

Deploying Income Averaging to Encourage New Production of Multi-Family Affordable Housing

New York City Housing Development Corporation
Rental Housing: Encouraging New Construction

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Innovative

The Consolidated Appropriations Act of 2018 and the Role of Income Averaging

The Consolidated Appropriations Act of 2018, in addition to providing increased funding for public housing, permanently established income averaging as a third minimum set-aside election for new Low-Income Housing Tax Credit (LIHTC) developments which owners could choose in lieu of the two previously existing minimum set-aside elections which were 40% of the units at 60% of AMI or 20% of the units at 50% of AMI.

Income averaging allows Credit-qualified units to serve households earning as much as 80% of the Area Median Income (AMI), so long as the average income/rent limit in the property is at 60% or less of AMI. Owners electing income averaging commit to having at least 40% of the units in the property affordable to eligible households. Under the income averaging option, the rents from households with incomes above 60% AMI range /would have the potential to offset the lower rents for extremely low- and very low-income households, thereby allowing developments to maintain financial feasibility while providing deeper affordability than may be possible otherwise.

Under previous LIHTC rules, only housing within the 54% to 60% of AMI levels could be eligible, limiting how many units benefitted from tax credits and limiting households that could apply for these types of affordable housing lotteries. These restrictions discouraged cross-subsidization in high-cost markets and limited the income diversity within these developments, in turn impacting surrounding communities.

In addition to reaching a broader range of households and diversify communities, by having higher rents subsidize lower rents, less public funding is used, freeing up more public resources to encourage the development of more multifamily affordable housing developments.

HDC's Implementation of Income Averaging

HDC first deployed Income Averaging in its new construction pipeline in April of 2019. The first HDC-financed development was (Nehemiah) Spring Creek, Phase 4B-2. The development, located in the Spring Creek section of Brooklyn, consists of 20 four-story townhouse-style buildings and 1 seven-story senior-building with an aggregate total unit count of 240. The project was jointly developed by Monadnock Development and Nehemiah Housing Development Fund Corporation under HDC and HPD's ELLA program. Excluding 2 superintendent units, the development has 60 units eligible to households earning up to 30% of AMI, 48 units eligible to households earning up to 40% of AMI, 24 units eligible to households earning up to 50% of AMI, 21 units eligible to households earning up to 70% of AMI, 21 units eligible to households earning up to 80% of AMI, and 64 units eligible to households earning up to 90% of AMI. 24 of the 40% AMI units are designated for formerly homeless households. 79 units are designated for senior residents and senior resident amenities include approximately 4,615 square feet of commercial space and 2,180 square feet of community facility space, as well as access to an outdoor landscaped courtyard. The development also contains 38 parking spaces.

Spring Creek 4B completed its initial construction loan closing on April 18, 2019 and converted to its permanent mortgage on November 18, 2022. The project utilized Income Averaging for the LIHTC units which resulted in 21 additional tax credit units and an increase in tax credit equity by \$2.90 million.

The second HDC-financed development that utilized Income Averaging was **50 Penn**. This project is part of a larger neighborhood development rezoning called the *East New York Community Plan of 2018*. This plan allowed for larger buildings with greater density, coupled with *Inclusionary Housing (IH) Requirements* where owners had to set aside a portion of the homes in the development for extremely-low-, very-low-, or low-income households.

50 Penn is a mixed-use newly constructed development consisting of 218 affordable in the East New York neighborhood of Brooklyn. The development team included 50 Penn JV and Pennrose Holdings and was financed under HDC and the New York City Department of Housing Preservation and Development's (HPD's) *Extremely Low & Low-Income Affordability (ELLA)* program.

The project was adapted to apply Income Averaging for the LIHTC units resulting in 43 additional tax credit units and an increase in tax credit equity by approximately \$7.04 million. 50 Penn completed its initial construction loan closing on April 26, 2019 and converted to its permanent mortgage on February 27, 2023.

