

# CENTER FOR NEW YORK CITY AFFAIRS

## THE NEW SCHOOL

### ***THE LONG VIEW:***

#### ***How Can New York Preserve Housing Affordability?***

Presented by the Center for New York City Affairs at  
Milano The New School for Management and Urban Policy

Wednesday, March 26, 2008, 8:15 a.m. to 10:30 a.m.

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### **Participant Biographies:**

**Michelle de la Uz** became executive director of the Fifth Avenue Committee (FAC) in January 2004, after serving on the agency's board of directors from 2000-2003. She is also president of the board of directors of the Association of Neighborhood and Housing Development (ANHD). Prior to joining FAC, Michelle was program director for the Center for Urban Community Services' uptown sites, where she oversaw supportive housing services for 400 low-income tenants in Washington Heights and Harlem. Previously, she was director of constituent services for Congress Member Nydia Velazquez. She was a recipient of the 2002 Ford Foundation Leadership for a Changing World award.

**Dina Levy** has been director of organizing and policy at the Urban Homesteading Assistance Board (UHAB), a citywide nonprofit that assists tenants in converting rental buildings into limited-equity cooperatives, for the last five years. Prior to this position, she directed a comprehensive community revitalization program in Newark, New Jersey. From 1998 to 2001, she founded and ran a Grameen Bank-sponsored micro-credit program, one of only two such programs operating in the United States. She began her career as tenant organizer in Dallas, Texas, working to preserve affordability in HUD-subsidized housing.

**Errol T. Louis** has been a columnist at the *New York Daily News* since June 2004. He is also a member of the paper's editorial board, which won the 2007 Pulitzer Prize for editorial writing. Mr. Louis is a frequent guest on television and radio, including New York 1, Regional News Network, WNYC New York Public Radio, WABC-TV and CNN. Previously he was associate editor of *The New York Sun*, where his columns won an award for commentary from the New York Association of Black Journalists. He teaches reporting at Long Island University's Brooklyn campus and public policy at New York University's Wagner Graduate School of Public Service.

**Ron Moelis** is a principal of L&M Development Partners Inc., a real estate development company specializing in the financing and development of affordable housing in the New York City metropolitan area. L&M has developed more than 6,000 units of affordable housing and more than 250,000 feet of retail space in New York. Mr. Moelis is also a principal in the construction company L&M Builders LLC. He is vice chair of the New York State Association for Affordable Housing, an advisory board member of the Housing Partnership and a member of the boards of directors of Citizens Housing & Planning Council, Associated Builders Organization and the NYU Law Real Estate Institute.

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**Christine Quinn** was elected speaker of the New York City Council in January 2006. She has served as the representative for the Third Council District of Manhattan since 1999, and is a longtime advocate for equal rights, comprehensive health care, improved schools, tenants' rights and affordable housing. Speaker Quinn has been called one of the 50 most powerful women in New York City by the *New York Post* and one of the most influential New Yorkers by *New York* magazine. Before running for office, she served for five years as Chief of Staff to then-Council Member Thomas K. Duane and then as executive director of the New York City Gay and Lesbian Anti-Violence Project.

**Deborah Van Amerongen** was appointed commissioner of the State Division of Housing and Community Renewal in January 2007 and serves as chair of the Housing Trust Fund Corporation and the Roosevelt Island Operating Corporation. She is also a member of the boards of directors of the NYS Housing Finance Agency, the State of New York Mortgage Agency, the New York State Affordable Housing Corporation, Harlem Community Development Corporation and the Homeless Housing Assistance Corporation. Previously, she served as director of Multifamily Housing for the Department of Housing and Urban Development (HUD) in the New York City region, and legislative coordinator for program & counsel staff in the New York State Assembly.

**Emily Youssouf** is managing director and head of the Housing Finance Division at JP Morgan Securities, where she is charged with delivering solutions for providing affordable housing to state and local housing finance agencies in order to meet community needs. She served as president of the New York City Housing Development Corporation (HDC), from November 2003 to October 2007, during which time its assets grew from \$2.3 to \$8.5 billion. Prior to joining HDC, Ms. Youssouf was president of Natlis Settlements, LLC, a specialty finance company. She began her financial services career at Standard & Poors, where she was vice president of the Tax-Exempt Housing Finance Group. She also serves on the Board of Governors of Milano The New School for Management and Urban Policy.

## **Transcript of March 26, 2008 event:**

### ***The Long View: How Can New York Preserve Housing Affordability?***

FRED HOCHBERG: Good morning, my name is Fred Hochberg. I'm Dean of Milano The New School For Management and Urban Policy. I want to welcome you this morning. Before we start, I want to take a moment to acknowledge Steve Nislick of Edison Properties. Steve Nislick of Edison Properties is a board member at Milano and is the underwriter of this series. Edison has been a leader in affordable housing for many years.

Steve is one of our board members and he and his company have enabled us to run this program here today. So we're going to be speaking about long-term affordability. We're going to continue this discussion with another program on April 30, with Deputy Mayor Bob Lieber and Bill Thompson. Then we will continue it again with a program in the fall that will focus specifically on Newark. Again I want to really thank Steve and Michael Field from Edison Properties, who are seated in the back of the room. Let's give them a round of applause for enabling us to do this program. We also have, with us Emily Youssouf, who is also on our board, but in a moment she'll be introduced formally.

When I reflected on affordability, what we're going to talk about today—well we're really talking about sustainability. And sustainability seems to be the word of the moment. We talk about sustainability in terms of green cities, and our environment being sustainable. We talk about our cities being affordable. At this school, we talk about nonprofits being sustainable. So that they can have a revenue stream and have even business interests that can make them sustainable. And if I think about the most sustainable institutions over time, it's actually universities. Universities figured out that endowments are a critical part of that. And if you look at Harvard University, it is an entity that is older than the United States, older than many governments in the world. And that's true of many universities.

What has helped us with affordable housing was a number of innovative public-private partnerships over the years. And those partnerships, in part, helped New York build a quarter of a million affordable housing units since 1970. But pressure is building on those public-private partnerships, and we're actually losing more affordable units than we're building on a regular basis.

At Milano, we've had a number of panels in the past year, three in particular that looked at affordability. And affordability goes to the heart of our city. It goes to the heart of the middle class viability in our cities, to the heart of having a place where policemen, firemen, teachers, artists, writers, all the kinds of people, health professionals make this city a great city. And it all comes down to affordability of housing and being able to have a sustainable quality of life.

Many federal, state and city programs have funded this. Many of you know about them in terms of the low income housing tax credit, Mitchell-Lama, HUD's program. What they all have in common is that affordability was built into them from the start. And you also all know, it's no surprise to anybody in this room, about the housing boom of the last several years. And as the affordability sunsets, many owners are beginning to look at how they can monetize their properties. And if you

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look at today's *Post*, hidden on page five, it says "New York Rental Buildings Soaring." And the point of it is that rental buildings, rent stabilized buildings are being sold over and over. There is one I know right in our neighborhood, Devonshire House on 10<sup>th</sup> Street and University that was recently sold. And half of the people are moving out this summer because without rent stabilization affordability, those buildings become even less and less possible to live in.

And when a builder buys a building for essentially a \$1 million a unit, it is no longer going to be affordable for our New Yorkers. So we have many, many apartments that have reverted to the market. Mitchell-Lama in particular is hardest hit with 26,000 units being turned over to market rates by 2006. And between 1990 and 2006, just to give you one more fact, almost 120,000 apartments in the Mitchell-Lama Program and Section 8 will have reverted to market-based housing. The mayor in his plan 20/30, and has put in place a new housing marketplace with \$7.5 billion to either renovate or build 165,000 affordable units by 2013.

So this is a critical issue and I say it's a critical issue really for the viability of our city. And what we're going to be doing today is looking at some long-term solutions. And to take the long-term view, I'm going to introduce Chris Quinn who is going to do a brief welcome. I've known Chris for a long time. She has a long-term view, and she also understands vitally—and she represents the district we're in right now, in addition to her role as speaker—the importance of making sure that we have a balance in our city and the importance that every constituency has the ability to live a good life in our city. So with that my dear friend of 15, 18 years, Chris Quinn.

**CHRISTINE QUINN:** Good morning everybody and thank you, Fred. You are in my district as Fred said, so when you leave please be quiet and don't litter. Those things are very serious here. But I again want to thank Fred and everyone here at The New School for not just for organizing this forum but these series. I was here, I don't know maybe six or eight months ago, for part of a conversation about the future or the challenges to the future of the middle class in New York. Obviously housing is part of that, but I think these are important moments for New Yorkers to get together—New Yorkers from all different parts of advocacy and government to come together to try to come up with new solutions.

You know the issue that everyone will, and there's a bunch of staff from the city council here today, so we're really urging everyone to come up with good new solutions. Because then you will hear us announce them as ours a week from now. So please, we urge you, we need good new ideas. But the issue you'll all be grappling with today 'how do we preserve affordable housing? How do we create more affordable housing in the City of New York?' There is no issue, bar none, that I hear more concern about wherever I am, any borough, any neighborhood in the City of New York.

You know I started my first job in New York City in the late 80s, was working for the Housing Justice Campaign and the Association for Neighborhood and Housing Development. And I feel like in those days when you were talking about the need for more affordable housing, if you said that, you mostly meant the need to create more affordable housing for homeless and low-income New Yorkers. Now when we say we need more affordable housing, we mean homeless, low-income, moderate and middle-income New Yorkers, because that is how the challenge has grown and expanded.

You know, over the past two-and-a-half years, we have tried in the council to be as aggressive on this issue as we possibly could. One of the areas we focused a great deal on is the issue of preservation. And making sure that—yes we absolutely need to create more units—but we also need to make sure we're not losing units on a daily basis as we are trying to create new ones. We also

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need to make sure that we change the construct that I think in some ways we've fallen into, that affordable housing means crappy housing. That shouldn't be the standard in the City of New York. So with the goal of preservation and eliminating the crappy from affordable housing, we passed a couple of very important pieces of legislation and initiatives in our first two years.

One of which I am very proud of is the Safe Housing Act. We worked for a year and really came up with a historic overhaul of how code enforcement is done in the City of New York. And now, in addition to you know you being able to call, you know if you don't have heat or hot water, the 200 worst buildings in the city every year, as a matter of course, will get a head to toe inspection. And if there's a hole in the ceiling, it just won't be noted that there's a hole in the ceiling. The inspector will have to figure out what caused that hole, and that is what the landlord will get violations for. If they don't fix them, the city will go in and fix them, and then we will sue them to get the money.

This is a very different way of doing it and a huge step forward. And what is perhaps most notable and most hopeful to me about this initiative—we spent a year working on it and at the beginning of this process everyone said there's no way you can come up with a bill that HPV supports, the tenant lobby supports and the landlord lobby supports and at the end we did. Now I had a grand vision of one wonderful press conference, that didn't happen. But the piece of legislation was supported by all, and I think it's important because it's a step towards preservation. It's also a step towards saying everyone, maybe in different ways, recognizes this is a problem in the City of New York, and there are more opportunities for commonality and coalition than there might have been at other points in this city. You know the same recognition of you can't lose one unit. And how do you lose units? They deteriorate and they become unlivable. You lose units because people literally, by bad actors, get pushed out of their home. That's why two weeks ago; we were so excited when Mayor Bloomberg signed into law *The Tenant Protection Act*. An act which now gives tenants, for the first time ever, the right to go to court if their landlord is harassing them. It had been that you could go every time you didn't have heat or hot water. Now you can go to court with the charge of harassment by your landlord. And we believe this will really help protect people, keep them in their apartment. And with the impact, in my opinion, of vacancy decontrol it is incredibly important that we have given people this tool.

You know usually the mayor and I agree. We try hard to agree. But we were unable to agree on one piece of legislation recently. It's a bill that gives people—if you're going to pay your rent with Section 8 or some other program, right now there's no law that says a landlord can't say 'no I don't want you because you pay your rent with Section 8. I want you because you don't use Section 8 or another program.' We put a law in place, sadly the Mayor's vetoed it but we will override the veto today. A law, which will give you the standing in the Human Rights Commission if you are being discriminated against because of the way you pay your rent. And I think that's another important way to help people who have the ability to pay to get connected to apartments they can afford.

