Mitchell-Lama Reinvestment Program

New York City Housing Development Corporation

Rental Housing: Preservation and Rehabilitation

HFA Staff Contact

Norman Garcia

ngarcia@nychdc.com

Background

The Mitchell-Lama program was enacted under New York State law in 1955 as a way to promote and facilitate the construction of affordable housing throughout the state. The goal of the program was the creation of affordable rental and cooperatively owned housing targeted for moderate and middle-income New Yorkers. Demographics have shifted over time, with many of the developments now serving a combination of low and moderate-income residents in neighborhoods that have often gentrified. The program was a major force in urban renewal and facilitated the construction of over 140,000 units spanning more than 300 developments, and required projects to remain affordable for a minimum of 20 years. The original incentives to encourage the private market to invest in the Mitchell-Lama program involved a system of real property tax breaks and low interest mortgages. As the regulatory agreements for these developments expire, the buildings can exit the affordability program and convert to market rate apartments. Since 1989, more than 19,600 units in New York City have opted out of the Mitchell-Lama program. Many factors including the challenges associated with an aging housing stock, rising property values, and financial markets led these Mitchell-Lama projects to opt out of affordability.

The Mitchell-Lama portfolio continues to experience challenges in preserving affordability. Mounting capital needs and increasing real estate market prices pressure owners to leave the Mitchell-Lama program and sell their developments on the private market. In response, HDC has continued to develop creative and competitive financing products that provide strong incentives to secure the long-term preservation of the Mitchell-Lama portfolio as affordable housing. In 2017, HDC created the *Mitchell-Lama Reinvestment Program (MLRP),* which built upon its existing programs, while taking a more holistic approach towards properties' immediate and long-term needs. MLRP provides Mitchell-Lama rentals and co-ops with low cost capital and waived financing fees to address current and future physical needs while minimizing financial stress on the residents.

Mitchell-Lama Reinvestment Program

MLRP was developed as HDC's latest effort to invest and preserve Mitchell-Lama housing stock across New York City. An essential component of the program included programmatic lending authority from HDC's Board of Directors for the use of Corporate Reserves or other available funds of HDC to initially fund the Program. The lending authority enables HDC to proactively seek out preservation opportunities, quickly address physical and financial distress within the portfolio, and compete with conventional loan products that would otherwise enable Mitchell-Lama developments to exit the program.

HDC loan proceeds will enable critical project repairs, funding of reserve accounts for future needs, and lock in affordability for the next generation of New Yorkers for at least an additional 20 years.

As part of the program, the developments are required to order an Integrated Physical Needs Assessment (IPNA) to direct the scope of needed work in a more energy efficient manner. The IPNA is a property evaluation tool jointly developed and released by the NYC Housing Development Corporation (HDC), New York City Department of Housing Preservation and Development (HPD), and the New York State Homes and Community Renewal (HCR). The tool integrates an evaluation of energy, water and health needs into a full roof-to-cellar assessment of a property's physical conditions to ensure that the holistic needs of the property are addressed. HDC and HPD established a list of qualified providers that owners may use to complete an IPNA.

Additionally, HDC Asset Management provides ongoing technical support to portfolio projects as needed. HDC provides services such as financial planning, emergency loan underwriting, scope development, bid review, construction monitoring, and utility bill servicing.

Finally, HDC staff coordinates closely with the NYC Department of Housing Preservation and Development, the Mitchell-Lama supervising agency, to rapidly respond to new problems in the portfolio as well as ensure the long-term viability and performance of the program.

HDC works with public partners such as New York State Homes and Community Renewal (HCR), the New York City Department of Housing Preservation and Development (HPD), local elected officials as well as local nonprofit and community organizations in implementing this program. To maximize efficiency of programmatic and financial resources, MLRP can be incorporated with the use of several other programs and has been effectively used in tandem with Risk Sharing programs with the United States Department of Housing and Urban Development (HUD) and City funds such as Reso A and HPD's Multifamily Housing Rehabilitation Program (HRP).

