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New York City to Sell Public-Housing Stake

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New York City's financially troubled public housing authority will receive hundreds of millions of dollars by selling a 50% stake in nearly 900 apartments to private developers.

The deal with L+M Development Partners Inc. and BFC Partner could help test the administration's efforts to attract more private investment in its stock of public housing.
"We have to think about supporting those units differently," said Shola Olatoye, chairwoman and chief executive of the New York City Housing Authority.

In the initial sale, NYCHA will receive $150 million from the developers. The authority will get a further $100 million over the next two years and an additional $100 million in revenue over the next 15 years. The developers plan to invest another $100 million in renovations in the complexes, which are in the Bronx, Brooklyn and Manhattan.

Under the terms of the deal—which hasn't yet closed—NYCHA and the developers will form a partnership that owns the properties. The housing agency would continue to own the land and retains the right to remove the developers from managing the properties if NYCHA officials are unhappy.

NYCHA and the developers both say the housing authority is receiving the bulk of the financial benefits from the transaction. NYCHA can potentially use the money to close its deficit and make upgrades to other buildings in its vast portfolio across the city.

When developers upgrade apartments they would be entitled to receive from the federal government the difference between market rents and the rents housing-authority tenants pay, which are equal to 30% of income.

The developers will be able to sell tax-exempt bonds and federal tax credits under an agreement that expires in 30 years. At that point, at least in theory, the properties could be converted to market rate, though NYCHA would retain the power to make that decision, and officials said they were committed to preserving affordability.


Saratoga Square resident Rosalind Rice

The deal, along with the planned building improvements, has been largely welcomed by residents, elected officials and tenant leaders. But some also expressed skepticism about what they view as the potential privatization of the apartments.

“It means a big infusion of money into some of these buildings,” said City Council member Rosie Mendez, whose district includes two properties involved in the deal, Campos Plaza and East 4th Street Rehab. The other properties are Saratoga Square Houses, Milbank-Frawley Houses, East 120th Street Rehab and Bronxchester Houses.

But Ms. Mendez said private landlords were more likely to convert affordable units into market-rate housing after tax breaks expire. “I view it as a road to privatization,” she said.
The deal on the six sites stems from proposals solicited by the city late in the Bloomberg administration. An initial development team was selected but withdrew in late 2013. NYCHA decided in July to designate a new developer.

City officials said the properties were unique in NYCHA’s portfolio because the people who live there receive a federal rent subsidy known as Section 8 and the buildings have received significantly less federal funding in the past several decades. They require nearly $50 million of improvements over the next five years, according to the city.

At East 120th Street Rehab, for example, the roof collapsed a number of years ago so some apartments on the top floor are sitting vacant, according to L+M executives.

Rosalind Rice, 74 years old, lives in Saratoga Square, one of the properties that are in relatively good condition. The front entryway is caged over like a prison, but Ms. Rice said that doesn't make the building safe because a swift bang on the intercom can unlock the door.

She said she had watched the maintenance of the property decline since she moved in more than a decade ago. Addressing an L+M executive on a recent site visit, she said, "My idea is that you all talk a lot of talk, let's see some show." Work is expected to start on the buildings in January.

The developers, New York-based companies that develop both affordable and market-rate housing, plan to invest about $80,000 per unit. That includes putting in new kitchens and bathrooms, recladding facades and replacing concrete open space with grass, flowers and playgrounds.

"They're in need of a significant upgrade across the board. It's really been the same NYCHA story, which is just lack of funds for regular maintenance," said Rick Gropper, development director at L+M.

The move comes as housing authorities across the U.S. have recruited the private sector to invest money in renovating deteriorating buildings. Ms. Olatoye, the NYCHA head, said private investment would be an important part of her strategy for completing the agency's repair backlog.

"Talk to HUD. What our primary funder is pushing is encouraging housing authorities to think strategically about how they manage their property for the benefit of their residents because the federal money is just not there," Ms. Olatoye said.

Democratic State Assemblyman Brian Kavanagh, whose district also includes Campos Plaza and East 4th Street Rehab, said he was urging tenants to support the deal with L+M and BFC but that it didn't necessarily open the door wide for future private deals.

"It looks good. It does not necessarily clear the path for some other property, with some other deal, with some other terms," he said.

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