemic levels. However, four of the six operators expressed optimism that enough of a partial recovery will be underway by spring or summer 2021 to resume offering a full range of services, albeit at reduced levels.

Two operators who each managed a portfolio of about 20 hotels were interested in or already contracting with city agencies to temporarily house congregate shelter residents for better social distancing. One of those operators was open to selling hotels that were temporarily closed or were in contract with the City. Among the four owners and operators of only one hotel, none was willing to sell or contract with the City, including one operator whose hotel had permanently shuttered.

These findings point to the existence of distressed hotels for acquisition. Approaching individual hotel operators remains the most accurate way to determine purchase opportunity, since the operator who was open to selling did not formally list those properties on the market. A hotel's operation status is also not a definitive indicator of availability, as shown by the example of the permanently closed hotel that is not for sale.

New Funding for Hotel Conversions

Governor Andrew Cuomo endorsed the idea of turning vacant commercial properties into supportive housing at his 2021 State of the State address; his "Reimagine | Rebuild | Renew" plan states that "[r]educed demand for office and hotel space has created an opportunity to repurpose formerly commercial space that has far greater potential for use as housing, including affordable and supportive housing."[14] The proposal is fleshed out in the State's FY22 Executive Budget.[15] A month later, Governor Cuomo amended his initial proposal in his 30-day budget amendment[16] even as the New York State Senate proposed an alternate bill that would authorize the conversion of Class B hotels into permanent housing.[17] These ongoing efforts aim to generate varying degrees of affordable housing, yet the FY22 budget does not include any new funding commitment.

Such an effort will require significant new funding. At present, however, appropriated capital funding for affordable housing development is oversubscribed, and existing projects are routinely delayed by the lack of available funds. Any effort to convert hotels to affordable housing will require allocation of additional resources.

In his 2016 State of the State address, the Governor made a commitment to fund the creation of 20,000 new supportive housing units statewide over 15 years.[18] Mayor de Blasio committed to produce an additional 15,000 units of supportive housing throughout the city over the same period of time.[19] Production is on track, with 4,511 units awarded under the Empire State Supportive Housing Initiative (ESSHI) toward the State's goal and 5,306 units awarded under NYC 15/15 toward the City's goal, according to tracking by the Supportive Housing Network of New York.[20] Both the ESSHI and NYC 15/15 programs have three to four years of projects in the pipeline, but if additional capital resources are made available, hotel conversions are a potential new avenue for future supportive housing projects.

In November 2020, DHS introduced a new funding resource that can be applied to hotel-to-housing conversions, which expands on the existing Master Lease procurement. Traditionally, the Master Lease Program allows nonprofit providers of supportive housing to lease space from private landlords to permanently house and provide services for DHS-referred clients transitioning out of the shelter system, using a five-year contract with a four-year renewal. The contract offers funding equivalent to CityFHEPS rental subsidy rates to the nonprofit service provider, which uses these to make lease payments to the private landlord. The expanded iteration of the DHS Master Lease Program is designed to allow nonprofit providers to acquire and own property. The contract is extended for 30 years, and the budget line for rent, still pegged to CityFHEPS rental subsidy rates, covers debt service on a mortgage amortized to the contract term, enabling the nonprofit to own the building. This model has opened up new possibilities for nonprofit housing organizations to explore distressed property acquisition, particularly of small- to mid-sized commercial hotels, for conversion into permanent housing for homeless households transitioning out of DHS shelters.

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[14] https://www.governor.ny.gov/news/governor-cuomo-outlines-2021-agenda-reimagine-rebuild-renew
[15] https://www.budget.ny.gov/pubs/archive/fy22/ex/artvii/ted-bill.pdf , pp. 50-52.
[16] https://www.budget.ny.gov/pubs/archive/fy22/ex/30day/ted-artvii-amendments.pdf , pp. 8-12.
[17] https://nyassembly.gov/leg/?bn=+S4937
[18] https://shnny.org/blog/entry/andrew-cuomo-pledges-to-create-20000-units-of-supportive-housing-across-nys
[19] https://www1.nyc.gov/site/hra/help/15-15-initiative.page
[20] The numbers were shared by the Supportive Housing Network of New York with the Manhattan Borough President's office.

