

# **Testimony of the New York State Division of Housing & Community Renewal**

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**Hearing before the United States Congress House Subcommittee on  
Housing and Community Opportunity**

***Affordable Housing Preservation: Lessons from Starrett City***

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Good morning. Thank you Chairwoman Waters, Congressman Towns, and distinguished members of the Subcommittee for inviting me here today.

It is my pleasure to provide testimony regarding Starrett City and New York State's efforts to preserve affordable housing opportunities for our citizens.

### **Introduction and Background**

My name is Deborah VanAmerongen and I'm the Commissioner of the New York State Division of Housing & Community Renewal. We are an agency that is dedicated to developing partnerships and supporting community efforts to provide equal access to safe, decent and affordable housing.

DHCR administers housing development and community preservation programs, oversees and regulates the State's public and publicly assisted rental housing, and administers the rent regulation system for more than one million rent-regulated apartments throughout the State.

Before becoming Commissioner of DHCR, I was HUD Director of Multi-family Housing for the New York Region, where I oversaw the portfolio of federally-financed affordable housing in the New York City area. In my role with HUD, I became very familiar with Starrett City and its unique character.

I am both humbled and honored that Governor Eliot Spitzer selected me to serve the people of the State of New York as Commissioner of DHCR. Humbled to be charged with the responsibilities of this position at a time when we face a critical shortage of affordable housing; and honored to be part of an administration that clearly recognizes the significance of our existing affordable housing stock and is committed to preserving it.

### **The State of Affordable Housing in New York**

There is no doubt—housing is vital to the future of our nation. And, as Governor Spitzer has stated, the affordability crisis we face threatens to "...strangle future economic growth and crush the dreams of families young and old."

The facts bare this out:

-New York State is the 5th most expensive jurisdiction in the Nation in terms of housing cost.

-Employers often cite the lack of affordable housing as a deterrent to bringing new businesses to New York State or as a barrier to expansion.

-In Nassau and Suffolk Counties the Fair Market Rent (FMR) for a two-bedroom apartment is \$1,356. To afford this, a minimum wage earner must work 155 hours per week, 52 weeks per year.

In recent months, we have seen disturbing trends emerge in the housing market as New York City's vacancy rate reached an all-time low and the sub-prime mortgage lending market has begun to collapse.

Couple this environment with aging buildings and owners buying out or opting out of affordable housing programs and you begin to get a sense of the challenges before us.

The Mitchell-Lama program, of which Starrett City is a part, has helped us address this problem, and has provided affordable housing opportunities to hundreds of thousands of middle-income families.

Mitchell-Lama was established in 1955 to serve low and moderate-income New Yorkers. It was named for the legislation's sponsors, Manhattan Senator MacNeil Mitchell and Brooklyn Assemblyman Alfred Lama, and it serves as a national model for successful affordable housing.

Despite its success, the Mitchell-Lama program now faces grave threats that demand creative solutions. From the original portfolio of 270 State-financed Mitchell-Lama Developments, 190 remain under DHCR's supervision. Many of these are in dire need of costly repairs, updates or major overhauls of heating systems, roofs, or elevators.

Some are sited on what has become prime real estate in New York City where property values have risen dramatically. In Upstate New York, they face the challenge of competing with low-cost private housing in soft markets.

Certainly, New York is not unique in this respect. States throughout the country struggle to meet the housing needs of low and middle-income residents.

The maelstrom that resulted over Clipper Equity's proposed purchase of Starrett City is a perfect illustration of the challenges we face: we can not build our way out of our housing crisis—we must maintain and preserve what we have.

### **Why Starrett City Matters**

More than 15,000 people live at Starrett City, but the facility is less notable for its size than it is for its unique character and long-term success.

For more than 30 years Starrett City has been a State Mitchell-Lama housing development. Unlike many other housing developments, Starrett City was originally established for low and moderate-income people. It receives substantial government assistance and always has.

Starrett City has a mortgage with the Housing Finance Agency and receives various tax breaks and rent subsidies, including Federal subsidies under the 236 Interest Reduction Payment Program, HUD's Rental Assistance Program and Section 8.

This is a model that has worked well. Starrett City is a successful example of Mitchell-Lama housing. It is well maintained and is a much loved home to thousands.

In my first week as Commissioner, Clipper Equity signed its contract to purchase Starrett City. The purchase price -- an astronomical \$1.3 billion -- raised immediate concerns that the purchaser would be unable to retain Starrett City's long-term affordability and continue the high-quality maintenance of the complex.

Upon closer examination, we found that indeed, Clipper Equity's proposal was seriously flawed.

### **New York's Response**

As a regulating agency, DHCR was asked—along with HUD—to review Clipper Equity's proposal and approve the sale and refinancing of Starrett City, making us a central figure in the battle to protect Starrett City's residents and keep its nearly 6,000 units affordable.

Talk about a baptism by fire. It was the most interesting first week on a job that *I've* ever had. In our analysis of Clipper Equity's proposal, DHCR concluded that, in addition to a purchase price that was far too high to support the mortgage at current rent levels, the plan failed to adequately insure long-term affordability at Starrett.

After fully investigating the facts, DHCR refused to approve the proposed sale. In our letter of rejection we cited three main reasons why the plan was untenable under existing law:

First, the purchaser's affordability plan was based on an unreliable combination of tenant-based vouchers that would leave the project with the tenant, and the divestiture of all potentially income-producing non-residential property.

Second, initial rents would be raised to market rents for the area. Future rents would be subject to rent stabilized increases, but over time this would erode the affordability of the community at large.

