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NYCHA scores \$1.5B deal to privatize apartments in Brooklyn and Manhattan

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The New York City Housing Authority's John Haynes Holmes Towers.

The New York City Housing Authority has struck an agreement to bring nearly 6,000 apartments in Manhattan and Brooklyn under private management in a deal that will raise more than \$1.5 billion for repairs, the agency told *Crain's* on Thursday.

NYCHA has selected several developers, including major affordable-housing builders L&M Development Partners and Hudson Cos., to repair and take over management

of five complexes, which, like much of the rest of the agency's portfolio of roughly 176,000 apartments, have suffered from disrepair and **deteriorating conditions**.

The deal is the largest single package of conversions yet undertaken by the agency and the single biggest infusion of funds from a privatization deal, reflecting a much-needed acceleration of its plans to raise capital and bring in management from the private sector. On Thursday the agency also announced that it had closed on a **previously announced deal** to privatize the management of 2,625 units in nine public housing buildings in Brooklyn that will raise \$350 million for the repair of those properties.

NYCHA also said it will soon close on the conversion of 1,718 units in Manhattan that it is placing under private management.

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NYCHA previously stated that it is aiming to place about 62,000 public housing units under private management by the end of 2028, in large part using the federal government's rental-assistance demonstration program, known as RAD. Since embracing RAD about three years ago, NYCHA has proceeded slowly, converting only about 7,700 units and raising concerns whether it will be able to meet its target.

"I do believe it's possible to hit that target, and my goal is to accelerate our pace of conversions," said Jonathan Gouveia, head of NYCHA's real estate development

team, which is overseeing the agency's RAD conversions. "I have been impressed because these are complicated deals, and we have found private partners willing to go through the steep learning curve. As long as we keep forming good partnerships, we will hit this target."

RAD converts subsidies for a public housing complex over to Section 8 funding, a stream of government money that can be used to raise a lump sum of cash from the municipal bond market upfront to make repairs. The deals are structured so that developers lease the NYCHA properties they manage, with the public housing agency remaining as a partner and the underlying owner of the property. Residents continue to pay the same rents, which are set at 30% of a resident's income.

The conversions are part of the city's NYCHA 2.0 turnaround plan, which seeks to raise additional billions of dollars for the beleaguered agency by developing housing on vacant parcels of NYCHA-owned land and selling off unused development rights. The plan has encountered blowback from residents, **but there are signs** that opposition to RAD deals has been blunted by the apparent success of recent conversions.

"I have personally spent a lot of time with tenant association presidents assuring them we will protect their rights," Gouveia said.

Included in the deal to convert the 5,902 units are Linden Houses and Boulevard Houses in East New York, Williamsburg Houses in East Williamsburg, and Audubon Houses and Harlem River Houses 1 and 2 in Harlem.

The development teams selected to manage and repair the properties feature a laundry list of players in the affordable-housing market, including Settlement Housing Fund. The deal also features newer players, including a partnership between Dantes Partners, Apex Builders and Webb & Brooker, which will handle the conversion of the 558 units in Audubon Houses. NYCHA has been trying to groom smaller affordable-housing developers to participate in RAD and similar programs in order to grow capacity in the private market and increase the pipeline of conversions.

“NYCHA is working with larger developers, but it’s definitely trying to do deals with the smaller players as well to help them grow,” said Rick Gropper, a principal at Camber Property Group, which won a procurement more than a year ago to manage and make \$100 million worth of repairs in two NYCHA complexes in the Bronx in partnership with L&M Development. “These are firms that might not have been in the mix in the past but if they get to scale can really begin to help address the public housing crisis.”

Gropper said his own firm has doubled in size since winning the Bronx RAD conversion deal.

NYCHA has estimated that its portfolio, the largest collection of public housing buildings in the country, needs more than \$40 billion in repairs. It hopes to raise over \$20 billion from private partnerships, the bulk of that from RAD conversions.

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