

# #NYChousing

## 10 ISSUES FOR NYC'S NEXT MAYOR



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# INTRODUCTION TO THE SERIES

**Although the real estate market in New York City slowed considerably during the recent downturn, there was no slowdown in the demand for affordable housing.**

Over the past decade, rents across the city continued to rise while incomes stagnated or fell. The next mayor will have to take on the challenge of addressing growing housing needs in an environment of shrinking federal support and a strengthening real estate market.



The Moelis Institute for Affordable Housing Policy at the Furman Center, which seeks to foster frank and productive discussions about issues relating to housing and land use policy, sponsored a mayoral forum on affordable housing in April 2013. Through that forum and our own research, we identified 10 key affordable housing issues that will confront the next mayor of New York City. We have prepared 10 #NYChousing briefs to address these issues. Each brief provides context, background, and data to inform the debate on one of the ten issues.

## NEW YORK CITY'S AFFORDABLE HOUSING SHORTAGE

New York City faces a critical shortage of affordable housing, as evidenced by several trends. First, the number of New York households struggling to afford rental housing grew between 2002 and 2011. Figures 1a and 1b show that median rents rose by 19 percent in real dollars over those 10 years, while the real median income of renter households actually declined slightly. This combination of rising rents and stagnant incomes means that the average New Yorker spent a larger share of his or

her income on rent in 2011 than in 2002. Figure 1c shows that by 2011 well over half of New York City renters were rent burdened, spending more than 30 percent of their gross monthly income on rent and utilities.

These changes in rental housing affordability varied across income levels. Table 1 shows income thresholds defining low-, moderate-, middle-, and high-income groups, and the maximum monthly rents affordable to those groups, using guidelines from the U.S. Department of Housing and Urban Development.<sup>1</sup> HUD defines low-income households as those having an income up to 80 percent of the metropolitan area median income (AMI); moderate-income households have an income ranging from 81-120 percent of the AMI; and middle-income households have an income between 121-200 percent of the AMI. Using these definitions, about 63 percent of the city's renter households

1 U.S. Department of Housing and Urban Development. HUD Program Income Limits (Section 8, Section 221(d)(3)BMIR, Section 235 and Section 236). Retrieved from <http://www.huduser.org/portal/datasets/il.html>

**TABLE 1: Income Group Definitions and Maximum Affordable Rents for a Three-Person Household in New York, NY Metropolitan Area, 2011**

| Income Group |                      | Percentage of Area Median Income | Maximum Annual Income | Maximum Monthly Affordable Rent* |
|--------------|----------------------|----------------------------------|-----------------------|----------------------------------|
| Low-income   | <i>Extremely Low</i> | 30%                              | \$22,100              | \$553                            |
|              | <i>Very Low</i>      | 50%                              | \$36,850              | \$921                            |
|              | <i>Low</i>           | 80%                              | \$58,950              | \$1,474                          |
| Moderate     |                      | 120%                             | \$88,350              | \$2,209                          |
| Middle       |                      | 150%                             | \$110,450             | \$2,761                          |
|              |                      | 200%                             | \$147,250             | \$3,681                          |

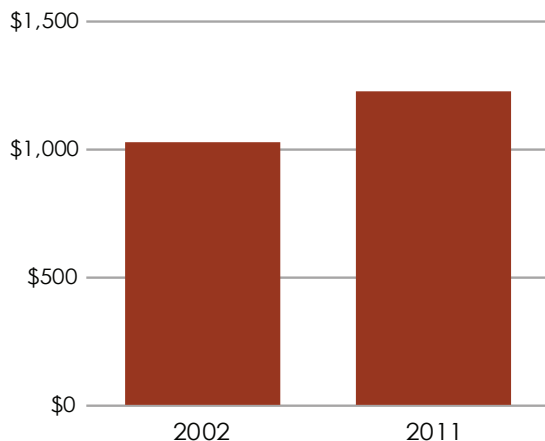
\*Maximum affordable rent is defined as 30 percent of a household's monthly gross income.

Source: U.S. Department of Housing and Urban Development Income Limits, Furman Center

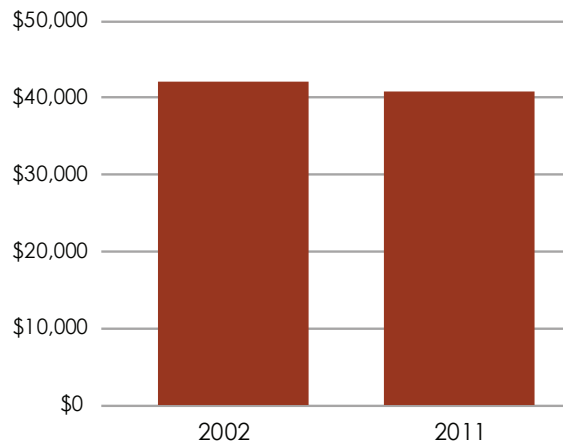


**FIGURE 1: Rent, Income, and Rent Burden in New York City, 2002-2011\***

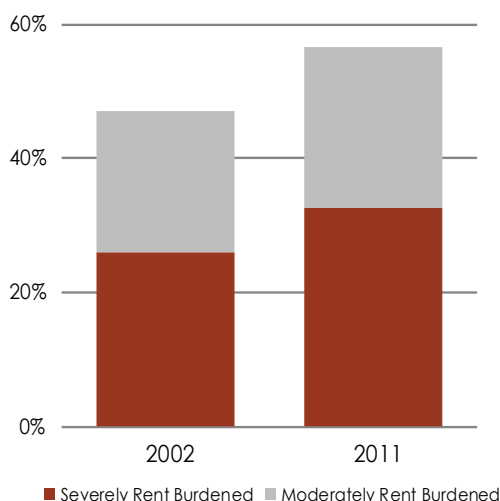
**1a: Median Gross Rent (2012\$)\*\***



**1b: Median Household Income, Renter Households (2012\$)**



**1c: Rent Burdened Share**



\* The Furman Center reports similar indicators in the *State of New York City's Housing and Neighborhoods 2012* using a different data source, the American Community Survey. Furman Center for Real Estate and Urban Policy. (2013). *State of New York City's Housing and Neighborhoods 2012*. Retrieved from <http://furmancenter.org/files/sotc/SOC2012.pdf>

\*\*Gross rent includes the rental amount agreed to in the lease plus any extra payments for utilities or fuels if these are paid for by the renter.

Source: New York City Housing and Vacancy Survey, Bureau of Labor Statistics Consumer Price Index, Furman Center

are low-income, about 30 percent are moderate- or middle-income, and eight percent are high-income, as Figure 2 shows.

Low-income households are much more likely to be paying unaffordable rents than higher-income households. In 2011, 80 percent of low-income renters were rent burdened (paying 30 percent or more of income toward rent and utilities) compared to about 26 percent of moderate-income

households and just one percent of high-income households. In all but the highest-income group, as Figure 3 shows, the share of renter households facing rent burdens grew from 2002 to 2011.

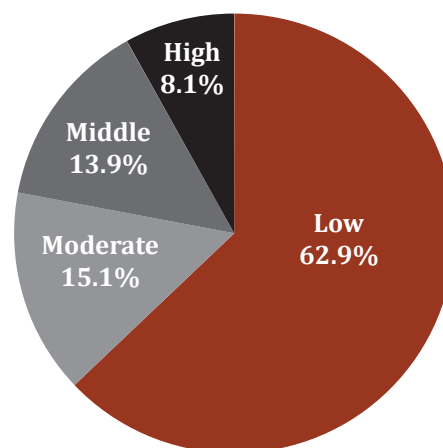
Similarly, the share of rental units affordable to low-, moderate-, and middle-income households declined. Figure 4 shows that from 2002 to 2011, the percentage of rental units affordable to a three-person



household declined for each income level. For example, in 2002, nearly 40 percent of rental units were affordable to a low-income household making 50 percent of AMI; but, by 2011, just 26 percent of rental units were affordable to a similar household, a decline of 14 percentage points. The percentage of affordable rental units declined the most for low-income households earning between 50 and 80 percent of the area median income. While the share of rental units affordable to households at higher incomes also declined, the reductions were small, and a substantial proportion of occupied rental units remained affordable to these households.

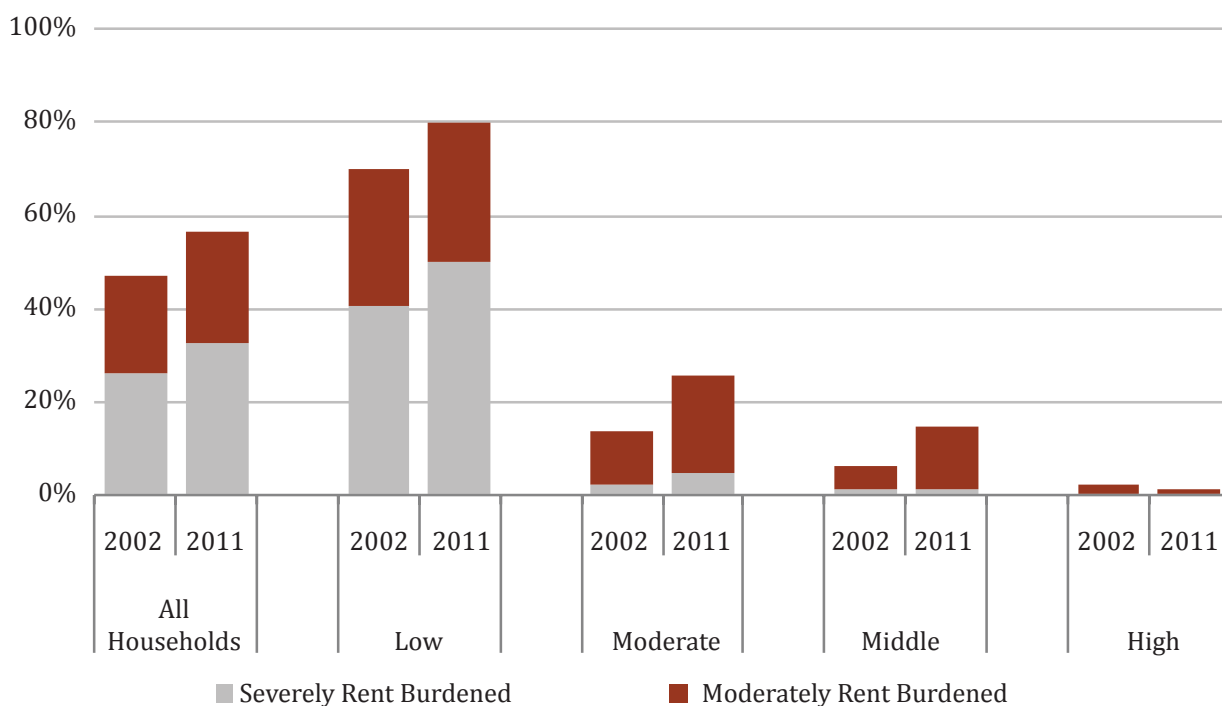
These data demonstrate that the need for affordable housing in New York City has

**FIGURE 2: Share of Renter Households in Income Group, New York City, 2011**



Source: New York City Housing and Vacancy Survey, U.S. Department of Housing and Urban Development Income Limits, Furman Center

**FIGURE 3: Rent Burdened Household by Income Group, New York City\***



\*The Furman Center reports similar indicators in the State of New York City's Housing and Neighborhoods 2012 using a different data source, the American Community Survey. Furman Center for Real Estate and Urban Policy (2013).

