Affordable Housing Policies May Spur Gentrification, Segregation

Brian Paul

Brian Paul is a fellow at the Hunter College Center for Community Planning & Development. He is currently working on an independent documentary film on real estate development and neighborhood change in Greenpoint and Williamsburg called *The Domino Effect*.

Pre-Reading

Have you witnessed gentrification in your neighborhood? How has it affected you?

Manuel Zuniga has lived in Greenpoint since 1982. Back then the neighborhood was pl gued with high crime, vacant buildings and a shortage of basic government services. But Zuniga was won over by the ease of the commute to Manhattan, the affordability and the close-knit immigrant community of mostly Latino and Polish residents. 1

Now with two kids in high school, Zuniga is thankful for the many improvements in the neighborhood over the last decade. "In Greenpoint, my kids got a shot at a good education . . . and safety-wise, the crime is almost non-existent in the neighborhood, now you can walk around at night without a problem," he said.

But not all the changes have been positive for longtime residents. Since 2000, average market rents have doubled in Greenpoint-Williamsburg, and rent-stabilized tenants face increasing pressure from landlords looking to flip their apartments to the affluent young people now flooding the neighborhood. "It makes me angry about it because the people that are running these things, they don't see the whole picture, they only see profit. . . . The only place I can afford if I move out of here, I can't take my family there, it's too dangerous," said Zuniga.

This was not supposed to happen. When Greenpoint-Williamsburg was rezoned in 2005, city officials and community advocates involved in the negotiations claimed that requiring developers to set aside 30 percent of new units on the waterfront for "affordable housing" would ensure that longtime residents like Zuniga would be able to stay in the neighborhood. They repeated the promise this year when they announced the deal for the redevelopment of the Domino Sugar Refinery site into a Battery Park City-style complex with 2,200 housing units.

Despite such promises, this public-private, affordable-luxury model of development has not produced enough affordable housing to meet the needs of longtime, working class residents. The flood of new luxury units has far outpaced the trickle of affordability.

This story has been told before. But what has not been examined is the possibility that the city's market-based affordable housing system may actually contribute to, rather than alleviate, this pattern of gentrification and displacement.

The City's Model

In rapidly gentrifying neighborhoods like Greenpoint-Williamsburg, the city has promoted combining public and private investment, and linking affordable housing with luxury. The Bloomberg administration and many local nonprofits see this as an ideal compromise between real estate developers and communities.

The Community Preservation Corp., or CPC, is one of the city's largest private partners in this mission and is the developer of the Domino Sugar project. The corporation, a consortium of over 80 banks and insurance companies, receives city subsidies for affordable housing while also profiting from private market-rate real estate investments. In this way, it epitomizes the kind of hybrid entities that have grown out of the current affordable housing system.

CPC's record of investment in Brooklyn raises some disturbing questions about the results of these development practices. Despite the corporation's image as a developer of affordable housing, analysis of the city's public ACRIS property records reveals that since 2007, more than 65 percent of the $701 million invested in Brooklyn (including new loans and refinancing), have gone to market rate development. CPC has invested with some of Brooklyn's most notoriously unethical—and in some cases criminal—luxury developers. The investment in the luxury market is concentrated on the frontier of gentrification in neighborhoods like Williamsburg, Clinton Hill, South Park Slope and Prospect Heights.

On the other hand, CPC's lending for affordable housing is concentrated in neighborhoods on the outskirts of the borough like Brownsville and East New York, places of less interest to private for-profit developers.

Ironically, many of the community organizations and advocates one might expect to challenge this pattern of development actively support

CPC. These community-based nonprofit developers often depend on private sources of funding from entities like CPC and compete for political favor with the city to receive public grants. These ties could make it difficult for them to voice any criticism.

By financing luxury development in gentrifying neighborhoods, concentrating affordable housing investment in the outskirts, and influencing the politics of local nonprofit organizations and political figures through its lending, the Community Preservation Corp.—and the market-based affordable housing system it represents—may actually be a major contributor to the accelerating gentrification of Brooklyn.

Expert Public Relations

Although CPC was provided with the full ACRIS dataset and map of investments used for this article, the company declined to comment on the findings. And if one were to judge the company by its public testimonies and public relations, one would never know that CPC was anything but a generous funder and developer of affordable housing.

Every week, CPC publishes a newsletter celebrating its affordable housing projects and trumpeting the community benefits of its lending. But the numerous luxury condominium developments CPC has funded somehow never make these pages.

At the first public hearing on the Domino project in February 2010, 15
CPC's project manager Susan Pollock stated, "The mission of the company is to build and preserve affordable housing. That's it, that's the mission."