Excluding 1 superintendent unit, 50 Penn ultimately includes 27 units affordable to households earning up to **30%** of AMI, 33 units affordable to households earning up to **40%** of AMI, 33 units affordable to households earning up to **50%** of AMI, 86 units affordable to households earning up to **60%** of AMI, and 43 units affordable to households earning up to **80%** of AMI. Further, 44 units are permanently affordable under HPD's *Mandatory Inclusionary Housing (MIH)* program with 42 units partially funded with the help of the New York State Empire State Supportive Housing Initiative (ESSHI) and that are occupied by formerly homeless frail elderly (age 55+) households with a preference for high-cost Medicaid users (MRT eligible).

Additionally, the development includes 3 commercial spaces totaling approximately 22,300 square feet, the largest of which is occupied by a certified FRESH food store. Subject to the provisions of the East New York Retail Preservation Pilot Program (ENYRPPP), two of the smaller commercial spaces are occupied by existing, non-franchise NYC small businesses with rents set at 30% below market. In addition, the new building features tenant amenities including a fitness room, a landscaped terrace, a community room, laundry room and bike storage.

[Engage Targeted Audience with More Housing Choices](#)

With this new underwriting tool in hand, HDC and its development partners began incorporating income averaging into the financing of many of the newly constructed affordable housing developments across the city. Because these developments cast a wider net as far as income eligibility and ranges of rents, more New Yorkers now can apply to a broader range of housing lotteries than they were previously eligible for.

Using Income Averaging, developments have higher as well as lower income households who can now apply to more housing lotteries; thus, adding diversity to the communities in which they will live.

Replicable

Many of the affordable housing development plans across the nation can use Income Averaging in their underwriting standards, qualifying more units than the previous two options and freeing up funding sources that would usually be covered by limited public subsidies.

Achieve Measurable Results

In 2022 alone, income averaging helped to generate an additional 690 tax credit units and \$183 million in tax credit equity across 9 affordable housing developments financed by HDC, comprising more than 2,800 units in total.

Provide Benefits that Outweigh Costs

In addition to allowing more eligible units within an affordable development to qualify for low-income housing tax credits, Income Averaging allows more households at different income levels to apply for homes they had not had access to prior its enactment. This new underwriting technique is better serving our communities by adding opportunities and options for individuals and families to live in a wider range of areas and in more diverse settings as well as helping to conserving valuable public financing resources.

Demonstrate Effective Use of Resources

By implementing Income Averaging in a development underwriting owners can benefit from a greater number of qualifying LIHTC units in addition to the cross subsidization of the higher rent units to the lower rent units resulting in savings, especially in regard to limited public funding sources such as new volume cap, public capital, or grants.

Achieve Strategic Objectives

By making Income Averaging a staple of our new construction development pipeline, HDC has helped some of New York City's most vulnerable households find affordable and diverse housing while also extending more housing choices to those households earning above the very low-income levels.

Useful Links:

Novogradac | [The Promise of Income Averaging](#)

Novogradac | [Implementation of LIHTC Income Averaging](#)

Press Release | [Brand New Senior Development Opens in East New York's Spring Creek Section Next to Gateway Mall](#)

Press Release | [Grand Opening of 50 Penn Mixed-Income Use Development in Cypress Hills, Brooklyn](#)

NYHC NHC Handout | [LIHTC160621 handout updates.indd \(thenyh.org\)](#)



The Promise of Income Averaging

ELIZABETH STROJAN, NEW YORK CITY HOUSING DEVELOPMENT CORPORATION

When Congress passed and President Donald J. Trump signed the Consolidated Appropriations Act of 2018, much of the affordable housing community's focus was understandably on the increase in funding for public and affordable housing.

This was perhaps to be expected, given that it was the first increase in resources in many years and came at a time when the need is vast and growing. But an equally important, if less celebrated, provision in the bill allowed for the option of income averaging in the Low-Income Housing Tax Credit (LIHTC) program. This is a game changer for affordable housing, a policy that presents lasting promise for low-income families across our country.

This new option in the LIHTC program means a broader range of families will now have access to federal housing assistance. At the same time, income averaging is a new tool for targeting deeply affordable homes to the neediest Americans. Income averaging can also help increase economic diversity and develop more inclusive communities. This article explores how income averaging works, the important policy goals it can help achieve and the ongoing need for advocacy for federal housing policy.