Distressed Hotel Acquisition: Recommendations

I'm committed to supporting the survival and continued operation of struggling hotels, as well as their owners, workers, and affiliated businesses (such as in-hotel restaurants) during the downturn in tourism in New York City. However, there are hotels that have permanently closed or are in the owner's best interest to sell. The task force is interested in pursuing the acquisition and conversion of this subset of hotels no longer in operation into affordable housing. To achieve this goal, the task force recommends the following:

Make substantial new resources immediately available to invest in the purchase and conversion of distressed hotels into permanent affordable housing.

With 200 hotel closures citywide, some may potentially be converted to permanent housing. Despite current fiscal constraints, the City and the State should issue bonds to raise enough capital to facilitate redevelopment at this scale. The City and the State should also lobby the federal government to include funds for this purpose in future COVID-19 relief legislation. For example, in September 2020, California allocated $600 million of the state's share of federal CARES Act dollars toward an initiative to acquire "hotels, motels, vacant apartment buildings and other properties, and convert them into permanent, long-term housing for people experiencing or at risk of experiencing homelessness." [21] New York State and City governments can similarly prioritize distressed property acquisition for affordable housing and allocate the necessary federal, State, and City funds for mission-driven developers to pursue such acquisitions.

Take a targeted and strategic approach to hotel acquisition.

Nonprofit developers and providers of affordable and supportive housing should search out the hotels most appropriate for conversion and most likely to be available for sale at reasonable pricing. For example:

- Owners with a larger number of hotels may be more likely to consider selling a building in order to sustain the rest of their portfolio. My staff's conversations with hotel operators confirmed this hypothesis.
- Timing is an important factor. Nonprofit and mission-driven affordable housing developers are not the only interested buyers; speculators and investors are also looking to purchase properties during the down market. Therefore, securing sufficient funding for acquisition loans that specifically allow affordable housing developers to purchase distressed property quickly is of the utmost importance. The City and State's various housing agencies and lending entities should explore subsidizing and underwriting to potential mixed-use models for large hotel conversions. For example, part of a former hotel might be converted into supportive housing under ESSHI, while another part might become senior housing under HPD's Senior Affordable Rental Apartments program. Ownership of the property could stay with the developer or be transferred into a community land trust, leveraging potential CLT support and

[21] https://www.bcsh.ca.gov/homekey/first_awards_fact_sheet.pdf

resources. Operation of the property could be conducted under a single ownership entity or condoized into multiple owners. For a very large former hotel, the development team might want to retain a portion of the building's commercial use, such as ground-floor storefronts, interior restaurants, and higher-level event spaces, and could pursue any available support from agencies such as the NYC Department of Small Business Services or the NYC Economic Development Corporation.

Prioritize the production of affordable units, single-room occupancy, supportive, and/or senior housing.
Converting commercial hotels into permanent housing may work well for certain housing types that serve targeted populations most in need of housing. The "single unit with bathroom" layout of a typical hotel room can be repurposed with minimal reconfiguration into SRO and senior housing, thus keeping renovation costs low. Some hotel units may be able to accommodate kitchens or kitchenettes, opening up possibilities for other types of affordable and supportive housing. Prioritizing nonprofit providers for affordable and supportive housing in this hotel-to-housing strategy has the added advantage that the permanent housing created will likely remain affordable for the long term.

Address zoning barriers to hotel-to-housing conversions, without weakening community oversight
Given that most communities and elected officials would prefer that hotels be converted to permanent housing rather than shelter (a conversion currently allowed as-of-right), the 200 existing hotels in light manufacturing (M1) zones, including 40 in Manhattan, should be allowed to rezone to housing uses without requiring ULURP under certain circumstances. In addition, in dense commercial districts, some existing hotels exceed the zoning square footage that would be allowed for a residential building. A conversion in this case may also require a ULURP. A full ULURP process is time consuming and requires the development team to hire consultants, introducing additional financial barriers to redevelopment. For projects that otherwise meet the eligibility criteria of DHS's expanded Master Lease Program, ULURP would disqualify the developer from the program, since DHS will not use this contract for projects that require ULURP.

Comprehensive community planning, engagement, and project review are vital to the preservation of neighborhood character and affordability, and converting hotels into permanent housing should not be exempt from community review. Local stakeholders are best suited to determine if a site is appropriate for targeted housing, such as whether there are sufficient neighborhood amenities to accommodate new supportive housing units.

Changes to zoning requirements can be accomplished through policy amendment by the City Planning Commission. The task force recommends approval for hotel-to-permanent-housing conversions via an authorization from the chair of the CPC, with a requirement for Community Board and Borough President notification with simultaneous reviews and an advisory vote from both the local Community Board and the Borough President. The authorization would function like the review and granting of special permits. The process would be much faster, and if managed by a nonprofit, funding support under the expanded Master Lease Program would again be an option.

