

July 15, 2020
BPCA Board Meeting

George Tsunis: I call to order this July 15th Battery Park City Authority Board meeting. Is there any public comment?

Nick Sbordone: Good afternoon, Mr. Chairman, and members of the Board. We have one comment not related or not attendant to the agenda item, so I'll make it brief, but we try to take these as we get them so we'll run through it now.

From Audrey Hawkins, it reads as follows: "I am a senior resident in Battery Park City. I strongly urge BPCA to consider outside exercises for the seniors. The volleyball court is airy, sunny, and a flat surface. We need activity badly. Exercise has anti-aging benefits and improves strength and ability, which we need now more than ever. Please consider my appeal. And that concludes public comment. Thank you.

George Tsunis: Okay. Corporate action. Mr. Jones, I believe you have a matter before us.

B.J. Jones: I do have a long-awaited matter before us regarding rent protection for long-time tenants at Gateway Plaza. You know, I do want to start off with a word of appreciation, you know, as you and I were talking about, George, we have been engaged regularly for a long time with the Gateway Tenants Association and community leaders and local elected officials, and appreciate their engagement and also though they have been passionate advocates for rent protections continuing, they also have been constructive in their dialogue with us. And so I appreciate that along with of course the help and support of the Board and the Governor's office and our team, Pam and Abby and Nick, and Jim Gallagher and many others in the HR&A team that's here too, a lot of effort went into this.

So I'll just give the broad strokes of this agreement, which has some other facets to it as well. As a reminder, Gateway is the first residential building in Battery Park City with many tenants who have been living there for 20 years or even more, and is one of the few places where there is below market rate housing in Battery Park City. So this agreement has a number of important aspects to it. The first is that it provides rent protections for the existing QRS tenants, in other words, the tenants that have been in Gateway since before July 1st, 2009 in stabilized apartments and provides a 2.5 percent annual cap on rent increases. This is also retroactive for this group of tenants that had renewed their leases for the time period that has lapsed since the stabilization agreement expired this past June 30th.

Other aspects of this are that it extends the length of the agreed-upon ground rent terms pushing back fair market value resets from 2040 to 2045. It increases the ground rent formula from 2023 through 2044 from 8.125 percent of collected rent to 10.75 percent of effective gross income. It requires a minimum capital investment in the building during this period, adds a 3 percent fee on net proceeds from refinancing, and also provides for the collection of \$13 million in owed commercial real estate taxes over the next three years, in four payments with the first coming upon execution of the agreement. The term sheet was executed and we have been working

diligently with the owners of Gateway in buttoning this up and finalizing all of the details and are ready to move forward. But again, wanted to thank all of the stakeholders and the team for getting us to this point. I know it's been an important issue in Battery Park City for many.

George Tsunis: Thank you, B.J. I'm sure we have some comments here. I'll go first then. I think this is a terrific agreement. I know it was hard fought, and it was a long time in coming, but the bottom line is we kept our word to the community. We extended these protections for 10 years, protecting a whole lot of tenants in Battery Park City, demonstrating that we have a willingness to continue – and in fact do more – to provide greater affordability in Battery Park City. And the final deal increased the economics to Battery Park City as well. We were very mindful of the public purse. I think a great deal was negotiated in that there'll be a substantial amount more money coming into the Battery Park City coffers as well. So on a net-net basis I think it was a win-win, and I too want to thank everyone, including the Lefraks, who acted in a matter that's very civic-minded. This was not an easy deal to get done. I was on the phone with a lot of the elected officials as well, and they were very constructive. But what it also allows us to do is to maintain capital liquidity, dry powder for some of the deals that we're working on that would increase affordability in Battery Park City, increase moderate housing in Battery Park City, and you know, in a way that's income-protected. So I think we're really prudent in the use of our resources, and I think B.J. and the team have developed a really great plan going forward. They've identified situations where we could make investments to increase the amount of affordable and moderate rate housing stock in Battery Park City. So I just want to commend everyone including B.J. and his team. Hearing no other comments –

Martha Gallo: No, I don't think – I think there are plenty of comments. Catherine, do you want to go first?

Catherine McVay Hughes: I have a question. How much is this going to cost Battery Park City Authority?

B.J. Jones: The estimated cost of the credit, which will of course depend based on how market rents continue is estimated to be about \$50 million over the next 10 years, in essence the subsidy that we are paying to keep these apartments below-market.

Catherine McVay Hughes: And one other question. This is only for the residential compartment of the building and not the commercial component of the streetscape, right?

B.J. Jones: Yeah. This agreement is focused on the QRS tenants and the residential aspect of this property, the more narrow focus [indiscernible].

Catherine McVay Hughes: Okay. Good.

Martha Gallo: B.J., on the capital investments, is there a commitment to our green and sustainability agenda on energy and flood protection, etc.?

