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**REMARKS: 9TH LISBON REAL ESTATE
FAIR AND CONFERENCE**

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Edward I. Koch Remarks

9th Lisbon Real Estate Fair and Conference
Lisbon, Portugal

November 22, 2006

Within the last ten days, I participated in a housing conference in New Orleans, Louisiana. The purpose of the conference was to discuss the creation of new housing in that city to replace what had been destroyed by Hurricane Katrina in August 2005. When I arrived, I was given a bus tour of the devastated area. For the most part, the houses still standing did not appear to be damaged, but I learned they were inhabitable due to the tremendous water damage inside. Seeing thousands of single-family homes totally deserted reminded me of Chernobyl in the Ukraine when residences were deserted due to unsafe radiation levels and also of the homes that were abandoned during the Middle Ages because of the plague.

I had my own housing problems when I took office as mayor of New York City in 1978.

Of all the changes that my administration made during my 12-year stewardship of New York City, the one that many say towers above all others is the housing program announced by me in 1986. That program came about as a result of President Carter's refusing to keep a commitment he had made to me in 1978 to help rebuild the South Bronx, most of which looked like bombed-out Berlin. In 1978, President Carter had made a commitment of a billion dollars to help rebuild the South Bronx. When he was running in 1976, he went to Charlotte Street with then New York Mayor Abe Beame.

President Carter's assurance in 1978 that the federal government would provide a billion dollars in new additional housing monies to help rebuild the borough of the Bronx, which had the most abandoned residential housing, had raised my hopes. His withdrawing the offer dashed them. The Charlotte Street area had become famous when the sports journalist Howard Cosell, seeing a huge fire in the distance, announced during a game at Yankee Stadium, "The Bronx is burning." And it was.

Landlords unable to make a profit on the buildings they owned, rather than pay taxes, simply allowed the property to be taken in rem by the city or, worse, committed arson to collect insurance. (In rem is a legal process that vests title to the property in the city when the private owner fails to pay taxes.) At one time I was told that, as a result of the abandonment, the city came to own eight percent of the city's residential buildings. Indeed, during my administration, one-third of the buildings on the Grand Concourse were abandoned and taken in rem . Many of the landlord-abandoned structures were still occupied with tenants lacking all services including heat and hot water. It was the city's moral and legal obligation to come to the assistance of the tenants whether at the stage when the landlord walked away or when we began the court process to take over the buildings because of no tax payments. The city had to compel the landlord to provide essential services -- heat and hot water -- or provide them itself. We did.

In the beginning we used the customary rule of waiting for three years of unpaid taxes before beginning the in rem proceedings. When we

found that we had to rush in with emergency services to prevent additional deterioration of the buildings in the interim, we decided to take title after the passage of one year without taxes.

When President Carter withdrew his offer in 1978 to help rebuild the South Bronx, I decided that we would start to do it on our own. We used already allocated federal funds to pay for the Charlotte Street construction. The last Carter housing budget in 1980 provided about \$30 billion nationwide for housing. The Reagan administration totally abandoned new construction and provided less than \$8 billion for housing nationally, and that was for maintenance and vouchers, not new housing. As abandonment increased with each passing year and housing needs escalated, I decided we could no longer depend on other levels of government. In 1985, I instructed the Office of Management and Budget (OMB) to prepare a housing plan that would primarily be funded by the city's capital budget. The vacancy rate in New York City when I announced the ten-year housing plan was 2.3 percent. People,

particularly poor and middle-class families, were desperate. Affordable rental apartments did not exist in any significant number.

As a result of the federal cutbacks, we knew we would have to become very innovative and aggressive in our methods of producing and preserving affordable housing for New York's low, moderate and middle-income and homeless families. Obviously, a tremendous increase in the commitment of city funds would be necessary to provide the housing that was needed, as well as a unified effort on the part of community-based non-profit organizations, private developers and contractors, business and government. With all the parts and players in place, we hoped to make a major addition to provide housing for many New Yorkers in need. The result was the Ten-Year Plan, our comprehensive approach to turning the city's housing situation around. The Ten-Year Plan was the nation's largest locally funded housing initiative, totaling \$5.1 billion, \$4.4 billion of which were city-generated funds. An example of the burden and funds expended in the third year of the program is illustrated by what was spent

in fiscal year 1989 alone, when New York City spent \$740 million in capital funds -- more than three and one half times the amount of the local funds expended on housing by the nation's next 50 largest cities combined!

In 1986, we were back in the capital markets raising capital funding through the issuance of city general obligation bonds. We knew we would also receive capital funds, reduced as they were, as every other city did from the federal and state governments. Ultimately, the state and federal governments provided about 20 percent of the total cost. In 1986, OMB responding to my request came back with a proposed plan that called for the expenditure of city funds in the amount of \$4.4 billion with 100,000 housing units to be created. Subsequently, the plan was upgraded to \$5.1 billion in May of 1988 with the number of units produced, preserved and upgraded to a total of 252,000 for low, moderate and middle-income New Yorkers over a 10-year period.

The pledge that I made in the announcement of the Ten-Year Plan in 1986 was the transformation of all vacant, city-owned buildings into affordable housing, and the rehabilitation of all the occupied residential buildings owned by the city. Also, I noted that sixty-one percent of all the units produced will be for homeless and low-income families. During the course of the program, this percentage was lowered so as not to overload any community with the social problems that homeless families bring with them, needing additional social services.