The task force's recommendation differs from the Governor's proposal. Although the intent of the Governor's proposal aligns with that of affordable housing developers and advocates who would like to see distressed commercial properties repurposed for permanent housing, both the initial proposal and its amended version raise concerns. The proposal would loosen regulations requiring minimum air and light standards for hotel conversions located in specified city blocks if a project produces 20% of units as affordable housing or contributes to an affordable housing fund.[22] The amended version shortens the effective period from five to three years and increases the affordability requirement to 25% of units without the option to contribute to a fund.[23] But neither iteration addresses the issue of eliminating local oversight. By unilaterally mandating a zoning override, the State government would take away local land use oversight and comprehensive community review via ULURP where applicable. The 25% affordable unit requirement also falls short of many existing supportive housing projects that are 100% affordable. For these reasons, the task force's recommendation to lower the barriers of hotel-to-housing conversion while retaining community oversight is a better approach.

Strengthen financing mechanisms for distressed property acquisition.
Affording a hotel is no small feat for affording housing developers. My staff's conversations with Manhattan hotel operators yielded a range of hotel property valuations from $300-500 per square foot and, for pricing by room, at $100,000-200,000 per room for a mid-range hotel and at $300,000 per room for a high-end hotel. These cost estimates would price acquisition of a 100-room hotel at $10-30 million.

Members of the task force's Hotel Acquisition Committee have identified the lack of sufficient upfront funding as the main challenge to acquisition. Existing acquisition tools are not targeted for quick purchase: Accessing financing from the New York City Acquisition Fund requires a lengthy process, and HPD's Neighborhood Pillars Program for property acquisition is still new with only a few closed projects since its launch. Because many Manhattan hotels are located outside of federally qualified low- and moderate-income areas, conversion projects may not qualify for federal tax credits, bonds, and typically available other affordable housing funding streams.

City and State housing agencies should develop financing mechanisms for the acquisition of distressed properties including hotels, with any public funding and capital financing being in addition to existing resources and not part of current housing budgets. The NYC Housing Development Corporation (HDC) can dedicate funds toward acquisition by nonprofit developers, so that the project team can supplement the government financing with additional borrowing from outside lenders such as Community Development Financial Institutions. These additional loans would also be underwritten for the acquisition of the same property, providing the volume of funds necessary for upfront purchase. Post-closing, debt service support should be available to reduce a project's total development cost and increase the feasibility of deeper affordability for the permanent housing units that will be produced. DHS's expanded Master Lease Program offers such ongoing debt service subsidy for housing individuals transitioning out of the shelter system. HPD and HDC should explore how similar programs can be developed using their respective financing and subsidy sources.

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[22] https://www.budget.ny.gov/pubs/archive/fy22/ex/artvii/ted-bill.pdf , pp. 50-52.

[23] https://www.budget.ny.gov/pubs/archive/fy22/ex/30day/ted-artvii-amendments.pdf

For Further Study: Commercial Office Acquisition

On December 11, 2020, the New York Times ran an article titled "Midtown is Reeling. Should Its Offices Become Apartments?" shining a spotlight on the idea of converting vacant commercial office buildings into housing.[24] A month later, commercial property firm Savills released its "New York 2020 Q4 Market Report" on Manhattan's commercial office space, which reports a 400 basis point increase in the borough's office space vacancy rate from 11.1% in 2019 to 15.1% in 2020. New leasing in the fourth quarter of 2020 dropped by 64% compared to a year prior. In total, Manhattan has 68.4 million square feet of unleased office space with a combined estimated value of $57.3 billion. Savills projects that "[a]sking and taking rents will continue to drop as availability surges."[25]

While matching the oversupply of office space to meet the need for more affordable housing may seem like a common-sense concept, repurposing commercial office space for residential use can be complex. It is unclear whether converted office towers in Midtown Manhattan could result in buildings that exceed the maximum allowable residential Floor Area Ratio. Additionally, if the zoning for a commercial building already allows for residential use and would not "unlock" additional residential FAR, it is unclear if this method of housing production would trigger Mandatory Inclusionary Housing.

