Bloomberg A.D.

After Donovan: Affordable housing debate as city's point man takes reins of Obama's HUD; HPD successor floated
by Eliot Brown | 8:30 PM January 20, 2009
| Tags:

- Real Estate
- Barack Obama
- Department of Housing Preservation and Development
- Michael Bloomberg
- Shaun Donovan
- U.S. Department of Housing and Urban Development

This article was published in the January 26, 2009, edition of *The New York Observer*.

Shaun Donovan.

Shaun Donovan looked very much at ease during his Jan. 13 confirmation hearing in the Dirksen Senate Office Building. The 42-year-old leaned forward onto a green-clothed table in front of the Senate Banking Committee, eloquent and gracious in his answers, sharp and timely in his policy points, an apparent shoo-in to be secretary of Housing and Urban Development who knows he's just that.

Assuming he is indeed confirmed, Mr. Donovan's departure as commissioner of the city's Department of Housing Preservation and Development marks the end of an era for housing policy in the Bloomberg administration during a time of economic turmoil. The architect of the mayor's housing strategy has been known for his commitment to using the market to help solve affordability problems, pushing a cocktail of programs and incentives that, in large part, rode the building boom and a robust lending climate to leverage creation of tens of thousands of units of below-market-rate housing.

But the city now faces a drastically different economy and will soon get new leadership at HPD. While no announcement has been made by the Bloomberg administration, multiple people familiar with the decision-making said a former HPD deputy commissioner, Rafael Cestero, is the leading candidate.

Regardless of the individual, many housing advocacy groups and other observers say they expect a shift in housing policy in order to adapt to the economic conditions.

"You had a plan, and the plan was designed in a very different economic time, and it was really about capturing the excess value in the marketplace and directing it toward affordable housing," said Jerilyn Perine, a former HPD commissioner who designed an earlier version of the mayor's housing plan. "You don't have that excess in the marketplace anymore."

"I think you've got to look at the plan in the context of a very changing environment," added Ms. Perine, who is now director of the affordability-focused policy group Citizens Housing and Planning Council. "Where would the city's resources best be spent, and what are the primary objectives now?"

MR. DONOVAN ARRIVED at his position at HPD as the number of new apartments being built in the city began soaring. Land prices and rents were shooting upward, the city's population was swelling, and construction prices were up as well, a storm of conditions that made for a desperate need for more affordable housing.

A creative and adept housing policy die-hard, Mr. Donovan crafted a 10-year affordability strategy that laid out tools to build about 92,000 new below-market-rate units and to preserve about 73,000 units. The $7.5 billion plan, hailed as visionary by housing advocates, offered an array of programs for both low- and middle-income families. The housing programs for the latter were particularly notable, as federal incentives almost exclusively cater to low-income families given that the majority of the country, unlike New York, does not have a housing shortage for middle-income earners.

While the plan was varied and contained initiatives that would spawn housing in bad times or good, much of the new production was slated to come from various incentives that relied on a hot market.

Mr. Donovan implemented the inclusionary zoning program, for instance, which offered developers the chance to build bigger in newly rezoned areas if they set aside 20 percent of the units as affordable rentals. Thousands of units from Harlem to the far West Side to Williamsburg were expected to be created with this tool.

Other programs supplemented the Federal Low Income Housing Tax Credit program to spur development of low-income housing, a tool that relied on financial firms buying the credits to offset taxes on their profits.

And part of the plan relied on affordability requirements in a few key mega-developments, such as the Atlantic Yards project in Brooklyn that planned over 6,400 units of housing, more than 2,200 of which would be for low- or middle-income families.

But with financing in short supply and the market for new development at a standstill, affordable housing production is taking a hit across the board. Development in the rezoned areas is expected to proceed far more gradually; demand for the federal tax credits has dropped as banks have no profits on which to be taxed; and large projects including Atlantic Yards are stalled with an uncertain future.

"We are facing some real challenges in a way that we've never faced them before," said Bernie Carr, the executive director of an industry group, the New York State Association for Affordable Housing. "This is the first time that the financial markets have really been creating an issue for affordable housing."

Already, the Bloomberg administration has stretched out its 10-year plan an extra year, now slated to be completed by 2014. The city has exceeded its targets for the preservation component, and the new production component, which was always expected to expand in the second half of the plan, is now expected to lag in the economy. As of this fall, HPD reported it had started 31,640 of the 91,637 new units outlined in the plan.

Housing advocates stress that a new emphasis is needed on adding affordability provisions as part of a response to the mortgage crisis, particularly with multifamily apartment buildings. Tens of thousands of apartments were bought in recent years by highly leveraged landlords who had optimistic assumptions about rents.

With rents no longer going up and credit markets sealed tight, mass defaults are anticipated. An October study by the Association for Neighborhood and Housing Development estimates that as many as 54,000 city units are in buildings purchased with financing at risk of default.

"Obviously, the response to the foreclosure crisis is going to remain critical and important," said Brad Lander, executive director of the Pratt Center for Community Development. "We've got all those predatory equity things that are going to be financially failing, so in all of those cases, [the city will need to be] trying to figure out the right mix of policy and finance."

To help alleviate default pressures, along with a slew of other constraints faced by the affordable-housing industry, developers and advocates are looking to Washington, which in some cases will mean looking once again to Mr. Donovan.

The Bloomberg administration, often led by Mr. Donovan, has advocated for a number of federal legislative changes that would put help below-market-rate housing production and preservation in New York, including changes to the Federal Section 8 program and an expansion of the use of tax-free bonds. Whether those advance under an Obama administration has yet to be seen, although Mr. Donovan would clearly have a role in reviewing some of the desired legislation.

Affordable developers and advocates also are pushing for changes to the Federal Low Income Housing Tax Credit to extend its reach.

The economy has also humbled other goals outside of the mayor's affordable-housing plan. Council Speaker Christine Quinn last year announced an initiative to create middle-income housing on a large scale. But the task force scaled back its ambitions amid the economic collapse, multiple committee members said, and some discussion has been devoted to trading financial incentives for affordability provisions in financially distressed properties and partially built apartment buildings.

Deputy Mayor Robert Lieber declined to comment on housing policy going forward, other than to reaffirm, through a spokesman, the Bloomberg administration's commitment to its housing plan.

"With the slowdown in the economy, we've stretched out the time frame, but we are as committed to achieving the full plan today as ever," said Andrew Brent, the spokesman. "We'll do it through prudent fiscal policy and the creative use of private-market financing. And when the market improves, we plan to be well positioned to take advantage of it."

ebrown@observer.com