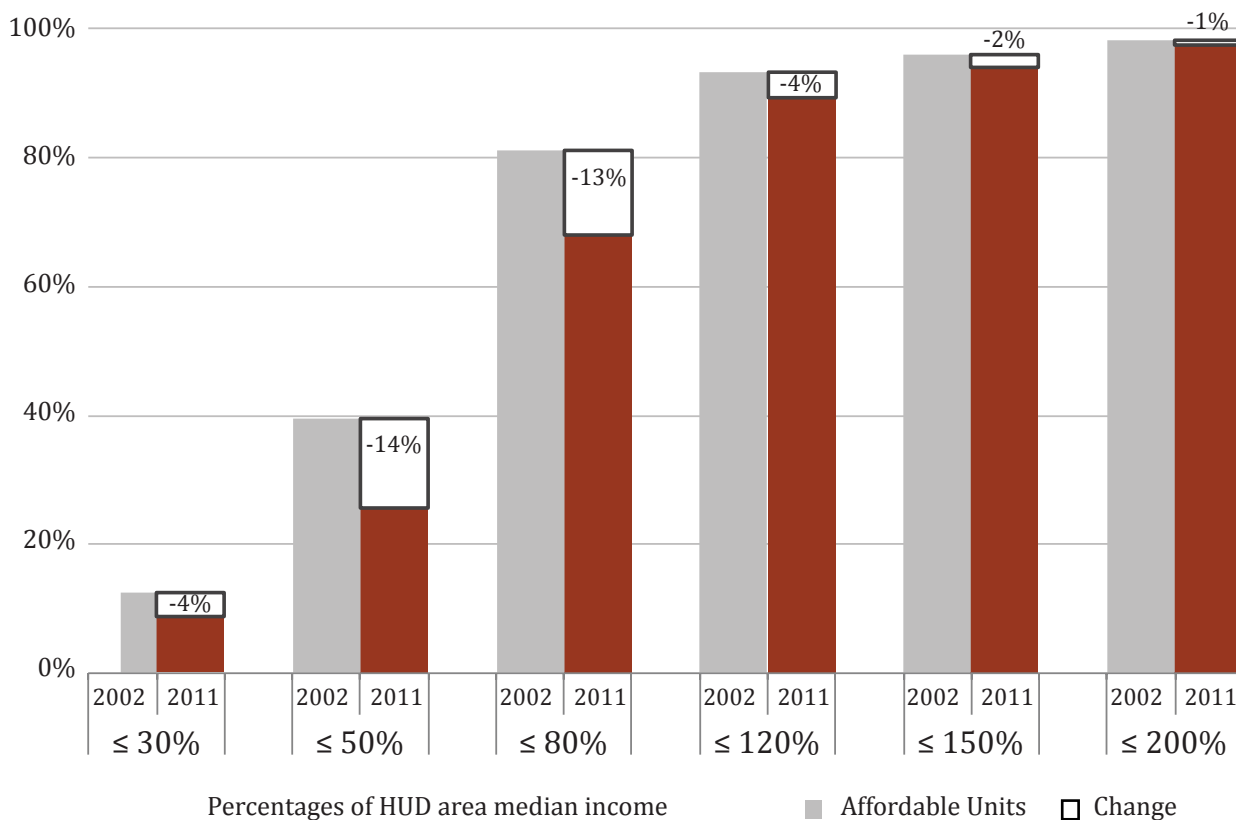
Source: New York City Housing and Vacancy Survey, U.S. Department of Housing and Urban Development Income Limits, Furman Center



only grown over the last decade, particularly among low-income New Yorkers. The next administration will have to give careful consideration to how New York can address its growing affordable housing needs in a world of shrinking federal resources. Many proposals have been put forward by the mayoral candidates and housing organizations regarding how to address these trends. Our 10 #NYChousing briefs seek to contribute to the public debate of what we believe to be among the most critical of these policy questions. Our 10 topics are:

1. Should the next mayor commit to build or rehabilitate more units of affordable housing than the Bloomberg Administration has financed?
2. Should the next mayor require developers to permanently maintain the affordability of units developed with public subsidies?
3. Should the next mayor adopt a mandatory inclusionary zoning program that requires developers to build or preserve affordable housing whenever they build market-rate housing?
4. Should the next mayor seek to expand the use of city pension funds to develop affordable housing?
5. Should the next mayor provide a rental subsidy for moderate- and middle-income households?

**FIGURE 4:** Share of Occupied Units Rented at or Below Maximum Affordable Rent for Three-Person Households by Income Group, New York City



Source: New York City Housing and Vacancy Survey, U.S. Department of Housing and Urban Development Section 8 Income Limits, Furman Center



6. Should the next mayor permit more distant transfers of unused development rights to support the development of affordable housing?
7. Should the next mayor support the New York City Housing Authority's plan to lease its undeveloped land for the construction of market-rate rental housing?
8. Should the next mayor allow homeless families to move to the top of the waiting list for housing vouchers or public housing?
9. Should the next mayor offer to cap the property tax levy on 421-a rental properties in order to preserve the affordable units within those buildings?
10. How should the next mayor prioritize the preservation of existing affordable housing units?

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# 1

## **Should the next mayor commit to build or rehabilitate more units of affordable housing than the Bloomberg Administration has financed?**

Many of the mayoral candidates have proposed to address the city's critical shortage of affordable housing by increasing the city's financial commitment to creating and preserving affordable units. Such an expansion would require significant additional resources at a time of shrinking federal resources. The next administration will have to be creative if it seeks to increase funding for housing without taking away from other city priorities.



## THE BASICS

In 2002, Mayor Bloomberg announced the largest municipal affordable housing plan in U.S. history. In 2005, when the plan was expanded, the New Housing Marketplace Plan (NHMP) was projected to cost a total of \$7.5 billion dollars and to create and preserve 165,000 units of affordable housing in 10 years.<sup>1</sup> By the end of 2011, the city had financed the creation and preservation of 124,106 units of affordable housing across the five boroughs, as Table 1 shows.<sup>2</sup>

The price tag for these units was substantial. Between 2004 and 2011, a total of \$5.6 billion dollars in public resources were allocated to NHMP.<sup>3</sup> Eighty-four percent of

this money came from three sources: the city's capital budget (\$2.7 billion), HDC's corporate reserves (\$1.1 billion), and the city's expense budget (\$1.0 billion). The rest came from other city and federal sources.<sup>4</sup> Those figures don't cover the total development cost of NHMP, which depends upon significant private investment as well as use of the state's limited supply of tax-exempt bonds. According to the city's Department of Housing Preservation and Development, under NHMP, \$1 of narrow city subsidy (capital budget and HDC reserves) leverages in \$3.41 of private and other government dollars. The Independent Budget Office reports that the cost, again just in public monies, of all 165,000 units planned through 2014 is estimated to be \$8.3 billion.<sup>5</sup>

## CONSIDERATIONS & QUESTIONS

Expanding the creation and preservation of affordable housing could help to expand the supply and thereby alleviate the severe rent burdens faced by many New York City renters who are eligible for, but not receiving, subsidized housing or other housing assistance. It can also create jobs and help stabilize neighborhoods. However, some of the major sources currently used by the city to fund NHMP are under pressure and some are shrinking.

1 New York City Independent Budget Office. (2012, June). *The Mayor's New Housing Marketplace Plan: Recession, Funding Shifts, and Changing Goals Mean Fewer New Apartments Likely to be Built*, at 2. Retrieved from <http://www.ibo.nyc.ny.us/iboreports/nhmp2012.html> (hereinafter "IBO NHMP 2012 Report")

2 The numbers we report in Table 1 differ from those we report in our issue brief addressing housing preservation (#10 in this series). This is because the numbers that HPD reports for units financed under NHMP (reported here) are different from the numbers in the Furman Center's Subsidized Housing Information Project (SHIP) database (our free, searchable database of subsidized properties). The SHIP reports fewer preserved units than HPD because NHMP includes units that are not catalogued in the SHIP database (such as properties developed through the Housing Trust Fund or Housing Asset Renewal programs), as well as properties that left all SHIP programs but were preserved as affordable housing using city-funded programs not captured in the SHIP Database (such as the Preservation Loan Program or the Small Owner Repair Program). In our housing preservation brief, we report a higher number of new construction units because we are counting from the start of the decade (four years longer than the NHMP count) and include units financed by New York State or HUD that are not layered with city financing.

3 IBO NHMP 2012 Report at 6-7.

4 Other sources of funding between 2004 and 2011 included Low Income Housing Tax Credits (federal), the New York City Acquisition Fund, the New York City Housing Trust Fund, the Lower Manhattan Development Corporation, the 421-a Fund (city), the Tax Credit Assistance Program (federal), the Neighborhood Stabilization Program (federal), and the Weatherization Assistance Program (federal). IBO NHMP Report 2012 at 7, 10-12.