Now all of that is about preserving units. There's a huge job, as Fred said, to create more units. And also, I believe, to learn from some of the mistakes that were made in the past. You know the Mitchell-Lama program, which in some ways has been, you know, the housing American Dream in New York City. A way for middle class people to get good homes where they could raise their families. Now 30 years ago might have seemed like a long time away and maybe like it would never come, or the people who were there then wouldn't be in the jobs that they were in now. But the truth is 30 years will come. And the challenge we're facing now is we're running around the city of New York, trying to prevent all of these programs from buying out even though that's the way the program was constructed.

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So I believe, as we talk about how we create more units, we have to recognize that what we have to talking about are permanent units. Now that may put us in a construct where we have to recognize there will be a smaller number that we create. But I believe even a slightly smaller number, if they are permanent units, are better for the long-term stability of New Yorkers and the long-term stability of tenants. Now I don't know exactly how you create a permanent 21<sup>st</sup> Century Mitchell-Lama for New York City. But I know we have to. And that's why we've put together a task force on this subject. It's being chaired by former HPD commissioner Felice Michetti. Also co-chaired by former Undersecretary of HUD Maxine Griffith, who is up at NYU. Emily is a member of it. They'll start working very soon. And we've charged them with a short time-line of six months, to report back to the City Council and the city government about what steps we should be taking with Deborah and our partners in government to create a 21<sup>st</sup>-century Mitchell-Lama.

We need to work with the real estate community. We need to seize re-zoning, if there's opportunities, to create more affordable housing. But we also need to create a new program like the one that brought so many people homes, where they were able to raise their children. So thank you all for being here today. As complicated and challenging as this issue can be, it really is very exciting to see so many people, on such a beautiful day inside, committed to spending a whole day coming up with ideas and solutions and engaging in dialogues to help move us to the place where we really do have enough affordable housing. Not just for the million more people who are coming here, but first and foremost for the folks who are here and want to be able to stay in the neighborhoods they made great. So thank you for being so committed to your city and I hope you have a wonderful, wonderful conference and a terrific panel.

ANDREW WHITE: Thank you, Speaker Quinn. Good morning, everybody. My name is Andrew White. I'm the Director for the Center for New York City Affairs here at Milano and I'm very pleased to have you all here for two hours anyway, if not for the whole day. Maybe we could really come up with solutions. But I quickly wanted to point out, as Fred did earlier, on the 30<sup>th</sup> of April we're doing this event on *Maintaining Momentum For Development*. Looking at the big developments around the city and rezoning, and all that and where is that headed in the current economic climate. And again, Deputy Mayor Bob Lieber and Controller Bill Thompson, Bob Lander from Pratt and some others are going to be part of that discussion so I hope you will make it.

At the Center for New York City Affairs, we do a great deal of work around strengthening neighborhoods and supporting families and issues around urban poverty. At the school, we also have programs around finance and community development. And really what's unique about the Milano School is that we're at the nexus of practice and policy. I'm especially excited about the curriculum we're developing around politics and advocacy and there's a pamphlet about it out on the table out there. But essentially, we're offering courses every term now about community organizing, communications and media, lobbying, coalition building, campaign strategy, power analysis—all the things people need to really make change happen.

Quickly, a couple of the factoids that I want to make sure people have clearly understood. Just two points: one, between 1990 and the end of 2006, more than a quarter, 27percent of the city's 120,000 apartments in both Mitchell-Lama and project-based Section 8 subsidy programs have been lost. And another 18percent are threatened. So the scale of this is huge. Mitchell-Lama rentals have been hit hardest with more than 26,000 units lost by the end of 2006. And with that, I want to introduce the commissioner of DHCR, Deborah VanAmerongen, who is not responsible for all of that.

She is one of the point people in state government and in New York government responsible for

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trying to come up with new strategies to stop it and build on the great base that New York has for affordable housing. I mean we are unique in this country in terms of the way we do this and the capacity New York has for development and for preservation. Deborah VanAmerongen was a senior executive at HUD in charge of multifamily housing. Prior to that, she was a legislative staffer in the New York State Assembly, and she has been commissioner of the State Division of Housing and Community Renewal since January 2007. Commissioner.

DEBORAH VAN AMERONGEN: Thank you, Andrew. As I said, I'm really not responsible for all those losses, and we're working very hard to prevent that sort of trend from continuing. It's very nice to be here with you today. I appreciate the invitation from the New School. It's great to see so many people turn out for this sort of discussion, and I look forward to the interaction with the audience and the rest of the panel as well.

I came to the issue of preservation at least in part because of the way that the federal programs that I was responsible for administering at HUD were structured. And candidly, a lot of those programs didn't work particularly well for the creation of new housing here in the city of New York. The loan limits on a lot of the FHA programs were set low for the costs here in New York City. We had a difficult time doing a lot of development of new affordable housing. So I said 'what is the most productive thing we could be doing here in the New York City office of HUD?' And we chose to focus on preservation. It also came together because, at the time I started at HUD, in 1998 as a child prodigy, it was a time that a lot of changes were happening in the Section 8 program.

It was the creation of the Mark-to-Market program, a couple of years after that the Mark-Up-To-Market Program. There were a lot of these original contracts under Section 8 going up for their first renewal, and it was the first time in 20 years that owners had to make decisions about whether they were going to re-up with that program or not. So we spent a lot of time focused in the Section 8 portfolio. Actually had a lot of success in both doing Mark-to-Market, Mark-Up-To-Market and working with owners to get them to do long-term extension of contracts. And also to facilitate transfers of ownership or changes in management that we thought were essential in a lot of the buildings in our portfolio. We had some tired properties; there still are some tired HUD properties out there. I can't claim that we addressed all of them. But there were some tired properties in the portfolio and frankly some partnerships that weren't particularly interested in remaining responsible owners of affordable housing. So that's a lot of the work that we did there at HUD.

And when I came to DHCR in my new position, I felt that although the state had had some successes on preservation, that it had not been a primary focus of the agency and that we needed to make it more so. So I started really from the beginning, talking to my staff about focusing on preservation, not just as a reaction to a particular building filing an opt-out notice or a problem at one building around the state. But rather as an approach that we had to take agency-wide. And I have a great partner in this venture, her name is Priscilla Almodovar, some of you have worked with her. She is the president of the State Housing Finance Agency and the State of New York Mortgage Agency. And she and I came to this together. And we've said we're going to be proactive and we're going to approach preservation differently at the state level. So what we started to do—and we started with the Mitchell-Lama portfolio, everyone is aware of the crisis at Mitchell-Lama. It's not as if it's a surprise, it's not news. We've had opt-outs going out in this program, buy-outs of the program going back to 1984. There clearly was a surge in buy-outs in the 90s and early 2000s because of the heat of the real estate market. And so many owners had financial incentive to want to buy-out.

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But we felt we could actually have some impact, although we won't be able to prevent every buyout from happening, we can by undertaking proactive measures really change the conversation with owners of Mitchell-Lamas, that are regulated by the state of New York. We also have to say—followed in the footsteps of our friend Emily Youssouf and the folks over at HPD who had taken a very aggressive approach with the city Mitchell-Lamas several years before. So I'm not a big fan of re-inventing the wheel. We looked to the work that HDC had done in their area, and said what can we do to emulate that at the State? So we started by looking at the entire portfolio. And we felt that with the housing expertise, particularly between the two agencies, we should be able to identify candidates for preservation efforts. It's not rocket science. You can look at a building and see a building that needs a lot of rehabilitation, where you think you have an owner who would be willing to do a preservation transaction or perhaps to sell to someone else new who would come in and do a preservation transaction.

And we started doing proactive outreach. And I do have to say, I'll admit it sounds a little bit like patting myself on the back, but I think it was the first time that some of these owners had gotten a call like this from the State of New York where they said, 'Really, you want to talk to us about coming and doing a refinancing with you?' And what we did with the Housing Finance Agency was create a whole new financing product, again closely modeled on what HDC had done with the city Mitchell-Lamas. But a specific tool that we could use to entice them to do a preservation transaction, we have had a tremendous amount of success in it.

Actually we're a little bit scared because everybody knows that, you know, we have restraints on volume caps, restraints on the amount of subsidy we could put into these deals. We probably have more deals in the pipeline right now than we could finance, at least within this year. So we've had to slow down a little bit. But to go—and anybody who has worked with government I hope would be impressed by this. We announced the program in the spring of last year, had the actual term sheet and were ready to accept applications by the summer. We closed on our first deal in the fall, which is really for government time, that's like you know warp speed for government time.

And a lot of credit goes to HFA for that. We were their partners in it but they really did a lot of the lifting to get those refinancing done. And we have a number more in our pipeline. We are also looking at the Division of Housing, about how do we regulate these buildings and how do we oversee them. I had a number of owners say to me, 'you know what Deb, I'm willing to stay in affordable housing, it's not an issue about going out to market rate. I would come in and do a tax credit transaction and be regulated as a tax credit rules, but I don't want to be a Mitchell-Lama anymore.' And I think that that is a fundamental statement, that there's a problem in the way that we oversee the Mitchell-Lama buildings. If they're willing to participate in other federal, state or city affordable housing programs, be regulated by the government, what is it in particular about the Mitchell-Lama program that makes them unwilling to remain in that program.

So we've tried to take a proactive approach on that side of things too. We are undertaking a comprehensive review of our regulations and our statutes, although I think most of it is regulation or policy that has evolved over the years. And we're trying to figure out what do we need to do, and we're not talking about just doing the bare minimum. We're going to always oversee this housing stock as long as they're a regulated Mitchell-Lama. But what do we need to focus on to assure that people who are of appropriate incomes are living in those units, that the building is being maintained in both financial and physical good condition, that the rules of the program in general are being complied with, without overreaching and being involved in things that the housing company—that are neither are of benefit to us nor to the residents of that property.

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So we've conducted that review internally. We've also reached out to the New York State Bar Association and asked them to assist us. We had reached out to the real estate committee of the bar. And they collectively, that committee, most of them represent most of the owners of these properties. And we said, "Give us a hand. Tell us what you think our regulations or policies are overreaching." We'll have that conversation and we'll try to revise some of those rules and regulations to make it a better program that works for us and we're frankly extending a tremendous amount of staff time on this as well. And not necessarily focusing on the buildings that are the most troubled, but applying the same sort of very stringent rules to the whole portfolio. We'd like to do a better allocation of our own resources, and be able to entice owners to stay in the program by assuring them that it's going to be a different kind of program for them to deal with.

So that's what we've done on the Mitchell-Lama side of things. I can't be up here and talk about preservation without mentioning Starrett City. I've told this story innumerable times, so I apologize to those of you who have probably heard it before. My first week on the job last year when I was appointed—I started on a Monday, on Tuesday I was asked to testify on the state budget, which I had had no hand in crafting because it was introduced before I was there. And then on Thursday, Starrett City was sold. So it was a real banner first week for me. It gave me an appreciation of the kind of challenges that I would face in this position, but what we have done—you know I'm sure anybody who has followed this story here in New York knows that that sale was rejected both by our agency and by HUD.

What we have tried to do since that time rather than just sitting back and waiting for the other shoe to drop, we've really been talking. We've been actively engaged with the owners of Starrett City and also with the community, with the tenant's association, with the elected officials in Brooklyn, with folks like ACORN, who have been very actively involved in trying to find a good, affordable housing outcome for that property. And we're working with them to try to set up the parameters for a transaction.

If the owners are committed to selling, that is their right. It is private property. But if they are committed to selling, let's try to structure a transaction that the governmental agencies would feel comfortable supporting and signing off on with a responsible purchaser and a structure to the transaction that would protect long-term affordability at the project. So I'd like to be able to stand up like Chris Quinn—said she would have like to have done a nice press conference. I wish I had had that press conference already. We've been working on this for several months. I'm still optimistic. We hope we will be able to reach agreement on those terms. As she said, it's very difficult to get everybody involved on the same page and sign off on it. But we've made a lot of progress, and I'm still optimistic that we will be able to have that outcome there. That's the kind of thing again about taking a proactive approach that I think we need to do across the entire portfolio.