The task force believes that converting office buildings into housing merits further consideration on the following:

- Commercial-to-residential FAR differences: The New York State Multiple Dwelling Law restricts the FAR of residential properties to 12. However, office building towers often exceed 12 FAR.
- Threshold for triggering MIH requirements: If a conversion project is not as-of-right, it should require the addition of affordable apartments, as specified under the MIH law. However, the NYC Department of City Planning holds the position that a project does not require MIH if the project does not create additional FAR. The task force believes that allowing conversions of commercial properties exceeding 12 FAR to residential use is equivalent to creating additional FAR, and thus should be subject to meeting MIH affordability requirements.
- Affordability: Acquisition costs of large office buildings may be prohibitive for conventional affordable housing production. HPD does not have a financing product for the purchase or residential development of office buildings.
- Blended/mixed-use development: A portion of an office building can be converted into affordable housing while other parts remain for commercial use potentially under condoization or a joint-purpose venture. This can be similar to residential units condoized within a commercial hotel.

[24] https://www.nytimes.com/2020/12/11/nyregion/nyc-commercial-real-estate.html

[25] https://pdf.euro.savills.co.uk/usa/market-reports/research-mim-ny-q4-2020.pdf

Strategies for Producing Deeply Affordable Housing

No matter the resources available to the City, it is imperative that agencies like HPD strive to develop and preserve housing that is affordable and accessible for all New Yorkers. While maintaining a balanced budget in the face of fiscal turbulence was the guiding principle for mandating FY21 cuts across agencies and programs, the Mayor's capital budget decision for HPD ran counter to what affordable housing practitioners knew at the time: The funds most crucial to the City's provision of truly affordable housing were precisely what should have been preserved as a means of protecting and prioritizing New York's most vulnerable populations.

The cuts to HPD's capital budget, though later restored and slightly expanded, prompted task force members to consider how limited resources should be prioritized and how HPD can best target the funds it does have toward projects that allow for deep affordability. These considerations should also guide HPD's allocation of the restored funds.

<u>Investing in Deep Affordability</u>
Units produced or preserved as affordable housing should be affordable to New Yorkers of all income levels, including the lowest-income households. The following recommendations are meant to address the disjuncture between the affordable housing produced and the affordable housing needed by New Yorkers.

Ensure permanent affordability for City-owned property.
City-owned properties are an invaluable resource, giving the City a direct hand in the use of properties as they are developed through partnerships with private entities. These parcels must be used to achieve the de Blasio administration's own goal of creating and preserving 300,000 units of affordable housing by 2026.[26] The task force recommends permanent affordability restrictions for every City-owned property transferred to private or nonprofit ownership, preferably through deed restrictions. This simple mechanism, a mutually beneficial tradeoff between public and private entities, should be required for the disposition of increasingly rare City-owned parcels. For HPD-owned land, the agency can determine the nature of affordability for each residential development through templates that specify permanent affordability requirements while allowing for additional stipulations that reflect the housing needs of a given community. Ideally, the templates will prioritize the provision of low- and extremely low-income levels where possible.

Support opportunity to first purchase for mission-driven affordable housing developers.
While some private developers specialize in affordable housing production, mission-driven and community-rooted organizations often go above and beyond the financial balance sheet to ensure permanent and quality affordable housing for their communities. A first opportunity to purchase properties for sale would strengthen this sector of the housing market and greatly reduce the amount of potentially affordable housing stock lost to private market-rate interests. This could be made a reality if the City Council passed the Community

[26] https://www1.nyc.gov/assets/hpd/downloads/pdfs/about/housing-new-york-2-0.pdf

Opportunity to Purchase Act (Intro 1977-2020). Introduced by Council Member Carlina Rivera, this legislation demands that qualified entities such as nonprofit developers and community development corporations be given a first opportunity "to submit an offer to purchase certain residential buildings when offered for sale."[27] HPD must work to identify private, distressed properties that can be transferred to ownership by local nonprofits to ensure the continuation of deep and permanent affordability across the city.

Deepen affordability in programs targeted for the lowest income tiers.
The Extremely Low and Low-Income Affordability Program (ELLA) is meant to finance the development of housing where at least 80% of units are priced at 80% AMI and below. This program is arguably the City's most straightforward means of targeting the deepest affordability levels. ELLA taps into a wide variety of State subsidies, including grants, loans, and tax credits, to amass the capital necessary to develop housing toward the lower end of the AMI spectrum.

However, for many households, 80% AMI is still unaffordable, whereas 30% AMI and below is a tier often overlooked. This gap can be remedied by calling for an iteration of ELLA in the next mayoral administration that uniquely targets the lowest AMI levels. Many strategies that deepen affordability already exist under ELLA, so they would only need to be expanded. Examples include committing higher subsidy amounts to incentivize more permanently affordable units; increasing the percentage of Our Space units to transition more shelter households into designated formerly homeless units; leveraging State subsidies such as the Empire State Supportive Housing Initiative to create new supportive housing units; and granting applicable types of Section 8 to keep households' rent at 30% AMI.