B.J. Jones: Again, we narrowed the focus of this particular agreement so that we could concentrate on the rent protection aspect of it. The minimum capital investment is a new requirement in the lease that the owners of Gateway could avail themselves of in part to pursue sustainability improvements as required by local law 97 and also informed by our new sustainability plan, and guidelines. But in kind of divorcing the different components of their ground lease, we do expect to tackle both resiliency and sustainability in a subsequent negotiation.

Martha Gallo: Do we have a timeline on that?

B.J. Jones: As soon as possible with the recognition that this team has a lot of balls in the air with other ground leases that will also incorporate these resiliency and sustainability elements, and also some affordability elements as well. So we are actively doing that, and I would say although it's not quite ready for primetime yet we are putting the finishing touches on the green guidelines, which will inform our discussions and plans with buildings in the neighborhood. More on that soon.

Martha Gallo: So this is going to affect some 600 units out of about 1,700 units in the Gateway complex?

B.J. Jones: That's right.

Martha Gallo: Okay. And the other units are at market rates?

B.J. Jones: Yes.

Martha Gallo: Okay. I would just say as a long-time resident that this quasi rent stabilization agreement is unique in a number of ways. And our goal as an Authority, particularly with our fiduciary responsibility and our long-time goal of having a significant, or meaningful I'll say percentage of affordable housing units that I hope as we negotiate the ground leases of the other 12 rental buildings that we are able to increase the current 300-ish apartments that are truly affordable housing units with income tests substantially. We've got 8,000 units in Battery Park City, 300 are income-tested affordable units, 4,500 of the 8,000 are rental units, and I just hope we can achieve more affordable housing units. And I would hope that the folks in Gateway Plaza with this 10-year planning horizon would imagine this as the last extension of this very unique agreement that we have struck in their favor.

B.J. Jones: Yeah. And to your point, the affordable units, a small number of affordable units are definitely on our radar screen, and you know, in discussions and negotiations with you know, 80/20 buildings for example in Battery Park City we are mindful of the opportunity here to preserve existing units that might otherwise burn off, but also to expand them as well, which is also why we are talking to the City about that, as well as the State, to see how we might be able to do that.

Martha Gallo: And B.J., this agreement doesn't limit the number of apartments people have in Gateway Plaza. So if people have multiple apartments they get this advantage on each apartment that they have; is that correct? B.J. you're on mute.

B.J. Jones: Oh, sorry. Yes. This agreement applies to the existing QRS tenants as they exist today.

Martha Gallo: Okay.

B.J. Jones: Any other questions?

George Tsunis: Are there any other questions or comments?

Catherine McVay Hughes: When does it go into effect?

George Tsunis: It's retroactive to the last agreement ended June 30th. So let me be very, very clear. It's retroactive. It captures everybody whose leases had expired.

B.J. Jones: Yeah. And so we will work to get this executed quickly.

George Tsunis: Are there any other comments? Hearing none, can I have a motion to approve?

Martha Gallo: So moved.

George Tsunis: Second?

Lester Petracca: Second.

George Tsunis: All in favor?

Members: Aye.

George Tsunis: Thank you all. Carried unanimously. I would like to entertain a motion to adjourn the meeting. Motion please.

Lester Petracca: So moved.

George Tsunis: Second.

Members: Second.

George Tsunis: All in favor?

Members: Aye.

Donald Capoccia: Sorry. [Indiscernible] I apologize.

B.J. Jones: Appreciate the cameo.

George Tsunis: Don, we've concluded everything, but we have recognized that we couldn't have done it without you on all the work that happened beforehand, so thank you.

Donald Capoccia: All right. Well, is it done then with Gateway?

George Tsunis: We are done with Gateway.

Donald Capoccia: Right. Good, good, okay. All right. Sorry. I apologize. I didn't realize –

George Tsunis: No, no, Don, Martha did not want to proceed without you being that you are the real estate brains of this operation down here with affordability. But it's been carried unanimously, and just to summarize a 10-year-agreement, a lot of cooperation between the landlord, the elected officials, the community groups. It seems we've done a fairly good job in making everyone sort of happy here. We kept our word. And it also allows us to keep dry powder and resources to do income-tested affordability and moderate housing in Battery Park City in the future.

Donald Capoccia: Yeah. Good. That's great. Well, look, I mean either you kept everybody else happy or as they say kept everybody a little unhappy but we ended up [indiscernible]. Right? That's good. Okay. Sorry to miss. I apologize.

George Tsunis: No, B.J. and I were commenting about the fact that in this day and age when we had to deal with landlords and tenant groups and elected officials and a lot of people having a lot of very, very strong opinions in this process and Abby, B.J., and I spent a lot of time on the phone with everybody, they were remarkably constructive and I think everyone is if not pleased but satisfied of the results.

Donald Capoccia: Good. That's great.

George Tsunis: So I think we entertained a motion to adjourn. So I think we are adjourned actually. It's great to see you.

Donald Capoccia: Thank you.