Entry Name: **2009 NYC Housing Development Corporation - Preservation and Rehabilitation**

Responding to continuing challenges of preserving the availability of affordable housing in New York City, the New York City Housing Development Corporation, working with the City's Housing Department recently recommended that Mayor Bloomberg reposition the city's New Housing Marketplace Plan (NHMP) to address budgetary constraints, increased lending costs and growing economic and physical distress throughout the City's existing housing stock.

Re-Focusing the Program

The NHMP was originally announced in 2003 as a five year plan to finance the creation and preservation of 65,000 that then was expanded as an 11 year program to finance 165,000 units. Earlier this year, HDC and the Mayor celebrated surpassing 100,000 units in this ambitious plan. Recognizing the difficulties of current market and limited resources, NHMP has been redesigned with a stronger focus on preserving the existing affordable stock as a cost-efficient approach to current challenges than had been originally projected. These newer efforts are done in tandem with our previously recognized Mitchell Lama Preservation Program and Section 202 Preservation Program that have been collectively utilized to safeguard more than 25,000 affordable units in New York City since 2004.

HDC is also committed to maximize new opportunities that the financial crisis have created such as re-regulating housing stock that had exited affordable housing programs and leveraging new sources of federal money such as the Neighborhood Stabilization Program. These opportunities demand a fresh approach to preservation. HDC has responded with meaningful programmatic options.

First, HDC developed a new Pilot Preservation Program to reduce the cost of credit and ease burdensome lending requirements for financing preservation. Second, in response to increased physical distress and financially overleveraged multifamily buildings, HDC is financing the purchases of notes, the restructuring of debt and rehabilitation of these buildings and identifying developers and managers with a track record of responsible ownership to participate in the newly created Multifamily Preservation Program. Finally, in response to evolving opportunities that exist in New York City's current housing market, HDC is attempting to reclaim previously assisted stock.

1. Pilot Preservation Program

The Pilot Preservation Program (PPP) was created in response to increased cost of credit and the need to finance the rehabilitation of an aging housing stock. PPP is designed to reduce the cost of financing for projects seeking moderate rehabilitation by substituting HDC as the sole construction lender. Costs are reduced by eliminating increasingly expensive fees for obtaining a letter of credit from banks. HDC uses its own credit and the strength of HDC's AA-rated Open Resolution during the construction period instead of relying on a bank letter of credit. HDC has used PPP to finance moderate rehabilitation that would have been otherwise unfeasible in the current market.

HDC cuts lending costs by utilizing experienced HDC staff in the various roles of a construction lender. HDC's uses its engineers to provide plan and cost review; asset management staff to approve requisitions and monitor draws; servicing to calculate and bill the interest payments and loan proceeds advances; and development staff review the appraisals, budget, scope and flow of funds and environmental reports. Finally, HDC's lawyers provide the service of construction lender's counsel.

HDC is compensated for the additional work and for credit risk that it undertakes: collecting a Commitment Fee of 1.00% on the senior loan, annual servicing fees of 1.25% and fees for engineering site visits. The HDC fees are similar to those charged by a construction lender but much less expensive. HDC's risk during the construction period is low because each development is currently occupied, the majority of the work relates to systems improvements and the related project budgets include capitalized interest reserves sized for the entire construction period.

The first project financed with PPP was a 150-apartment Section 202 project in Greenpoint, Brooklyn called Jennings Hall. As illustrated below, the savings in financing for the project was almost $230K. This project successfully converted from construction to permanent financing on schedule.

Jennings Hall			
Bank Deal		**Pilot Preservation Deal**	
HDC Fee	$ 59,325	HDC Fees	$160,066
Bank LOC Fee	$ 290,005		
Bank Legal Fee	$ 40,000		
Total Cost	$ 389,330	**Total Cost**	$160,066

Since Jennings Hall, HDC has financed the moderate rehabilitation of other projects such as The Bridge, a scattered-site project in Manhattan (81 units); Echo Apartments, a 99-unit building located in Morningside Heights; and 1428 Fifth Avenue, a 120-unit building located in Harlem. PPP has become a popular program because of its efficiency and lower cost.