How Income Averaging Works

The LIHTC program was designed to serve families with incomes below 60 percent of area median income (AMI). The income averaging option moves the maximum income to an average, allowing the LIHTC to finance homes for households earning up to 80 percent AMI, as long as the average of all LIHTC units stays at 60 percent AMI.

Let's take, for example, a 100-unit affordable housing development, where all homes within the property will be financed with housing credits. Without the income-averaging option, each of those units would have to be targeted for households at or below 60 percent AMI. Due to development costs, it can be difficult to create housing for households with much lower incomes without additional subsidy, concentrating resources on a narrow band of affordability.

Income averaging allows internal cross-subsidization within a property, meaning higher

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rents paid by households with slightly higher incomes help offset lower rents paid by households with lower incomes. Now, the same 100-unit affordable housing development could include 20 units at 80 percent AMI, which can help provide 20 units at 40 percent AMI, without the need for additional subsidy.

Important Policy Goals

Serving a broader range of families in need of affordable housing

Income averaging allows the affordable housing field to leverage federal programs to serve families who are struggling to get by, but were previously ineligible for assistance because they made too much or too little income. HUD defines households earning below 80 percent AMI as low-income. However, before the income averaging option, there were not a lot of options for federally assisted housing for families with incomes between 61 and 80 percent AMI.

For example, a first year New York City public school teacher who is a single parent with two children earns too much (just over 60 percent AMI) to qualify for traditional LIHTC properties. However, finding an affordable home on the private market is difficult for them, as rents in the city continue to rise and the rental vacancy rate remains low. Using income averaging, this teacher would now qualify for LIHTC units available to households earning up to 80 percent AMI.

While Section 8 rental assistance and public housing are targeted for extremely low-income and very-low income households, the demand for these programs far outstrips supply. This is another reason cross subsidizing within a project and the use of income averaging is game changing. A teacher's aide who cares for a son and a grandmother, for example, earns too little to pay LIHTC rents set for families earning 60 percent AMI. In a property using the income averaging option, there would be units affordable to this family without the need for additional rental assistance.

Income averaging adds another tool for deeply affordable housing, helping to create more homes for people who could not afford LIHTC housing before.

Building more diverse, inclusive developments

From a fair housing perspective, income averaging allows for greater economic diversity in both high-income and low-income neighborhoods, which translates to more housing choices for families. Including some higher-income units in a project can help finance more developments in neighborhoods with higher development costs, introducing the kind of economic diversity that helps create more inclusive, integrated buildings and neighborhoods. In low-income neighborhoods, this new policy allows for greater mixing of incomes in specific developments and in neighborhoods that have previously seen mostly very low-income housing development. As we move forward with a yearlong engagement to develop New York City's plan to affirmatively further fair housing, we expect income averaging will be one of many tools that help us achieve the promise of a fairer, more equitable city.

Additional resources for the preservation of existing affordable housing

Finally, the preservation of affordable housing can also benefit from the income averaging option. Unlike new-construction tax credit projects, preservation tax credit projects can only include the families in place whose incomes meet tax credit income limits. Therefore, the greater range of AMI levels allows more units to qualify as low-income in preservation transactions, so that more resources are available to preserve existing affordable housing.

Years of Advocacy Pay Off and the Work Continues

The income averaging option is the result of many years of advocacy—from high-cost cities such as New York seeking to expand their set of policies and programs to serve more of the lowest income households, as well as from rural states that need to broaden the range of

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working families eligible for LIHTC developments. This is a good example of the kinds of innovations our field can achieve when we put together our best thinking and speak with a unified voice.

The need for affordable rental housing across the United States is pressing and individuals and families at a variety of income levels are finding it harder and harder to find a stable home near jobs, good schools and access to transit. While we take a moment to celebrate our recent gains, we must continue to push for solutions to our country's housing needs—both increasing resources and innovative policy changes that improve our ability to deploy those resources. While HUD funding is up in fiscal year 2018, we still have a long way to go to get to where we need to be. The remaining provisions in the Affordable Housing Credit Improvement Act,

especially setting the 4 percent minimum rate, would inject additional equity into developments nationwide, letting us build more housing.