5 IBO NHMP 2012 Report at 6.



**TABLE 1: Housing Units Financed through the New Housing Marketplace Plan in New York City by Year,\* Fiscal Year 2004-2011**

|                  | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   | Total   |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| New Construction | 5,182  | 7,036  | 6,404  | 5,324  | 7,003  | 4,336  | 3,362  | 4,055  | 42,702  |
| Preservation     | 5,025  | 11,296 | 10,921 | 13,084 | 9,953  | 8,108  | 11,337 | 11,680 | 81,404  |
| Total            | 10,207 | 18,332 | 17,325 | 18,408 | 16,956 | 12,444 | 14,699 | 15,735 | 124,106 |

\* The years in this table represent the year that the deal closed.

Source: New York City Department of Housing Preservation and Development

### Capital Budget

The city's capital budget is, by far, the largest source of public funding for NHMP. The capital budget is primarily funded by city debt (General Obligation and other types of bonds), the debt service for which is primarily paid out of the city's expense budget.<sup>6</sup> Over the past decade, the city's total debt (the majority of which, but not all, goes toward the capital budget) has grown by 86 percent, and now exceeds \$100 billion, illustrated in Figure 1.<sup>7</sup> To finance additional affordable housing construction or rehabilitation out of the capital budget likely would require that the city either take on additional debt or limit the availability of capital dollars for projects by other city agencies like sanitation, parks, education, and transportation.<sup>8</sup> The

annual cost of debt service on additional debt would impose additional burdens on taxpayers either directly through taxes or indirectly through fees such as those for water and sewer.<sup>9</sup> In addition, constraints set by the state, fiscal prudence, and the market's assessment of the city's finances may limit the city's ability to increase its debt. Accordingly, spending more capital budget dollars on housing will involve difficult tradeoffs.

The federal HOME Investment Partnership program is the other major source of capital budget dollars that have gone toward NHMP. In fiscal years 2004 through 2011, HOME funds made up 30 percent of HPD's capital spending on NHMP.<sup>10</sup> But in fiscal year 2012, the federal government cut the city's allocation of HOME funds by 45 percent.<sup>11</sup>

6 New York City Independent Budget Office. (2013, June). *A Guide to the Capital Budget*. Retrieved from <http://www.ibo.nyc.ny.us/iboreports/IBOCBG.pdf>

7 Citizens Budget Commission. *NYC Debt Outstanding*. Retrieved from <http://www.cbcny.org/sites/default/files/NYCDebt.html#>

8 New York City Independent Budget Office (2013).

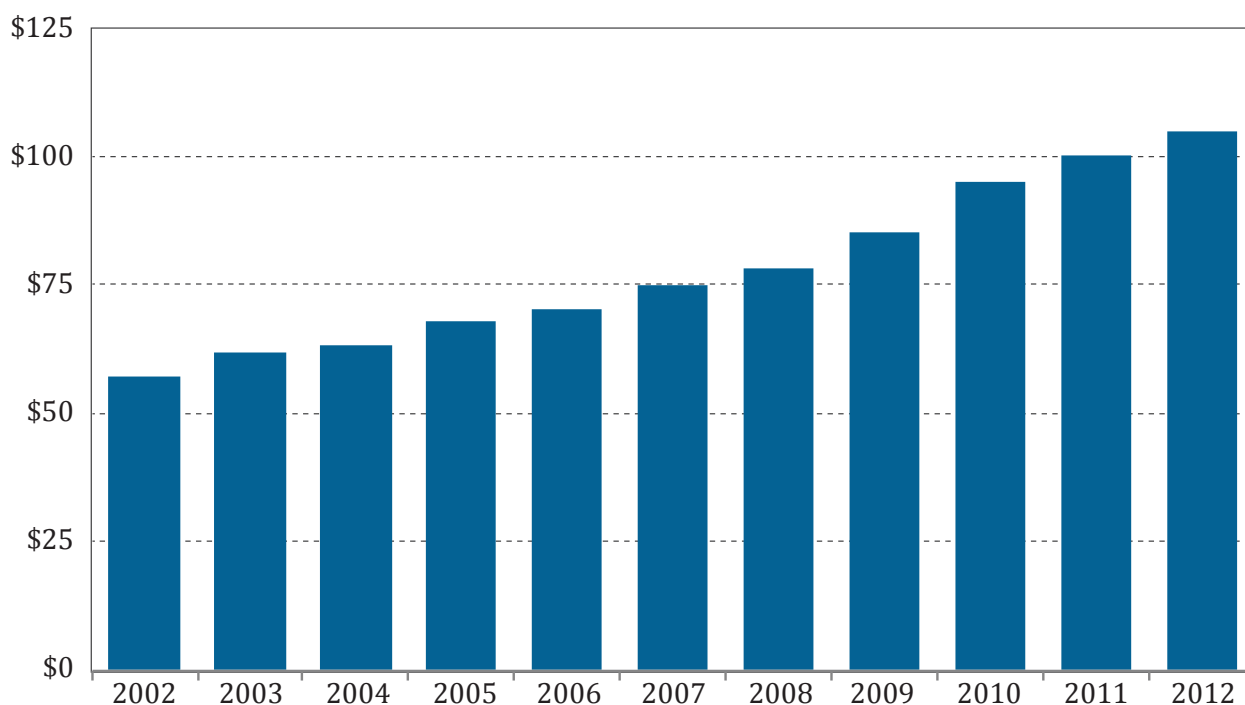
9 Citizens Budget Commission. *NYC Debt Outstanding*. Retrieved from <http://www.cbcny.org/sites/default/files/NYCDebt.html#>

10 IBO NHMP 2012 Report at 13.

11 IBO NHMP 2012 Report at 14.



**FIGURE 1: Total New York City Debt Outstanding (\$ billions), Fiscal Year 2002-2012**



*Source: Citizens Budget Commission of New York (using data from the New York City Office of the Comptroller, Comprehensive Annual Financial Report for the City of New York, Fiscal Years 2002-2012)*

### HDC Corporate Reserves

NHMP has also relied heavily on funding from HDC, the city's housing financing agency. By the end of 2011, HDC's corporate reserves had contributed the second-largest pool of public funds (\$1.1 billion) to NHMP, which is almost double what was originally budgeted.<sup>12</sup> HDC's ability to contribute to the plan at this level resulted from higher than expected revenues.<sup>13</sup> However, HDC's ability to spend its reserves is not unlimited, and its excess reserve levels are hard to predict. Still, HDC reserves are likely to continue to be an important source of funding for affordable housing going forward.

<sup>12</sup> IBO NHMP 2012 Report at 8-9.

<sup>13</sup> IBO NHMP 2012 Report at 8-9.

### Expense Budget

Money from the city's expense budget has been the third largest source of public funds for NHMP (\$1.0 billion by the end of 2011).<sup>14</sup> Most of the expense budget funding—71 percent—has come from federal Community Development Block Grant (CDBG) dollars.<sup>15</sup> Like the federal HOME dollars, the federal government cut the city's allocation of CDBG dollars (unrelated to hurricane Sandy) in recent years. In

<sup>14</sup> While HPD includes expense budget funds in the NHMP budget, most of those funds do not go directly toward building or preserving units. Instead, they are used to pay HPD personnel costs and to fund code enforcement and maintenance and repair programs. IBO NHMP Report 2012 at 12-13.

<sup>15</sup> IBO NHMP 2012 Report at 13.



fiscal year 2011, the city's allocation was cut by 16 percent. In fiscal year 2012, the city's allocation was cut by another eight percent.<sup>16</sup>

Further, the recent federal sequestration will likely result in further cuts to HOME and CDBG, as well as to the federal Section 8 program—another program that helps to address the affordability gap in NYC by offsetting part of households' rent bills and thereby making projects financially viable.

### Other Funding Sources

Finally, there are a number of sources in the NHMP budget that will not be available to the next administration, including the Neighborhood Stabilization Program (which has ended), the Tax Credit Assistance Program (which also has ended), the 421-a Fund (which will have been largely

spent down by the end of NHMP), the NYC Housing Trust Fund (which also will have been spent down), among others.<sup>17</sup>

In this challenging funding environment, the next administration must continue to seek creative ways to use resources more efficiently. But if the next administration seeks to expand the city's commitment to affordable housing, that may also mean spending less on other important city priorities. Candidates should explain not only how many units they will produce or preserve and how much they will spend on housing, but also where those funds will come from, what tradeoffs will be made in order to meet those goals, and how they will stretch limited dollars farther.

<sup>16</sup> IBO NHMP 2012 Report at 14.

<sup>17</sup> IBO NHMP 2012 Report at 7-12.

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# 2

## **Should the next mayor require developers to permanently maintain the affordability of units developed or rehabilitated with public subsidies?**

The city, state, and federal governments help address the shortage of affordable housing by subsidizing the development, rehabilitation, and operation of affordable units. Currently, developers who use these subsidies must ensure the affordability of new and rehabilitated units for only a set period of time, and after this period, developers can “opt out” of the affordability.



## WHY IT MATTERS (CONT'D)

Several candidates for mayor have proposed changes to these subsidy programs that would require developers to make the units permanently affordable as part of the initial agreement, or grant the city the unilateral right to pay for an extension when the first period expires. These changes would prevent developers from opting out and charging market rents. However, requiring permanent affordability or giving the city the option to extend the affordability restrictions may increase the cost of developing new affordable units, potentially commit the city to an ongoing subsidy, and have other consequences as well.

## THE BASICS

There are currently more than 180,000 units of affordable rental housing in New York City owned by for-profit firms or not-for-profit organizations that were developed using one or more of the following programs: below-market mortgages or mortgage-insurance provided by the U.S. Department of Housing and Urban Development (HUD), below-market financing, land, or tax abatements from the city and state through the Mitchell-Lama program, project-based rental subsidies from HUD, federal Low Income Housing Tax Credits (LIHTC), or other subsidy programs tracked by the Furman Center's Subsidized Housing Information Project.<sup>1</sup> As part of each subsidy

program, developers enter into contracts requiring them to maintain the affordability of the units for some period of time. For example, developers using the LIHTC program (now the most commonly used program for financing new affordable housing units), must generally keep their units affordable for at least 30 years.<sup>2</sup> Once that period expires, the developer can opt out of the program.

To preserve the affordability of units with expiring program contracts, the city spends millions on renewals and extensions it negotiates with property owners. In fact, the city's 2010 New Housing Marketplace Plan anticipated that the city would spend \$1.4 billion over the following five years to preserve the affordability of 47,000 units. Even the city's willingness to devote substantial resources to extensions and renewals may not guarantee the affordability of the current stock of subsidized units, however, if developers decline the city's offers or if the number of units with expiring contracts outpaces the city's budget. Indeed, the city was able to renew or extend the restrictions on less than half of the approximately 62,000 units with affordability restrictions that expired between the years 2000 and 2011.