The Mitchell-Lamas aren't the only thing in DHCR's portfolio though. And what we—I think Mitchell-Lamas in a way were almost easier to get at. It's a relatively limited portfolio. The number of projects we have regulated, that portfolio in some cases going back to the 1950s. We know it really well and we're very engaged in the oversight of those properties so we have good information about it, we have our partners at HFA to work with. It was somewhat easy for us to determine targets for preservation and what kind of financing tool might work there. You know other people had set up programs before we got to it.

But we have a number of other portfolios of housing that we are just as concerned about. We've got the older tax credit projects. many of which have passed their first fifteen years of compliance. We

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have a program in upstate New York called Section 515, which is a program we do jointly with the USDA. It's rural development, not so much a city issue so I won't spend a lot of time on that today.

We still have state-aided public housing. Most public housing throughout New York State is overseen by the federal government, financed by the federal government but some of it is still state-aided. And those properties are not in good condition. Some of them have been what people would call revitalized because they don't like the word privatized. They still act much like public housing, but they have had new financing brought into them. It has worked in some areas of the state. Quite frankly, has not worked in some other communities. But I think we need to look at what we can do with that portfolio.

We have properties that are financed under the Federal Home Program. There's a whole bunch of other buildings that we are responsible for. DHCR oversees all these properties. While a lot of the press might be about the Mitchell-Lamas, I can assure you there is an impending crisis coming in some of these portfolios as well. And again, we really are trying to get ahead of it by getting better data about the properties, figuring out which ones might be good candidates for preservation.

You know I like to give credit to people who worked places before me. Sean Donovan at HPD has really been a leader on this front. And he has undertaken a lot of work on preservation. I, when I was at HUD, worked very closely with him. He actually brought together a whole group of people from throughout the city in '05, to start talking about preservation and the city focused on three portfolios. The Mitchell-Lamas, the HUD assisted housing stock in the city and the year 15 tax-credit properties and what the different approaches might be for each portfolio.

He also was successful at applying for funding from the MacArthur Foundation to continue that work, and I've continued to at my new role at DHCR be involved in those efforts. I thought it was such a great idea that we went ahead and applied to the MacArthur Foundation for money. Unfortunately and perhaps in part because the city already had accessed their resources, we were not able to get that funding. But what we were applying for and what I'm committed to continue to do—and we're now talking about the possibility of bringing in a consultant to do some of this work for us—is to get a better handle on the portfolio. We need to know what we don't know about this portfolio first.

We do not oversee all the buildings the same way. There are different statutes and regulations and rules for every one of the programs. We are more or less intimately involved in each of these portfolios and we have partners in each of the portfolios. So the first thing we need to do is figure out what we don't know about it and what we need to know in order to figure out what ones we can work with to do preservation deals, or again where we might need to facilitate a change in management or ownership. The other thing that I think we have to do is be able to do physical needs assessments. We have to get out to these properties and really get our handle around what are their needs. What buildings are going to be interested in perhaps doing a refinancing with some rehabilitation at that property—where doesn't that work? So we are undertaking those efforts at the same time. So again I know I've said it probably 16 times in the course of this, it's about being proactive, it's about trying to get ahead of the issue. Not just waiting for there to be an opt-out or a buy-out or a notification of a sale, that you feel you cannot support but getting on top of the portfolio that we are responsible for. Working with our partners, both the state agencies and at the city and at the federal government. And I think we're in a unique position to be able to do that. I wanted to just take a couple of minutes to talk about a couple of other things going on at the Division of Housing at the statewide level that tie back into this issue I assure you. And also that I

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just wanted to make you aware of.

The first of them is that it has been a relatively extraordinary year in the field of affordable housing here in New York State. Anybody who has followed New York State government, and knows about our housing capital programs could tell you that the funding for these programs has essentially been flat for 20 years. I had the opportunity—I asked my staff to just put together, because I think sometimes a simple graphic tells the story the best. I had my staff put together a bar chart that showed the level of funding for New York State Housing Programs for 20 years. It was a completely flat line across the page. And I assured people when I presented that chart, that it was not adjusted for inflation. If we had adjusted for inflation, it would have looked worse and gone down over the years. So we were able to make a case, I think in part, because of some of the aggressive things we did last year in improving coordination between the Division of Housing, the State Housing Finance Agency, moving things forward in both of our agencies. We were able to make a case for an incredibly aggressive lift for affordable housing funding here in New York State.

The funding had been stuck at around \$100, \$125 million for about, as I said, the past 20 years. We had an executive budget proposal that came out in January for \$400 million for affordable housing, structured in what's known as the Housing Opportunity Fund and we have been working with our partners in the affordable housing community. I see some of them, David Muchnick from Housing First and Ted Houghton from Supportive Housing Network, Abby Sigal from Enterprise. We've had a great coalition. I'm sorry if there's anybody here who's working aggressively on this who I just haven't spotted in the crowd. But we've had a great coalition of support, of people who work in all different kinds of housing.

We've made the point that whether you work in specifically homeless housing, housing for persons with disabilities, you're doing workforce housing—there is a need across the board and we will work with you to utilize the resources that are allocated to us in the most effective manner possible. We've had a great coming together of the entire affordable housing community to support the housing opportunity fund. And although we're a little bit anxious about things right now, because the state budget is supposed to be enacted by April 1. And it's March 26 today, and we're not terribly far along in part because of the events in Albany, we still are optimistic about where we're going to end up.

The Assembly came out with in their proposal—\$400 million for housing in their one house budget bill and the senate did \$100 million, which is really extraordinary to get the senate to make a statement in support of another \$100 million. The doubling of funding essentially for affordable housing and we are convinced that with two of the three parties saying \$400 million we'll be able to get a really big increase for affordable housing. It's a very exciting time. I encourage all of you, if you have the opportunity to speak to state legislatures or anyone of influence in the budget process, to be supportive of it to aid us. A lot of the money—if you look at the write up, all of the information about the Housing Opportunity Fund is on our website. If you look at the write-up on it, preservation is I think the second or third word in the write-up on the Housing Opportunity Fund. And we do need the ability to do some more subsidies for these deals.

They do not work in often cases as straight re-financings. You need to have some money available to do soft secondary debt on them as a subsidy in order to make the transaction work. We'd like that to be one of the uses of this fund. The other thing I wanted to mention briefly is what the—whatever you want to call the economic meltdown. Nobody wants to use the “R” word. But what the impact of the state of the economy is on our housing programs and the area that it is having the most

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noticeable impact, and where I have to candidly admit are most concerned is on the equity raise from low-income housing tax credits.

I know some of you are very familiar with this program but for those of you who are not, the federal government allocates low-income housing tax credits to every state. DHCR is the allocating agency for New York State for those tax credits. We sub allocate a substantial portion of them to HPD and then we work with some other partners on specific transactions. But we allocate the vast majority of the tax credits in New York State and the tax credits work in such a way as to bring in private investment into transactions. To wed with whatever subsidy dollars we're putting into a deal, bring in private investment and it makes our dollars go so much further. And a lot of the deals really frankly wouldn't work if we had to subsidize them on a dollar for dollar basis from a state resources or federal resources.

So the concern is that, people in order to be interested in purchasing tax credits, need to have tax liability. And there are a lot of investors who have been in this market in previous years who now do not have tax liability because the economic downturn has been so severe. So we are working aggressively to work with folks in the investment community to try to get our hands around this issue, figure out the true impact of it and we have two sorts of categories of buildings that we're concerned about. The ones that had allocations of funding in previous years but have not yet gone to closing—and candidly this is the group that I am more concerned about—because they were underwritten at a time that there were assumptions made about how much equity investment could be brought to the table on those deals. How much were people willing to pay for those tax credits and therefore how much money would go into the deal.

We have cut—a lot I can assure you. We have about 30 transactions here in New York State and that may not sound like a lot but it's hundreds of units when you play it out and it's across the state. We have been looking very closely at this group of buildings and these projects. And we are convinced, at least internally at the Division of Housing that we're going to be able to save everyone of those deals. We think, in some cases it may mean that the developer has to bring some more money to the table. In many cases we'll have to put some more money on the table. And again, not to beat a horse but the Housing Opportunity Fund, it's one of the things we'd like to have those moneys available as well. If there's some additional money for affordable housing, we can put some more subsidies on the table for some of these transactions.

So we're committed to saving those deals, we're committed to working with our partners to make them viable. We also are looking at the applications our funding round for this year for low-income housing tax credits and the rest of our capital programs came in at the end of February. And we had a robust application round. I'm thrilled, actually we got more applications this year than we did last, which we weren't sure given the state of the economy how things would shake out. So we're delighted about that. We feel like we're in a better position to underwrite these transactions with full cognizance of how much subsidy we might need to put on the table.

It's a little bit difficult to go back and revisit things after they're underwritten and after we've made funding commitments, once a year or two ago to put more money on the table now. But for the ones that are before us right now, we are committed to doing aggressive underwriting on them, but also figuring out what we need to put on the table to make those deals work if there is going to be less private investment. So it's an important issue for us at the state and for the housing community because the tax credits really do drive much of what we do with other state and federal resources. So with that, I'll wrap up. I'll be happy to participate in the panel and to take any of your questions

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as well. Thank you.

FRED HOCHBERG: All right, so why don't the panelists come up. The way this is going to work, we're going to have the discussion in front of the room with the panel and then we will have a couple of people with microphones for the last half hour so that you'll get a chance to ask questions. I want to introduce Errol Louis, who is going to be our moderator. He is a columnist at the *New York Daily News*, two columns a week. I don't know how he does it. And he is also on the editorial board there so I imagine he's writing some of those unsigned columns as well. Actually, sometimes I can pick them out and say that's Errol's voice. Errol has been involved in the nonprofit world and housing world for nearly 20 years now, so he's perfect for this, so Errol.

ERROL LOUIS: Thank you and good morning. I see a lot of folks who are here for the public, who were also here at the public housing forum that we did. And I hope this will be just as successful. I'm going to give you only very thumbnail versions of the biographies of our panelists and then we'll jump right into the discussion.

FEMALE VOICE: Thank you.

ERROL LOUIS: And we have about an hour for that and we'll take your questions as well. Everyone here is wearing so many different hats, I'm going to only give two for each one of them. Michelle de la Uz is executive director of the Fifth Avenue Committee. She is also the president of the board of directors of the Association of Neighborhood and Housing Development, the coalition of community development corporations that work on affordable housing citywide. Next to her is Dina Levy, who is director of Organizing and Policy at the Urban Homesteading Assistance Board, UHAB. Prior to that, she ran a revitalization program in Newark, New Jersey and Grameen sponsored micro-credit program. Ron Moelis is a principle of L&M Development Partners Inc., which is a real estate development company. He also serves on a number of civic and community organizations. He is vice chair of the New York State Association for Affordable Housing. And next to him is Emily Youssouf who is managing director and head of the Housing Finance Division at JP Morgan Securities, which works on affordable housing.

Many of you may know her in her previous tenure as president of the New York City Housing Development Corporation. I'm going to start with a couple of questions for Commissioner VanAmerongen and then we're going to just jump right into the discussion. When you talked about the prospects in Albany and the fact that the budget isn't set yet, assuming a worst case scenario, assuming Albany as we know sometimes doesn't arrive at an agreement, sometimes doesn't do—

DEBORAH VAN AMERONGEN: Mm-hmm.

ERROL LOUIS: —what we hope it might do. If you had the flat funding one more year, what might that mean as far as your ability to get started on the ambitious agenda you outlined?

DEBORAH VAN AMERONGEN: Well I don't think that's going to happen, let me say. If I could just say one other thing on the budget—you know one of the things I've been sharing with people in terms of—don't lose sight, just because it's a week before and they haven't done something yet. The legislature is very motivated to get a budget done this year as soon as possible, because the fiscal picture and the revenue picture for the state gets worse as the weeks go by. So they're in fact very motivated to get it done. I think things will come together very quickly. One potential outcome, which I would not be thrilled about, but it is a possibility, is that they do the vast majority

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of the state budget, which is the aid to localities and state operations piece of it. And leave the capital projects piece off for further negotiation because it doesn't have to be done by April 1.

