

## New Horizon

### Evolution of Affordable Housing Sector May Spur More Development

New York City's affordable housing sector is facing major changes, including an interest in the sector by previously distant developers and construction industry firms. That could create more opportunities, and it also could mean a change in the way such projects are built.

*by Alex Padalka*

Affordable housing in New York City is on the cusp of a new era – intense focus from municipal leaders, new interest from the traditional unionized construction sector, and expanding partnerships with for-profit developers to create mixed-income communities.



The changes result as much from a desire to create new housing – led by Mayor Michael Bloomberg's \$7.5 billion campaign to build 165,000 affordable units by 2013 – as they do from an active real estate market that has developers scouring the city for development opportunities.

And one of the biggest ripples is a gradual squeezing out of traditional affordable housing development, says Carol Corden, executive director of New Destiny Housing Corporation, a not-for-profit organization that caters to low-income individuals who have survived domestic abuse.

"Finding sites has become increasingly challenging," she adds. "There are relatively few sites and they tend to go for a premium. Nonprofit developers are pitted against for-profit developers. The outcome is predictable."

In fact, if you see a vacant lot in the previously downtrodden South Bronx, it is probably not a city-owned plot. When it is, it most likely has a project planned already that hasn't started yet, according to Ted Weinstein, director of Bronx planning with the city's Department of Housing Preservation and Development.

"It's difficult to find land to build on," he adds. "Prices of private land are high because [developers] think it's the next hot area."

Affordable housing is certainly getting attention. Bloomberg's campaign hit the one-third mark this spring, with 55,000 units already built. And the city and state are increasingly offering incentives to developers for building affordable housing or incorporating it into larger projects, such as the \$26 million in tax credits and other subsidies that the city gave to the \$30.5 million, two-tower Palmer's Dock development in Williamsburg in exchange for L&M Equity Participants of Larchmont, N.Y., and Dunn Development of Brooklyn reserving about 20% of the 300 units for affordable housing.

Such incentives make affordable housing attractive to developers who are used to working in the market-rate sector, says Jeff Levine, principal of Douglaston Development in Queens, which constructs its projects using its Levine Builders arm.

"The greatest change in the last 20 years is this interrelationship between affordable and market-rate components through zoning and tax abatement," he adds.

Douglaston is tapping into one of those programs to earn an expanded scope in exchange for adding affordable housing to the 1-million-sq-ft Edge, a four-building complex on the waterfront in Brooklyn's Williamsburg district. The \$390 million project, which broke ground in April, will have 1,400 residential units, 60,000 sq ft of retail, and an esplanade.

### **New Development Models Evolve**

Projects built by dedicated for-profit and nonprofit affordable housing developers still exist in the five boroughs. For instance, New Destiny started construction in January on the \$10 million Marcello Manor, a nine-story, 39,000-sq-ft building in the Bronx's University Heights district.

Half of the 38 units are set aside for domestic violence survivors coming out of shelter or other qualified support programs. The rest will go to tenants earning between \$10,000 and \$38,000, with rents ranging from \$200 to \$900 a month.

Slated to open in January, the building is going up on New Destiny-owned land. But projects of its nature are unlikely to flourish in the future, Corder says.

Instead, she says that affordable housing opportunities will increasingly be tied to partnerships with for-profit developers, who seek the benefits available from city incentive programs, such as higher floor area ratios and financing aid.

To that end, the city may see more developments resembling the Edge in Brooklyn. In that effort, Douglaston took advantage of the 80-20 program developed about 20 years ago by the New York State Housing Finance Agency, the New York City Housing Development Corporation, and the city's housing preservation department. The program provides tax-exempt bonds for construction of residential projects in wealthier neighborhoods that reserve at least 20% of their units for affordable housing.

At the Edge, more than 370 units will go to tenants earning no more than 80% of area median income, Levine says. By using 80-20, Douglaston qualified to increase the development's floor area ratio, or FAR, a city zoning measurement that sets allowable building size based on the area of the plot. It increased the FAR by 1.0, a substantial amount, he says.

Douglaston is tapping the same program in Manhattan's Chelsea district for a 34-story, 370-unit tower at 316 11th Ave. That project received \$191.5 million in HFA bonds and will reserve 20% of the units available to tenants earning no more than 50% of the city's area median income of \$70,000 for a family of four.

The city's heightened attention to affordable housing isn't helping all developers in the sector, Corden says.

"There's a tendency for the city to work with large, well-established not-for-profits," Corden says. "Those opportunities will be available only to a small sector."

Corden suggests several areas of possible improvement in city affordable housing policies: more rezoning, particularly in Queens, to allow higher-density construction and greater economies of scale for affordable housing developers to make their projects more financially feasible; more subsidies for nonprofits to construct new housing; and expansion of existing incentive programs.

### **New Winds in the Affordable Sector**

The impact of market-rate developers using the city and state incentive programs is starting to spread through the industry, says Mitchell Newman, president of Newman Design of Cold Spring Hills, N.Y. He says his firm's affordable housing work used to come from nonprofits, then from clients hoping to take advantage of tax credits, but now it is moving to developers coming in with mixed-use projects in previously "undesirable" locations.



"Before, the nonprofits used to get that land for nothing, but a good portion of that land has been developed and the areas that were blighted have now come back," he adds.

