Entry Name: **2009 NYC Housing Development Corporation – Encouraging New Construction**

HDC is determined to maximize new production of affordable rental housing by exhausting the value of tax exempt private activity bond volume cap and recycled bonds and finding new supplies of vacant land. Below are two ways that HDC is encouraging the production of new units through innovative and strategic methods.

1. Recycled Bonds for Mixed Income Financings (REHOP)

Only a few short years ago, private activity volume cap was a precious resource and HDC was consistently limited in the projects that it could finance. HDC sought out a change in the tax exempt bond rules to allow for recycling of tax exempt bonds that used to be redeemed after the construction period in 4 percent tax credit transactions.

Short term tax-exempt bonds are often utilized to fund the construction of multifamily housing. For various reasons, part of these bonds may be repaid within four years of their issuance. Such repayment may be due to a mandatory redemption for tax reasons or due to an expectation that such bonds would be paid from tax credit equity contributions paid within such four year period. The volume cap allocated to such bonds had been forever lost upon repayment.

Under the provisions of the Housing and Economic Recovery Act of 2008 (HERA), volume cap can be recycled. HERA provides the payoff of the original bonds is a refunding for tax purposes and allows issuers to “recycle” the monies from such refunding to finance additional projects, including projects for different obligors, without the “recycled” funds counting against private activity volume cap limits. The new loan must be made within six months of the repayment of the original loan and such volume cap does not come with as of right 4 percent tax credits.

Recycled bonds greatly eased the pressure created by limited access to volume cap. Of course volume cap allocations are not as competitive as they were back in 2007. Nevertheless, each year HDC expects to have over $150 million in recycled volume cap that it plans to use to fund mixed income projects. Because of the continued strength of New York City, HDC continues to push the boundaries of volume cap capacity. As a result, HDC is tirelessly experimenting with the potential of recycled bonds to encourage new production.

Prior to HERA, HDC had created its New Housing Opportunity Program (New HOP) over 10 years ago in response to the need of offering affordable housing to people that make modest, middle-income wages that were above the low incomes required in tax exempt bonds. The below-market mortgages provided to developers for the construction of this type of rental housing are made through the proceeds of taxable bonds as well as though HDC’s corporate reserves which are used to make second mortgages at a 1% interest. Typically, apartments created through New HOP are reserved for households earning a range of $53,800 for an individual, up to $134,000 (175% AMI) for a family of four. Due to the extremely large income disparities and high construction costs in New York City, there has been a strong consistent demand for New HOP financing from HDC.

Now with recycled bonds HDC can fund similar projects with tax exempt bonds reducing the cost of financing and also with additional affordability requirements (HDC now refers to New HOPs funded with recycled bonds as REHOPS). New HOPs generally did not have units targeted to either 50% or 60% affordability levels but now must have units rented to low income people pursuant to the tax exempt bond requirements.

HDC recently demonstrated its commitment to utilizing recycled bonds by closing St. Ann’s, the first multifamily development in the Nation whose financing relied entirely upon recycled bonds. The

480-unit transformative, mixed income project—actually two separate deals, one a 314-apartment low-income project that used new private activity volume cap and low income housing tax credits, the other contiguous development a 166-apartment mixed-income REHOP development, used approximately $25.8 million in recycled tax exempt bonds.

HDC has developed REHOP to maximize the potential of recycled bonds. In the mixed income program, HDC uses a combination of recycled tax exempt bonds and new money tax exempt bonds to taxable bonds to finance a mixed income development. By using recycled bonds in these developments, HDC is not only able to use recycled bonds and save precious volume cap for more deeply affordable production but also decreases the cost of financing for the mixed income projects. Finally, a developer who chooses to decrease the cost of financing by utilizing recycled bond financing must set aside units for low income people, creating even more affordability return from the repurposed volume cap.

2. HARP – Turning Stalled Market Rate Sites into Affordable Housing

The Housing Assistance Renewal Program (HARP) is the result of a collaboration of the New York City Council, HDC and HPD to leverage the significant number of stalled market-rate residential construction projects across the City into new affordable housing.

Finding vacant land to develop affordable housing continues to be a challenge in New York City. In the past decade, the number of vacant parcels citywide fell markedly and the unprecedented growth of the boom years put additional pressure on the housing market. Rising sales prices made acquisition of private land for affordable housing production extremely difficult. It is well known that the credit crisis created an additional layer of obstacles to developing affordable housing but some people saw the potential for a new land source created from the numerous stalled market rate construction projects across the city.

HARP truly underscores the innovative solutions and dynamic partnership of HDC and the City. Tapping into this new potential land source, HARP was designed as a pilot program to turn unsold condominiums, unrented apartments and stalled construction sites into affordable housing opportunities for moderate- and middle-income families. Properly executed, HARP provides for the creation of affordable housing and the stabilization of the communities surrounding these struggling developments while simultaneously offering lending institutions and developers a way to restructure otherwise badly impaired deals.

HDC, partnering with HPD, has committed to finance a 32 unit HARP building in the Crown Heights section of Brooklyn. Like many neighborhoods in Brooklyn, eager developers mistakenly anticipated the gentrification of the Crown Heights neighborhood. The original project was meant to be a condo before construction halted in 2007 with only the foundation completed. Under HARP, the completed project will better serve the surrounding community as middle and moderate income rental building serving tenants at 80%, 92% and 95% of AMI.

Conclusion

Both REHOP and HARP are efforts to use limited resources and maximize production in a challenging financial environment. Any program that can reduce the cost of providing mixed income housing in New York City helps address the City's continuing affordable housing crisis.