I'm scared about that because they did that last year, and they never did the capital projects bill. We hope they don't do that but people should be aware of those possibilities playing out. I am even going to say that I'm optimistic about what we could do if it were even flat funding. Because what Priscilla and I have done is to aggressively—people have heard me use the term before—scrub the books of our agencies. And both of us run corporations, my agency is called the Housing Trust Fund Corporation, hers is the Housing Finance Agency and the New York Mortgage Agency. Not to disparage anyone in the previous administration, but there was a lot of money sitting around. And we really didn't know this last year. You know the governor gets elected, you have to do a budget very quickly, it gets enacted and that's it.

We had time over the past year to look very aggressively at our books and say what money is there. So for instance we make loans under the Housing Trust Fund Corporation, there's repayment on some of those loans. That money would come back into the corporation and wasn't being used. There were loans that were committed to but recaptured because the deals never came together unfortunately. Those had never been accounted for. We also, at the Division of Housing, have earnings from administering the Section 8 program. We have in the past used some of those monies to further our housing efforts but have not put all of it out on the street. So we have at the Division of Housing/Housing Trust Fund Corporation, \$43 million more available this year than we did last year.

You could applaud for our financial staff. I could tell you the accountants in the agency aren't really thrilled with me but we're going to have more money available this year no matter what. And the Housing Opportunity Fund is just going to allow us to do a lot more.

ERROL LOUIS: You mentioned what sounded to me like it could be a ticking time bomb. You said that elsewhere in the portfolio. You mean you've talked of course about Mitchell-Lamas, about 70,000 units and that portfolio but you talked about home program—

DEBORAH VAN AMERONGEN: Mm-hmm.

ERROL LOUIS: —state administered.

DEBORAH VAN AMERONGEN: Mm-hmm.

ERROL LOUIS: —public housing and some others. About how many units are we talking about, where you say there may be some problems somewhere down the road?

DEBORAH VAN AMERONGEN: It's about 100,000 units in total in the rest of the portfolios. The Mitchell-Lamas tended to be very big developments. You know there are some Mitchell-Lamas that have, you know 1,100 units or Starrett has 6,000 units. Most of the rest of the portfolio are smaller buildings. So it's a lot of properties but it's about 100,000 units.

ERROL LOUIS: And is the resolution of those—is it going to be as far as you know sort of complaint driven or is there going to be kind of an attempt to...?

DEBORAH VANAMERGONGEN: No, I mean that's what we're really trying to, like I said, figure out what data we have and what we don't have and how to get that data. Go out and do physical needs assessments ourselves and figure out what sort of financing tools we might need in order to

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refinance those properties and to extend the affordability on them. So we're definitely not waiting for complaints to come in. We're reaching out just as we did on the Mitchell-Lama's portfolio to get a better handle on those portfolios.

ERROL LOUIS: In general you sound very optimistic about how things are going or what the outlook might be.

DEBORAH VAN AMERONGEN: That's my basic nature.

ERROL LOUIS: Part of the job.

DEBORAH VAN AMERONGEN: Even after the past two weeks.

ERROL LOUIS: Let me ask you, the sort of—the necessary versus sufficient argument. I mean much of this argument about preservation of affordable housing and the basis of this panel is that there is a need, there's a problem, there's a sort of a galloping—

DEBORAH VAN AMERONGEN: Mm-hmm.

ERROL LOUIS: —escape.

DEBORAH VAN AMERONGEN: Right.

ERROL LOUIS: —from affordability programs is what you're doing and what you see on the horizon; understanding that it's necessary, will it be sufficient –

DEBORAH VAN AMERONGEN: Mm.

ERROL LOUIS: —to slow, stop or reverse the decline?

DEBORAH VAN AMERONGEN: You know I think that's an incredibly difficult question to answer and you know it's something I know Sean Donovan struggled with at the city and the city in putting together the mayor's plan. I don't know that any of it is sufficient. The need is overwhelming and it's why we focus on preservation. You know preservation in particular because the fact of the matter is—I said to people last year when we were dealing with Starrett City, we as the State of New York in many years don't create 6,000 units of new affordable housing. So if we lose that building, that wipes out all of the gains that we've made everywhere else in the state and of all of our programs in a given year. It's why we have to do preservation, why we have to be aggressive about getting buildings to stay in these programs.

At the same time we're doing everything that we can to develop new housing. Also if I could just—there's one other thing that we're doing at the Division that is new and I frankly think there is a lot of kind of low hanging fruit in terms of our efforts. We're undertaking for the very first time an assessment of housing needs around the state. There has never been—the city market has been studied extensively and like the good people at the Furman Center, the folks at HPD through the Housing Vacancy Survey, there's been a lot of study of the city market and need in that market. Frankly the rest of the state has never been looked at that way. Sometimes one municipality or a county did a housing needs assessment. It's never been—

DEBORAH VAN AMERONGEN: —that need around the state and I think we will be better able to answer that question. I can't even tell you what would be sufficient right now.

ERROL LOUIS: Okay, let's continue. I'm going to ask each of the panelists

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and we'll just go right in order, to talk for seven to 10 minutes, don't think of these as opening statements but simply your answer to the question of how New York can preserve housing affordability. I'd also ask you all to do something that worked well at one of our previous panels, which is not only to talk about what you do and your area of expertise, but also to sort of speak as a New Yorker and kind of outside of that.

I understand that whatever it is that you're working on is probably the leading solution to preserving housing affordability from your point of view but feel free to think outside the box. Surprise us a little bit, talk about some things that don't necessarily pop up on your resume, and give us your impressions of both of where we are and where you hope to bring us. So we'll start with Michelle.

MICHELLE DE LA UZ: Okay. That's a pretty big, wide opening there. A couple of different things—In terms of personal impressions we'll start with the first one and kind of go from there. You know I've lived in New York City now for over 18 years, and I'm one of those folks that live in a building that is totally unregulated, and have lived actually without a lease now for more than five years. And you know at any time, my landlord could raise the rent and I certainly would be displaced from the neighborhood I have called home for 18 years. And that's obviously speaking as someone who had means and has access to many, many resources. So if that's what I'm facing, imagine what thousands and thousands of other New Yorkers, who don't have those means are facing.

And I think you know that's a very critical piece because when you live your life knowing that at any time you know where you live; one of the key basic aspects of your life is not absolutely in your control it impacts the way you interact with the world, the way you interact with the community, just the sense of security that you have in your life. So that is what's going on for thousands of families in the City of New York. And I think we have to recognize that especially when we ask so much of people in terms of other ways of participating in community life.

I think there's a couple of other pieces, it's been stated a couple of different times now by various folks that we're at a place in this affordable housing crisis where we are not, you know, for every unit that we actually build we're losing a unit because of various things. Whether it's luxury decontrol or Mitchell-Lama crisis, whatever it is. Project based Section 8 opt-outs, we're losing a unit. But I think there's another fact that's important to know and that is the difference in the incomes of the families. For the units that we're building and the ones we're losing. So specifically for the units of housing that we're building—let's just take tax credit projects for instance. You know the average family income in a tax credit project is let's say \$35,000 a year. Whereas in a project based Section 8 building, the average income of a family is closer to \$11,000 a year.

So not only are we not keeping up with the demand and we're not actually creating any new units of affordable housing, but there's an incredible shift in the incomes of the people that we are serving with the affordable housing that we're building. And so it really also speaks to the need—if you want the economic diversity that is so vital to this city, then you also have to ensure that you're focusing on preservation in a very, very real way. So I think that's an important piece. And I think there's also been a very significant shift that's gone on in government, whether it's as a result of the leadership that we have at the city or the state, and that is a willingness to look at various tools: tools that housing advocates have been—honestly, for years, kind of—saying, 'This needs to happen. This needs to happen.' Whether it's looking at 421A reform or the need for inclusionary zoning and using land use reforms as a way to incentivize. I would of course say mandate the creation of affordable housing.

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Whether it's the potential loss you know of housing at Starrett City and what happened with Stuy Town and even Peter Cooper Village—I think all of that has raised the consciousness level in the city that government needs to play a role. A very, very you know profound role honestly in assuring that our society is reflective of the diversity that we all cherish so much. So I think that's a key piece. I think the other thing I would state is that you know when you look at the city's 165,000 plan for housing, the only affordable units in that plan that are permanently affordable are the inclusionary zoning units. So when you think about that, we're making an unprecedented public investment that we all herald of billions and billions of dollars. And yet the only units that will be permanently affordable are the inclusionary zoning units.

So we're actually recreating—I mean obviously we're all actively thinking about how to solve this problem. But as we're actively thinking about solving this problem, there are actually units that are being built in this plan that will end in terms of their affordability at this current time. And so that, you know, really I think underscores the urgency to solving this problem and solving it very, very quickly.

I would posit obviously that if nonprofits like the Fifth Avenue Committee, whose mission it is to not only to build affordable housing but to preserve affordable housing, have a unique role to play in solving this problem. You know, the Fifth Avenue Committee Fifth Avenue Committee we've built over 600 units of housing. Every single rental project that we've ever built continues to be affordable. And we will maintain every unit of projects that we've built as affordable and we're coming up with more and more tools to do that, increasingly with our affordable home ownership projects and co-ops, through a number of tools.

And I think on the tools end of things you know whether it's—there has to be a balance between the carrots and sticks. Things that are going to incentivize the correct behavior so that we're going to get the correct behavior that we want, but also I think there has to be the stick piece. Right now when you look at the regulatory piece that government plays, it's credibly under-funded piece of the project or the process. If you really want to be committed to permanent affordability, long-term affordability, then you have to actually fund the regulatory processes. So that we can ensure that when the resale happens of a co-op or of a project in many, many years that we actually are reviewing the public benefit. Not just in that moment in time but in long-term.

I think you know one of the challenges of looking at the question of permanent affordability or long-term affordability really is the political will piece. It's very easy obviously for a politician to go to a ground breaking ceremony right, but it's very, very challenging to go and have a picture taken at the closing table when the project is refinanced and those hundreds of thousands of units are maintained affordable. And what I think we're asking our elected officials to do honestly is to really think long-term, so that we don't recreate this crisis in years to come and I think especially since we are going to be having a mayoral race very shortly, that there's a new litmus test that's out there. At least in the mind of affordable housing advocates about what it means to be committed to permanent affordability, be committed to affordable housing. You can't just say you're committed to affordable housing without saying you're not committed to solving the permanent affordable housing crisis that we have not just the affordable housing crisis that we have. So I'll stop there.

DINA LEVY: So most of what I planned to say actually would sound exactly like what Michelle just said. But I will start actually with a personal note. I'm actually one of those people who can't afford to live in New York City, so I have to actually sleep in New Jersey and come in here every day. So it's really rough. But in terms of what I see as sort of the general

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problem right now in terms of preservation, I think Michelle said it correctly.

The first issue for me certainly is political will. And I think we are not currently in a place, where there is a will by politicians locally or federally to create programs that go on in perpetuity. Some of you probably know or you don't know we're now in a crisis at the federal level around the project based Section 8 housing, where this year we're facing a \$2.4 billion shortfall for existing contracts. Which means that come October 1, there could theoretically be a cutback such that people who are currently receiving Section 8 subsidies would stop getting them. So we're actually in some ways, unfortunately under the current administration, moving away not towards affordability and perpetuity.

I think the second question is also this question of resources and how we spend what resources are out there, in terms of what are we getting for our money. So there's a lot of new incentive programs that are being created and subsidies that are being set aside to help create or preserve existing affordable housing. Unfortunately the terms that we set in exchange for those resources tend to be short. And I don't know whether or not people think 20 years is a short-term, but the reason we're in this predicament right now is because 20 years ago private landlords entered these programs knowing that they could get out and we're now dealing with the mess of that. So I worry that my children, should I have any, might want to do something else for a living but instead will have to be chasing the landlords, who are getting these resources today, 20 years from now to try and convince them to keep those building affordable. And that's really I think a misuse of resources.