Meanwhile, the city continues to expand participation by private developers in the affordable sector. Under the city housing preservation department's New Foundations program, private developers construct one- to four-family homes using city, state, and federal subsidies – a program that has resulted in 600 units so far in these smaller buildings.

The South Bronx offers the most telling example of the new landscape for affordable housing. The area is still recovering from its darkest days three decades ago, when more than 350,000 residents left.

For years, the city bought foreclosed properties in order to eliminate blight, with the housing preservation department assuming a primary role in efforts to lure people back. For 20 years, it has been chipping away, and finally, it has reached a tipping point, says Neil Coleman, a spokesman for HPD.

"We were so successful [in bringing back residents] that the challenge today is one of affordability rather than abandonment," he adds. According to a 2005 U.S. Census Bureau estimate, the Bronx has 1.36 million residents, up from 1.2 million in the 1990 census.

Under Weinstein, the HPD's Bronx director, there is now a push to develop more mixed-income housing. He says the rationale behind the effort is partly to give people who move up from lower incomes into the middle class more options to stay in the neighborhood as their financial fortunes improve. But it also greases the skids to get projects built.

"It's probably easier to do a combination of a co-op and a mid-income than a low-income [building]," he says.

For example, the agency contacted New York's Robert Perez, a commercial developer, to encourage him to include affordable housing in a South Bronx project he plans to develop with Bergstol Enterprises of Pomona, N.Y. The 530,000-sq-ft Crossroads Plaza at 149th Street and Southern Boulevard will include one rental building aimed at tenants earning 60% of the area median income and two co-op and condo buildings aimed at low- and middle-income families. The project, which was seeking city zoning approvals this year, will also include 40,000 sq ft of retail and a 20,000-sq-ft school.

The retail component is another tool used to boost the financial prospects of affordable projects and offset the lower payback from developing affordable units compared to market-rate housing. Newman Design, which is the architect on Crossroads, is also designing 3160 Park Ave., a 12-story 240,000-sq-ft building >> with 177 affordable units and 26,000 sq ft of retail. New York's Ader Group's broke ground on it last fall.

"You need that commercial element to offset the cost," Mitchell says.

A new 12-story building that Arker Cos. of Woodmere, N.Y., and New York's Jackson Development Group are developing in the Longwood section of the Bronx will also merge retail with affordable units.

The 157,000-sq-ft building, set for completion next month, will have 20,500 sq ft of street-level retail, 27,000 sq ft of community space, and a 53-space garage. Its 11 studios, 44 one-bedroom, 44 two-bedroom, and 11 three-bedroom units are reserved for tenants making 60% or less of area median income. Hugo S. Subotovsky Architects of Suffern, N.Y., is designing the \$26 million Longwood project, where rents will start at \$638 per month, with 10% of the units set aside for the formerly homeless. The developers are tapping tax-exempt bonds and other affordable housing financing incentives.

A smaller commercial scope will be part of the \$35 million 500 East project in the Morrisania section of the Bronx developed by L&M Equity; Nos Quedamos, a South Bronx-based nonprofit community group; and Melrose Associates, the development arm of the project's architect, Magnusson Architecture and Planning. The building will have 128 units for residents earning up to 60% of area median income, as well as 4,500 sq ft of commercial space. Work started in March and is set to end in October 2008.

Yet another change is increased attention from union-affiliated contractors in New York, a sector that typically focuses on larger-scale, more profitable projects whose developers choose the higher skill – but higher cost – union labor provides.

Contractors in organizations such as the Building Trades Employers' Association had for years ceded the affordable housing development market to nonunion contractors. But the rise of more opportunity in that sector and the expansion of nonunion competition have led unions and union contractors to seek relationships with affordable housing developers. The BTEA was working on a project labor agreement that would provide special rates for union labor applying to the affordable housing market.

"We've been working on PLAs for several sectors, such as market-rate housing, but we also have been talking with the trades about special rates for the affordable housing sector," says Louis Coletti, the BTEA president. "Everyone sees the opportunities in the affordable market."

## Refining the Affordable Business

Some elements of affordable housing development have not changed along with the newer trends in the sector.

For instance, designs are similar to the past, Newman says. Most projects still use block bearing wall and plank methods.

But other aspects are changing, such as scale. Newman says his firm now gets asked to design wall-bearing buildings up to 12 stories instead of eight stories.

“We kept projects generally in the 60- to 80-unit size,” he adds. “With these mixed-use buildings, we’re seeing much larger projects, in the 150- to 300-unit range.”

Another newer element is the introduction of green construction to the sector. New Destiny’s Marcello Manor uses low-volatile, organic-compound materials and finishes, bamboo flooring, ceramic tiles, high-efficiency air conditioning, and low-voltage fluorescent lighting.

While such features qualify for Leadership in Energy and Environmental Design credits, the cost and time required to qualify make certification prohibitive in the affordable sector, Corden says.

Even as many signs point to the affordable housing sector providing more opportunities, Corden says the trends may not be sustainable in less robust development cycles, because financial incentives alone are not enough.

“It’s really important that you have some sector of the developing community that is mission-driven,” she adds. “You’re creating for the next generation and determining how much better they can do than their parents.”