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Preservation Loan Program, or the Small Owner Repair Program.

<sup>1</sup> The Furman Center's Subsidized Housing Information Project tracks subsidized rental units developed or rehabilitated through several commonly used programs (including the four named above), but does not include units subject to affordability restrictions due to others, such as the Housing Asset Renewal Program, the

<sup>2</sup> After 15 years, the LIHTC affordability requirement may expire if the developer can show that maintaining the units as affordable is not economically viable and if there is no suitable buyer who can maintain their affordability. Projects developed with additional sources of subsidy may have affordability requirements that last longer than the initial 15 years.



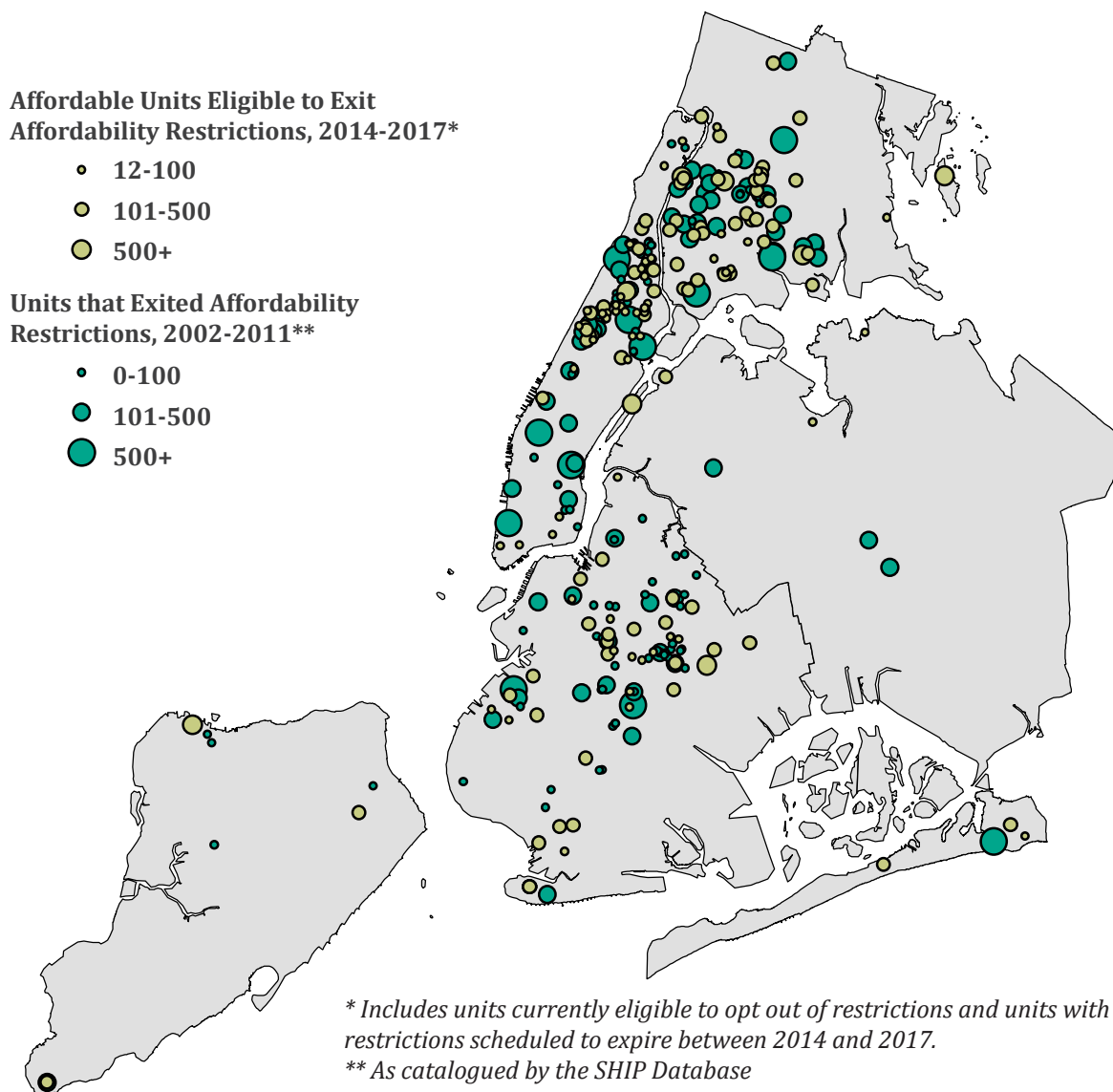
Overall, more than 68,000 units originally developed under the four main subsidy programs are no longer subject to their initial rent restrictions and may no longer be affordable to low-income households.<sup>3</sup> Tens of

thousands more have restrictions scheduled to expire during the next mayor's first term or are subject to restrictions from which the developer can already opt out at any time. Figure 1 shows the location these units.

<sup>3</sup> These units were either subject to requirements that expired or "failed out" because the developer did not comply with program requirements. Some of these properties may have remaining affordability restrictions through programs that are not yet tracked by the Furman Center. Additionally, many properties no longer subject to program requirements remained subject to

rent stabilization restrictions after their subsidy expired due to previous agreements or in exchange for tax abatements. In many formerly HUD-subsidized properties, while the rents may have increased to market rate, the tenants at the time of the opt out often received Section 8 vouchers.

**FIGURE 1: Location of Units Eligible to Exit Affordability Soon and Units that Recently Left All Affordability Restrictions**



Source: Subsidized Housing Information Project (SHIP), New York City Department of City Planning, Furman Center



## QUESTIONS & CONSIDERATIONS

If the next mayoral administration were to move towards a policy of permanent affordability in HPD- and HDC-financed programs, it would potentially have significant effects on the retention, production, location, and operation of affordable housing in New York City. There are a number of questions the candidates should consider when exploring permanent affordability.

As with any public policy, the structure and terms of permanent affordability will matter. In one model, housing would be made permanently affordable up-front (when it is initially developed or rehabilitated, or when an expiring program contract is renewed or extended), and owners would not be able to opt out at any point. An alternative could be a policy that gives the city an option to unilaterally extend or renew the affordability period at the end of the initial term for a pre-determined price. The latter policy could give the city the ability to preserve units in the future for an agreed price, but also provide the city with the flexibility to decide whether to pay that price in light of the later circumstances. Candidates for mayor should be clear about which of these two models, or what alternative model, they are proposing.

Any model of permanent affordability will likely affect the number of affordable housing units preserved and constructed in New York City going forward. If affordable housing were to be made permanently affordable up-front it would lessen the attrition of affordable housing from the stock due to owners opting out of the programs, preserving the housing for future generations. This could also mean that the city could preserve the affordable housing stock without having to budget billions of dollars for future renewals or extensions. It is also possible, however, that developers, lenders,

and investors may demand deeper ongoing or up-front subsidies to participate in programs if they no longer have the option to realize all or some of the “residual” value of a property whose restrictions expire in a favorable rental market. Higher development costs would mean the city could afford to subsidize fewer new affordable units in the short run.

A policy of permanent affordability could also have an effect on the neighborhoods where subsidized housing is located. Because owners of affordable housing are most likely to opt out when market rents are high or rising, a policy of permanent affordability could be particularly useful for preserving the stock of affordable units in gentrifying or highly desirable neighborhoods, providing low-income families with access to neighborhoods of higher opportunity. On the other hand, without the promise of the residual value, developing affordable housing in gentrifying or high-rent neighborhoods may become less attractive than developing in less desirable neighborhoods, shifting more affordable

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housing production to neighborhoods that offer residents lower performing schools and fewer amenities.

Finally, implementing a policy of permanent affordability does not guarantee a well-maintained stock of affordable housing in perpetuity without additional subsidy. The possibility of opting out of an affordability program or receiving a negotiated pay-off to renew can act as an incentive for owners to properly maintain affordable units during the life of the contract. If a policy aiming for permanent affordability buys out the residual value with a higher up-front payment, or sets the cost of renewing or extending the affordability period in advance, it could lead private owners to invest less in their affordable units to the detriment of their tenants. In extreme cases, private owners without the possibility of future gains from their properties may simply walk away from them in tough times, leaving the city with the burden of providing additional subsidy or assuming operations itself and making neglected capital repairs. However, there is much less reason

to be worried about long-term maintenance issues or financial hardship resulting from permanent affordability in mixed-income buildings where the market-rate units provide an ongoing cross-subsidy and incentive for the owners to maintain the buildings.

Candidates who advocate for permanent affordability should be asked to make clear how they would structure the policy to limit the possible drawbacks. Specifically, would units be made permanently affordable from the beginning or would the city have an as-of-right option to pay for an extension when the current affordability period ends? How would each candidate fund the higher up-front cost (or would they reduce housing production targets to address the higher costs, and if so, by how much)? What incentives would a program offer to help ensure that private owners properly maintain and continue to operate properties? And if such a policy does lead to more failed properties, what would be the city's plan and funding contingency for ensuring that they are taken over by more responsible owners?

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# 3

## **Should the next mayor adopt a mandatory inclusionary zoning program that requires developers to build or preserve affordable housing whenever they build market-rate housing?**

Several of the mayoral candidates have proposed implementing a policy of mandatory inclusionary zoning as a way to increase the development or preservation of affordable housing units. Such a policy could help meet the housing needs of more of the city's poor and working class families.



## WHY IT MATTERS (CONT'D)

However, a mandatory inclusionary zoning policy could have other consequences, including higher density development in some neighborhoods if the city offsets the requirement with an upzoning, or higher prices for market-rate units if the policy increases the cost of development.