Which brings up I guess how you have and others around the city has been approaching what to do about the question of preservation. We've created a model that we call the tenant choice model. And the thinking behind that is that the best way to preserve units in perpetuity is to put some control in the hands of residents, who will in essence fight for their best interests. And while that can be difficult and complicated, it really requires a partnership between residents and the nonprofit sector, whose resources I think are also very taxed. And who probably need some additional support from city government and from state government so that they have the ability to work with residents to take over these buildings as mission-based groups, who will by definition carry on affordability and perpetuity. No offense to the gentleman on my left here but I do think there are problems with putting these buildings into the hands of for-profit developers, who even if they're good guys today, and tomorrow and the next day, at some point are going to seek the profits that define their business model.

So for us, this is a really, really big problem. I think we have had a lot of success working specifically, actually with Deb while she was at HUD, on preserving a number of these buildings through this tenant choice model in which residents got organized, understood what was going on, figured out who they wanted to work with, what model of ownership they wanted—whether they wanted to own the buildings themselves or whether they wanted to partner with a not-for-profit and ended up taking over those buildings, which we now hope are on a path where they'll remain affordable in perpetuity. That's pretty much—I think that wasn't really surprising but that's how we're going to approach this going forward until there is a change in the political will.

RON MOELIS: Well I'm up here so you have someone to boo after I finish.

FEMALE VOICE: No, not Ron.

RON MOELIS: You know I was going to say something; I'm going to make a couple of comments. Just by background, my company has been doing—developing affordable

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housing and we haven't been in the preservation business. So a lot of the panel discussion here I'm probably not even well equipped to talk about. But we've built, you know, ground up and gut renovation, new construction. We've developed probably 8,000 units of affordable housing. We currently own and manage probably about 4,000 units. We have another couple of thousand in the pipeline being built.

And I can actually say the same thing Michelle said, that everything we own and built, has been affordable and stayed affordable. Now it's only been 20 years or so, so the time frame hasn't come where the—I think the regulatory periods generally go beyond 20 years, usually 30 or more in the state and city have both undertaken in their scoring systems at least to go beyond that. So you have more of an opportunity to get tax credits or funding if you agree to longer-term affordability.

But I will also agree that as for-profit owners of property, despite all good intentions, at some point the goal is profit orientation and there are reasons that for-profit owners are motivated to make profit. And if you get out of a regulatory program you're going to look at your options. So I think that is a legitimate concern and it's something that needs to be discussed. I want to point out the other side of that. I think that there are a lot of issues surrounding capacity of the nonprofit community. I think that some of the things that Dina and Michelle were doing and nonprofits are great. They theoretically sound great, they may work in practice in certain situations but on a scale basis it's very difficult to build affordable housing in the capacity that's needed in this city and probably this state in the way that Dina talked about with, you know any kind of scale.

I think it's a great model if you have a really committed and thoughtful nonprofit and the resources in that nonprofit to work with the tenants or with the prospective tenants. It can be done on a one-off basis. Maybe even on a two-off basis, but the scale won't be there. I also think that there's a number of examples, probably more in the nonprofit community of nonprofits failing and not having the capacity and not because they're not profit motivated but because of the way they operate. There's obvious contradictions in the way nonprofits have to operate both as a business where they have to take positions, you know in terms of upkeep of a property and management. And you know eviction proceeding and dealing with tenants, you know in a business-like manner versus the role or the mission of the organization. Those are clearly issues that come up for nonprofits as they operate property.

There are some that do it very well. There are others that do it very poorly. And we're not mentioning names and we all know of situations where nonprofits have failed and the problems there have been upkeep, maintenance and not necessarily reverting to profitability or to a for-profit or market rate job, but where the properties have gone under or the tenants are living in pretty poor conditions because the buildings weren't managed properly.

So those are real issues. Those are not things that can be ignored and I think that permanent affordability lends itself to some of those issues. I'm not taking a position here that there are situations where permanent affordability is a positive and if the property is funded properly, maybe it works. We haven't gotten there. Permanent is a long time. The affordable housing industry is young. Probably most of the properties that have been built were from the '60s so today we're looking at you know 30, 40 years. We see a lot of these properties that do need a tremendous amount of capital improvement and do need an infusion of resources and in most cases subsidy resources, and in a lot of cases the state and the city are doing a very good job of trying to tackle those. The fact that there are huge resources that need to go in may have been the case whether they are permanently affordable or not. There are clearly some properties and I guess prime areas maybe

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in Manhattan. Maybe some places in the boroughs that the government can't put enough resources in to salvage and those are issues and there are questions over how to deal with that and I think they're legitimate questions.

But I think that I just want to point out that the permanent affordability issue while it sounds like an easy solution, I think is more difficult than just saying 'well, we're putting resources in and we should have permanent affordability.' I think what needs to be looked at is how those—what is the incentive and how those buildings get maintained over a period of many years, where there's no real incentive at the backend for some exit strategy. I think that's a real issue.

I think that the issue that Deb raised in her talk about tax-credit viability and the investor market goes doubly for the lending institutions, and whether banks and investors whether it's on a subsidy source or on a private sector source. Some of these have private sector investment. Some of the properties we're doing are mixed income—whether investors, lenders will invest with permanent affordability and how that affects that side of the market, which is a huge side of this market, in becoming more and more difficult everyday as we go through the new economic sort of models.

And lastly is the homeownership aspect and how you deal with homeownership and permanent affordability and whether one.... It's a realistic model where you're just creating a quasi-rental market with some, you know, papering of it, call it homeownership. But not giving the people who are in the lower and moderate income ranges, who are buying into the American dream—you're not giving them the real outcome of an American dream. There's some profit motivation for a homeowner buying into these buildings but a lot of moderate income or lower income people who buy into the neighborhoods, which are emerging neighborhoods, where there's homeownership opportunity—where either the state or city has helped finance are taking risks, are taking chances putting down real money and then want to reap some reward in 10, 20, 30 years if the chance they took has advanced.

So I think that in the homeownership model it's difficult to talk about permanent affordability and it's also difficult to talk about monitoring, again—and I agree with some of what Dina says—there probably is a monitoring aspect to this. But it's so much easier to sit up on a panel like this and say we should monitor more closely. It's very, very difficult and in some ways very counterproductive in practice to have to do this over. You know, God knows 100 years or how many years you're doing it. So I think that we really have to look at the models we set up. Rather than react in a knee jerk way that says we're losing affordability, and we all realize we are, we have to think about how we go forward. Permanent affordability may be one way to do it. It may not be the only way to do it. So that's it.

[Crosstalk]

EMILY YOUSOUF: Okay, I'm going to try not to be on either side here but uh... You probably know I was president of New York City Housing Development Corporation for four years. And over those four years we did finance 35,000 units. 14,000 of those were preservation units, almost all Mitchell-Lamas. So it is possible to do that. However, that cost was \$6 billion in bonds and \$500 million of direct subsidy from HDCs reserves. Not to mention the subsidy of real estate tax abatement, paying no mortgage recording tax to the state and the city, plus in the federal governments eyes the amount of taxes that they lose every time somebody issues a municipal bond and also tax credits. So it's possible to do it, it is very, very expensive to do it. And now, by the way I have as some people say went over to the dark side and who knew how dark it was going to be on Wall Street, but you know. Not I or I would never have done this. No, I'm kidding.

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But anyway, one of the things that I think is important is in fact home ownership. And I think homeownership though done correctly. I think the subprime mortgage crisis is a good way to show it could not be done correctly. When I was in city government, I had many disagreements with some people about the co-op program that we set up at HDC and the co-op conversion program. Both of which I'm glad to say—the co-op program we created in two years, like 1,200 affordable and perpetuity co-op units by putting some cap on the resale value. That I think is probably the best way to do it. But those loans had to be underwritten in a way to the individuals by either going through SONYMA, which is you know a state agency, but in a way that people were actually doing it in an affordable but economic way. Meaning you can't loan somebody 130percent and then you know say 'well'—and I had arguments with a lot of advocates about this. They were like 'well, you should lend them as much money as possible.' They individually should be able to borrow you know 130percent. But you see what happens when you do that. It's not just the borrower's fault; it's the lenders fault. I mean the blame goes all the way around.

But when you do a co-op conversion if it's done correctly, and it can be done on both Mitchell-Lamas and the 15-year properties, it's something that guarantees it. The program that we at HDC had set up was one where it would be a non-eviction co-op conversion plan, where you scale what the price is based on the income of the people there. So nobody is paying more than you know 35percent of their income to pay both the mortgage on the property and any underlying mortgage that's left over. And when they resell, you cap it to, we had capped it at 165percent of AMI and that was based on, you know, where Mitchell-Lama top rate is. And then those people can get, you know a profit because you know AMI does go up. And has always gone up over time, but goes down and goes up like the next year or the year after and so you do get some profit out of it.

But what it does is it means you were creating housing that is really going to be affordable forever. People are not going to make a windfall, but if you're taking all of this government subsidy, you know should they be able to make a windfall on all of this government subsidy. So instead you give somebody the benefit of homeownership, and then they can make a profit, but the profit is capped.

There was one Mitchell-Lama that was converted in the West Village—I'm taking it somebody doesn't agree with me over here. But there was one Mitchell-Lama that was converted in the West Village, and it took an enormous amount of subsidy. Those people, yeah they all left and they could be millionaires and yeah that's great except for putting \$18 million into one project isn't quite the same as spreading it out over everything, you know over a large number.

On the other side one big thing that is still an issue, that we lobbied hard for when I was at HDC and we're still lobbying hard for, is an increase in volume cap. For those of you who don't know, there is a limit on the amount of housing tax-exempt bonds you could issue. The federal government gives a per capita, its \$85 per person in every state, and whatever that amount is, that's how many municipal bonds you can use for private activity purposes. Housing is considered private activity. On that amount New York State gets—what is it—like \$2 billion or around that in volume cap. That has to go for single-family housing they do through SONYMA and multifamily. The demand for that \$2 billion, and some industrial development IDA type bonds, is you know like 10 times that in any given year. So how it gets decided, you know is incredibly difficult and it takes a very long time. There's just not enough.

But when you talk to the Feds about it, and I spent a lot of time lobbying both you know Schumer and Reingold's office on this, is that they say 'yeah we want to do it', and they both have sponsored bills that push it. But as the senate or congress operates now in DC, it's pay-go, which means you

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have to pay as you go. So if you look at that, what they actually do is they say okay for 30 years of issue municipal bond you are not going to collect this much taxes. And for the tax credits you're not going to be—you're giving somebody a tax break of this much. So that is the cost to the federal government, how are you going to make up that cost? And that's what holds it up and why there hasn't been an increase.

It is something that I hope in DC with a change in administration, you know that will change. We'll be able to get more. But without those tools, it's very, you know it's very, very difficult to do a lot of refinancing, of you know properties for preservation and to create new housing. And then on top of that you have to think about it. The economy is, and I'll say it, I believe it's in a recession or about to go into one. And New York City and New York State are very worried about the lack of real estate taxes. And that real estate taxes and income taxes revenue to them is going down. Every time you build an affordable housing unit or you give more preservation, guess what? You don't get the real estate taxes. You know there are a whole series of impacts, that you make a decision here and it goes on and on and on.

Not that they're insurmountable, but when you talk about what government can do you really need to factor in the entire cost and have an answer for it. And also if you work with developers you know that no matter what they say, they do like to make money. Right? And you know because of that you also have to allow them to make some money or else you won't have anybody building anything.

ERROL LOUIS: Okay. I know some people want to thank you. I know some people want to react to what Ron said but I have a couple of questions for you Emily. And we started to talk about this before the panel, and we just didn't get a chance. But that private activity cap, is it possible for New York if it has all of this demand to say buy some capacity from other states or—

EMILY YOUSOUF: —Well.

ERROL LOUIS: —borrow it?

EMILY YOUSOUF: The problem is there was some discussion about that but there are no states that have any left over. Initially everybody thought 'oh, there's states that don't use it.' But we did a lot of studies you know to compare, and the truth is that every state virtually is in the same aspect. Because it's limited nationally how much is allocated each year.

