

September 25, 2006

A National Housing Innovator Leads City's Effort for the Poor

By [JANNY SCOTT](#)

On a sweltering morning in August, Shaun Donovan, the commissioner of the New York City Department of Housing Preservation and Development, left his office in Lower Manhattan and headed for an abandoned landfill in Brooklyn. He was on his way to an unusual groundbreaking for a vast new development — a village within the city — in what had once been one of the most desolate neighborhoods in New York.

The planned project — 2,200 new homes, streets, stores and a school in East New York — was the product of an intricate collaboration between a major real estate developer, lenders, church groups and the Bloomberg administration. Its scope was a marker of how far New York had come since the 1980's and 90's, when city administrations found themselves as the default landlords for thousands of buildings taken in tax foreclosure.

The business of generating working-class housing had changed, too. It had become a complex exercise in creative financing, an arcane science at which Mr. Donovan excels. New York City was becoming a leader in finding new ways to produce lower-priced housing. But, with the city's population growing and land values rising, there is something Sisyphean about Mr. Donovan's job.

"We know that you, who have built back this community, could be squeezed out," he told the residents who had gathered for the groundbreaking that morning, taking refuge from the suffocating heat in St. Paul Community Baptist Church. "We want to be sure that the renaissance of this community is not something that happens to you, but something that happens for you."

Mr. Donovan, 40, holds the unenviable job of trying to fulfill Mayor [Michael R. Bloomberg](#)'s multibillion-dollar promise to create or preserve 165,000 units of low- and moderate-income housing by 2013. He took on the assignment, in 2004, at an inauspicious moment: Land values were climbing, construction costs rising, the inventory of city-owned property drying up, landlords opting out of state and federal programs that had kept rents low.

Two and a half years later, Mr. Donovan is seen nationally as a pioneer in finding new ways to create and preserve low-cost housing. Paradoxically, he has tried to do it by capitalizing on the strength of the real estate market itself.

"I would never believe that the private sector, left to its own devices, is the best possible solution," Mr. Donovan said recently. "I'm in government because of the role of government in setting rules and working in partnership with the private sector. On the other hand, there's no way you could ever get to a scale that can really affect the housing problems in this country without working with the market."

"There are lots of folks more skeptical of the market and working with the market than we are," he added.

“There are groups that would argue that we should only work with nonprofits. I believe we should work with both. Because at some fundamental level, I believe in competition. I believe that by having a broader pool available, having for-profits in the mix, we may get a lower price or be able to manage it more efficiently.”

He is credited with helping win over the administration to the idea of inclusionary zoning, under which developers agree to set aside a part of their projects for lower-income people in return for being allowed to build at greater density. The administration's embrace of that idea helped win public support for the rezoning of several large, formerly industrial areas expected to produce 8,500 new low-cost units during the next 10 years.

Mr. Donovan was the force behind the creation of the \$200 million New York Acquisition Fund, an unusual collaboration between the city, seven major foundations and financial institutions. The fund, to help small local developers and nonprofit groups compete for land in the private market, is expected to serve as a catalyst for the production and preservation of 30,000 low-cost apartments during the next decade.

Mr. Donovan has also worked unusually close with the federal [Department of Housing and Urban Development](#), which oversees 800 HUD-assisted apartment buildings in the city, some of which have slid into foreclosure.

HUD policy is to sell such properties to the highest bidder, but Mr. Donovan, who worked at HUD during the Clinton administration, has found ways of steering them instead into local nonprofit, and sometimes tenant, hands.

“Shaun is one of the best and the brightest thinkers on housing issues in the country,” said William C. Apgar, a senior scholar at the Joint Center for Housing Studies at [Harvard](#) and a former assistant secretary at HUD who was Mr. Donovan's boss for a part of his tenure. “He has the capacity to see the possibilities, to throw away all the old models, to not get stuck in rules that really are more flexible than your imagination allows them to be.”