And third, approval of the plan would set an undesirable precedent for other Mitchell-Lama purchasers who would want to receive similar treatment and remain in the program receiving government subsidies.

The bottom line is that the long-term affordability of the project was in jeopardy.

To support its misguided plan, the purchaser was requesting enormous levels of federal government subsidy to sustain the purchase price, and on top of that, was asking DHCR to act beyond its statutory authority and bend the structure of our Mitchell Lama program to accommodate his proposal.

DHCR's refusal to approve the sale of Starrett City, in the face of enormous pressure, is a clear sign that it is a new day at DHCR. This administration employed due diligence, found the plan to be lacking, and rejected the sale.

### **Lessons Learned**

Perhaps the most significant lesson learned from Starrett City is that when various levels of government speak with one voice to protect the public, we can accomplish great things.

The proposed sale of Starrett City was a clarion call to the State, Federal and local agencies with a stake in affordable housing.

Immediately, DHCR, HUD, the New York State Housing Finance Agency, and New York City's Department of Housing Preservation & Development mobilized to communicate the importance of Starrett City's long-term affordability to the community, the owners, prospective buyer, and tenants.

I am convinced that this unprecedented level of coordination and cooperation was a major factor in our success in keeping Starrett City viable affordable housing.

And I am equally confident that this experience will serve to make us an even stronger force in the face of any future challenge to our affordable housing stock.

I have to thank Senator Schumer for his steadfast support and commitment to preserving Starrett City and protecting its tenants. He was instrumental in this effort. Senator Schumer, Congressman Towns, City Council President Quinn, Assemblyman Lopez, and Councilman Barron led the charge to rally the tenant organizations in opposing this sale. Their support was invaluable.

And I must acknowledge the extraordinary leadership of Marie Purnell of the Tenant's Association and ACORN, who worked together to organize an extremely effective campaign to oppose this sale.

### **New York's Efforts to Preserve Affordable Housing**

As DHCR forges ahead in our mission to provide access to safe, affordable housing, we do so with renewed energy and a clear mandate for change. Governor Spitzer has declared the preservation of affordable housing a top priority of his administration. Our agency is now proactively engaged in a long-term strategy to seek and develop opportunities for preservation.

New York State has been a leader in the creation of affordable housing, but now we must lead the way toward its preservation for the future.

Here are some ways in which DHCR is answering the new administration's call:

- Scrubbing the Mitchell-Lama portfolio. DCHR is working closely with the Housing Finance Agency (HFA) to assess the State's Mitchell-Lama portfolio. We have gathered information on the condition of the buildings, ownership, regulatory structure and subsidies. Based upon this analysis 20 projects have been identified for immediate rehabilitation and 40 others are possible candidates for preservation.

DHCR, HFA, and ESDC are also collaborating to find the most effective preservation tools to encourage owners to remain in affordable housing programs. For instance, offering new low-interest rate financing loans in exchange for remaining in the program and keeping housing affordable.

- We are also in the process of closely reviewing properties financed in the early years of the Low-Income Housing Tax Credit Program. These projects initially had a 15-year mandatory compliance period, which was extended to 30 years. However, the investors who financed these projects are only required to remain involved for the first 15 years. We currently have more than 2,000 units that are beyond their first 15 years of occupancy and another 15,000 set to pass that mark in the next five years. We are looking closely at this portfolio to determine which of these properties may need rehabilitation or other preservation efforts.
- Taking a Proactive Approach. For the very first time in the history of DHCR, the agency is undertaking a comprehensive review of all of our assets and reaching out to owners to initiate discussions about how our programs and resources may help them preserve and revitalize their properties.

Earlier this year, Governor Spitzer proposed increasing the luxury decontrol rent levels to \$2,800 from \$2,000. These limits had not been increased in more than 14 years, during which time rents in New York City increased dramatically.

## **Conclusion**

Perhaps most significantly, under the leadership of Governor Spitzer, DHCR is changing the way it does business. We recognize that if we are going to expect our programs to be more efficient, we must make ourselves more efficient, as well.

That means a more transparent, proactive, and cooperative approach to our work than ever before. It means initiating dialogue with those organizations and government entities that share similar goals and concerns. And it means finding new ways to solve problems and meet the challenge of providing housing to those who need it most.

Our strategy is threefold:

1. Coordinate: We are working to achieve better coordination between the multiple state agencies with a stake in affordable housing. Our goal is to streamline the state's housing programs, making them more efficient and less costly.
2. Collaborate: In recent months, DHCR and its sister agency HFA have developed a close partnership where one did not exist before. This relationship is critical to the missions of both agencies and an important step toward preserving our affordable housing portfolio. We are working together to strategically target our resources across the State and collaborating on projects on a regular basis.
3. Think Creatively: The severity the affordable housing crisis requires bold measures and creative thinking. DHCR is finding new ways to preserve affordable housing, to encourage the development of new housing where we can, and to engage our business and non-profit partners on a variety of levels.

In terms of Starrett City, DHCR will continue to be vigilant. Both DHCR and HUD joined together to refuse the contract from the purchasers and since then we have received no revised offer.

DHCR is and will remain willing to work with the existing owners and prospective buyers who seek to maintain affordable rents and who have the best interests of the residents of Starrett City in the forefront. Throughout the events of Starrett City, DHCR, under the innovative leadership of Governor Spitzer, responded swiftly and communicated our position clearly to all those involved. During the entire process our goal was to ease the minds of the residents, work openly with the business community and coordinate efforts with our government partners.

We will employ this model as we move into the future. And we look forward to working with all of you to make not only New York, but our entire nation, a leader in affordable housing.

Thank you very much for allowing me to testify before you today.