ERROL LOUIS: And not to do congress's work for it but my understanding of pay-go—I mean it's almost like apples and oranges. I thought pay-go was about sort of current expenses and what you're talking about with bonding capacity.

EMILY YOUSOUF: No it's—unfortunately it's also that I'm sure, but they do look and say 'okay over the next 30 years we're going to losing this much in income to the federal government by allowing tax credits and municipal bonds to be issued.' And that's why they capped it.

ERROL LOUIS: Okay the—another question I was just—and this is for everybody. Is this question of political will, which dovetails in part with what you were just mentioning. In New York, especially in New York City, I wonder where the lack of will comes from. Because what Christine Quinn said here this morning sounds like what I've heard a thousand other politicians say of both parties. Who in the city is against affordable housing? And how have

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they managed to wield such influence? I mean really.

EMILY YOUSOUF: You know, let me just say I don't think it's fair to say that people are against affordable housing. I think the mayor who I worked for and really admired did a fabulous job with his program and there have been—I mean we were just one agency and we did 35,000. And I think all together there's been like almost 70,000 units built you know and so it's far ahead of schedule. But the issue is and I really do not believe there's NIMBYism going on in New York. I think the issue is when you look at all of these costs, it is tremendous. Where does the money come from? You know HDC eventually will be out of money and they've been the biggest, you know supplier of it. And also when you're talking about something that's a more radical approach like co-op conversions, it's difficult because then you actually need these nonprofits, like you have to get in there and to teach people how they can do it. And you have to have tenants that are willing to be organized and take on that responsibility. I still strongly believe that is going to be the answer to a lot of preservation. And I think with Stuy town, if in fact it had been feasible to look at it in that fashion, that could have been saved as a middle income, you know, housing in perpetuity. That's the only way I think you can have affordable housing in perpetuity. Co-ops or public housing and I think co-ops are a much better alternative for people.

DINA LEVY: I—

ERROL LOUIS: Just jump in.

DINA LEVY: Jump in, okay. So I just wanted to piggyback on the question of political will because I agree. I don't think anybody even feels—you know it's not even that they're secretly against affordable housing and they say they're for it. I think there is a commitment for affordable housing from all levels of government, but I think when you bump into these questions of property rights and you know the incentives—'and isn't this a capital market and don't we have a right to make a profit?' This is where we start to run into questions of what is fair to ask. What I feel is, what it will require ultimately is a paradigm shift at all levels of government about how many times are we going to pay for the same thing? Are we ever going to accept that affordable housing will always be a necessity, right? The world will never be perfect. We will always need to house people who have limited incomes and if that's true—can we not just build it once and find a model that works so that we can keep it instead of paying for it and regurgitating it every 20 years?

It's far more expensive to do that than just build it once and then pay, say for instance to build the nonprofit capacity up. There are no programs that I'm aware of right now in New York City that really focuses on building the capacity of the nonprofit or the cooperate—like you have groups that do co-ops building up that capacity, providing predevelopment funds, things that we need in order to do this to replace the for-profit sector's involvement in this field.

RON MOELIS: You know, look I mean I'm actually—I think—

DINA LEVY: You're a free marketer.

RON MOELIS: Well no, but I'm in this business. I've been in this business for 25 years. And I'm, you know, I'm a responsible party in this business—

DINA LEVY: That's true.

RON MOELIS: —and I guess this is a debate that could go on and probably

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tough to do in an hour on a panel. And I happen to be a fairly, you know progressive thinker I think. I'm mean so I don't—what?

MALE VOICE: [Inaudible]

RON MOELIS: What's that?

MALE VOICE: [Inaudible]

RON MOELIS: No but, well alright, but what I find hard to understand is, New York City and New York State, as far as political will for affordable housing, probably go beyond any municipality in the country, maybe in the world. I mean there is a tremendous will to build affordable housing here. I mean and I don't think anybody questions that. I mean you look at even the suburbs of New York City, or you look at other municipalities where there's a tremendous amount of NIMBYism. Even municipalities that don't have NIMBYism, or as much, they don't put the resources that the city and the state—they don't have the agencies like the HCR or an HPD which are tremendously competent government agencies that promote affordable housing. So to say there's no political will is just beyond the realm of reasonableness. I just don't understand that.

You know if you want to question the methodology, I think that's a fair question. I think we can talk about whether there should be permanent affordability. Certainly we can talk about whether there should be capacity building for nonprofits. There is a large amount of nonprofits that do affordable housing in New York City. There's community based groups and there's some large citywide groups. And some of them have tremendous capacity and you know, since I've been involved in how they built it up, a group like FIPS or Settlement Housing, these are groups that have been around for you know 50, 100 years.

And then there's neighborhood and grassroots organizations that have built up over issues and groups like the Fifth Avenue Committee, which do a great job and have some capacity and maybe there are ways to build up capacity. But this should be a dialogue, I think to take a position that it has—and the homeownership model that Emily mentioned, the co-op model I think that you know has legs. Personally, I think it's limited. I don't think it's a cure all. I'm doing an affordable housing job in the South Bronx right now that I have a tremendous amount of subsidy. It's on free land. I can't sell it because people aren't buying housing. So affordable housing, which we thought we'd sell out of a lottery; we got a ton of names in a lottery. People can't get loans; people are scared to buy housing. And this is housing at \$150,000 to \$200,000 for a two-bedroom apartment and we can't sell it so—

FEMALE VOICE: Where is it? What's the address?

[Crosstalk]

RON MOELIS: I was up on a panel a month ago...ACORN, she said the same thing you said—said oh I got tons of buyers and she brought all—very difficult. Because the income restrictions—it's about affordability so there's very tight income restrictions and the banks are now being much more difficult. They want higher down payments, they want better credit quality. You know everyone talks about SONYMA, SONYMA makes an effort but they're very difficult to access. There are real problems in the affordable housing community and I think that the dialogue—this is a good dialogue. And I think the issues about permanence and long-term affordability are legitimate issues but I do think there's another side to it. I'm not out here saying there should be no permanent affordable housing. I just think that we should be looking—it's not an easy answer.

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And I really have to say that the political will...there are a lot of political issues in New York City around affordable housing. I mean there's a new bill in City Council that calls for prevailing wage for any kind of government-assisted housing. That will raise the cost of affordable housing by 30 percent. So you know that will double or triple the amount of subsidies needed to build affordable housing. So that's a political issue. There's a lot of political will because there's a lot of unions who fought for that. I'm not sure that's the answer. That's one of the issues that come up, and there's a number of those issues. There's financial issues, but there certainly is a strong political will among almost every sector in New York City and New York State, and there is tremendous resources put into affordable housing. So I think there are questions about how to best produce it and how to best keep it affordable. But I do think the political will and the political expertise is there and the government expertise is there.

MICHELLE DE LA UZ: I think you know, I think it's about recognizing that we're in just a drastically different time than we were in the past when a lot of the tools that currently exist, are obviously still being reviewed, were put in place back in the '70s. Obviously, we were in a different kind of crisis in terms of needing significant investment in low-income communities and moderate-income communities here in New York City. We're obviously in a very different place. But I think what happened was that set the tone basically for the real estate industry to take the lead in how New York City was going to be developed. And now we're in a very different place but that industry has become so strong and so prominent in the actual public debate, that part of what needs to happen is that paradigm shift that Dina said. And obviously you know, I think Ron and L&M are certainly among the good actors in the for-profit affordable housing world. And quite honestly you know, I would love for the Fifth Avenue Community to find a way to work with L&M.

You know that being said though—because I think there is a way to partner to build that capacity that we're talking about. And we have some fantastic for profit partners, including some folks in this room that we value, that partnership because it does help an organization like the Fifth Avenue Committee to get to scale. But I think, you know, there are, headline-grabbing stories at this point about failures in the for-profit sector. I mean for Bear Stearns to go under, I mean obviously it's not just the non-profits that are facing challenges in this world. And I think it's about being very clear about what the goals are.

Affordable housing is something that is about a public purpose, right? It's not about the market, it's about creating a community that's diverse, creating a society that's diverse and creating one that's sustainable and livable for everyone. And so if you want to have that conversation, than that conversation has to be driven by that public purpose. And that public purpose has to be the filter by which everything in the conversation gets filtered. And that is not what has happened, right? And I think what we're talking about is creating a set of tools where you use that filter as the way to create, whether it's an incentive based system or a regulatory based system or a combination thereof that ensures that set of tools produces the outcome that society says we want to have. And that is the issue.

And I think now we're exploring some very creative tools. For instance, at A&HD we're commissioning a study specifically to look at an option to purchase piece and we hope to have a report on that in the coming weeks. And I think something like that—you know something that's more of a market driven approach because that is what New York City is comfortable with and what this country is comfortable with—but one that also recognizes that you have to do obviously, you have to create a combination of tools that create the end goal that you want. That's something that certainly the affordable housing advocates in the room and in the city are more than willing to

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engage in and do that in partnership with government and the for-profit sector, because you know we have to solve it. There's too much at stake if we don't.

ERROL LOUIS: Ron, can I ask you some questions about—I think you intrigued a lot of people by mentioning the project in the Bronx. What neighborhood in the Bronx or what section?

RON MOELIS: We're doing a very nice building, it's almost finished. It's called the Aurora. It's on 3<sup>rd</sup> Avenue and 159<sup>th</sup> Street and there's 91 apartments. 80 percent of the building is affordable, is restricted, 20 percent is market rate. Although the market rate prices are probably not all that different from the higher end affordable prices and the range of incomes range from 80 percent of median income to 130 percent of median income. And interestingly enough, we have not sold one 80 percent unit, which are the lower-priced units. And those units are under, I believe under \$150,000 and the reason there is—and we actually got, and I'm not sure you're aware of this, we are working with HPD and the Affordable Housing Corporation, which is an affiliate of the HFA, the Housing Finance Agency. We got, when we went to a lottery of a thousand applications, I think we got 12 or 14 contracts of which eight of those were the market rate units. Four or five were affordable units.

And the reason—because the income requirements were so tight it was like finding a needle in a haystack. So basically you know the government obviously doesn't want to put excess amount of subsidy into these jobs. They put a lot in, but they don't want to put more than they have it. So when you price these units, you're pricing them at very close to the income level that the family is able to buy at. The government also decided to put family size restrictions on the purchase of these units, which again in my opinion in homeownership is not really relevant. Because a young couple who just got married and wants to start a family and is buying a home, is making a long-term investment. They may want to have kids, and they can only afford to buy a one-bedroom apartment, that really doesn't work.

So that made families of two ineligible for a two bedroom and a family of three ineligible for a three-bedroom. We ended up convincing, after going through the lottery process and spending six or seven months marketing the job, we convinced and had some—again reasonable people at the city and state agencies to loosen up the restrictions a bit in terms of family size, in terms of allowing people who could qualify. And again, we're in a financing environment where you know eight months ago, 12 months ago, anybody qualified for a mortgage. Now we're in a more realistic financing environment where it's much more difficult to qualify for a mortgage. So we have a tremendous amount of interest now because everything's loosened up.

But buyer after buyer, we had about—I mean a lot of interested people. A number of them couldn't get mortgages, who a year ago could have gotten mortgages which is a difficult problem. A few of them don't have enough down payment because it's gone from 3 percent to 5 percent down to now 10 percent to 20 percent down. A few people backed out because they're afraid of the housing market, legitimately. You read the newspapers everyday and there are concerns there.

And then we still have some qualifying issues because for example, you know, and this goes to regulatory process. A family with a young couple with a wife who's pregnant due in September doesn't count as a family of three, it counts as a family of two. So they again didn't qualify because of some of the family size issues. You know these are anecdotal and this is one building, but I think that the issues in the market place and it really lends itself to the conversation that we're having here. We are—I hate to say this in this group and I'll get booed for this—in a capitalist society. So

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the fact that we're in a capitalist society has to take some relevance and I think that there's a role for permanent affordability. I think there's a huge role for nonprofits, especially community based grassroots nonprofits.