Community Land Trusts
While the deep affordability recommendations presented thus far are focused on how the City can alter its top-down, public-private approach to better address affordability needs of the lowest-income New Yorkers, the task force has looked beyond the market for solutions. One model that has gained significant traction in the city is the community land trust (CLT). As an incorporated entity, a CLT's role is to acquire and retain ownership of land, which it can then lease to one or more separate entities for uses such as garden space or housing. The CLT model the task force members considered is a nonprofit entity that prioritizes community and resident agency in its steering committee and works to decommodify housing through long-term ground leases with affordable housing providers. CLTs have existed in New York City since the 1990s, when the Cooper Square CLT was founded on the Lower East Side.[28] Cooper Square CLT has since acquired and successfully operated a portfolio of over 20 deeply affordable properties with first-floor storefronts. The most recent CLT movement, which centers on stewardship of deeply affordable housing by low-income communities of color, began with a convening in East Harlem in October 2012 and has since grown significantly.[29] In 2017, 12 CLTs across the city participated in a learning exchange led by the New York City Community Land Initiative

[27] https://legistar.council.nyc.gov/LegislationDetail.aspx?ID=4573837&GUID=0603C069-82DE-4977-904B-A07F3F468D90&Options=ID|Text|&Search=1977
[28] http://csmha.org/wordpress/about-us/formation-of-the-community-land-trust-formed-in-1994/
[29] https://nyccli.org/about/background/

and the New Economy Project, born out of a Request for Expression of Interest issued by HPD. These organizations have continued to develop and incorporate, with the East Harlem El Barrio CLT having acquired its first four properties in late 2020.

Though not a silver bullet, the CLT model has the potential to be an important tool to not only remedy the city's affordability crisis, but also to promote community control and stewardship of property. For these goals to succeed, low-income communities of color-- the neighborhoods of origin for many of the current CLTs-- must continue to be centered in the CLT movement, and manipulation or co-option of the model to commodify a CLT's real property assets must be actively prevented. One way this is achieved is through the CLT steering committee model, which consists of three parts: residents, community members, and professionals or interested individuals outside of the community. As at least two thirds of the steering committee are required to be residents and community members, this increases the likelihood that the uses of acquired properties would reflect the neighborhood's needs.

Mayor de Blasio acknowledged the city's growing CLT movement in his 2020 State of the City address and committed to implement strategies intended to support the model's growth as a realistic urban housing model. HPD continues to develop strategies on property disposition for affordable housing that include CLTs, stating at a public hearing that roughly 1,000 units are in the agency's pipeline for transfer to CLT ownership.[30]

Recognizing that CLTs can offer deep affordability, the task force recommends the following:

Target City-owned properties for CLT ownership.
Thus far, the City has worked with established CLTs like Cooper Square CLT and East Harlem El Barrio CLT independently to identify viable properties, and to finance the rehabilitation and acquisition of properties. However, this process has been arguably piecemeal, lacking an overall system or pipeline of property identification, financing, and acquisition. For the CLT model to grow and succeed in a competitive real estate market, the City should actively seek out and target potential sites for CLT acquisition within its own property portfolio, and work to create a designated program or pipeline of ownership transfer for these properties. Criteria that include built and zoning characteristics, property value and vitality, and proximity to existing or fledgling CLTs would determine the suitability of studied properties. Once such an inventory is established, HPD should partner with existing CLTs and affiliated organizations like the New York City Community Land Initiative to develop permanently affordable housing on these sites.

Finance the rehabilitation and operation of CLT-owned sites.
To complement a program that identifies potential CLT sites, the right financing mechanisms must be made available to realize CLT ownership and operation of these properties. As sites of deeply affordable housing, CLTs often cannot afford to rehabilitate, develop, and maintain their properties without public assistance. Recognizing the City's current fiscal environment, designating a financing program for qualified organizations looking to develop a CLT on a City-owned site would fortify the City's commitment to the model.

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[30] https://legistar.council.nyc.gov/MeetingDetail.aspx?ID=829600&GUID=EE5E58BD-5F34-4ACB-9007-A0A67218 1EE2&Options=info|&Search= +, refer to hearing transcript for HPD's comment about 1,000 units for CLTs in the pipeline.