Replicability and Benefits

Restructuring of loans under MLRP is replicable by other Housing Finances Agencies to preserve similar affordable cooperatively owned and rental homes. The basic point is blending HDC's own subsidy monies with the lowest cost financing possible in the capital markets as well as continued real property tax exemptions. By reducing debt costs and taxes while financing physical improvements to lower operating costs, HDC facilitates the preservation of these developments and requires them to extend their regulatory agreements. HDC senior officers would be pleased to answer any specific questions or meet with the executives of other HFAs to further discuss the program and how it could be replicated and adapted to meet other local needs.

The MLRP can be incorporated with the use of several other programs and has been successfully paired with HFA-FHA Risk-Sharing mortgage insurance with the United States Department of Housing and Urban Development (HUD) and City funds, maximizing efficiency of programmatic and financial resources.

Mitchell-Lama housing is a critical source of moderate-income housing in New York City, and is consistently a large component of meeting the Mayor's goals to develop or preserve 300,000 units of affordable housing by 2026. The program has proven as a high value investment in affordable housing. Since rolling out the program in May 2017, HDC has closed 9 transactions under this program, preserving over 9,000 units of low to moderate income affordable housing and restructured over $245,000,000 in debt (and a pipeline of over 4000 units expected to close in the next year).

The Mitchell-Lama program was initially designed to address the need for affordable housing for New York City's working-class (e.g. Teachers, Fire Department, Police Department, Sanitation Department and Hospital employees). However, many Mitchell-Lama buildings have evolved over time to provide affordable housing for a broad array of income demographics. Some developments cater towards lower income populations and qualify for rental subsidies, while others have a diverse mixture of low and moderate income populations. As such, the maximum AMI a household can have to qualify under this program is 125%, which equates to up to $91,375 for an individual or $117,375 for a family of three. Mitchell-Lamas include both rentals and cooperatively owned apartments that are home to individuals, families, and aging seniors that have been able to age in-place in their homes thanks to their developments participation in the Mitchell-Lama program.

Cost-Effective Financing Structure

MLRP is structured to leverage NYC HDC's existing low cost tax-exempt and taxable debt, and raise new funds through a combination of taxable bonds and corporate reserves.

New senior debt is sized at a below market interest rate of 4.75% for a 30 to 35-year term. Additionally, existing subordinate debt has been reduced to a 0% interest rate and is restructured to be coterminous with the senior loan with no prepayment required. The combination of these techniques brings the overall true interest cost to a very low rate, often lower than 3%.

In exchange for this low-cost financing, the development is required to extend the Mitchell-Lama program regulatory agreement for a minimum of 20 years from the date of its expiration. For example, if a development participates in the program in January 2019 but its regulatory agreement does not expire until January 2022, the regulatory agreement will be extended until at least January 2042.

More specifically, existing loans under HDC's program can be restructured at lower rates and processing fees waved without a necessary increase to maintenance fees, equity assessments or rents, which helps to mitigate the risk of non-payment.

Project Example

One example of a successful debt restructuring under the MLRP program is Lindsay Park. Lindsay Park is a 2,709 unit Mitchell-Lama Cooperative development located in the Williamsburg neighborhood of Brooklyn consisting of seven 22-story buildings. Excluding 7 superintendent units, 2,702 units are affordable to households earning up to 125% of AMI. The development includes various amenities for residents including community rooms, laundry rooms, lobbies, swimming pools, and on-site parking and solariums. The complex has one commercial building with 2 supermarkets and a total of 15 commercial tenants. Lindsay Park was refinanced under HDC's Mitchell-Lama Reinvestment Program in December 2018. The new financing involved in this transaction is anticipated to fund approximately $40 million in rehabilitation and preserve affordability for another 40 years. The scope of rehabilitation work includes façade, roof, and balcony repairs, elevator modernization, as well as critical modernization of the main electrical panels and circuit breakers in all of the development's buildings. In addition to restructuring of existing debt, the project received bond financing in the amount of approximately $50 million from HDC and approximately $2 million in City Council funds from NYC.

