

# Gateway Housing

---

**Ted Houghton**  
**Gateway Housing**  
**NYS Assembly Committee on Housing**  
**December 15, 2020**

## **Introduction**

Chairman Cymbrowitz and members of the New York State Assembly Housing Committee, thank you for giving me the opportunity to testify today. My name is Ted Houghton. I am the President of Gateway Housing, a nonprofit technical assistance provider that facilitates the development and operation of high-quality, nonprofit-owned transitional, supportive and permanent affordable housing. I have thirty years' experience in homelessness and affordable housing, as First Deputy Commissioner of New York State Homes and Community Renewal, Executive Director of the Supportive Housing Network of New York, and I may still be the only person to work at both the New York City Department of Homeless Services and the Coalition for the Homeless.

We have a once-in-a-generation opportunity right now to make a game-changing reduction in homelessness. Let's not blow it.

## **Distressed Properties**

The COVID-19 pandemic and the ensuing government shutdown of the economy have caused tragic loss of life and terrible economic distress. This distress is particularly severe in hotel properties, as the steep drop in visitors to the city has made many hotels no longer viable. A similar decline in demand is beginning to occur in office buildings, though the distress affecting this class of properties has not been as immediate as for hotels.

## **Homelessness**

New York and other cities in the state have contended with a different crisis for over forty years now: homelessness. Approximately 78,000 men, women and children are homeless on any given night in New York City. We spend billions every year on emergency shelter, and hundreds of millions more to create new permanent housing for homeless New Yorkers. But we just can't build the housing fast enough to meet the enormous need.

## **The Solution**

New York City can take advantage of the distress caused by the pandemic and address both challenges, by transforming a substantial portion of the city's hotel and office building stock into permanent housing for homeless and low-income New Yorkers.

### **The Challenge**

There are more than 800 hotels with over 156,000 rooms in New York City. Over two hundred of them are currently closed, while the rest are struggling with occupancy rates of 10 to 34%, far below what is necessary for them to break even financially.

This economic distress is expected to continue for at least three to five years: industry estimates predict that at least 20% of the city's hotels will no longer be economically viable as a result of the pandemic. Some distressed hotels are already beginning to be boarded up in New York City. Hundreds of hotels across New York state are experiencing similar distress.

### **The Opportunity**

Before hotels and office buildings become a common symbol of blight in Midtown and other neighborhoods across the city and state, these and other distressed properties should instead be converted into much needed permanent housing. Priority for this housing can be made for formerly homeless individuals and families, incarcerated persons reentering the community, and homeless and housing-needy seniors.

Given adequate funding commensurate with the opportunity, a hotel-to-housing development initiative could finance as many as 20,000 to 30,000 new housing units affordable to formerly homeless New Yorkers in just three years.

This would be a massive increase in homeless housing production. By comparison, the City of New York presently finances just 7,000 or so new affordable housing units a year. Just a third of these will be made available to New Yorkers experiencing homelessness.

### **How To Get It Done**

This is how we can do it:

**1. New Capital:** The State should allocate at least a billion – probably two billion – dollars a year in new capital to take advantage of this opportunity. There will be no shortage of smart and wise people who will tell you we cannot afford to do so at this time. They are wrong.

An allocation of \$1 billion in bonded housing capital will cost the State less than \$50 million a year in debt service payments over thirty years, the useful life of the affordable housing created. But it will generate immense, outsized economic benefits:

- One billion dollars in capital can create approximately 3,000 new housing units (and as many as 6,000 units, if it leverages other housing resources);
- Because the target properties tend to already be in good physical condition, these conversions will likely cost about a third less per unit than typical affordable housing development projects;
- Converting marginal, distressed hotels will boost occupancy rates and improve the viability of the hotels that remain in operation;
- It will provide the economic stimulus New York needs, by creating approximately 15,000 construction jobs, thousands more in related industries,

and more than \$5 billion in economic activity, because housing construction is literally the most efficient way to grow the economy; and

- A housing creation initiative of this scale will measurably reduce the number of homeless New Yorkers, along with the billions of dollars the City and State spend each year responding to homelessness and its detrimental effects.

**2. Acquisition Loans:** The State should also make acquisition loans readily available, so that nonprofit and MWBE developers can be competitive in the market and move quickly to purchase distressed properties. Useful precedents include the New York Acquisition Fund, Neighborhood Restore and Community Land Trusts.

**3. Project-based Rental Subsidies:** Creating a State-funded rental subsidy like Home Stability Support that can be project-based can also provide a useful resource to finance such conversions, without overburdening the State budget, because these subsidies will be paid out over thirty years, and not allocated all at once during the present fiscal shortage. The federal Section 8 rental subsidy program provides a useful precedent, as does the NYC Department of Homeless Services' new Master Lease financing tool.

**4. Provide regulatory relief to facilitate conversions of distressed properties to affordable housing:** Converting hotels and other distressed non-residential properties to permanent affordable housing can be facilitated by regulatory relief from both the City and the State, including: permitting *existing* hotels in light manufacturing zones to be rezoned as-of-right to Residential; amending the NYS Multiple Dwelling Law to conform with duplicative City regulations; allowing new shared living models and reasonable accessibility requirements that take into account the existing hotel configurations.

#### **Don't Rely on Existing Resources**

If we insist on trying to do this with existing funds, we will come up short:

- The current affordable housing development pipeline is overwhelmed. Even with the historically high investment we are making today, new affordable housing residences must wait as long as five years to be financed and built;
- Shifting funds from the existing pipeline will not expand the number of units produced; and
- Shifting funds from the existing pipeline will delay good projects already in development, increasing their costs and erasing any savings that could be achieved by less expensive hotel conversions.