The task force therefore recommends that the City and HPD have a dedicated subsidy and financing product for the development, rehabilitation, and maintenance of CLT properties once ownership is transferred, with appropriate permanent affordability restrictions attached. Where appropriate, the structuring of finances should incentivize the use of the mutual housing association (MHA) model in addition to CLT ownership to promote shared financial stability across a CLT's property portfolio. In this scenario, an MHA would comprise the buildings on the land owned by the CLT, facilitating the pooling of funds for capital repairs while adding another layer of accountability to the shared-equity structure.

<u>Affordable Homeownership</u>
The above recommendations on deep affordability and CLTs can apply to homeownership housing as well. Although Manhattan is a renter-heavy borough, low- and moderate-income homeowners reside in a range of housing types including single-family homes and, more commonly, in cooperatives such as Housing Development Fund Corporations (HDFC), Mitchell-Lama co-ops, and co-ops created with subsidies under HPD's Open Door program.[31] Task force members explored how to leverage the City's existing financing tools to broaden homeownership opportunities for low- and moderate-income families. Specific consideration was given to safeguarding the affordability of homeownership for each successive generation of homeowners so that, once created, the city's affordable ownership housing stock would not diminish with subsequent sales at near- or above-market price.

Finance multifamily homeownership projects that are affordable in perpetuity for low-income households.
On January 21, 2021, Mayor de Blasio announced that the New York City Acquisition Fund (NYCAF), a loan fund created to provide resources for the acquisition of properties for affordable housing, will solely finance projects with at least 51% ownership stake by a nonprofit developer or a Minority and Women-Owned Business Enterprise (M/WBE).[32] Under these new guidelines, NYCAF should further prioritize projects committed to affordability in perpetuity. For homeownership projects, NYCAF should dedicate its resources to adding to the city's permanently affordable, limited-equity ownership housing stock.

One approach to ensuring permanent affordability of multifamily homeownership units is to decouple the ownership of the land from the building structure. Individual homeowners would own their units; a government agency or nonprofit entity such as a CLT would retain ownership of the land and ensure the healthy operations of the corresponding limited equity co-op and compliance with limitations on shareholder profits through a long-term ground lease. This method is more effective in ensuring permanently affordable homeownership than relying onregulatory agreements tied to government financing or property tax exemptions, which haveexpiration dates. The City should also consider how additional subsidies available under HPD'sNeighborhood Pillars Program can support, with tenants' buy-in, the acquisition of a multifamilybuilding for conversion into a limited equity co-op.

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[31] With the task force's focus on producing new affordable housing units, preservation of Mitchell-Lama co-ops is outside the scope of this report.
[32] https://www1.nyc.gov/site/hpd/news/003-21/mayor-de-blasio-taskforce-racial-equity-inclusion-join-nyc-acquisitionfund-announce#/0

Reposition the Affordable Neighborhood Cooperative Program to offer homeownership opportunities for very low-income households.
The Affordable Neighborhood Cooperative Program (ANCP) through HPD supports the conversion of formerly City-foreclosed in rem properties into HDFC co-ops. ANCP differs from its predecessor, the Tenant Interim Lease (TIL) program that also converted in rem properties into HDFC co-ops, in that the development team is now expected to leverage private financing in addition to HPD subsidies to complete a building's rehabilitation. Upon co-op conversion, any debt amount not repaid from the profit generated by selling vacant units is converted into a permanent loan in the form of a mortgage on the building for which shareholders are responsible to repay. This added obligation, which did not exist under TIL, restricts the affordability of ANCP projects because the building's mortgage is incorporated into monthly maintenance costs. Currently, ANCP purchase prices for buyers of vacant units are indexed to households earning 80-120% AMI.[33]

Pushing ANCP to reach households at lower incomes is critical to creating broader access to the security of tenure and wealth building of homeownership. The City has had decades of success bringing low-income families into homeownership through the Mitchell-Lama and HDFC programs and should build on that legacy rather than box out families below 80% AMI.

Reducing the total development cost of an ANCP project is possible. My office has allocated Reso A capital funding to ANCP properties that, combined with increased HPD subsidies and New York State Affordable Housing Corporation grants, eliminated the need for a private mortgage and lowered the monthly maintenance charge to an amount affordable to households at 40% AMI. The combined subsidies also lowered vacant unit purchase prices to allow for households with annual income below 80% AMI to attain homeownership.

