CITY LIMITS

NO VACANCY: WHY EMPTY CONDOS AREN'T BECOMING AFFORDABLE HOUSING

Boom-time overbuilding left thousands of units vacant. But a city program to convert them to affordable housing has found the market uncooperative.

Diana Scholl

We've all seen the half-built boom-era condos and thought: "Wouldn't it be great if this could be low-income housing? Everybody wins!"

So why hasn't that happened yet?

In May 2009 City Council Speaker Christine Quinn and New York City's Department of Housing and Preservation and Development (HPD) unveiled the Housing Asset Renewal Plan (HARP). Politically, it sounded great. The idea was to kill two birds with one stone: Build much-needed affordable housing while at the same time heading off the potential blight represented by what Quinn described as "tarnished trophies of the building boom." The $20 million initiative provides developers and banks incentives to turn unused condo units into middle-income housing.

In her State of the City address that February, Quinn said, "These vacant apartments now represent our best asset in the fight for affordable housing." The original estimate was that up to 500 units could be made affordable.

Flash forward almost two years after Quinn's prophecy, and not one HARP deal has been signed.

Quinn's office and HPD sent *City Limits* identical statements noting that "As a pilot, this program does what all pilots are designed to do, help us get a feel for what's out there, what the market will send our way, and what developers/banks are willing to do."

HPD spokesperson Eric Bederman added: "We see this as another innovative tool we have at our disposal and we are of course hopeful (and eager) to get deals signed. Our hope in the long-run (and I'm sure that of everybody else) is that the market will begin to take care of these properties—whether by dropping prices or recovering enough to 'un-stall' the projects that are in limbo."

But while HPD and Quinn both say there are developers close to signing on the dotted line, what do the delays in the two-year-old pilot program mean for the rest of New York's vacant buildings?

Numbers unclear

While empty condos have gotten the most attention, they appear to be just the shiny tip of the iceberg of vacant units and land in New York.

In 2006, before the real estate bust, Manhattan Borough President Scott Stringer, in collaboration with Picture the Homeless, did a one-time, block-by-block count of every vacant building and lot in Manhattan, and found 24,000 potential apartments.

Three years later in Fall 2009, Right to the City-New York City—looking solely at constructed units and not, as Stringer had, at vacant land—found 4,092 open units vacant in downtown Brooklyn, the Lower East Side, Harlem, Bushwick, the South Bronx, the West Village and Chelsea.

Currently, the Department of Buildings lists 708 buildings for which they have received complaints of stalled construction as of December 7, 2010, the majority in Brooklyn and Queens. The largest number in one community board district is 90, located in Brooklyn Community Board 1, which covers Williamsburg/Greenpoint and is littered with unfinished boom-era condos.

While all three estimates suggest a substantial supply of vacant units and land, they also illustrate the fact that New York City doesn't have a firm grasp on how many vacant buildings are in the city. Intro 48, a bill introduced by Councilmember Melissa Mark-Viverito, would require New York City to do a vacancy census, modeled after a census conducted in Boston.

Boston has conducted the survey every year since 1997. While the census in Boston hasn't been a cure-all, and has done little to bring down the amount of privately owned vacant property, it has allowed the city to greatly reduce its public stock of vacant properties from 15 percent of all vacant property to three percent. It has also given the city a better idea of assessing blight, according to the Boston Department of Neighborhood Development.

In New York City, however, the proposal to mandate a vacancy survey has stalled in City Council because Quinn is opposed. The speaker told the *Daily Gazette* in September that she is opposed because "collecting that data is enormously expensive. That money may be better spent assisting the homeless." She estimated the cost at millions of dollars.

But Boston, which is one-sixth the size of New York, does the yearly census with just one-quarter of a staff member's time, and some part-time help, according to their Department of Neighborhood Development. Tom Angotti, a professor in Hunter College's Department of Urban Affairs and Planning, said the count could be implemented in New York for under $60,000 a year if community boards used volunteers, as opposed to paid staffers, for the nitty-gritty, door-to-door canvassing in their districts.

What hasn't worked

The HARP plan has been unsuccessful thus far for a number of reasons. One is that despite the recession, housing prices haven't fallen dramatically and many developers are waiting it out to see if the market improves.

"It's a good idea, but the timing was a little off," says developer Greg O'Connell, who has developed much of Red Hook. "I think the market now has begun to change, and I think the developers who have held on during these bad times think their properties can be absorbed into the market with no new products actually built right now."

According to the Furman Center's recent report "Causes and Consequences of New York City's Boom" the number of units for which building permits were issued in the City fell by almost 90 percent in a single year (between 2008 and 2009), to the lowest level since 1992. In 2008 there were 1,685 condo units completed, down from 4,055 in 2007. So developers who've hung on have reason to believe the market glut is being cleared.