#### **Learn from Precedent**

Every few years, New York real estate experiences a sudden and severe downward market change. These cause enormous economic pain, but they are also opportunities to greatly expand affordable housing production:

- In the 1970s, abandonment decimated the Bronx and other poor and middle class neighborhoods across the state. The Koch Five Year Housing Plan (which lasted 13 years) rebuilt many of those neighborhoods with high quality affordable housing for people earning a variety of incomes.

- The real estate crash of 1987 made many classic turn-of-the-century hotels available for conversion into supportive housing residences now celebrated as a cost-effective and humane way to house formerly homeless New Yorkers with disabilities.

These initiatives often took too long to launch, getting started only after neighborhood blight became too severe to ignore. But at least they occurred. Government largely ignored housing needs in the 2008 Financial Crisis, allowing predatory private equity to buy and foreclose on tens of thousands of distressed properties, turning victimized homeowners into disadvantaged renters.

Let's not miss the opportunity again. New York needs a swift response now, at a scale appropriate to the opportunity. The State of California has already allocated \$600 million of its first tranche of CARES Act money to hotel-to-housing conversions. While this is not nearly enough, it is more than New York has done.

If we don't do this, we will be condemning ourselves to a grim future:

- Another generation will experience ever-increasing homelessness, with all the social and economic costs that come with it;
- Closed, boarded up hotels and office buildings will blight cities across the state;
- The hotels and office buildings that remain will struggle to stay viable in the face of greatly reduced demand;
- Many hotels will be turned into emergency homeless shelters;
- Others will be converted by cash-strapped owners into illegal and unsafe substandard housing;
- New York City's wealthiest landlords may succeed in getting even more tax breaks to convert distressed properties into luxury apartments we don't need; and
- The City's economic recovery from the pandemic will falter without the good jobs created by affordable housing development.

### **Conclusion**

Mass homelessness in New York City has existed for more than four decades now. But New York has never been able to build enough affordable housing to bring down the number of homeless New Yorkers.

With the sudden and severe downturn in the city's real estate market, distressed hotels and office buildings present an extraordinary opportunity to create massive amounts of affordable housing for homeless and other low income, vulnerable New Yorkers.

To take advantage of this once-in-a-generation opportunity, and achieve the positive outcomes New York needs, State and City government must provide the resources and regulatory framework necessary to facilitate rapid conversions of distressed hotels and office buildings to permanent affordable housing.

## RECOMMENDATIONS TO FACILITATE HOTEL-TO-HOUSING CONVERSIONS

### I. Provide additional new resources to acquire and redevelop distressed properties:

1. **Allocate at least \$1 billion per year over the next three years in new, additional capital dollars – over and above current levels of State capital investment – to fund acquisition of distressed hotel and office buildings for conversions.** This will create three to six thousand new units of deeply affordable permanent housing per year. Ideally, these would be flexible State capital funds, which would require approximately \$50 million a year to support borrowing costs. The State could also choose to reserve some of its share of future federal COVID-19 relief dollars for this purpose.
2. **Provide affordable housing developers rapid access to acquisition loans to streamline purchases of distressed properties for conversions.** There are many useful precedents for creating such acquisition tools, including the New York Acquisition Fund, Neighborhood Restore and Community Land Trusts.
3. **Create a State-funded rent subsidy that can be project-based, in order to finance acquisition and development of affordable housing.** The federal Section 8 rental subsidy program provides a useful precedent, as does the New York City Department of Homeless Services' new Master Lease development financing tool. A new Housing Stability Support program can easily include a project-based option that can be combined with capital resources to finance the production of new affordable housing units.

### II. Provide regulatory relief to facilitate conversions of distressed properties to affordable housing:

4. **Permit *existing* hotels in light manufacturing zones to be rezoned as-of-right to Residential in order to facilitate their conversion to permanent affordable housing.** Over 200 hotels in New York City are in M-1 light manufacturing

zones. The vast majority are now in financial distress. These hotels can be converted into transitional homeless shelters as-of-right, with no public approval process. Many already have been turned into shelters. But they must go through a lengthy and uncertain rezoning process in order to be converted into permanent housing. The City Council and Mayor should agree to amend the New York City Zoning Resolution to allow much preferable conversions to permanent affordable housing where appropriate.

5. **Amend the Multiple Dwelling Law to facilitate conversions to affordable housing.** Multiple Dwelling Law regulations often overlap and conflict with local regulations like the New York City Zoning Resolution, Building Code and Housing Maintenance Code. We support the Citizens Housing and Planning Council's recent call for the City and State to work together to streamline the MDL to better coordinate and align with city regulations. Allowing distressed commercial office buildings with Floor Area Ratios (FAR) greater than 12 to be converted to residential use would be one example of this.
6. **Allow new Single Room Occupancy (SRO) and shared living models in converted properties.** Hotels and office buildings must meet very different regulatory requirements than permanent housing, and many older buildings will trigger newer building code and accessibility requirements when they are converted. To prevent these regulations from slowing or preventing conversions to permanent affordable housing, the City and State should revise regulations to permit SRO units, units with shared kitchens, and other efficiencies.
7. **Ensure accessibility without preventing conversions to permanent housing.** New housing created in New York City must make all of their apartments handicapped adaptable, while only five percent of the rooms in a hotel must be accessible. A requirement that all apartments in a hotel-to-housing conversion must be accessible will necessitate expensive gut rehabilitations, precluding most conversions. We must figure out a way to ensure accessibility for all who need it, and not require a one-size-fits-all approach that prevents repurposing distressed properties into much-needed housing.