In New York City, where we believe income averaging will be a game-changer in how we deliver affordable housing to people who need it, we look forward to implementing this option to best benefit our communities. Like housing finance agencies across the country, we are working hard to adjust our program guidelines to allow affordable housing developers to use this new tool to achieve a greater range of affordability for communities and neighborhoods. ◆

Elizabeth Strojan is director of government affairs for the New York City Housing Development Corporation, the largest municipal housing finance agency in the country.

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Brand New Senior Development Opens In East New York's Spring Creek Section Next To Gateway Mall

EAST NEW YORK NEWS · Oct 07, 2021

New York City Council Member Inez Barron and New York State Assemblymember Charles Barron joined the New York City Department of Housing Preservation and Development, the New York City Housing Development Corporation, [East Brooklyn Congregations](#) (EBC), Monadnock Development, and local leaders and residents for a ribbon-cutting ceremony to open the Senior Building of Nehemiah Spring Creek Phase 4B-2. The Senior Building is located at 516 Schroeders Avenue in East New York and is welcoming its first residents. Rev. Dr. David K. Brawley, Co Chair of EBC, led the event, sharing the history that has driven this multi-phase development and previewing its future. Ms. Olivia Wilkins, a longtime resident of the community, a senior herself, and an EBC leader who has advocated for affordable housing for seniors, also joined in celebrated the opening.



photo: (left to right) Kirk Goodrich, President of Monadnock Development; Ms. Olivia Wilkins, Senior Resident, East Brooklyn Congregations Leader; Rev. Dr. David K. Brawley, Co Chair, EBC; New York State Assemblymember Charles Barron; New York City Council Member Inez Barron; NYC HPD Associate Commissioner Brendan McBride

“Today, we celebrate. For over 40 years, East Brooklyn Congregations has organized thousands of New Yorkers to fight for affordable housing with and for our seniors. Today, we see the transformation. We see what can be. Today, EBC commits to stand together with our partners to ensure that thousands of other seniors get the affordable housing they desperately need and deserve,” said Rev. Dr. Brawley.

Nehemiah Spring Creek Phase 4B-2 is the latest in a sprawling, multiphase partnership in East New York, Brooklyn between Nehemiah Housing Development Fund Company (an affiliate of EBC) and Monadnock Development. After four phases of building hundreds of affordable homes for sale, Phases 4B-1 and 4B-2 represent the first 400 of a proposed 1200 affordable rental units to be built over the next five years. Phase 4B-2 is comprised of 240 units of low income rental housing, 2,180 sq. ft. of community facility space, and 4,615 sq. ft. of commercial space.

“I am pleased to join in celebrating the fruits of our labor,” said [City Council Member Inez Barron](#). “It has taken so much collaborative work to get here and it is wonderful to see, today, this tangible improvement to the community that delivers equity to the seniors in our city.”

“We see East New York on the rise here,” said [New York State Assembly Member Charles Barron](#). “Creating homeownership opportunities in Nehemiah Spring Creek has made East New York the place to be. And now this housing, that serves our seniors, who are so deserving of the best, is giving them exactly what they deserve: our best.”

Phase 4B-2 includes 20, 4-story octets (8-unit buildings) comprising 160 units and a 7-story, 80-unit Senior Building, where the community facility and commercial space are located. Centered around Schroeders Avenue, the octets stretch out from the Senior Building, which is located on the southwest corner of Schroeders Avenue and Elton Street, bounded by the Gateway Shopping Center to the south. The octets are 148,919 sq. ft. and the Senior Building is 74,984 sq. ft., for a total

multicolor brick exterior to match the adjacent mid-rises along Elton Street.

“From affordable homeownership opportunities to the 80 new senior homes we are celebrating today, the Nehemiah Spring Creek project continues to provide transformative affordable housing to the East New York neighborhood of Brooklyn,” said HPD Commissioner Louise Carroll. “From day one, this administration has prioritized senior housing and we are proud to partner with HDC, EBC, Monadnock Development and our elected officials to deliver much needed affordable housing for New Yorkers who helped make our city great.”

