The Urban Development Corporation Changes Course and Survives

Goodbye, Slum Razing; Hello, Grand Hyatt

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Carl Glassman; Jim Anderson/Woodfin Camp
Urban Development Corporation president Richard A. Kahan; Roosevelt Island complex (rear).

Anyone who wants to see how far the enthusiastic social activism of the 1960's has given way to the sober economic realities of the 1970's need only look at the current activities of the New York State Urban Development Corporation. Moreover, as a recently released report by State Comptroller Edward V. Regan illustrates, the U.D.C. offers a prime example of how earlier enthusiasms, even after having been abandoned because of their woeful consequences, can continue to prove haunting.

The corporation was formed in 1968 as the most powerful urban renewal agency in the nation. It was the product of a decade in which ghetto unrest across the country had made inner-city uplift the order of the day. The "public benefit corporation" quickly launched a billion-and-a-quarter dollars worth of housing construction for more than 30,000 families, most of them poor or having "moderate" incomes, in communities from Brooklyn to Buffalo.

The more than 100 apartment developments and three "new towns" — including the Roosevelt Island complex on New York City's East River — formed the great bulk of the corporation's early ventures. Development and construction of industrial, commercial and civic facilities were also part of the agency's mission, but these amounted to no more than $200 million worth of its endeavors then.

Since 1975, however, this trend has been sharply reversed. Of nearly $1 billion worth of projects that the U.D.C. has become involved in since that year, only $50 million worth are residential. And these, entailing the conversion of buildings to upper middle-income apartments, have been joined by the agency more for their "economic development" impact on their neighborhoods than for their importance in adding to the housing supply. The rest of the agency's new ventures since 1975 comprise the kind of industrial, commercial and civic endeavors that once took a back seat in the corporation's drive to fulfill its overall mission of combating physical deterioration and economic stagnation in the state.

As a result, instead of bright new apartment complexes in slum areas like the South Bronx, the projects that the corporation is involved in today are typified by the $80 million conversion of the vacant old Commodore Hotel on 42d Street into a new Grand Hyatt; the planned construction of a $375 million New York City convention center on the West Side, and the $180 million expansion of a Chrysler Corporation parts plant near Syracuse.

The reason for the agency's reversal is that the U.D.C. today and the U.D.C. of the past are the same in name only. The housing enterprises the agency stressed in its early years ended with the corporation's financial collapse in 1975. It defaulted on $130 million worth of obligations, and a two-year rescue effort was needed to get the agency back on its feet. However, as Comptroller Regan reported, the U.D.C. has still not fully escaped its past. He found that the agency may need almost twice as much state aid as the $168 million previously projected, because of the continuing difficulties of the housing it financed before 1975.

Whether the collapse that year resulted from fiscal irresponsibility and mismanagement by its officials, as critics have charged, or whether the corporation was unjustifiably abandoned by the financial community, as its president at the time, Edward J. Logue, still feels, will continue to be debated. So will the conclusion of a special state commission. Namely, that Gov. Nelson A. Rockefeller and the Legislature created in 1968 an agency with the inherently "conflicting goals" of pursuing socially desirable but financially risky projects while being financially self-sufficient.

But whatever the causes, the U.D.C. has emerged from the 1975 debacle resembling a cautiously run real-estate enterprise rather than a daring spearhead for social betterment. "The projects we now select to do," says Richard A. Kahan, the corporation's current president, "are ones which the private sector can almost do without government participation, but we provide that additional last step, or last piece of financing, that makes it possible. We are not trying to do with tons of money projects that have no basic economic viability."

Further, corporation officials stress that "the objectives now relate to economic development as opposed to residential development" — creating jobs rather than housing in the battle against poverty and blight. Equally important, where the old agency often financed 95 or even 100 percent of a project's development and construction costs, the new version will put up no more than 25 percent, looking to private capital for the rest.

Many times it will put up none of these costs, as in the Commodore-to-Hyatt conversion and in the $11 million conversion of part of the rundown St. George Hotel in Brooklyn Heights to apartments. In these efforts the corporation's contribution has been such key aid as property-tax relief. The agency is exempt from local real estate taxes, and by assuming ownership of a project and then leasing it back to the developers, it permits smaller payments in lieu of taxes to be made on the redeveloped site.

Overall, the U.D.C.'s role varies among its three dozen post-1975 projects. In the Chrysler expansion near Syracuse, it plans to aid through a so-called lease-financing approach that lowers the borrowing costs for a company. In the convention center effort, the agency will be responsible for construction. But it will probably provide only technical and tax aid in the planned development of a privately financed, $100 million plant to convert garbage to fuel in the South Bronx. Such was the help the corporation gave in the development of a $3 million supermarket in Brooklyn's Bedford-Stuyvesant area. That project, as well as a U.D.C. task force on general economic development in the South Bronx, shows the agency still involved, at least to a degree, in the most blighted areas.

Meanwhile, a Public Authorities Control Board must approve before the corporation can put any money into a project; before, the U.D.C.'s board had the final word. And no longer does the agency sell huge amounts of bonds that "morally obligate" the state's taxpayers to make good on them if the agency defaults — as it did in that turning-point year of 1975.