## THE BASICS

Zoning rules that require or encourage developers to produce affordable housing are commonly called “inclusionary zoning.” New York City adopted its first inclusionary zoning provisions in 1987, when it began allowing developers to exceed the maximum building size otherwise allowable in R10 districts (very high density zoning districts located primarily in Manhattan) by up to 20 percent in exchange for providing affordable housing. More recently, the city expanded its Inclusionary Housing Program beyond R10 districts to Greenpoint/Williamsburg, Hudson Yards, West Chelsea, Downtown Jamaica, the Lower Concourse, and several other parts of the city, in many cases, as part of a city-led comprehensive rezoning. In most eligible areas, developers can obtain a zoning bonus by providing the affordable housing as part of the project itself or on a separate, nearby site. The amount of bonus density a developer can receive is based on the amount and type of affordable housing the developer provides, and varies across eligible areas. Figure 1 shows the parts of the city where the Inclusionary Housing Program applies.

The affordable units can be rental or, since 2009, offered for homeownership, but in most cases they must be affordable to (and inhabited by) low-income households, as defined by the U.S. Department of Housing and Urban Development (HUD). According to 2013 guidelines, a two-person household earning up to \$55,040 and a four-person household earning up to \$68,720 are considered low-income. Additionally, even after the first occupants move out, rental units remain subject to New York’s rent stabilization rules (with the added requirement that rents remain

affordable under the HUD guidelines for the new tenants), and resale values of owned units are capped. Developers often use public subsidies, such as the Low Income Housing Tax Credit or 421-a tax exemption, to build the affordable units, though in some parts of the city where the Inclusionary Housing Program applies subsidized units earn the developer less of a density bonus. If a developer uses a subsidy program, affordable units must also meet that program’s requirements.

As of late spring 2013, developers had completed or broken ground on almost 4,500 units of affordable housing located in over 100 separate projects to obtain the zoning bonuses offered through the Inclusionary Housing Program. As Table 1 shows, most of these units are in Manhattan and almost all of the others are in Brooklyn.

Other cities, including Boston, Denver, Sacramento, and many suburban towns, have adopted mandatory inclusionary zoning policies. These policies typically require that new developments over a certain size reserve a share of new units for low- or moderate-income households. Some jurisdictions allow developers to satisfy the requirements off-site or to make a cash contribution to an affordable

**TABLE 1: Affordable Housing Produced under the Inclusionary Housing Program, 1988 to 2013**

|              | <i>Projects</i> | <i>Affordable<br/>Units</i> |
|--------------|-----------------|-----------------------------|
| Bronx        | 2               | 40                          |
| Brooklyn     | 22              | 1,112                       |
| Manhattan    | 77              | 3,286                       |
| Queens       | 2               | 33                          |
| <b>Total</b> | <b>103</b>      | <b>4,471</b>                |

*Source: New York City Department of Housing Preservation and Development*



housing fund instead of providing affordable units. Developers in places with mandatory programs have no alternative but to fulfill the requirement.<sup>1</sup>

## QUESTIONS & CONSIDERATIONS

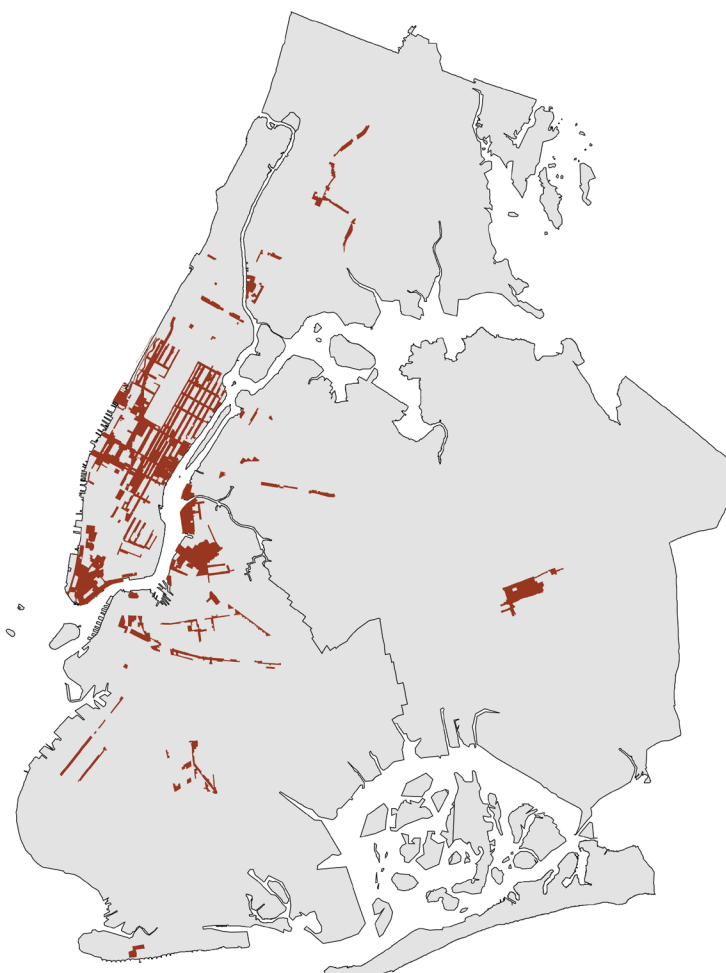
Should the next mayoral administration implement a policy of mandatory inclusionary zoning, it could have potentially significant impacts on the production not only of affordable housing, but also on the rest of New York City's housing market.

How much additional affordable housing a mandatory inclusionary zoning program produces will depend on how much new development occurs in the area where the program applies. If developers find it profitable to build in areas subject to the program despite the requirement, adopting a mandatory program in New York City could lead developers to produce more affordable housing than they would under the current, voluntary program. This is particularly likely if the areas where the program applies are simultaneously upzoned to allow developers to make up the cost of compliance through greater development density. Accordingly, mandatory inclusionary zoning could encourage developers to meet more of the demand for affordable housing among low-income households without additional direct subsidy from the government.

On the other hand, if developers find that the costs of a mandatory inclusionary zoning program often render potential projects less profitable or completely unprofitable, the program could slow

the development of market-rate housing while providing little new affordable housing. Under the current, voluntary program, when a developer elects not to participate, it may be because the bonus density is not sufficient to offset the cost of providing the affordable housing needed to obtain the bonus, or because the developer believes the demand for development on a given site can be met without the bonus density. Imposing a mandatory program in these cases (particularly if no additional density is allowed) may mean

**FIGURE 1: Areas Eligible for the Existing Inclusionary Zoning Program as of July 2013**



<sup>1</sup> For more information about the array of mandatory programs in effect around the country, see Scheutz, J., Meltzer, R., & Been, V. (2009). 31 Flavors of Inclusionary Zoning: Comparing Policies From San Francisco, Washington, DC, and Suburban Boston. *Journal of the American Planning Association*, 75(4), 441-456.

Source: New York City Department of City Planning, Furman Center



the development would not be built at all. In other cases, a developer may proceed with her project, incurring the added development costs resulting from a mandatory policy, but try to pass the added costs on to market-rate tenants and buyers if the market allows it.<sup>2</sup>

Predicting which of these outcomes would occur is difficult and past research has not provided a clear answer, but there is broad consensus among economists that requirements that make housing development more expensive are likely to result in less of it, which would add further pressure to New York City's market-rate housing market. The next mayoral administration should carefully consider whether to provide a density bonus above and beyond current allowable density as a part of any mandatory inclusionary bonus. The size of that bonus will help determine the amount not only of affordable housing generated, but market-rate housing too.

Increased density can be controversial in neighborhoods where the policy is implemented if a mandatory inclusionary zoning policy does include additional density to offset the cost of providing affordable housing. Current residents may not welcome the resulting density, either for aesthetic reasons or because of the anticipated strain on public services, such as subways and schools. On the other

<sup>2</sup> Alternatively, a mandatory program could have the effect of driving down land prices as developers seek to offset the added cost of development by offering less for development sites.

hand, given the lack of land for development in New York City, additional density may be the only way to increase the supply of housing and lower rents across the board.

The amount of flexibility the mandatory inclusionary policy gives to developers in terms of the location of the affordable housing will also determine the level of private sector participation and the amount of affordable housing generated. In research focusing on other jurisdictions, the Furman Center found that program flexibility is associated with higher levels of affordable housing production.<sup>3</sup>

Candidates should be specific about any policies they propose, making clear, for example, whether the affordable housing requirement must be satisfied on-site, or if developers would instead be allowed to provide off-site units or pay into a development fund. Specifics about the length of time the affordable units would have to remain affordable are also important. Similarly, candidates should specify whether they plan to allow developers to build at an increased density on sites subject to mandatory inclusionary zoning.<sup>4</sup>

<sup>3</sup> Furman Center for Real Estate and Urban Policy. (2008). *The Effects of Inclusionary Zoning on Local Housing Markets: Lessons from the San Francisco, Washington DC and Suburban Boston Areas*. Retrieved <http://furman-center.org/files/publications/IZPolicyBrief.pdf>

<sup>4</sup> Importantly, how a mandatory inclusionary zoning program is structured may also have implications for its ability to withstand constitutional and other legal challenges.



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# 4

## **Should the next mayor seek to expand the use of city pension funds to develop affordable housing?**

The Bloomberg Administration's New Housing Marketplace Plan (NHMP) to increase the supply of affordable housing is winding down, and the city's ability to fund affordable housing is increasingly strained, as described in brief numbers 1 and 2 of this series.



## WHY IT MATTERS (CONT'D)

Some of the mayoral candidates have suggested tapping the city pension funds as a way to maintain or increase the funding available to create and preserve affordable housing. The pension funds of New York City (collectively “NYCRS”) have some \$137 billion in assets and might appear to be a valuable source of capital.<sup>1</sup> However, the law limits the potential uses of these funds and restricts the mayor’s ability to control their use.

## THE BASICS

The trustees of pension funds have a fiduciary duty to the beneficiaries of the funds to maximize earnings while limiting overall risk. As a result, their investments must generate risk-adjusted market returns, and the trustees limit how much of the portfolio they can invest in any one type of asset class (such as real estate) and limit how risky any individual investment can be. Spreading risk across multiple asset classes with different risk attributes serves to decrease the overall riskiness of the portfolio. Overall, trustees look to achieve an aggregate rate of return that is both consistent with their investment policy and adequate to meet obligations to the beneficiaries.

