

CITY LIMITS

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PUBLIC MONEY HELPS FUND EXPENSIVE HOUSING FLIP

Are public pension funds fueling the rising-rents fire?

By Adam Pincus

City and state employee retirement funds are helping support purchases of former Mitchell-Lama developments at eyepopping prices, in an odd twist that has public investments benefiting from the erosion of a once-successful affordable housing program, according to a new analysis by city housing advocates.

Tenants, activists and a state assemblyman gathered in protest last week outside the massive 1,192-unit Riverside Park Community development at 3333 Broadway in west Harlem. The development is one of five projects formerly in the state Mitchell-Lama program bought by the investment groups Urban American and City Investment Fund – together calling themselves Putnam Holding Company, LLC – in May for a staggering \$938 million.

"I think it is a shame the city is investing money in preserving affordable housing, but at the same time investing money that is bringing a loss in affordable housing," Benjamin Dulchin, associate director of the Association for Neighborhood and Housing Development, told the group of around 60 people on Thursday.

Affordable housing advocates are asking city Comptroller William Thompson – whose office manages the city's retirement fund – to review the investment by the New York City Employees' Retirement System in the purchase of the developments. They seek a similar review from state Comptroller Thomas DiNapoli, who is the sole trustee for the New York State and Local Retirement system.

State Assemblyman Micah Kellner, a Democrat whose Upper East Side district includes one of the purchased properties, criticized the investment of retirement funds for city and state employees in "private equity groups that purchase former Mitchell-Lama developments and make them unaffordable to those same workers."

The housing groups Tenants and Neighbors and the Urban Homesteading Assistance Board (UHAB) last week documented that the city employees' retirement account invested \$85.9 million in the City Investment Fund, while the New York State and Local Employees' Retirement System invested \$46.6 million in the City Investment Fund and \$25.7 million in the Morgan Stanley Real Estate Fund IV. The City Investment Fund and the Morgan Stanley fund in turn provide capital to Putnam Holding Company.

The city comptroller's office, which has heavily invested retirement funds in affordable housing, is concerned about the loss of such apartments through public investments, spokeswoman Laura Rivera said. "The comptroller is sensitive to investments in real estate deals that have a negative impact on affordable housing. In fact, he finds the practice of investing in speculative real estate deals that pressure low-income tenants very troubling and will do everything in his power to protect tenants at risk," Rivera said.

But Thompson did not consider the Harlem portfolio to be an unwise investment, she said. "This does not seem that it would be the type of investment that would have a negative impact on affordable housing," she said.

In response to that, Kellner said, "I would have to disagree with that. From my firsthand experience I see this investment has a negative impact on affordable housing." Kellner's district includes residents of a development on Roosevelt Island that was part of the \$938 million deal. The assemblyman spoke with the city comptroller's office late Friday and planned to meet with them further in the coming weeks on the investment.

DiNapoli's office had had little to say about the deal. "We are constantly reevaluating our portfolio. We look at this and every investment," said spokesman Jim Fuchs.

Among institutional investors, New York leaders are hardly alone in being unbothered by this kind of investment. At the nation's largest public pension fund, the California Public Employees' Retirement System, spokesman Clark McKinley – who was not familiar with the Putnam Holdings deal – said that in general, the primary goal is

to provide a strong return for retirees. “Our constitutional mandate is to make as much money as we can for the fund,” he said. “We don’t have a mandate for social causes.”

That did not mean fund managers do not care about social issues, he said. The \$246.7 billion CalPERS invests heavily in affordable housing, for instance. But he said it was not going to please everybody. “We care, but you have to follow your basic targets,” McKinley said.

While the Putnam mega-purchase, completed in May, did not remove the nearly 4,000 apartments from the affordability program, advocates fear that the tripling of debt service from the purchase will inevitably create pressure on management to move additional tenants out, clearing the way for new residents to move in who can afford significantly higher rents.

The city has only about 39,392 units of Mitchell-Lama apartments left after losing about 26,253 units from the program over the past 16 years, according to the Community Service Society, a city antipoverty organization. More are set to leave, with some 4,000 units in 12 developments now on notice to leave Mitchell-Lama – and the owners of Starrett City’s 5,800 units in Brooklyn have announced their intention to leave the program as well.

The Harlem development on Broadway is part of a five-property, 4,000-unit portfolio that was originally owned by a longtime Mitchell-Lama landlord, Jerome Belson Associates. The portfolio includes Harlem properties with addresses at 3333 Broadway, 455 East 102nd St., 1940 First Ave., 1890 Lexington Ave., 1990 Lexington Avenue and 1307 Fifth Ave. as well as the Roosevelt Island development Eastwood at 552 Main Street.