Other potential funding sources for HDFC co-op conversions are federal HOME funds, other agencies' funds targeted for transitioning families out of temporary and into permanent housing, and CDFI and nonprofit lenders' financing. The City's housing finance agency, the NYC Housing Development Corporation (HDC), can extend low-cost financing to co-op conversion projects that guarantee long-term affordability such as through oversight from an outside monitor and through CLT land ownership. Exploring these options requires flexibility from HPD, which to date has favored conventional feasibility over a commitment to producing ownership housing for very low-income households and has required outside-the-box projects to conform to ANCP guidelines.. Where applicable, HPD should approve HDFC co-op conversion projects that may fall outside of predefined formulas presented in the ANCP term sheet and prioritize expanding homeownership opportunities for the lowest-income New Yorkers.

[33] https://www1.nyc.gov/assets/hpd/downloads/pdfs/services/ancp-term-sheet.pdf

Increase per-unit subsidies for Open Door projects.
The City's other program for homeownership unit production is Open Door, which finances co-op and condo new construction projects. Current per-unit subsidies for Open Door are $165,000 for projects priced at higher-income tiers and $190,000 for projects priced at lower-income tiers.[34] On a case-by-case basis, HPD has increased per-unit subsidies beyond what is prescribed, though it has restricted this flexibility during the pandemic.

Constructing a new building from scratch costs more than rehabilitating an existing structure. To better understand the development costs of different types of housing construction, my staff surveyed task force members for the average costs of their Manhattan-based projects.
Based on the responses, the per-unit hard cost for a new construction project averages $407,000 while the per-unit hard cost for a preservation renovation project is drastically lower at a range of $55,000-245,000.

ANCP, which rehabilitates existing buildings, provides up to $200,000 in subsidies per unit. The ANCP subsidy ceiling should be the baseline for Open Door, which funds new construction projects that incur higher total development costs. This suggestion is less a request for increased resources than a recalibration to more accurately anticipate needs. Task force members with Open Door projects in the pipeline acknowledged that, in practice, HPD often has to increase Open Door's stated subsidies to ensure a project's viability. The task force recommends starting the per-unit subsidy of Open Door projects at $225,000 with flexibility to increase the amount to incentivize constructing units affordable at lower AMI levels.

Integrate down payment assistance and pre-purchase housing counseling support into the development and marketing processes.
A key hurdle that keeps families otherwise able to afford the day-to-day expenses of homeownership from making a purchase is saving for a down payment. At the present 30-year, fixed-rate mortgage interest rate of near 3%, a three-person household at 80% AMI with good credit can afford a home of about $300,000 with monthly mortgage payments of $1,500. Even with additional expenses such as co-op maintenance charges, the family's ongoing, monthly housing expenses might not be significantly higher than paying market rent.

However, to secure a mortgage, the family must have close to $70,000 in savings to cover a 20% down payment, plus enough for closing costs. After paying these costs, the family must have sufficient savings still in reserve to satisfy most lenders to approve the mortgage loan.

HPD offers support to first-time homebuyers through the HomeFirst Down Payment Assistance Program.[35] Eligible buyers must have a household income at or below 80% AMI, complete a homebuyer course offered by a HUD-approved Local Housing Counseling

[34] See Open Door term sheet for details:
https://www1.nyc.gov/assets/hpd/downloads/pdfs/services/open-door-term-sheet.pdf.
[35] https://www1.nyc.gov/site/hpd/services-and-information/homefirst-down-payment-assistance-program.page

Agency (LHCA), and intend to purchase a New York City home that passes a Housing Quality Standards inspection. They are then able to receive 6% of the home's purchase price, up to $40,000, to cover down payment and closing costs.

The assistance is provided as a forgivable loan that amortizes over 10 years and functions like a grant for homebuyers who commit to living in their homes for at least a decade. Because accessing HomeFirst assistance requires prospective homebuyers to get connected with LHCAs, participating in the program has the added advantage of the homebuyers learning about additional down payment and closing cost assistance opportunities, as well as receiving mortgage application assistance from their housing counselors.

Unfortunately, HomeFirst funds are allocated at the start of the City's fiscal year and are typically fully depleted before the year ends, resulting in applicants from the current fiscal year being waitlisted until new funds for the next fiscal year come in. This delay can force a buyer to choose between foregoing HomeFirst assistance or letting a sales contract fall through, or eliminate the buyer's ability to afford the purchase altogether.