Investment opportunities that also provide social benefits (by increasing the stock of affordable housing, for example) can only be made if they generate returns “commensurate with the overall risk, liquidity, security, and structure of comparable non-targeted investments.”<sup>2</sup> Within these limits, city pension funds have found ways to help finance the construction and rehabilitation of affordable housing that is located in lower-income

neighborhoods.<sup>3</sup> The largest affordable housing program financed by NYCRS, called the Public Private Apartment Rehabilitation Program (PPARP), has invested over \$757 million in the preservation or construction of 29,694 units of affordable housing.<sup>4</sup> The program has primarily relied on 100% mortgage insurance from the State of New York Mortgage Agency (SONYMA) to protect the pension funds from defaults and thereby lower the risk of the investment.<sup>5</sup>

Through this program, city pension funds offer long-term, fixed-rate mortgages at rates determined prior to the start of construction. The combination of mortgage insurance and the ability to invest with a long-term horizon allows the pension funds to offer fixed mortgage rates that, in turn, allow city housing programs to stretch their limited subsidy dollars further. While the interest rate cannot be below market rates, the ability to lock-in an interest rate even before construction begins and well in advance of the completion of construction (when the construction loan will be superseded by a permanent mortgage) increases the predictability of the project’s finances and simplifies the process of securing financing. These benefits of having access to pension financing, however, are not sufficient on their own to create affordable housing in

3 Pension funds are allowed to make “economically targeted investments” (ETIs) that fit within approved asset classes and earn a market return, and some of the city’s pension funds make such investments in affordable housing projects. For example, the Teachers’ Retirement System devotes roughly two percent of its funds to ETIs, which have posted returns of nearly nine percent since their inception in 1981. United Federation of Teachers. (2013, May 16). Pension fund does well by doing good. *New York Teacher*. Retrieved from [www.uft.org/print/node/58871](http://www.uft.org/print/node/58871)

4 New York City Comptroller, Bureau of Economic Development. *Economically Targeted Investments*. Retrieved from <http://www.comptroller.nyc.gov/bureaus/ed/economically-targeted-investments.shtm>

5 The city has its own insurance fund, a subsidiary of its Housing Development Corporation (HDC) called the Residential Mortgage Insurance Corporation (REMIC), but its capacity is much more limited.

1 New York City Comptroller. (2013, July 19). *State Street Selected as Next Custody Bank for NYC Pension Funds*. Retrieved from [http://www.comptroller.nyc.gov/press/2013\\_releases/pr13-07-127.shtm](http://www.comptroller.nyc.gov/press/2013_releases/pr13-07-127.shtm)

2 New York City Employees Retirement System. (2007). *Investment Policy Statement*. On file with the Furman Center.



New York City because significant subsidy is still required to offset the high costs of land and construction.

Separate from what are acceptable uses for pension fund dollars, the mayor's power to determine how these funds are used is limited. Investment decisions for the funds are controlled by the board of trustees for each of the five funds in NYCRC. The mayor appoints, at most, a minority of the members of those boards; other trustees are appointed by the comptroller, labor unions, the public advocate, and the borough presidents. Furthermore, it is the city comptroller, and not the mayor, who is responsible for making investment recommendations to the trustees and implementing their decisions.

## QUESTIONS & CONSIDERATIONS

It is not surprising that NYCRC is often looked to as a potential solution to the city's affordable housing funding needs given the large amount of money contained in the funds. As noted above, city pension funds already provide fixed-rate, long-term mortgages for affordable housing that increase the depth and predictability of the mortgage market for developers and allow city subsidy dollars to stretch further. One option would be to increase the size of this program. However, the limited number of originators approved under PPARP and constraints on the subsidy dollars available for the projects that may be able to take advantage of these types of mortgages may limit the potential for further growth in this program.

Moreover, the fiduciary responsibilities of the pension funds further limit the range of their options for aiding the development of affordable housing. Pension fund dollars cannot replace city or federal subsidies for affordable housing because pension funds must earn market-rate returns.<sup>6</sup> In addition, the mayor lacks majority control over the investment decisions of the funds, so using the funds to support the mayor's affordable housing plans requires the cooperation of the comptroller and the funds' trustees.

Candidates promising to expand the use of the pension funds to finance affordable housing should specify exactly how much of the funds could be invested in loans to affordable housing developers, how that lending would help make construction affordable given restrictions on the funds' investments, and how the mayor would secure the cooperation of all the other decision-makers necessary to invest more pension dollars in the city's affordable housing programs.

<sup>6</sup> Four of the NYCRC funds have committed equity dollars to the Sandy rebuilding in partnership with private developers who will also be putting in their own capital. In this case, they are looking for a return commensurate with the risk of investing.



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# 5

## **Should the next mayor provide a rental subsidy for moderate- and middle-income households?**

Housing is a substantial expense for New Yorkers, and has grown even less affordable in the last decade. Data indicate that a smaller share of the city's rental housing stock was affordable to renters at all but the highest income levels in 2011 than it was in 2002. Moderate- and middle-income households saw a big jump in the share of households that were rent-burdened during those years.



## WHY IT MATTERS (CONT'D)

As housing affordability becomes more of a strain for moderate- and middle-income households, many worry that those households might choose to leave the city altogether, which could undermine the city's diversity and vitality.

## THE BASICS

A number of the mayoral candidates have discussed the growing affordability challenges faced by moderate- and middle-income New Yorkers. Based on guidelines from the U.S. Department of Housing and Urban Development, low-income households have an income up to 80 percent of the area median income.<sup>1</sup> Moderate-income households have

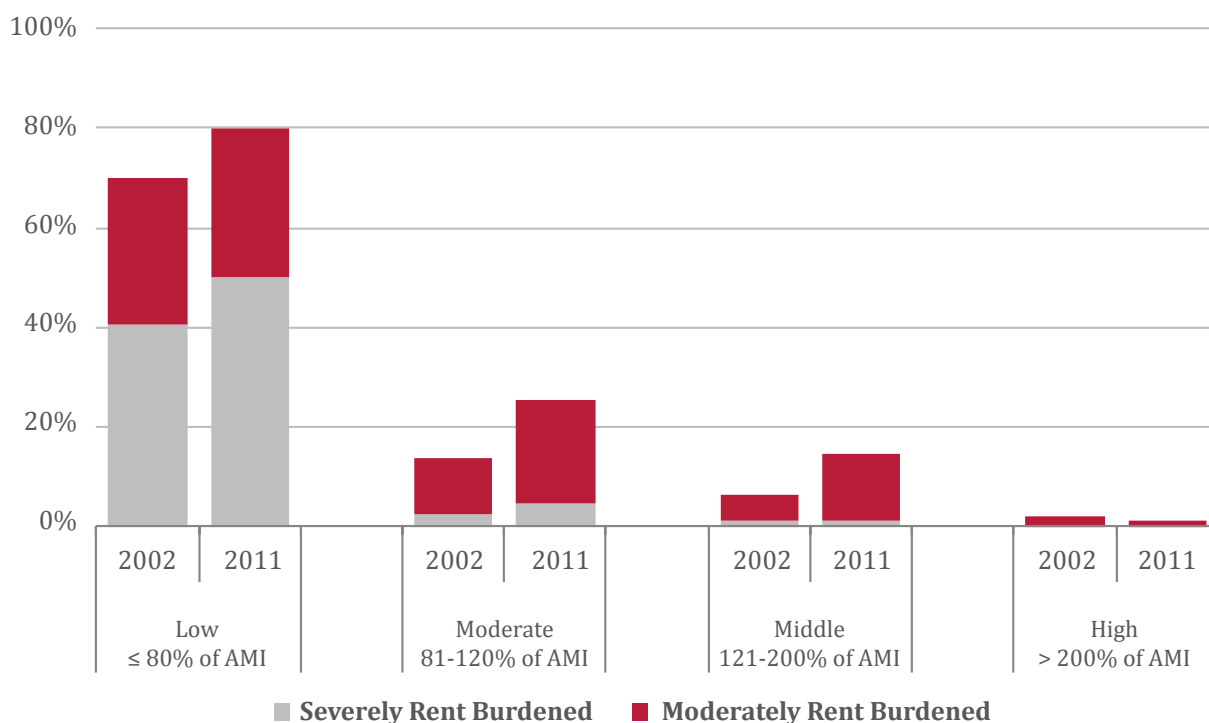
an income ranging from 81-120 percent of the area median income. Middle-income households have an income between 121-200 percent of the area median income. Moderate- and middle-income households together made up just less than a third of the city's renter households in 2011. In 2011, a three-person household<sup>2</sup> would be considered in the moderate-income range if they made between \$58,951 and \$88,350 annually.

Figure 1 depicts changes in the shares of households that are "rent burdened"—paying

1 U.S. Department of Housing and Urban Development. *HUD Program Income Limits (Section 8, Section 221(d) (3)BMIR, Section 235 and Section 236)*. Retrieved from <http://www.huduser.org/portal/datasets/il.html>

2 The average household in New York City has 2.67 people.

**FIGURE 1: Rent Burdened Households by Income Group, New York City**



Source: New York City Housing and Vacancy Survey, U.S. Department of Housing and Urban Development Income Limits, Furman Center



30 percent or more of income toward rent and utilities. Between 2002 and 2011, the proportion of households that were rent burdened increased as much for moderate-income households as for low-income households. However, rent burdens remain significantly higher for low-income renters. By 2011, only one out of four moderate-income households was rent burdened, while a full 80 percent of low-income households were rent burdened (and half were severely rent burdened, having paid at least half their income to rent and utilities).

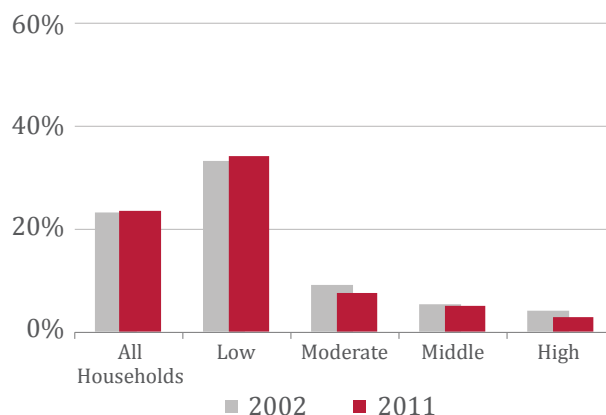
While an increasing share of the moderate- and middle-income households are rent burdened, these households are not well served by existing government housing subsidies. Most of the government's rental housing subsidies benefit low-income households.<sup>3</sup> Figure 2 shows that only a small share of moderate- and middle-income rental households reported receiving rental subsidies from the government (such subsidies include both units of housing in subsidized buildings and vouchers that pay a portion of a tenant's rent). Further, New York City's Independent Budget Office reports that only 15 percent of ownership and rental units created and preserved from 2004 to 2011 through the New Housing Marketplace Plan served moderate- and middle-income households.<sup>4</sup>

Moderate- and middle-income households, however, do benefit from rent regulation,

3 The focus of our discussion here is subsidies for rental housing. Some existing programs, including generous federal tax subsidies for deductions for home mortgage interest and property taxes, benefit moderate- and middle-income homeowners. Because more households in New York City (including more moderate- and middle-income households) rent than in the rest of the country, those tax expenditures are less helpful to New Yorkers than rental subsidies targeted to moderate- and middle-income households might be.