Belson sold the buildings to Cammeby’s International Ltd. in March 2005 for approximately \$295 million, or \$74,000 per unit, UHAB housing organizer Dan DeSloover said. The properties were taken out of Mitchell-Lama at about the same time as the transfer of ownership, city finance records show.

Two years later the housing market was roaring ahead. In May 2007, New Jersey-based Urban American and Manhattan-based City Investment Fund bought the buildings for \$938 million, including \$800 million in debt, a spokesman for the partnership and records show. At that price, the units were valued at \$237,000 each, tripling their worth in just over two years.

“The incredible prices paid for these buildings and the necessary rent increases that will occur upon tenant turnover mean that low-income families throughout [the city] now have 4,000 fewer housing options,” Tenants and Neighbors executive director Maggie Russell-Ciardi said.

Russell-Ciardi’s group wants greater transparency and regulation in the process of buying and selling Mitchell-Lama units and more oversight in real estate investments by the city and state funds.

Some residents at the complex said their rent had increased steeply over the last several years, even though about four-fifths of the units still receive a rent subsidy. Lifelong resident John Herickson, 21, said the apartment that he shares with his grandmother and other family members had shot up from about \$950 to more than \$1,200. He said he was worried about the increase. “Of course. I have to help my grandma pay the rent,” Herickson said.

UHAB’s DeSloover said there were many city workers in the building that was bought using city and state retirement funds. “Their money is going to make these units unaffordable,” he said. (UHAB is City Limits’ landlord.)

One city worker, Department of Education employee Marlene Petty, is the vice president of the tenants association. Petty worried that the Section 8 enhanced vouchers, also known as “sticky” vouchers – which Mitchell-Lama tenants often receive post-buyout to help them maintain their renting ability – were not dependable as a form of affordability because they were not attached to the apartment. “They will take that away from you in a minute,” she said about the vouchers.

She looked forward to a meeting between tenants and the new owners on Oct. 11.

The vouchers allow the landlord to collect a market rent. The resident pays a share depending on her income, and the federal government subsidizes the rest. Assemblyman Kellner criticized this use of government money to support the market-level rents. “The owners get a windfall; the difference is made up in the Section 8 subsidy,” he said.

Urban American was formed in 1997 and has grown rapidly, purchasing and managing thousands of units in Manhattan, Queens, the Bronx and New Jersey. The company strategy is “built upon the direct relationship

between capital expenditures and permissible rental increases in rent regulated apartments, where increases in rents can be achieved through investment in unit and common area upgrades,” according to an investment filing.

Bud Perrone, a spokesman for the partnership of Urban American and City Investment Fund, said in a statement that its investment in the properties is creating a better atmosphere for residents.

“The City Investment Fund and Urban American have a longstanding partnership that invests in a diverse range of communities throughout the five boroughs,” Perrone said. “While these properties had already exited the Mitchell-Lama program under a previous owner and prior to our investment, we are not interested in displacing residents. Rather, we are committed to making tangible physical improvements to the properties which will benefit the working families that live in these properties and neighborhoods.”

Housing activists acknowledged that the new owners have invested heavily in their buildings. “The first thing they see are repairs, and that can be a good thing,” Dulchin said. A number of residents said the security at the building had improved as well.

Eduardo Castell, the city's executive deputy comptroller, also said it looked like the new owners are proactive landlords. “There are no actions to pressure tenants,” Castell said. “So far, that is our understanding.”

He added that as an investor, the city has some leverage to influence businesses in which they invest. But when asked whether it was good policy to use city employees' retirement money to buy funds that support purchases of building that in turn need huge enhanced voucher subsidies, he said, “That is a separate issue.”

To Dina Levy, organizing and policy director for UHAB, this response “indicates they are still not understanding the gravity of the situation.” Levy also questioned why the comptroller would not be concerned that the city would be investing in apartments that were purchased at such as high price. “That would be an irresponsible use of a scare resource. There are only so many dollars out there,” she said.

The units in the portfolio were subject to immediate rental deregulation once they were removed from the Mitchell-Lama program because of a quirk in state law. Buildings such as those in the portfolio built after 1974 can be deregulated, while those built before 1974 are regulated by [rent-stabilization](#) laws which limit rent increases.

Levy noted that the city Department of Housing Preservation and Development and the state Division of Housing and Community Renewal each review the Mitchell-Lama buyouts – but have relatively little influence. She praised initiatives of each agency to help owners refinance, or to allow residents or nonprofits to buy the buildings. But such incentives would never compete financially with 200 percent returns such as that achieved by seller Cammeby's International, she said.

“That might have been a good solution 10 years ago,” she said. “But not now, in light of new market pressures from private equity.”