2. Overleveraged and Distressed Properties

The last decade has seen unprecedented growth in New York City's neighborhoods. At the same time, a number of speculative transactions, fueled by access to easy credit, created a portfolio of properties that were bought and sold at inflated prices and are now considered "overleveraged" and carry a level of debt that is unsustainable based on current operating income.

Many of these transactions were based risky assumptions by both lenders and owners, including: underwriting that assumed unrealistically low operating expenses, flawed projections on the rate of tenant turnover that would allow conversion of rent-stabilized units to market rate rents, inflated prices of market-rate rents and loan principal amounts predicated on ever-increasing property values. The overleveraged properties are a threat to New York City tenants and neighborhoods. Landlords often attempt to illegally raise rents and buildings fall into disrepair when revenue intended for property maintenance is diverted to pay debt service.

HDC is participating in a collaborative effort to facilitate the transfer of these buildings to responsible owners with the goal of keeping tenants in their homes and maintaining the long term affordability of the property by restructuring the oversized debt. HPD is in the process of identifying a list of responsible owners to take title to these distressed properties and HDC has committed $500 million of bond financing to restructure debt in distressed buildings.

In October 2009, the City aided the debt transfer of 14 severely distressed buildings in the South Bronx owned by the Ocelot Capital Group to a responsible manager with extensive experience in owning and managing troubled multifamily properties. Omni New York LLC has purchased the notes and has begun emergency repairs. Omni then obtained title to the property through foreclosure proceedings and has agreed to work with the City to ensure the long-term health and affordability of 416 units.

The substantial rehabilitation of the Ocelot portfolio will be financed by HDC bond financing in conjunction with federal funds from the Neighborhood Stabilization Program II (NSP II). Last fall, The City of New York was awarded $20M in NSP II to acquire and redevelop foreclosed, abandoned or vacant properties. HPD and HDC are using NSP funds coupled with HDC financing to acquire and thereafter redevelop foreclosed or abandoned properties through rehabilitation.

HDC is also working with the City to create a list of prequalified developers to quickly indentify a candidate with the necessary experience to purchase and manage a distressed property – when necessary – with the goal of keeping tenants in their homes and maintaining the long-term affordability and physical viability of the property. HDC has pledged to use approximately $500 million in tax exempt bonds to facilitate these programs to preserve these distressed properties.

3. Reclaiming Previously Assisted Stock

During the housing boom, thousands of affordable units converted to market rate housing. This occurred as owners of Mitchell-Lama (the largest moderate income program in the nation that created over 110,000 housing units in New York City) opted out of those programs, in anticipation of a windfall that never materialized. The City has the opportunity to take advantage of market changes that can bring these buildings back into the fold as well as extend terms of affordability.

HDC and the city are currently working on reclaiming several former Mitchell Lama developments in Brooklyn and the Bronx. In one instance, a development was purchased in 2008 and subsequently opted out of the Mitchell Lama program. The new owner financed the purchase with an amount of debt which is unsustainable by the income generated by rent-stabilized units. By early 2010, the building was in default on the mortgage and in arrears on property taxes. HDC has financed the transfer of the note to a responsible owner who will be able to shepherd the property through foreclosure and return the building to long-term affordability.

In another instance HDC has committed to finance the acquisition of a former Mitchell Lama in Coney Island by a not-for-profit that has agreed to purchase the development from the currently over-leveraged owner. This acquisition will be coordinated with the extension of tax abatements for this project to allow for lower costs upon refinancing and regulation by HDC.

In summation, through HDC’s comprehensive and innovative approaches and with the help of our affordable housing partners, HDC has been able to maintain and preserve New York City’s affordable housing stock for current NYC residents and those generations to come.