4 New York City Independent Budget Office. (2012). *The Mayor's New Housing Marketplace Plan: Recession, Funding Shifts, and Changing Goals Mean Fewer New Apartments Likely to Be Built*. Retrieved from <http://www.ibo.nyc.ny.us/iboreports/nhmp2012.pdf>

**FIGURE 2: Share of Renter Households Receiving Housing Subsidies by Income Group, New York City**



Source: New York City Housing and Vacancy Survey, U.S. Department of Housing and Urban Development Income Limits, Furman Center

which is not a government-funded subsidy, but is intended to moderate rising rents. Figure 3 shows that nearly half of all moderate- and middle-income renter households lived in rent-regulated buildings in 2011.

New York City operates a few ongoing programs to encourage the creation of new rental housing—such as the New Housing Opportunities Program, Participation Loan Program, and Mixed Income (50/30/20) Program—that are designed to serve low- to middle-income households.<sup>5</sup> While the Mixed Income Program sets aside a minimum percentage of units for moderate- and middle-income households, the other two programs named above have set income limits but have no firm requirements for how units are apportioned between the different populations served.

5 Furman Center for Real Estate and Urban Policy and Moelis Institute for Affordable Housing Policy. *Directory of New York City Affordable Housing Programs*. Retrieved from <http://furmancenter.org/institute/directory>



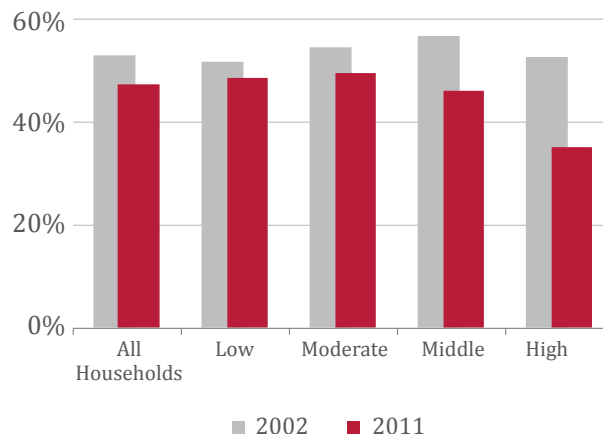
## QUESTIONS & CONSIDERATIONS

A new subsidy targeted to moderate- and middle-income renters could mitigate their housing cost burdens, which grew significantly over the past decade (especially for moderate-income renters). Furthermore, targeting subsidized units for moderate-income households might encourage those moderate-income households who are currently living in units affordable to low-income households to move into the newly subsidized units, freeing up their original apartment for a low-income household.

However, unless the city devotes funds for moderate- and middle-income rental subsidies that are over and above existing subsidies, those subsidies could divert the public resources now allocated to low-income renters, and reduce the scarce subsidy dollars available to them. That could place lower-income households at greater risk of housing insecurity.

Candidates who propose moderate-income subsidies should specify precisely where the funds for the subsidy would come from, directly address the tradeoffs involved in using the money for moderate-income rather than lower

**FIGURE 3: Share of Renter Households in Rent Regulated Units by Income Group, New York City**



*Source: New York City Housing and Vacancy Survey, U.S. Department of Housing and Urban Development Income Limits, Furman Center*

income households and explain how and why they would make those tradeoffs. Candidates should also explain what role additional investments in housing subsidies should play in the mix of other possible initiatives aimed at keeping moderate- and middle-income households in the city, such as improvements in schools or lower taxes.



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# 6

## **Should the next mayor permit more distant transfers of unused development rights to support the development of affordable housing?**

In a very dense city with a significant need for affordable housing, unused development rights are an important potential source of additional capacity. At least one mayoral candidate has proposed allowing wider transfer of development rights to support the development of affordable housing. Many communities, however, fear the increased density that additional transfers would create.

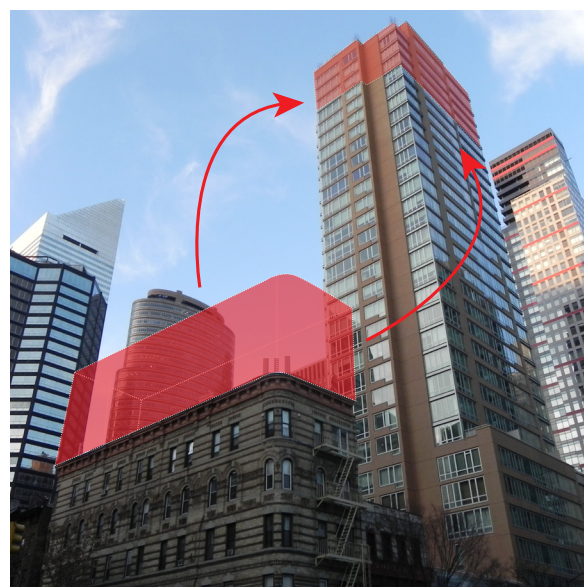


## THE BASICS

New York City's Zoning Resolution uses floor area ratio (FAR) as the primary determinant of how much an owner can build on a given parcel. For example, if a building has a FAR of five, an owner can build a structure with a floor area equal to five times the land area of the lot. If the existing building is smaller than the maximum floor area permitted on the lot, the owner may be able to transfer the unused development rights to another lot through one of the city's transferable development rights (TDR) programs.

The city allows property owners to transfer development rights in three ways:

1. Zoning lot mergers permit an owner to transfer development rights, as of right, to adjacent properties on the same block. Zoning lot mergers are the primary way that development rights are transferred in the city.
2. Landmark transfers, which require a special permit, allow the owners of landmarks to transfer unused development rights to



Source: Furman Center for Real Estate and Urban Policy

adjacent parcels on the same block, across the street, or, if the landmark is on a corner, to any lot on another corner that touches the same intersection.

**TABLE 1: Unused Development Rights by Community District, Manhattan Community Districts 1-6 and Brooklyn Community Districts 1-2, 2013**

| <i>Community District</i>    | <i>Borough</i> | <i>Unused Development Capacity (square feet)</i> |
|------------------------------|----------------|--------------------------------------------------|
| Greenpoint/Williamsburg      | Brooklyn       | 86,948,150                                       |
| Fort Greene/Brooklyn Heights | Brooklyn       | 46,652,705                                       |
| Financial District           | Manhattan      | 21,664,998                                       |
| Greenwich Village/Soho       | Manhattan      | 12,460,943                                       |
| Lower East Side/Chinatown    | Manhattan      | 20,230,060                                       |
| Clinton/Chelsea              | Manhattan      | 45,958,441                                       |
| Midtown                      | Manhattan      | 52,099,066                                       |
| Stuyvesant Town/Turtle Bay   | Manhattan      | 21,416,120                                       |

Source: Furman Center analysis of New York City Department of City Planning Data and publicly recorded property records



3. Special transfer programs have been created by the Department of City Planning as part of larger planning projects, such as the Special West Chelsea District (the High Line), the Hudson Yards District, and the Theater Subdistrict. Some of these programs—like West Chelsea and Hudson Yards—have linked additional density or TDR transfers to the development of affordable housing.

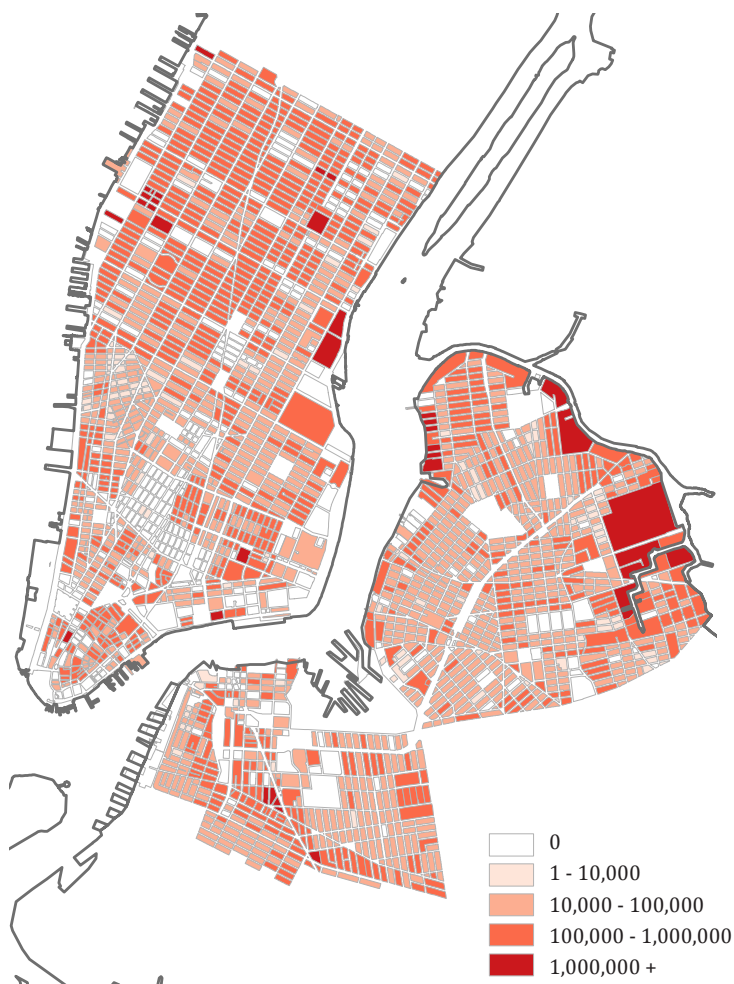
Between 2003 and 2011, property owners transferred more than 6.8 million square feet of development rights in New York City to properties owned by others. More than 5.4 million of those square feet were transferred through 327 zoning lot mergers, a vast majority of which were below 59th Street in Manhattan. There were also 11 Theater District transfers, 16 West Chelsea transfers, 4 other transfers, and only 2 landmark transfers.<sup>1</sup>

As Table 1 and Figure 1 show, millions of additional square feet of unused development rights exist just in the areas of the city where TDR transfers have historically taken place (Manhattan below 59th Street and Downtown and Northwest Brooklyn).