Visual Aids

MLRP Projects Through Q1 2019				
Project Name	**Address**	**Units**	**Loan Amount**	**Closing Date**
Strycker's Bay Apartments	66 West 94th Street, New York, NY 10025	233	$10,162,088	10/4/2017
Atlantic Terminal I	161 South Elliot Place, Brooklyn NY 11217	201	$10,985,000	5/22/2018
Adee Towers	3000 Bronx Park East, Bronx, NY 10467	292	$8,170,000	6/11/2018
Franklin Plaza	2085 Second Avenue, New York NY, 10029	1,634	$15,268,000	6/20/2018
Ruppert House	1779 Second Avenue, New York, NY 10028	652	$10,670,000	6/29/2018
Masaryk Towers	61 Columbia Street, New York, NY 10002	1,105	$40,810,000	6/29/2018
Village East Towers	170 Avenue C, New York, NY 10009	434	$5,360,000	9/17/2018
Lindsay Park	202 Union Avenue, Brooklyn, NY 11211	2,702	$58,000,000	12/4/2018
Esplanade Gardens	2569 Seventh Avenue, New York, NY 10039	1,870	$85,955,000	12/28/2018
9 Projects		**9,123**	**$245,380,088**	

Masaryk Towers, a 1,105-unit Mitchell-Lama cooperative located in the Lower East Side of Manhattan, is working with the City to finance a new boiler plant and cogeneration system and lock-in affordability.

Mitchell-Lama Reinvestment Program

The City's Mitchell-Lama portfolio is under unprecedented pressure to convert to market-rate housing. Over the last thirty years, nearly 20,000 City-supervised apartments "opted-out" of the program. The challenges of maintaining an aging housing stock and rising property values are now putting more of the City's portfolio at risk.

Of the approximately 100 remaining developments with more than 45,000 homes, roughly two-thirds are affordable cooperatives, representing a significant source of affordable homeownership opportunity for New York City.

The new Mitchell-Lama Reinvestment Program will rapidly deploy new capital to provide the low-cost, long-term financing needed to anchor the affordability of these remaining Mitchell-Lamas.

By leveraging an array of financing tools, the program will:

- Restructure the projects' existing debt;
- Provide long-term tax benefits;
- Fund critical capital repairs; and,
- Lock in the properties' affordability for at least an additional 20 years.

In addition to the low-cost financing provided through the program, many properties will also qualify for an even deeper exemption through the J-51 program. These property tax exemptions will help keep rents and maintenance fees low for residents and ensure that properties remain affordable over the long term. The City anticipates spending $250 million in financing for this program over the next several years.

Impact: The program will serve low-, moderate-, and middle-income homeowners and renters by providing a long-term vehicle to preserve this precious housing resource in our communities. Over the next eight years alone, the program is expected to preserve approximately **15,000 homes in the City's portfolio**.

15,000

homes in the City's portfolio preserved over the next eight years

SUPPORTIVE DOCUMENT	LINKS
Press Release: *Mayor de Blasio Announces New Program to Save City's Remaining Affordable Mitchell-Lama Developments*	https://www1.nyc.gov/office-of-the-mayor/news/688-17/mayor-de-blasio-new-program-save-city-s-remaining-affordable-mitchell-lama-developments#/0
Mitchell-Lama Reinvestment Program (Taxable and Tax-Exempt Financing)	http://www.nychdc.com/content/pdf/Developers/Mitchell-Lama%20Reinvestment%20Program%20Term%20Sheet.pdf
Housing New York 2.0	https://www1.nyc.gov/assets/hpd/downloads/pdf/about/hny-2.pdf
Integrated Physical Needs Assessment (IPNA) Standard for New York City and State Low/Moderate Income Multifamily Building	https://www1.nyc.gov/assets/hpd/downloads/pdf/developers/ipna-standard.PDF