

**Testimony of Edward Ubiera**

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**New York City Council**

**Committee on Housing & Buildings**

**Oversight: NYC HPD’s Third-Party Transfer Program**

**April 26, 2018**

Thank you Chair Cornegy and members of the Committee on Housing & Buildings for convening today’s hearing on the Third-Party Transfer (TPT) program, an important housing preservation tool. I am submitting this written testimony on behalf of LISC NYC.

**About LISC**

The Local Initiatives Support Corporation (LISC) is a national nonprofit community development financial institution (CDFI) supporting local champions of equitable development with financing, capacity building, and technical assistance. For almost 40 years, we’ve been on the ground building affordable housing and improving communities in collaboration with mission-driven organizations, government partners, and corporate leaders. Since our founding in 1979, LISC’s New York City program (LISC NYC) has helped to rebuild neighborhoods across the City by investing over $2 billion in capital, resulting in over 40,000 units of affordable housing and over 2 million square feet of retail and community space. In 2017 alone, LISC NYC supported our local partners in preserving and developing roughly 1,500 units of affordable housing.

**LISC NYC Helped Launch Third-Party Transfer (TPT) Program; Powerful Affordable Housing Preservation Tool; Successful Public-Private Partnership Model**

LISC NYC remains committed to a comprehensive approach to community development. A key component to this strategy has been the preservation of affordable housing by mission-driven organizations. We have a long track record of working with the City as a convener, advisor, connector, and systems innovator to develop new programs in partnership with philanthropy and the private sector. In the 1990s, LISC NYC was a partner to the City when disinvestment and abandonment necessitated the establishment of the *in rem* program whereby the City took direct ownership of tax delinquent properties and assumed responsibility for day-to-day maintenance and operating costs. As this portfolio grew and the City faced prohibitive maintenance costs associated with the *in rem* portfolio – over $500 million annually – we understood the need to remove dangerous housing conditions, limit delinquent municipal charges, and encourage responsible stewardship of multifamily rental housing by private owners. To preserve properties in the *in rem* portfolio, the New York City Department of Housing Preservation and Development (HPD) developed the Third Party Transfer program (TPT) to directly transfer distressed, lien encumbered properties to responsible third party owners selected based on a proven track record of sound property management.

To aid the City in transferring properties, LISC NYC helped establish the nonprofit Neighborhood Restore Housing Development Fund Corporation (Neighborhood Restore). Neighborhood Restore, with a governance Board comprised of representatives from mission-driven developers and lenders, serves as interim owner and oversees the management and rehabilitation of distressed housing through TPT.

With Neighborhood Restore at the helm, the public-private partnership model of TPT has proven to be a tremendous community revitalization success throughout the City. A key component of this success is the strong local network of neighborhood based, mission-driven developers working in partnership with the City to surveil and evaluate housing conditions on a block-by-block basis. To date, over 500 properties totaling roughly 6,500 units have successfully transitioned through the program and into responsible ownership by mission-driven organizations. For thousands of households across multiple neighborhoods this translates to dangerous housing conditions removed, long-term housing affordability preserved, and positive relationships with responsible landlords were cemented.

**Speculation & Displacement Critical Challenges Faced By City; New Programs Being Rolled-Out; TPT Remains As Essential Today As Ever**

The emerging consensus in the community development sector today is that speculation and displacement are the key challenges facing the City’s affordable housing landscape. We see great promise with many of the solutions in the Housing New York 2.0 plan and LISC NYC is working with the City and community stakeholders to innovate new and multiple solutions to these challenges. Here are just a few.

Last year, we helped HPD launch the “Zombie Homes” initiative designed to steer vacant and distressed properties back to productive housing uses and to connect at-risk homeowners to foreclosure prevention resources so they can remain in place their communities. Also last year, we launched the New York Land Opportunity Program (NYLOP), a program designed to help mission-driven organizations, particularly faith-based organizations (FBOs), find partners so as to responsibly and sustainably develop affordable housing on their underutilized land. A key goal of this program is to strengthen the presence of mission driven organizations in their neighborhoods as they become stewards of new community real estate assets. Finally, and most recently, we collaborated with HPD on the launch of Neighborhood Pillars, an initiative to help mission-driven developers of affordable housing purchase and steward rent regulated buildings at-risk from predatory purchasers and speculators.

These new programs must be a complement to and not a replacement of TPT. We understand through our community partners that properties that typically cycle through TPT are vulnerable to predatory purchase. The strategy utilized by speculators is to find tax delinquent properties exhibiting physical and financial distress, engage current owners who may be negligent or lack real estate capacity, and negotiate highly inflated sales prices that bear little correspondence to current gross rents. The aim is to turn over the current rent roll, increase rents, and deliver units at inflated market prices. TPT remains one of the most effective tools to steer severely distressed properties to a sustainable preservation outcome without displacement of tenants. If anything, consideration should be given to expanding TPT.

**Homeownership—Including Limited Equity Co-ops—Important Community Development Strategy; Distressed Co-ops Should Continue to Be Steered Through TPT**

LISC NYC understands the growing importance of homeownership as a means of creating community wealth, ensuring long-term housing affordability, and hedging against residential and cultural displacement. We applaud the Mayor for prioritizing homeownership in the Housing New York 2.0 plan with a wide spectrum of new initiatives that show promise including: HomeFix, which will facilitate repairs in one-to-four family homes owned by low-mod households; Open Door which will finance the construction of co-ops and condos for low-mod households; the Mitchell-Lama Reinvestment Program, which will preserve the affordability of the remaining Mitchell-Lama housing stock much of which is comprised of affordable co-ops; and the New Infill Homeownership Opportunities Program (NIHOP) which will promote the construction of one- to three-family homes, condos, and co-ops for low-mod households in partnership with mission-driven developers.

These programs build on prior innovative models like the limited-equity Housing Development Fund Corporation (HDFC) co-ops which made homeownership accessible to thousands of low-mod households. By some estimates, roughly 1,200 buildings with almost 25,000 HDFC co-op units exist across the City. In exchange for reduced real estate taxes, these co-ops entered into regulatory agreements with the City stipulating income restrictions on shareholders, establishing limits to the sale and resale prices of apartment shares, and requiring adherence to proper governance standards. Inherent in the HDFC co-op model is a limited equity upside to shareholders due to resale restrictions and the goal of making these units accessible to future low-mod purchasers. However, shareholders benefit from generally low housing cost-burdens due to predictable rents/maintenance fees and long-term permanence in their communities.

We understand from our community stakeholders that there are concerns with HDFC co-oops cycling through the current expected round of TPT. As with distressed multifamily rental properties, the presence of severe physical and financial distress in an HDFC co-op necessitates a muscular intervention by the City. We support the inclusion of severely distressed HDFC co-ops in TPT as a means of protecting residents. In our view, TPT is a sustainable preservation strategy for these properties. Although these properties will convert to affordable rentals, once in TPT residents can expect an influx of public investment to rehabilitate and refinance their buildings. They can also expect effective day-to-day stewardship by a mission-driven organization committed to long-term affordability, accessibility, and transparency.

LISC NYC remains committed to a comprehensive approach to community development and will continue to work with local partners, including the City Council, to help catalyze opportunity in our neighborhoods.

Thank you for the opportunity to testify.

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