Several years after I left office, I was delighted to be called by Professor Michael Schill at New York University and asked to join him at a class to discuss the issue of housing. I learned that he and others had published a book entitled, Housing and the Community Development in New York City: Facing the Future, in which the program was described in detail as an enormous success. The introduction to the book states, "Over the past 15 years, New York City has engaged in the largest municipally supported housing production program in the history of the

United States. Announced in 1985 [the announcement was actually made in 1986] by former Mayor Edward I. Koch, this commitment of over \$4 billion to build or renovate more than 100,000 housing units over a five-year period has grown today to over \$5 billion and 182,000 housing units.”

The report went on, “In 1985, New York City was a very different place from the city that could not pay its teachers and policemen in 1974. The city had put its fiscal house in order and was once again able to borrow in the capital markets. The revival of the city’s economy was accompanied by a rapid escalation of house values and rents. In addition to extremely low vacancy rates and high rent-to-income burdens, homelessness had become a persistent problem. As a result of a series of consent decrees in the early 1980s, city officials were under pressure to provide housing to all homeless individuals and families. Despite the increased need for housing assistance, cutbacks in federal subsidies by the

Reagan administration substantially reduced the resources on which the city had historically relied.”

“By 1979, the city had taken ownership of approximately 60,000 vacant and 40,000 occupied apartments as a result of tax foreclosures. The tenants of the occupied apartments typically had very low incomes and often lived in extremely poor quality housing... Despite consuming immense amounts of HPD’s annual operating budget, this so-called in rem housing, named after the legal action that vested title in the city, continued to deteriorate in public hands.”

“The rough contours of the Ten-Year Plan were first announced in Mayor Koch’s State of the City speech in 1985. In that speech, he announced a five-year \$4.4 billion program to build or rehabilitate around 100,000 housing units for middle class, working poor and low-income families and individuals... One of the main purposes of the program was

to address the shortage of affordable housing. A second focus -- neighborhood revitalization -- was evident from the beginning.”

The program included the private sector. David Rockefeller headed a group of developers who were given free land and cash subsidies with the requirement they also provide their own capital for the construction of new homes. The city would maintain the right to set the sales price and designate the purchasing process. Similarly, private sector developers agreed to build with their own capital multiple rental dwellings with the city setting the rents and designating the tenants. Many of those buildings, still owned by those developers today, are very valuable properties.

Clearly, the program was successful. It is still lauded today as a model by the current mayor, Michael Bloomberg, who has embarked on a

new program to build and preserve 165,000 units of affordable housing over ten years.

To make sure everyone knew this program was a priority for me in 1986, I made a major point -- publicly -- of meeting with the commissioner in charge every week for one or two hours. All the city commissioners were aware of this weekly meeting and, knowing it was my priority, tried to help the Housing Preservation and Development Agency. Those meetings with the commissioner continued throughout the program, as long as I was mayor.

I believe that we actually achieved our full goal of more than 250,000 units. A large number of apartments, particularly for the homeless, were not included in the Schill analysis because they were renovated while in city ownership and tenants in possession or for other reasons unknown to me. But having an independent source certify a number is more credible than doing it yourself, and since the Schill report

acknowledged the production of more than 182,000 units, I use that figure as the minimum.

The earliest city success in creating housing before the adoption of the Ten-Year Plan was as I earlier described the development on Charlotte Street. There, Ed Logue, a gifted builder and city planner, was hired by the city to build 59 ranch homes in the middle of utter devastation. Each house cost the city \$120,000 and they were sold to potential homeowners for \$60,000. We intentionally gave them an enormous bargain because of the resistance to living in a squalid and dangerous area. For us to go forward, the program had to succeed with the houses sold. Years later after I had left office, I revisited the area at the request of the local community leaders. I found a vibrant community where the homes were being sold for more than \$300,000. I was delighted.

Interestingly, when I asked Logue how he had prevented theft during construction, he said he hired individuals from the area. They were dutiful employees who wanted the community to be upgraded, and they prevented others from stealing.

The lessons I learned in executing this successful housing program were:

1. **Articulate goals, with measurable performance standards to determine where we were succeeding or failing. If we were succeeding, we continued and expanded the program; if we were failing, we dropped it.**
2. **Adhere to those goals and standards. Don't change the standards to accommodate those who do not meet them. Work with the less than talented to upgrade their capabilities.**
3. **Be committed to moving forward. Once we started a program, we let it continue. If there are problems, make corrections. This was a**

confidence builder and encouraged more and more small developers to participate. This increased the level of competition for the programs and, as a result, we got more rehabilitated units for lower prices.

4. Open up the programs to others -- multiply the forces available to accomplish the city's goals.

It was also important to work with community organizations that had expertise and reputations for integrity, and to listen to their advice. While at first we gave a huge priority to the needs of the homeless, we found that communities felt they were being dumped on when the homeless showed up in large numbers. We learned that every community in the city, no matter how distressed, had a strong desire to improve. These better informed community advocates knew that concentrating low-income families was not the way to build communities. Community development needs not only housing, but also shops, stores, schools, etc. In order to function, there has to be a level of income above the poverty line. We built this community sensitivity into our program. We built

moderate and middle-income housing, and tried to build low-income units into those buildings so you would have a mix of incomes, rather than a concentration of low-income households.

Each city is different and must find its own way. But there are fundamental principles that apply everywhere. I believe those I have enunciated are universal in their application.