In addition, developers aren't going to build affordable housing just because they think it's the right thing to do, and the Quinn/HPD tax incentives weren't financially advantageous for most buildings, says one developer, who asked to stay anonymous to avoid getting involved in the politics of the matter

For example, The Forte condo on Ashland Place in Fort Greene was considered a prime candidate for HARP when it was sold by its developer back to Eurohypo Bank in August 2009. But rather than work with the city to turn units into affordable housing, the bank held a fire sale and sold the units at around $500 a foot—down from about $800 a foot at the market's height. By February this year, the building was 100 percent occupied.

According to the developer who spoke to *City Limits*, converting a condo such as the Forte into middle-class housing wouldn't have made economic sense for its owner because most of the units are more expensive to maintain than the typical affordable housing in New York.

"It's a doorman building, it has larger units than in typical affordable housing. It wasn't built as affordable housing, and doesn't have economies of scale that run efficiently. It's not necessarily a good match," the developer says. "It costs a lot more to run these buildings then you spend on affordable housing. If you pay the developers enough that they'd make money, it would cost the city more than creating new affordable housing."

He suggested that HARP would work best in buildings that are partially built. "These are eyesores in the neighborhood. They're not serving anyone as a partially built product," he says.

The HARP plan was offered as middle-class housing, not for lower-income families, so people who could afford to qualify would pay part of the cost, and the City subsidize the rest. Under HARP, a family of four could make up to $125,720 annually to qualify for a homeownership unit or up to $99,840 a year to qualify for a rental unit.

HARP's program guidelines said it would favor proposals by developers seeking $75,000 or less in subsidy for rental units, or $50,000 for homeownership units. Low-cost financing was also available. But the HARP offerings would have a hard time competing with what developers could someday get on the open market. A three-bedroom unit in HARP could rent at no more than $2,525 a month. The Avalon at Fort Greene, a market high-rise, lists three-bedrooms starting at $3,950 a month.

What can be done?

HARP isn't the only idea out there. Assemblyman Hakeem Jeffries initiated a similar plan in 2009, called "Project Reclaim," a initiative that combined "debt refinancing, financial restructuring, and ensuring banks contribute to the neighborhood's revitalization." Like HARP, the program was voluntary, and no developers have yet taken advantage of it.

In 2008, as a result of the Stringer survey, Governor David Paterson signed a bill that increased the rate at which vacant properties above 110th Street are taxed from six percent to 45 percent of full market value. (Below 110th Street, vacant properties had already been taxed at the higher tax rate). Picture the Homeless and then-City Councilman Tony Avella worked on a city law to discourage landowners from warehousing properties, but it never progressed under Quinn.

Avi Rosenthalis, coordinator of Right to the City-New York City (RTC-NYC) advocates more publicly and community-owned residential properties.

"The city is working under the premise that affordable housing must be profitable," Rosenthalis says. In Right to the City's recent report on vacant condos, it argues for using eminent domain to seize vacant residential buildings and turn them into affordable housing, and for using tax foreclosures to facilitate the conversion of tax delinquent vacant residential buildings in low-income communities into quality affordable housing.

Right to the City is currently looking into vacant buildings that would qualify for city takeover. The group proposes that these buildings be turned into community land trusts—non-profit entities that buy and manage land for the purpose of providing low- to moderate-income housing. Homeowners within a community land trust are only permitted to sell their homes back to the land trust or to another low-income family, guaranteeing that the units of housing remain permanently affordable.

"We're talking about Robin Hood-type options," Rosenthalis says. "These are the most feasible options on the books. But it takes political will."

What happens next?

Some analysts disagree. A quarter-century ago, the Koch administration began to take over thousands of vacant buildingsincluding 60 percent of the residential buildings in Harlem. Over a ten year period, more than 150,000 units of affordable housing were financed using about $5.1 billion in city funds.

But the city is now much less likely to take such drastic steps. In 1996, New York passed a law allowing it to directly transfer distressed properties to new owners, helping the city to avoid the costs of ownership and of preparing properties for sale. Sarah Gerecke, Executive Director of the Furman Center and its Institute for Affordable Housing Policy, said it's impossible to compare the situation during the Koch era to what is happening now.

"The City owns very little housing property now, and wouldn't take ownership of buildings," she says. "The City's economy was very, very different then. It gave [the city] a lot more burden and cost. It gave it a lot more opportunity to intervene. I think it's good the city doesn't own the vacant property. The best any government can do now is try to provide incentives."

Mayor Bloomberg's New Housing Marketplace Plan has created or preserved 100,000 units of affordable housing since 2004, and aims to expand that to 165,000 units by 2014. However, last year the budget for building new housing was cut from $113 million to $16 million as federal stimulus dollars ran out. This greatly shifted the priority from creating affordable housing to preserving affordable housing. HARP seems like it should have fit well into that strategy. Now the question is what happens if the housing market doesn't rebound as expected and fill the vacant properties.

"Rents haven't gone way down. Values haven't fallen that much. Demand has fallen but developers can wait it out. The bottom hasn't fallen out of the market. They must assume that the market is coming back," says Tom Waters, a housing policy analyst at Community Service Society of New York (which owns *City Limits*). "The longer the market goes without correcting it the more realistic it will be to do affordable housing with it."