My company and I think others do also—we haven't done with Michelle but we've done joint ventures with a lot of community based nonprofits and it's a great cooperative. The state encourages it by the way because they do get a score for bringing nonprofits into the process and it's a capacity building thing. And I think internally it almost works. I'm not building capacity in terms of intellectual capacity or mission capacity for the nonprofit but we are sharing development fees and we are providing resources for the nonprofits through these developments to do more than they may have done otherwise. And in turn they're providing mission driven advice and guidance to us in terms of you know, type of apartment, quality of apartment, size of apartment, marketing in community there. So that model does exist and has been sort of encouraged by the state and by the city and there's probably a lot more that can go into that model as well. You know some of the federal rules almost make it difficult for a nonprofit and for-profit to partner up. So I think some of those things can be eased up a bit.

DINA LEVY: Can I, you know on the co-op thing you describe problems that are, you know, annoying, but they were—

EMILY YOUSOUF: Because I think that model is absolutely critical to developing stable communities and allowing people to actually build some net worth that they can take on. And if there are problems with getting the mortgages and everybody understands what's going on in the credit markets right now, and some of us more than others because we're living them. But I would, you know suggest also that's a good topic to take up with like SONYMA, who makes individual mortgages and frankly has a hard time putting them out, from you know not getting enough demand. So it's just got to be more of a marriage.

RON MOELIS: They've got to make it easier to put out.

EMILY YOUSOUF: Well then you got to talk to them.

[Crosstalk]

EMILY YOUSOUF: Deb's on the board.

ERROL LOUIS: Ron, on the project with the challenges that you described, does your company lose money because of those delays?

RON MOELIS: Well, we could. I mean it's interesting because and again I mean this is probably off the permanent affordability topic, but I find this to be an incredibly timely issue—homeownership in the affordable housing world—because I know Emily's put a lot of time into the co-op program at HDC. And I think that communities around the city, especially in emerging or developing neighborhoods are very vested in homeownership and everybody wants homeownership. For a lot of good reasons, a lot of what Emily just said.

But we are in—all we make on a project like that as a developer fee. We're entitled to a 10 percent developer's fee, which is a large amount of money if the project is 90 units, it could be up to a couple of million dollars. But having said that, there is no profit, because there is city subsidy, there is no profit in these jobs. And when you're doing homeownership and you have no profit you have also no downside protection. So if you're building a condo in midtown Manhattan you're building a

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20 percent to 25 percent, you know cash on cost model. If you have to lower prices because the market goes down 10 percent, you know you can pay off your bank.

Here the bank came in took a risk, they lent us 95 percent of the money because there's no ability to really raise equity because there's no profit. So the equity providers aren't going to want to come in. They lent us 95 percent, we have our developer fee, we had a very small marketing budget because we all figured we were going to sell out of a lottery. So we had maybe a \$100,000 marketing budget, pay for some ads, run a lottery, interview people. Well now we had to hire a whole new staff, we had to run a lot more ads, we have to carry the building, we're ready to get a TCO in a month. We're going to probably have to carry this for another six to twelve months to sell out because we've only got, I don't know, about 20 contracts. And we're probably going to put half of our developer fee back in, hopefully that's it, back into marketing and interest carry. So hopefully I don't lose money, hopefully my developer fee carries it but at the end of the day if we really don't sell then the problem is what do you do if you don't sell.

And the problem there is- one, that homeownership model in the South Bronx all of a sudden reverberates to all these other projects because there's thousands of units in the pipeline at both AHC and HPD, who want to do homeownership. So they're looking at us and they're saying well this is one of the first ones, probably the first or second multifamily condo job in the South Bronx. There's been some other one-offs and they're looking at us and saying you know, "What's happening here?" I mean this is probably the worst credit market you could be in. Hopefully it eases up in a few months. I'm not sure I'm that confident about that but hopefully. And then the second question is, what's your back-up because the building doesn't work as a rental. As Deb said this building doesn't have the tax credits, so the subsidy and the capital loan or the mortgage and construction loan that the bank put on, if you have to do it as a pure rental, it doesn't work. And what I did when I started a couple of years ago because I had some foresight, I said 'if I don't sell this and I have to rent it, it's not going to work.' There's no way I could pay off the bank, so we got the city to agree that if we couldn't sell it within a certain timeframe that they would float tax-exempt bonds. We got induced, which is a term of art—

RON MOELIS: —that allowed us to do tax-exempt bond financing. They said they would float tax-exempt bonds, and we would keep the project 100 percent affordable and do a tax credit low-income rental. Great solution, right? Now of course, there's no tax-exempt bonds left. So the city is saying well we really don't want to waste tax-exempt bonds on this project. You know, keep trying to do it as a homeownership project and the bank is saying to me 'well you're six months past your deadline, you haven't sold your 50 percent or 70 percent of units, so we want you to get those tax-exempt bonds and go as a rental.' So this is sort of what's going on, and this is affected by one, the credit markets. Two, the tax-exempt bond financing that's very limited. Three, the tax credit markets which are also you know sort of in the tank—as Deb pointed out—down 15-20 percent. And four, the end loan markets. So you really have a lot of issues that are sort of rotating around the affordable housing world that weren't there six months ago.

EMILY YOUSOUF: Yeah, but other than that everything is fine.

DINA LEVY: You know, if I could just say something—and I understand that program is different than the program I was describing by far because the program I'm describing, you actually don't use bonds and you use taxable bonds. So you don't have a bank loan. You don't have somebody after you in that same way. The price limits, you know who you can sell to, is a little more flexible. The problem is the more subsidy you get, you know the tighter frankly

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the box you are in—as they should because you’re using you other people’s money.

EMILY YOUSOUF: That’s right.

DINA LEVY: And the only other comment, while I have all the sympathy in the world for Ron who has done a great job. Most developers, so you know, also own the construction company. So even if they don’t make money on selling those units, they have made some profit. And you know it’s not a secret but I mean it’s not you know like such a bleeding—

RON MOELIS: I want to just—I’m not asking for any sympathy, I’m doing fine. But we could talk about profit and all that, but your point on your program is not a fair analogy because your program is going to have the same problems that I’m having. The program you had was geared to incomes of 165 percent or 175 percent of median. That doesn’t work in the South Bronx, that doesn’t work in Brooklyn. It works in Harlem, where the market is soaring, and you can price apartments at \$350,000 or \$400,000. So to compare your program and say that’s the panacea, in places where the affordable housing doesn’t reach those income levels, is not a fair analogy.

I mean I agree, you don’t need the big subsidies and you have broader ability to price in markets like Park Slope or Harlem. Or you know other places that are middle income, upper middle-income markets, where prices are six, seven, \$800 a foot and I’m doing this in Harlem. And you can price affordable housing at \$400 a foot and make it work. But you can’t do that in many, many lower income markets in the city where you need deeper subsidy and deeper affordability. And that program doesn’t go to 80 percent and 110 percent, 130 percent affordability. So I mean, I’m not sure it’s a fair comparison.

DINA LEVY: No, I think that’s true but I think the co-op—you know when you’re talking about a conversion program and you’re talking about a building that’s already up, I think it has a lot more applicability. And if you’re talking about new construction building something that you’re designing for people to buy at 80 percent AMI probably doesn’t work and probably never did work just given the cost of construction. But, you know, the other, you know, other programs go from like you know 100 to you know 165. So I think it’s seeing what doesn’t work in a program and then giving, you know, the government entities who set up the program the information so that program can be changed.

DINA LEVY: And I think the preservation side of it; which what we had started talking about is most important because preservation does work at this lower income level.

MICHELLE DE LA UZ: I think the comments really important about you know matching whatever the affordability levels are, the sales prices are in those AMIs with what the market is in a particular neighborhood. That’s a very critical piece. You know we’re completing construction of 60 co-op units in Red Hook. We just did the lottery, we had 4,700 people apply for 60 apartments in Red Hood in Brooklyn and we have three income tiers in that project, 50 percent of AMI, 80 percent of AMI and then over right around 200 percent of AMI which is still below market in Red Hook believe it or not. And I, think you, know we specifically targeted a third of the units at 50 percent of AMI knowing what the AMI level is in Red Hook where 75 percent of the folks that live in the community live in public housing. Now obviously public housing is home to people with a range of incomes. There’s quite a few people of middle income honestly that are stuck in public housing as well.

But you know I think it’s really important you know as a developer and as obviously a community

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based developer, who has strong and deep roots in the community, you know just because the various programs that government had and the financing mechanisms allowed to go to higher levels of AMI, doesn't mean you should. Because that's not what exists in the community, and of course you're going to get into a situation where maybe you have a mismatch between what's available for sale and then who actually is living in the community currently. So I certainly hope that we don't face the same challenges that you're facing with our Red Hook project and other projects that we're involved in. But I think it's really about kind of doing that match between community affordability sales prices.

**ERROL LOUIS:** We're going to take questions from the audience. And the way that we'll do it is hold up your hands. There are two people roaming with microphones because we are recording this, and so you've got to ask your question into a microphone.

**ALICE LEBRY:** Hi my name is Alice Lebry and just quickly I am a first shareholder in 1967 in Esplanade Gardens Harlem, I think first middle income. And thanks to HPD, we're still holding on. I understand we're owned by the city and the state so we're not as susceptible to being sold off. That being said, I just want to quickly commend Mr. Ronald Moelis for showing up. You know real estate developers built America and real estate developers maintain our tax base, so I've been trying for years to get them honored in museums and so forth. So thank you, Mr. Moelis, for showing up. My question is this: I had heard that the city has sold off a lot of property in the bad days, big mistake. And so what I'm hearing now, I think New York is the city of commerce but are we indeed going to be moving towards socialized housing like socialized medicine? The only way out I see is that the city buys up stuff, and then rents it or sells, you know.

**RON MOELIS:** I think the city over the last 25 years—you know they had a lot of property—they probably sold some of it off but a lot of it was used for affordable housing. I mean Koch had his ten-year plan, and that was based on renovating, you know vacant buildings and you know they did—you know a fair amount of affordable housing in that program. And then obviously the current, the last two or three administrations also disposed of a lot of land for affordable housing, and most of it was disposed of for you know for a nominal price. One could argue that maybe they should have done, again this discussion is whether they should have done a better job on making that housing permanent affordability, but I think no one would argue that for the most part, and I'm not saying this is true 100 percent of the time, this city did a fairly good job of disposing of it's property in a way that created more affordable housing. I mean...

**EMILY YOUSOUF:** Yep, yep, mm-hmm.

**ALICE LEBRY:** I asked about subsidized housing.

**EMILY YOUSOUF:** Yeah I don't see it happening. That's what I would say.

**MICHELLE DE LA UZ:** No, I don't think so.

**DAVE HANZEL:** I'm Dave Hanzel from ANHD. Much of the discussion today has been around the difficulties of building and preserving permanent affordability in co-ops. But my question is to Michelle or Dina about how they've been able to maintain their units as permanently affordable. And if you could speak to both the, you know the physical condition. Because I know that it's often pointed out that there's issue with deferred maintenance or about the conditions that the tenants are living in, in units that are controlled by not-for-profits?

**MICHELLE DE LA UZ:** Well, Fifth Avenue Committee has built both rental housing

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and affordable co-ops. On the rental side of things, you know we often ask for extended regulatory agreements and also do a lot of negotiating around having enhanced reserves for projects. We haven't had a project yet that's faced it's 15-year deadline for tax credits, although we're quickly coming upon that deadline and we're looking already to refinance and do some capital improvements and some energy improvements for the building. And we're actively in conversation with a number of folks around doing that to preserve the units affordable in perpetuity.

On the cost side of things we've used a couple of different tools. You know one is Fifth Avenue Committee maintains a vote on the board of directors of our co-ops. We have a specific monitoring role even if we no longer provide the property management services in the co-ops that we develop. We maintain an asset management role where we actually collect a fee, so that any re-sales of units are something that we monitor on an ongoing basis.

We've also, in some of our new projects with Red Hook homes as completing construction in Atlantic Terrace, which is currently in construction, we've also basically allocated subsidy dollars to an underlying mortgage that's on the co-op, so that there will be underlying regulatory compliance necessary for the project. And I think those are some of the tools. We've also looked at condo-ing out the affordable co-op portion so that you can, you know monitor that on an ongoing basis moving forward.