Additionally, new housing units created under Open Door target moderate-income homebuyers between 80% and 130% AMI. Unless a prospective purchaser has an annual household income at precisely 80% AMI, they would not qualify for HomeFirst assistance. Because ANCP sets the sale prices of vacant units for households earning 80%-120% AMI, this predicament now applies to HDFC co-op purchasers as well.

HPD should expand the availability of and the eligibility for funds of its HomeFirst program. In the early 2010s, HPD was able to direct New York State's bank settlement money from the foreclosure crisis to enhance HomeFirst, supporting more applicants at or below 80% AMI and expanding the assistance to a higher income tier of up to 120% AMI. And in 2018 as part of Housing New York 2.0, HPD expanded the HomeFirst assistance amount from $25,000 to $40,000, a welcome change that demonstrated the City's ability to understand and meet evolving home buying needs.[36] HPD has deepened, and must now broaden, its assistance. The City should revisit strategies to increase HomeFirst allocation, including exploring resources beyond federal HOME funds so that assistance at the higher income tier can be reinstated.[37]

HPD should also develop additional sources for down payment and closing cost assistance that can complement Open Door and ANCP. This can take the form of creating new programs for the 80-130% AMI income tier. HPD can also incorporate the other recommendations in this section to prioritize the creation of homeownership opportunities for households below 80% AMI, since these are the families that can currently access HomeFirst assistance.
For existing and future down payment assistance programs, HPD should improve internal coordination so that the timeline prescribed by its marketing unit for the housing lottery process can have built-in flexibility to accommodate any waiting time needed for a homebuyer to receive down payment support.

[36] https://www1.nyc.gov/assets/operations/downloads/pdf/mmr2018/housing_new_york.pdf , p. 11.
[37] HUD rules require HOME funds to go toward supporting households at or below 80% AMI.

Looking Ahead: Next Steps

The Task Force on Sustainable Affordable Housing Development met from August to December 2020. Since then, the country has transitioned into a new federal administration that supports rental assistance, Governor Cuomo has released his FY22 Executive Budget and then a budget amendment with a proposal to convert hotels and office buildings into housing, and Mayor de Blasio has increased HPD's capital budget by restoring and increasing the FY21 budget to $1.43 billion and setting the FY22 budget for $1.45 billion. These actions bode well for the implementation of this report's recommendations, which are necessary if New York City is to achieve better alignment between the housing being produced and the housing that those with the greatest needs can afford.

Text amendments to the Zoning Resolution, whether to improve Mandatory Inclusionary Housing or to streamline hotel-to-housing conversions while maintaining community oversight, require a deliberate process that will take time. The de Blasio administration and the City Council should take immediate steps to ensure the City's zoning tools are better targeted for the creation of affordable units.

The restoration of HPD's capital budget to a higher amount than the pre-pandemic FY21 allocation, first announced in the Mayor's preliminary budget in January 2020, offers the opportunity for the agency to simultaneously move ahead with existing projects and consider how best to target the additional resources. Facilitating deep and long-term affordability begins with supporting mission-driven affordable housing developers, assisting in their property acquisition efforts, and increasing the per-unit subsidies for various HPD programs. The COVID-19 pandemic has spurred innovative strategies to produce housing under fiscal constraints. Many affordable housing developers, service providers, and lenders have started exploring options to leverage the unique opportunities presented by the down market to generate affordable housing. A next step would be to establish best practices from the experiences and lessons learned from these pilot projects. Perhaps some of the new strategies will remain viable affordable housing tools post-pandemic, and New York City will continue moving in the direction of becoming a more affordable city.

Manhattan Borough President's Task Force on Sustainable Affordable Housing Development:

Ascendant Neighborhood Development
Asian Americans for Equality
Association for Neighborhood and Housing Development
BetaNYC
Center for New York City Neighborhoods
Citizens Budget Commission
Citizens Housing Planning Council New York City
CIVITAS
Community Service Society of New York
Enterprise Community Partners
Fortune Society
Gateway Housing
George M. Janes & Associates
Habitat for Humanity NYC
Harlem Congregations for Community Improvement, Inc.
Hope Community, Inc.
Housing Rights Initiative
Jonathan Rose Companies
Local Initiatives Support Corporation NYC
New Economy Project
New York Housing Conference
New York State Association for Affordable Housing
New York University Furman Center
Regional Plan Association
RiseBoro Community Partnership
Supportive Housing Network of New York
Tenants & Neighbors
West Harlem Group Assistance, Inc.
West Side Federation for Senior and Supportive Housing

(Some task force members prefer not to be named.)

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