

**THE COUNCIL OF THE CITY OF NEW YORK**

June 16, 2022

TO: Hon. Justin Brannan

Chair, Finance Committee

Members of the Finance Committee

FROM: Malcom Butehorn, Interim Counsel, Finance Division

RE: Finance Committee Agenda of June 16, 2022 – Resolution approving a tax exemption for one Land Use item (Council District 17)

**SEBCO IV**

*Project Description Narrative*

SEBCO IV is a tax exemption-only project of a HUD-assisted rental housing portfolio in the Bronx. The project will refinance its existing debt and acquire a new first mortgage loan through a Fannie Mae execution. As part of the refinancing, the project is requesting HPD provide a new 40-year partial Article XI tax exemption. Specifically, the project is requesting an annual 1% Gross Rent Tax (GRT) until December 31, 2033, and starting from January 1, 2034, and until the expiration date, a 1% GRT base with 25% of future increases of contract rents, subject to a 17% contract rents cap. The owner will use the refinance proceeds to rehabilitate the portfolio, addressing critical needs including joist repairs, upgrade and replacement of deteriorated mechanical systems/equipment, and structural repairs as required within each building. None of the buildings in the portfolio have undergone significant capital repairs since their HUD-funded rehabilitations in 1982.

Owned by The South East Bronx Community Organization (SEBCO) through a single purpose entity, SEBCO IV Associates L.P., the project has an existing 20-year renewal Mark-to-Market HAP Contract, which was effective September 1, 2004, and continues through August 31, 2024. All units except the superintendent’s unit are currently covered under a project-based Section 8 HAP Contract. Prior to this closing, the SEBCO IV project will renew the existing Section 8 HAP Contracts (Option 3 HAP Contract) with HUD.

The program will place an HPD Regulatory Agreement on the project that will cover all properties. The agreement will run for 40 years, coterminous with the project’s expected partial Article XI tax exemption. The project will also be subject to HPD’s homeless requirement, which stipulates that during the restriction period, upon vacancy and unit turnover every other unit will be subject to a homeless preference in rental to new tenants as governed by a HUD approved Tenant Selection Plan, until 20% of the total units in the project are occupied by households that were formerly designated as homeless at the time of their initial occupancy.

*History of the property, prior exemptions, and prior Council action*

The SEBCO IV project consists of two buildings, a conjoined 6-story apartment building and another 5-story apartment building with a total of 71 dwelling units. The combined portfolio is 68,715 SF in size and all buildings are located in the Longwood neighborhood of the Bronx. 862-864 Southern Boulevard, is situated at the corner of Southern Boulevard and Tiffany Street. The development contains six (6) one-bedroom, fifty-one (51) two-bedroom, and thirteen (13) three-bedroom units. There is also one (1) two-bedroom as the super’s unit. The project currently has 2 vacant units.

The buildings were built between 1915 and 1922. The City of New York deeded the properties to SEBCO IV Associates L.P. on May 10, 1982, for $35,500 ($500/DU). At the time, the L.P. took out a $4,077,600 mortgage for a gut renovation of the properties with the New York City Housing Development Corporation (HDC). The buildings were rehabilitated through HUD’s Mark-Down-to-Market program and were converted to Section 8 buildings upon completion. At the time of financing, the L.P. entered into a HUD Regulatory Agreement and a Land Disposition Agreement with the City of New York. The buildings were subsequently renovated between 1982 and 1984. After construction, the project also entered into a Regulatory Agreement with HDC and received a 40-year partial Article V tax exemption (Board of Estimate Cal No. 10 dated April 16, 1982).

Twenty years later, the project underwent a Mark-to-Market (M2M) mortgage restructuring in September 2004. At the time of the M2M restructuring, the HDC mortgage was satisfied and the project was released from its original HUD and HDC Regulatory Agreements before entering into a new HUD Regulatory Agreement and a HUD Use Agreement. As part of the new Agreements, the project also entered into 20-year renewable HAP Contracts effective September 1, 2004. The HAP contracts continue until August 31, 2024.

*Summary*

* Borough – Bronx
* Block 2697, Lots 18 and 19; and Block 2732, Lot 31
* Council District – 17
* Council Member – Salamanca
* Council Member approval – Yes
* Number of buildings – 2
* Number of units – 70 (excludes one super’s unit)
* Type of exemption – Article XI, partial 40-years
* Population – affordable rental housing
* Sponsor – South East Bronx Community Organization
* Purpose – preservation
* Cost to the City – $4,373,783
* AMI target – 50% AMI rent; 60% AMI income limit