The city, under the program, has started 47,000 housing units.

Michael Bodaken, executive director of the National Housing Trust, a nonprofit based in Washington, said: “I use the New York fund they created as an example all the time to urge other cities to create this acquisition-like fund with foundation money, city money, bank money. I don't know of any other city leveraging its own funds and foundation funds with bank money to try to save existing housing. It's path-breaking.”

Not everyone agrees with the focus of housing policy under Mayor Bloomberg. Howard Husock, a vice president of the Manhattan Institute and the author of “America's Trillion Dollar Housing Mistake: The Failure of American Housing Policy” (Ivan R. Dee, 2003), would like to see the administration also focus on “freeing up” the market by phasing out the rent regulation system and reusing public housing sites.

Michael McKee, treasurer of the Tenants Political Action Committee, wants the administration to do the opposite — to work to strengthen rent regulations in order to stop the attrition of low-cost apartments. Though he called Mr. Donovan “the best housing commissioner the city has had since I became an organizer 36 years ago,” he said the administration should be working to take control of the rent laws from the state.

Others like Brad Lander, director of the Pratt Center for Community Development, also said that the Bloomberg administration could do more to slow the loss of low-cost units. "I don't think you can really solve New York City's affordability crisis only with new production and money and land," Mr. Lander said. "Keeping existing units affordable, both subsidized ones and regulated ones, is critical. That's not part of the Bloomberg administration's housing vision; they haven't advocated against rent regulations but they are decidedly cold to efforts to strengthen them."

But even those who differ with the administration's approach describe Mr. Donovan as unusually qualified, — with master's degrees in architecture and public administration from Harvard, and who, by age 38, had been acting commissioner of the Federal Housing Administration, had run the affordable housing program at Prudential and had written case studies for the Kennedy School of Government at Harvard.

Mr. Donovan — described as a "malignant optimist" by his sister, Justine Donovan, who is a psychiatrist — became interested in urban policy, poverty and design at a young age.

Raised in Manhattan, Mr. Donovan said he was "a math and science person" who ran track, built model cars and contemplated car design as a career. He got hooked on housing as a graduate student at the Kennedy School, he said, and emerged as what he calls a public sector junkie.

Mr. Donovan's agency, described as the largest municipal developer of affordable housing in the country, has a \$1 billion budget and 2,700 employees, from ruffled bureaucrats to Blackberry-brandishing up-and-comers. There is a new emphasis these days on strategic planning and on being customer friendly at a time when the market leaves developers lucrative alternatives to working with the city.

To spend a day trailing Mr. Donovan is to venture into a mind-boggling landscape of tax credits, operating deficits, cross subsidizations, income bands, soft costs, 202 refinancings, conforming loans. Mr. Husock, who lectures at the Kennedy School, said he sees Mr. Donovan as master of an art that developed in the wake of the federal government's withdrawal from building low-income housing.

"You had a generation of students who were trained in how to cobble together deals — where the city puts in the land, they get a soft second mortgage from the state, they use low-income housing tax credits," he said. "That's the milieu Shaun Donovan came of age in. He's really good at that stuff. If you are a specialist in housing policy at the graduate level today, it's all about creative financing."

For the East New York project, called the Nehemiah Spring Creek Houses at Gateway Estates, the Related Companies, the most active developer in the city, bought city-owned land to build a 625,000-square-foot retail center. The city will use money from that sale to help pay for streets, sidewalks and sewers. Financing for the first phase of home building will come from a loan from the Community Preservation Corporation, a major lender, and from the church organizations. The city is subsidizing the cost of the single-family homes.

"This is something you would never have had the opportunity to do 20 years ago," Mr. Donovan said before the groundbreaking ceremony in August. "This is one of the signal shifts in our strategy — how you think of ways to harness the marketplace and channel that to keep housing affordable." But, he added, "You're always trying to work within the bounds of what the market is going to do. It's clearly a huge challenge: Can you keep up?"