During City Council hearings in August, representatives from several Brooklyn-based community development corporations and Catholic churches vouched for CPC. John Simon, director of housing at Catholic Charities, described CPC as "deeply committed to responsible community development." Reverend Julio Cruz Jr. from East Brooklyn Congregations proclaimed, "We have developed thousands of units of affordable housing with them, and we know that they provide the best possible and most affordable developments." And the executive director of Los Sures, a respected nonprofit affordable housing developer in Williamsburg, lauded CPC's "immaculate history."

These testimonials provided crucial public support for the approval of the controversial Domino development. And certainly CPC has funded many laudable affordable housing projects, such as the East Brooklyn Congregations' Nehemiah Houses and renovations of the Riverdale Osborne Towers, both in Brooklyn, and the Parkchester complex in the Bronx. But examining the complete record of CPC's lending in Brooklyn raises serious contradictions to its carefully cultivated image as a benevolent developer of affordable housing.

Luxury Investment on Gentrification's Frontier

New York's ACRIS system maintains a publicly accessible database of property transactions for every building and lot in the city. Analysis of CPC's transactions in Brooklyn since 2007 reveals that is a major player in financing luxury development in gentrifying neighborhoods.

From East Williamsburg down to Clinton Hill, Prospect Heights and Prospect-Lefferts Gardens, CPC's luxury investments form a trench down the frontier of Brooklyn gentrification. Over the past four years, these investments account for over 65 percent of CPC's lending in the borough. With condominium prices ranging from $300,000 to over a million dollars, this housing is completely unaffordable to the vast majority of New Yorkers.

Some of CPC's luxury development partners have histories that put 20
them at odds with CPC's clean image. Isaac Katan, CPC's investment partner on the New Domino project, is a Brooklyn developer notorious for building super-sized luxury projects on brownstone blocks in South Park Slope. While he was able to successfully build a CPC-financed 11 story condominium at 162 16th Street, the planned "sister" building at 182 South 15th St was halted by the Board of Standards and Appeals. Neighborhood residents spent over $100,000 in legal fees to prove that Katan illegally began construction without a permit while trying to rush to complete the building before the neighborhood was rezoned to rule out such massive structures.

CPC financed a luxury project at 147 Classon Ave. in Clinton Hill developed by Moshe Junger, who served four months in prison for the 2001 death of his worker Rogelio Villaneuva-Daza. Junger violated a direct government order in proceeding to demolish a Williamsburg factory without first surveying its structural integrity. Daza died when the second floor collapsed and he was crushed by a falling beam. Other developers with questionable ethics whose projects have been financed by CPC include Eli Karp, Yitzchok Schwartz and Abe Betesh.

Many of CPC's luxury projects were initiated in the speculative boom of 2005 to 2007. In the past year, CPC has gone back and refinanced some of these developments with mortgages insured by the State of New York Mortgage Agency.

The state's justification for backing these troubled luxury condominium developments is that doing so will "help stabilize neighborhoods put at risk by the debt crisis." But it is widely recognized that speculative luxury construction and the "housing bubble" were major factors in causing the debt crisis in the first place.

State-insured refinancing of troubled luxury projects by lenders like CPC allows developers to avoid participating in the Housing Asset

Renewal Program, the city's experimental effort to encourage developers to convert ailing luxury projects to affordable housing. These refinancings enable the developers to warehouse the units in the hope that the market will recover; they are essentially a bailout. As a result, the Housing Asset Renewal Program has been a complete failure, with not a single empty luxury unit converted to affordable housing.

Where the Affordable Housing Is

In contrast to the plans for the New Domino, where 100 percent of the 25
affordable units will be on-site in Williamsburg, the vast majority of CPC's affordable housing investment has not been made in neighborhoods that are under threat of gentrification and displacement. It is instead concentrated in areas like East New York and Brownsville—heavily segregated neighborhoods with high rates of poverty and crime.

Taken together, the populations of East New York and Brownsville are over 90 percent black and Latino. Almost half of all households have incomes of less than $25,000 and almost half of adults over 16 years old are "not in the labor force." Commutes by public transit to Manhattan are roughly twice as long as they are in closer neighborhoods like Greenpoint-Williamsburg. And the crime rates are the highest in the city and on the rise for the first time since the early 1990s.

Manuel Zuniga can keep his family in Greenpoint because he has a rent-stabilized apartment and is friendly with his landlord. But thousands of other families are not so lucky and must go wherever affordable housing is available, even if it means leaving a relatively safe neighborhood with good schools for one with lots of crime and poorly performing schools.