**DINA LEVY:** And I just would add we only do—you have cooperative limited equity cooperatives. And we have had I think really the one that I'm thinking of now, which is a preservation deal, meaning it was a HUD subsidized building that went through foreclosure. Deb was actually at HUD at the time. And this one called Gates-Patchen, but it's 100 units in Brooklyn where the tenants felt very, very strongly that they wanted to own the building because they wanted to keep it affordable and they wanted to keep it in good condition. And they feel very strongly about the building and about the community. We were able to actually, because of the subsidies that were available both through HUD and through an initiative we worked on with the city council that provided a grant for these kinds of deals. To underwrite these deals, so that the maintenance for living there is actually without any subsidy, I think under 60 percent, which is amazing, right? There happens to be Section 8 available here, so we can serve people who are below 30. But even without that in the next generation, you know if things go well it will be affordable, really, truly honestly affordable without additional layers of subsidy, which just proves that—I mean if that's your goal, if that's as Michelle says the product that you're trying to provide there are ways to do it. We're never going to have a problem here hopefully where somebody needs to make that profit.

**ALEX SCHWARTZ:** Hi, Alex Schwartz from Milano here. In a conversation about the long-term sustainability of affordability, it's interesting there's been no discussion that I can remember about rent regulation, rent control, rent stabilization. And it may be that it's a foregone conclusion that the inventory of housing subject to rent regulation is just going to continue to decline but since we have the commissioner here I thought it was worthwhile asking. You know is it a lost cause or is there a possibility for decontrol rules to be changed so that we don't continue to lose our regulated stock of housing?

**DEBORAH VAN AMERONGEN:** Thank you for the question, if I really wanted to talk about rent regulation, I'd say thank you. No, I'm happy to talk about it. We put forth legislation last year, probably some of you are aware, to increase the levels on the rent that would be eligible for luxury de-control. Certainly not as far as some advocates would like us to go in terms of over-repeal of

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luxury and de-control. I don't know where Governor Paterson is going to come down on these issues. It is possible that he is going to want to take a more aggressive stance on some of these issues. We're also trying to do a number of things; again you know agency procedures, our regulations, what we can do without having to convince the state legislature to go along with it. I think everyone knows that the state senate and its current configuration does not support rent regulation, would not be supportive of doing any expansion of it, certainly would be happy to see it in my estimation go away altogether. So we've been trying to look at what we can do internally both like I said through rules and regulations and just even how we deal with cases.

So we're doing some things like proactive enforcement, where in the past we've always been complaint driven. And we waited for someone to complain about a problem in their building and then went out and took a look at it and in some cases didn't go out and didn't take a look at it. Just said 'sorry, it doesn't seem like you filed the complaint correctly.' So we're doing things with service complaints, it used to be that over 50 percent of service complaints were rejected, never filed for processing. We have, just by reviewing how we look at those complaints, dropped that to under 20 percent. We are proactively going out and reviewing major capital improvement applications, where if something looks out of line in the numbers to us, we'll send an inspector out and do it. We don't need to have a tenant complain that the MCI isn't happening or it's not being done appropriately in order for us to go and take a look at it.

So I think we're trying to confront this on a number of levels both through legislation, what our regulations say. We changed the rules on unique and peculiar rent increases last year through regulation—things that we can do internally without even doing regulation so it's clearly a part of the affordability discussion in the city of New York. It's going to be for the foreseeable future. I think you know we'll all have to see what happens both where Governor Paterson comes down on these issues and what happens with the control of the state senate next year.

ALEX SCHWARTZ: Eliot Spitzer at least as a candidate talked about indexing—

DEBORAH VAN AMERONGEN: That's the legislation we advanced last year. Yep, with an increase to 2,800 as the new base with indexing going forward.

ALEX SCHWARTZ: Where are the questionnaires?

JAY MARCUS: I was just wondering, it seems during the last three to four years nationally there's kind of been a synergy around shared equity which you're calling the permanently affordable homeownership. That seems to be from the city government level so whether it's Chicago, or San Francisco, or Irvine, or Austin, Texas. There seems to be now a consensus, more I guess on the west coast than the east coast that anytime a government is providing a subsidy level of more than \$50,000 than they're doing it more as deed restriction and community land trust than they are necessarily as co-ops. But they're still saying permanent affordability now it just makes the right public policy. It prevents the preservation crisis of 30 years from now and it also can be done right upfront where you get the right reserves up front, right incentives for people to keep up their homes even if they don't get full equity appreciation. And so it seems to be a national movement in the last three to four years. The number of land trusts going from 150 to 200, and as I mentioned those major cities all adopting major shared equity projects for any unit that gets more than \$25 to \$50 thousand of subsidy from government. New York City, whether HDC or HPD, gives a lot more than that in most of the projects on average. So I'm wondering why while, you know, obviously Fifth Avenue, you have our leaders in this on the nonprofit side, why from the government side you don't think we've yet seen this type of effort in

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New York?

DEBORAH VAN AMERONGEN: Okay, why don't you identify yourself?

JAY MARCUS: Jay Marcus with NTV Capital Impact, and we're working on several of those models where one of them is using the market tax credit. That's the Washington, D.C. Camille Land Trust and we're providing the new markets tax credits for that one and we're working through a Ford Foundation grant on a variety of shared equity programs around the country. And we would love to start one in New York.

DEBORAH VAN AMERONGEN: Well it's not a state question. We don't have any land to convey, so I am not in a position to put restrictions conveyance on land. So I think it really is a city issue. I don't know if there's been discussion with the city about it.

DINA LEVY: I think the problem is that the city's land, you know, holding has all been allocated from the...before so they just don't have the land. And for them to acquire land now is just too expensive.

RON MOELIS: But they could do it through an LDA.

DEBORAH VAN AMERONGEN: Right, right.

RON MOELIS: I mean the city does land disposition agreements in conjunction not only with its land disposition but they can have a subsidy regulatory agreement, you know similar to an LDA. So I think the concept is a good concept and should be looked into, but I mean again I come back to the fact that it's not a panacea, and I don't think it works in every affordable housing program.

And one of the things you mentioned and Michelle mentioned also is the issue of reserves. Because going forward if you want to be able to maintain property in perpetuity beyond and most of us on the panel here are all young, haven't gone in perpetuity. We haven't gone beyond 20 years probably so when you go out there and you need to do capital improvements or maintenance work, and you can't raise rents or you can't go market then you need sufficient reserves to be able to do that to maintain the homes in a quality way.

And that costs money, and it costs money upfront. So I think you know again in this environment where tax credit proceeds are going down, where government resources are drying up. Someone mentioned, I don't know who mentioned it, maybe it was one of the speakers about maybe we'll have to produce a little less affordable housing. Christine, I think, did.

RON MOELIS: You know what is a little less and is that acceptable? So it is an efficiency model versus you know how much affordable housing you're producing, how much you're saving and what the costs are involved in that. And can you do all this and do it all on the same—to use these guys words—paradigm? Or are there different paradigms that you want to use and do they work in different ways? And your model being one, it sounds like a good model but maybe not the only model.

DEBORAH VAN AMERONGEN: Can I just add really quick Jay, you know I don't want to speak for the city because I can't, but you keep saying this is not a panacea, this is not a panacea. We have no affordable housing in perpetuity in this city that I'm aware of—

RON MOELIS: —That's not true.

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DEBORAH VAN AMERONGEN: In perpetuity by regulation?

RON MOELIS: Yeah.

DEBORAH VAN AMERONGEN: What?

RON MOELIS: All inclusionary is in perpetuity.

DEBORAH VAN AMERONGEN: Right, okay so I'm sorry. Right, with the exception of the inclusionary zoning. But historically, none of these programs have been in perpetuity. So I think we should stop talking about it as a panacea and see if we can actually get some new housing that would be—or a substantial amount of new housing that would be perpetuity. And I think my guess is that the reason the city isn't doing it is this question of political will and this sort of fear about overstepping bounds on property rights and profit, and are we going to scare away the for-profit sector and I think we have to sort of have that conversation.

RON MOELIS: But that's not fair because the newest programs, the inclusionary programs are the newest programs that have come out in the past few years. This has been, you know at the forefront of discussion. And I think the city in fairness to them, and government often doesn't move fast so you know things move very slowly but they did come up and all the new—the old inclusionary, which was very limited and now the new inclusionary is all in perpetuity. And the new inclusionary programs are much more productive because even though the city is putting money into them, they're getting a five for four in most of these, meaning four units of affordability for every five units at market, whereas in the old inclusionary it was one unit of affordability for every four units at market. So they're getting more productivity, they're committing resources to it, and as a private sector for-profit developer, we're building you know actually 300 units in Williamsburg of permanent affordable housing under the inclusion.

So I think the dialogue is changed and because of the advocacy community and because of some of the points I think there's more effort being put into either longer-term affordability or permanent affordability. I just question whether it's the only way to do it. So I mean, I'm not disagreeing that there should be some permanent affordability, and I'm not even disagreeing that there's a cost in not having permanent affordability but I also think there's a cost to doing permanent affordability. We just have to explore those issues.

EMILY YOUSOUF: And you know I just want to say I don't think any of the programs we've been talking about anyone's suggesting they're a panacea, there's one silver bullet.

FEMALE VOICE: No.

EMILY YOUSOUF: It's the same thing with the whole credit crisis and the market.

FEMALE VOICE: Right.

EMILY YOUSOUF: So everybody's like, 'Where's the silver bullet to save it or to fix it? And it's going to take a lot of different solutions. So you need a lot of different programs and different ones will fit different neighborhoods. But you know they all need to be available so people can choose from them.

ERROL LOUIS: This will be our last question.

FEMALE AUDIENCE MEMBER: This is also about the creation of rental projects that would be

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affordable in perpetuity. One thing that I haven't heard anybody talk about is if you look at a 30 year pro forma, a big component to keeping that housing sustainable and affordable is the tax incentive programs. There are no tax incentive programs that you know would continue in perpetuity and if the city built more and more housing, that has you know permanent tax incentive programs. That's also a tax expenditure, and we pay for affordable housing like the upfront subsidies out of you know our real estate tax dollars. What do you propose to do with the taxes that start being factored in after 20, 25, 30 years? You know, how do you keep those units sustainable and the maintenance sustainable, especially when you know the capped income limits are not increasing at the rates that the expenditures are so?

MICHELLE DE LA UZ: On the tax piece, I think it's important that we finally, just recently went back and reviewed the 421A tax abatement and expanded the exclusion zones. You know certainly the Fifth Avenue Committee and other affordable housing advocates in the city have taken the position that there should be no tax abatements without affordable housing units being produced. And I think the fact that that legislation is going to be reviewed every two years provides an opportunity as basically the political will is built. And I think as our understanding evolves about the implications of providing subsidy dollars or tax abatements without really asking for an appropriate level of, you know public investment in return—I think it's great that we look at all the different tools that are available to us.

I think 421A, you know we took a step in the right direction. We haven't gone far enough and I think you know it goes back to the trade-off—yes we're not going to receive those tax dollars but in return we're going to be getting affordable housing units. And I'm particularly looking at a lot of the re-zonings that are happening for instance in Gowanus and Sunset Park, where you see there's going to be an overlay and a significant portion of those re-zoned areas between the inclusionary zoning piece and the 421A. And I think you know we're going to see something different in those areas than we did let's say in Greenpoint and Williamsburg and other places because there's different markets and I think you know the 421A is going to be an incredible tool to help incentivize the actual use of inclusionary zoning in those areas. Because the density is very, very different and because we're not talking about re-zoning an entire manufacturing area to residential. So I think it's an important tool.

ERROL LOUIS: Okay, before I turn it back over to Andrew so he can plug one more Milano upcoming event, I'm sure. Let me thank you all for your attention, for your questions. I'd like to thank the panel for being here. And you'll be able to read both about this panel and these issues going forward in the *New York Daily News*.

ANDREW WHITE: Thank you all for coming. I just want to thank a few people, Mia Lipsit and Aditi Anand for helping make this thing happen, and again thank Edison Properties, the Sirius Fund and Milano Foundation for supporting our work.