“Thank you to all our partners for their dedication to this project, which has been decades in the making. Nehemiah Spring Creek is an expansive, multi-phased development that will revitalize the surrounding East New York neighborhood and benefit its residents for years to come,” said HDC President Eric Enderlin. “HDC is proud to be a part of this effort to provide 80 senior households with affordable and stable homes.”

The earliest work to create Nehemiah Spring Creek began in 1982, finally leading to a groundbreaking in 2008. Since then, the pace of change has been staggering with Phases 1-3 making affordable homeownership possible for thousands of qualifying New York City residents. Phase 4A has continued that effort, while 4B has begun to create affordable rental options in the community. Future phases anticipate at least an additional 800 affordable rental units. Along with the continued expansion of the [Gateway Shopping Center](#), Nehemiah Spring Creek has completely transformed this corner of Brooklyn and created a quality of life and vibrancy that has been otherwise difficult to access for low-income New Yorkers. This is especially true when considering the options that New York City’s oldest residents would face without a building like this.

“Today’s ribbon-cutting has been decades in the making, and creates important options for housing for our seniors, who are both among the most vulnerable New Yorkers, and among the most treasured community members,” said Kirk Goodrich, President of Monadnock Development. “We are grateful to our partners at EBC, HPD, and HDC, our financial partners, and the leaders and community of East New York for sharing this important vision and making it possible!”

“Living in Redwod Senior Living has changed my life, but others deserve the opportunities afforded to me,” said Ms. Wilkins. “I will continue to fight for more AFFORDABLE senior housing in this city, because everyone deserves to spend their golden years in dignity. This building in Nehemiah Spring Creek is a symbol and example of what we can do when we recognize our obligation to our senior community, and I’m excited for the residents who will be moving in soon!”

While the application period for this building has ended, interested New Yorkers can learn about other Affordable Housing opportunities throughout the City through NYC Housing Connect (<https://housingconnect.nyc.gov/>).

NEWSROOM: PRESS RELEASE

Grand Opening of 50 Penn Mixed-Use Development in Cypress Hills, Brooklyn

Jun 9, 2022

SHARE



City Officials and Project Partners celebrate the opening of 50 Penn

Project adds long-term affordable housing, supportive services, retail, and grocery store as part of East New York Neighborhood Plan

Brooklyn, NY – The New York City Department of Housing Preservation and Development (HPD), New York City Housing Development Corporation (HDC), Pennrose, and RiseBoro Community Partnership today celebrated the grand opening of 50 Penn, a 218-unit 100% affordable housing development at 50 Pennsylvania Avenue in Brooklyn. The mixed-use, mixed-income community was designed to address key priorities identified in the East New York Neighborhood Plan, including affordable housing, greater access to fresh food choices, and include community-wide benefits.

The nine-story building includes 56 studios, 96 one-, 48 two-, and 18 three-bedroom units. The apartments are available for residents at a range of incomes, including extremely low-income households earning up to 30% of the Area Median Income (AMI) to low-income households earning up to 80% of AMI, that’s \$36,060 to \$96,080 for a family of three. Of the total units, 42 are set-aside for formerly homeless and frail elderly with operating subsidy provided by the New York State Empire State Supportive Housing Initiative (ESSHI) program. In addition, 102 units will be permanently affordable, with 44 made possible through the City’s Mandatory Inclusionary Housing program (MIH).

In addition to the affordable housing, the ground floor is anchored by a 18,500 square foot grocery store as part of the NYC Department of City Planning FRESH program, which supports convenient, accessible grocery stores in underserved neighborhoods. The two remaining street front retail spaces will be leased as one of the first developments to pilot the East New

York Retail Preservation Program, which is intended to preserve opportunities for longstanding East New York businesses to operate within the boundaries of the rezoned neighborhood at rents that facilitate the ability to source their workforce from within the community and provide job training and benefits.



Speakers at the event included: Jessica Katz, Chief Housing Officer, City of New York; Julia Salazar, Senator, New York State; Ruth Moreira, Executive Vice President for Development, New York City Housing Development Corporation; Dan Garodnick, Director of the Department of City Planning, City of New York; Melinda Perkins, District Manager, Brooklyn Community Board 5; Renee Casertano, Vice President, Citi Community Capital; Timothy I. Henkel, President, Pennrose, LLC; Dylan Salmons, Regional Vice President, Pennrose, LLC; and Scott Short, CEO, RiseBoro Community Partnership.