CPC's pattern of concentrating affordable housing investment in marginalized neighborhoods is typical of a larger national trend. Since direct public development of public housing ended during the Reagan era, affordable housing creation has been tied to the principles of the real estate market. At the federal level, the Treasury Department's Internal Revenue Service oversees the Low Income Housing Tax Credit program, not the Department of Housing and Urban Development.

While the housing department operates under a mandate to further racial integration, the Treasury is not so bound. Its emphasis is to produce affordable housing at the lowest possible expense with little regard to location. Partly because of that, affordable units are concentrated in neighborhoods where property values are low and the for-profit market has little interest instead of in the gentrifying neighborhoods where they are needed the most.

Since the 1970s, urban planners and policymakers have emphasized 30
the value of "mixed-income" development and diverse neighborhoods. It is widely recognized that governments made a major mistake in the 1950s

and 1960s when they built huge public housing projects, concentrating and segregating large numbers of low-income people in neighborhoods with few economic opportunities and serious environmental problems.

Our current affordable housing policies may be repeating the same mistakes. Leaving affordable housing to entities like CPC that operate on market real estate principles leads to the majority of affordable homes being placed in the most disadvantaged neighborhoods in the city, helping to reinforce racial and economic segregation.

A Broken System

The reality of affordable housing policy in New York is rather less rosy than the public relations efforts of the developers and the Bloomberg administration would have us think. But in Brooklyn politics, "affordable housing" has become a term like "freedom"—something no one in his right mind could possibly oppose.

Affordable housing is desperately needed across the five boroughs, and the Bloomberg administration is constantly pledging to create more of it. But New York has actually experienced a loss of almost 200,000 affordable apartments, or 16.4 percent of the city's total between 2002 and 2008, according to the most recent city Housing and Vacancy Survey.

The single-minded pursuit of "deals" for a percentage of affordable housing in luxury projects like Domino Sugar may be leading non-profit community developers to overlook the role that the market-oriented affordable housing system is playing in gentrifying their communities. When confronted with these findings, John Simon from Catholic Charities said, "We supported the Domino project based simply on the fact that they guaranteed 30 percent affordable housing. . . .We didn't do any intricate analysis."

Speaking on behalf of East Brooklyn Congregations, Michael Gecan de- 35
fended CPC for being a "central and pivotal part of investment and production" of affordable housing in New York City. "In an imperfect world . . . [deals like Domino Sugar] are the best solution. Others may disagree or believe in wishful thinking. We operate in reality," he said.

The reality of Brooklyn real estate today is indeed very different than it was in the late 1970s and early 1980s when neighborhoods like Williamsburg were ignored and redlined by private real estate investors. During that time, organizations like East Brooklyn Congregations and Los Sures had great success in organizing and pressuring the city for funding to rehabilitate thousands of abandoned buildings into tenant cooperatives and other forms of affordable housing.

Since the return of private market investment in the 1990s however, these organizations have had to compete and make deals with wealthy for-profit developers. Because government investment in affordable housing is tied into the public-private, luxury-affordable models, the community-based nonprofit developers need private dollars from entities like CPC to fund their work. All of the community development corporations and church affiliated groups that testified on CPC's behalf during the New Domino hearings have received loans from the company during the past four years, with the largest amount—over $30 million—going to the East Brooklyn Congregations' Nehemiah Houses project.

With the community housing organizations so heavily invested in this current "reality," there are few voices left to question whether this system—and the tremendous amount of public money that flows into it—really serves the best interest of all New Yorkers.

Since 2000, average rents have doubled in Williamsburg-Greenpoint and almost 40 percent of the Latino population has left the neighborhood likely because of the housing costs. Similar shifts are occurring all along the frontier of Brooklyn gentrification.

The market-based, public-private affordable housing system embodied by CPC is helping to create and preserve thousands of affordable units across the city. But looking at the big picture and tracing the connections between affordable development and the explosion of luxury construction reveals that it also may be fueling gentrification and housing segregation—the very problems that the city and developers claim it is helping to solve.

Discussion Questions

1. According to the article, what are the positive and negative effects of gentrification in Greenpoint?
2. According to the author, what may be causing the accelerating gentrification of Brooklyn?
3. What is the stated mission of the Community Preservation Corporation? What does it do that seems to contradict its mission?
4. What were the mistakes in urban planning in the 1950s and 60s? What was done to rectify them?
5. What specific areas in Brooklyn are chosen to be sites for affordable homes? According to the author, what are the results of these decisions?

Writing Task

- Write a persuasive essay either supporting or arguing against gentrification in your neighborhood. Give examples of the possible effects of an increase of new residents and an influx of new businesses.