"Mixed-use developments like 50 Penn are important steps forward in tackling our housing shortage and providing communities with the local amenities and resources everyone should have outside their door. This project not only gives over 200 New Yorkers and families a new place to call home, but in partnership with the NYC FRESH program, it brings a full scale grocery store to the neighborhood as well," said **New York City Chief Housing Officer Jessica Katz**. "Congratulations to Riseboro, Pennrose and the HPD and HDC teams for bringing together such an incredible project. Through efforts like this, we will ensure all of our neighbors across the city have the safe, stable and affordable homes they deserve."

"Today we celebrate 218 new affordable homes for a range of households including formerly homeless New Yorkers who will have access to supportive services, a host of amenities, and a grocery on the ground floor. We look forward to continuing our work with the community and supporting new area investments that will improve the lives of those that call East New York their home," said **HPD Commissioner Adolfo Carrión Jr.** "Thank you to Pennrose, RiseBoro, and HDC for their work on this project as we welcome home the new residents of 50 Penn."

"Today's celebration marks the completion of 218 affordable homes - nearly half of which will remain a permanently affordable - providing security and peace of mind to New Yorkers in need, including our formerly-homeless and senior households," said **HDC President Eric Enderlin**. "Congratulations to our partners for their dedication to bringing much-needed housing, supportive services, and retail space to the East New York community."

"This is an example of good planning policy leading to real benefits. This project not only creates affordable homes for families of a variety of sizes and incomes, but also access to healthy foods," said **DCP Director Dan Garodnick**. "We need more like this."

The brand new apartments feature modern, fully-equipped kitchens with electric range and dishwasher; spacious closets; vinyl flooring; resident controlled heating and cooling; and on-site laundry facilities. Residents will also enjoy ample community amenities, including a fitness center, community room, professionally landscaped terrace, bike storage, and easy access to the ground-floor retail and grocery store. Along with on-site amenities, residents are within close proximity to the Broadway Junction, J/Z and A/C subway. 50 Penn was designed to meet Enterprise Green Community standards, and features rooftop solar photovoltaic panels and green roofs that are intended to offset the carbon footprint of the project and minimize stormwater runoff.

"Pennrose is proud to work alongside HPD, HDC, and RiseBoro to address key quality of life issues in the neighborhood through transformative, mixed-use housing," said **Dylan Salmons, Regional Vice President of New York at Pennrose**. "With high-quality affordable housing, tailored supportive services, community-sourced retail and grocery space, 50 Penn signifies the changing

fabric of the neighborhood and will be a benefit to East New Yorkers for many years to come.”

“We are thrilled to be part of 50 Penn, delivering on the promise of community priorities identified in the East New York Neighborhood Plan,” said **Scott Short, CEO of RiseBoro Community Partnership**. “The project not only provides urgently needed mixed-use and mixed-income housing units, but also meets many of the other community demands, including deep affordability, advancing local economic opportunity and food justice.”

Pennrose served as the project’s lead developer and RiseBoro will provide on-site supportive services and property management. The development team also included Dattner Architects and Mega Contracting.

50 Penn was financed under HDC and HPD’s ELLA programs. HDC provided approximately \$44.03 million of tax-exempt bonds and \$13.75 million in corporate reserves. HPD provided \$31.06 million in city subsidy. Former New York City Council Member Rafael L. Espinal Jr. provided \$2 million in Reso A funds. Redstone Equity Partners acted as the tax credit syndicator, Citi Community Capital is the tax credit investor and provided a letter of credit for the construction.

Pennrose has a successful track record developing high-quality, affordable housing throughout New York. Pennrose recently celebrated the grand opening of Northside Village, the first phase of the Yates Village public housing redevelopment in Schenectady.

Recent Press Releases



PRESS RELEASE

[**NYC Officials, BFC Partners, Breaking Ground Celebrate New Yorkers Moving into Affordable Housing at Former Bedford Union Amory**](#)

Mar 21, 2023