## QUESTIONS & CONSIDERATIONS

Currently, owners of the vast majority of properties are not permitted to transfer

**FIGURE 1: Square Feet of Privately Owned Unused Development Rights by Block, Manhattan Community Districts 1-6 and Brooklyn Community Districts 1-2, 2013**



Source: Furman Center analysis of New York City Department of City Planning Data and publicly recorded property records

development rights beyond the property's home block. Only landmarks or properties located in a small number of designated special districts have the ability to transfer off the block. By allowing owners to transfer TDRs farther, as long as the purchaser of the development rights included affordable housing in the building using the TDRs, the city could accomplish three goals: 1) making the development rights more valuable to owners; 2) encouraging new development to help

<sup>1</sup> All of the data about development rights transfers are from Furman Center analysis of publicly recorded property records.



accommodate demand and support economic growth; and 3) encouraging construction of new affordable housing.

Some worry, however, that wider transfers could overwhelm certain neighborhoods with additional density. Allowing additional density on the lot adjacent to the underbuilt property is unlikely to make much of a difference to the neighborhood, because the neighbors that enjoy the benefit of the smaller building transferring the TDRs will also bear any burdens created by the larger building that is enabled by the transfer. But if the additional density is transferred farther away, the neighbors of the underbuilt site and the neighbors of the building using the TDRs will be different.

There are a number of checks on new development that would remain in effect even if owners were allowed to transfer TDRs more freely. While TDR transfers permit buildings to exceed their FAR, there are other regulations limiting a building's size that are not affected by the transfer. These include height limits and set-back, open space, and sky-exposure requirements. Unless explicitly modified, they would remain a limiting factor on any new development that uses TDRs. Further, new development enabled by TDR transfers would not be allowed in the city's many historic districts.

The next administration would need to answer a number of questions before it could implement a new TDR program linked to affordable housing. First, how far would owners

be permitted to transfer TDRs: would transfers be limited to a specific radius, confined within the boundaries of the community district, or allowed anywhere within the city? As the transfer distance grows, so too will the complexities of ensuring that the resulting density on the receiving site is appropriate.

Second, how much affordable housing would be required in exchange for the transfer? Would the program require that affordable housing be built on the receiving site? Or would the purchasing developer be permitted to develop the affordable housing elsewhere or instead contribute to a fund for the development of affordable housing?

Third, what kind of discretionary review, if any, would the city insist upon for transfers? Would the city require transfers to go through the public land use review process (ULURP)? ULURP allows for oversight and input from the community and city leaders, but also adds time, uncertainty, and expense that might limit the take-up of a new program.

Harnessing unused development rights to promote the construction of affordable housing could be a creative strategy, but candidates need to provide additional detail about how they would structure the program to obtain sufficient affordable housing and protect areas receiving the additional development the transfers make possible.



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# 7

**Should the next mayor support the New York City Housing Authority's plan to lease its undeveloped land for the construction of market-rate rental housing?**



## WHY IT MATTERS

The New York City Housing Authority's (NYCHA) Public Housing Program includes 178,911 apartments in 334 developments, which together house approximately five percent of New York City's population<sup>1</sup> and 8.2 percent of the city's renter households.<sup>2</sup> The agency is facing dire financial shortfalls, however, that threaten the long-term viability

of its stock. NYCHA has seen reductions of \$700 million in federal operating assistance since 2002.<sup>3</sup> And, if new revenue is not generated, NYCHA projects a \$13 billion capital investment shortfall through 2017.<sup>4</sup>

1 New York City Housing Authority. (2013). Development Data Book. Retrieved from <http://www.nyc.gov/html/nycha/downloads/pdf1/pdb2013.pdf>

2 New York City Housing and Vacancy Survey, 2011.

3 New York City Housing Authority. (2011, December). *Plan NYCHA: A Roadmap for Preservation*. Retrieved from <http://www.nyc.gov/html/nycha/downloads/pdf/plan-nycha.pdf>

4 New York City Housing Authority. (2013, May 22). *Five Year Capital Plan Calendar Years 2013-2017*. Retrieved from <http://www.nyc.gov/html/nycha/downloads/pdf/Five%20Year%20Capital%20Plan%202013-2017.pdf>

**TABLE 1: Proposed NYCHA Infill Development Sites**

| <i>NYCHA Development</i> | <i>Neighborhood</i>       | <i>NYCHA Proposed Site Name</i>                            | <i>Proposed Site Area (sq. ft.)</i> | <i>Proposed Residential Floor Area (sq. ft.)</i> | <i>Estimated Residential Units</i> | <i>Proposed Community Facility Floor Area (sq. ft.)</i> |
|--------------------------|---------------------------|------------------------------------------------------------|-------------------------------------|--------------------------------------------------|------------------------------------|---------------------------------------------------------|
| Campos Plaza             | Lower East Side           | East 12th Street                                           | 28,256                              | 90,000                                           | 97                                 | n.a.                                                    |
| Carver Houses            | East Harlem               | Madison Avenue<br>Park Avenue                              | 16,716<br>22,109                    | 242,000                                          | 262                                | 500,000                                                 |
| LaGuardia Houses         | Lower East Side           | Madison Street<br>Rutgers Street                           | 10,038<br>8,371                     | 126,000<br>112,000                               | 276                                | n.a.                                                    |
| Meltzer Tower            | Lower East Side           | East 1st Street                                            | 18,798                              | 121,445                                          | 97                                 | 18,798                                                  |
| Washington Houses        | East Harlem               | 3rd Ave &<br>East 99th St<br>East 99th St.                 | 57,649<br>18,953                    | 500,000<br>350,000                               | 919                                | n.a.                                                    |
| Baruch Houses            | Lower East Side           | East Houston St.                                           | 22,493                              | 350,000                                          | 375*                               | n.a.                                                    |
| Smith Houses             | Two Bridges/<br>Chinatown | R.F. Wagner Place<br>South Street                          | 16,941<br>55,134                    | 339,000<br>700,000                               | 1,151                              | n.a.                                                    |
| Douglass Houses          | Manhattan<br>Valley       | Manhattan Avenue<br>West 104th Street<br>West 100th Street | 17,784<br>16,107<br>21,164          | 340,000<br>175,000<br>220,000                    | 794                                | n.a.                                                    |
| <b>TOTAL</b>             |                           |                                                            | <b>330,513</b>                      |                                                  | <b>3,971</b>                       | <b>518,798</b>                                          |

\*Unit count for Baruch Houses estimated by Furman Center based on average square footage of total units.  
Source: New York City Housing Authority. Lease Sites. Retrieved from <http://www.nyc.gov/html/nycha/html/preserving/leasing-land-sites.shtml> (see Lease Land Proposals for listed developments) Furman Center for Real Estate and Urban Policy



## THE BASICS

NYCHA's assets consist of the largely residential developments on its land as well as a significant amount of "vacant" land (land without any buildings) and unused development rights. In considering ways that NYCHA could raise revenue to meet its long-term projected capital improvement needs, its leadership has proposed leasing the land on 14 sites across eight NYCHA developments in Manhattan for private, mixed-income development. NYCHA estimates that approximately 4,000 housing units and a limited amount of retail and community-facility space could be built on the sites without zoning changes. The sites are not presently used for housing but do support a variety of existing uses—primarily parking, recreational and open space, and a community center building. NYCHA estimates that ground leases for the sites, for a typical 99-year term, would generate \$30-50 million in revenue per year.

Although the proposal designates 20 percent of the new housing units for low-income households, the plan has been questioned by existing tenants and advocates who argue that the land should be used only for additional units of low-income housing. Others argue the land should not be developed at all, either because they fear that the amenities lost on the sites will not be adequately relocated elsewhere within these developments, or because they object to the additional density that development will bring. Some stakeholders are concerned that the developments will not provide sufficient benefits (such as employment opportunities) to residents of the public housing.

Table 1 presents details on the proposed development sites. Five of the eight sites are located in the Lower East Side and the other three are in Manhattan Valley and East Harlem. The projects could result in a total of 3,971 units.

## QUESTIONS & CONSIDERATIONS

NYCHA needs to close its operating and capital budget gaps, and has a limited number of options to do so. Notably, New York City is one of the few big cities that has not demolished a significant number of public housing units. Its leasing proposal would provide NYCHA significant and much-needed cash flows to address its capital needs. In addition, the aggregate supply of affordable housing would increase because 20 percent of new units will be permanently affordable to low-income households.<sup>5</sup> The proposal also will result in many new units of market-rate housing in desirable neighborhoods, and the increased supply will take pressure off market rents as well.

In addition, the proposal has the potential to improve the public housing near the new developments. NYCHA has committed to using the lease proceeds to bring the participating developments to a state of good repair before any proceeds can be used elsewhere in the NYCHA portfolio.<sup>6</sup> NYCHA also plans to add new infrastructure and services to the existing sites (e.g., lighting, security improvements, and resiliency features such as back-up power<sup>7</sup>); and the new developments could be designed to better integrate existing sites into the streetscape. The new developments will

5 New York City Housing Authority. *Land Lease Proposal to Preserve Public Housing*. Retrieved from <http://www.nyc.gov/html/nycha/html/preserving/leasing-land-proposal.shtml>

6 New York City Housing Authority. *Land Lease Opportunity to Preserve Public Housing Frequently Asked Questions*. Retrieved from <http://www.nyc.gov/html/nycha/html/preserving/leasing-land-faqs.shtml>

7 New York City Housing Authority. *Land Lease Initiative Pre RFP Discussion Document*. Retrieved from <http://www.nyc.gov/html/nycha/downloads/pdf/land-lease-initiative-pre-rfp-discussion-document.pdf>



increase the economic diversity of the blocks. Further, they could bring additional jobs for NYCHA residents, and NYCHA has committed to resident hiring preferences when contracting with developers.<sup>8</sup> The purchasing power of the new residents also may attract more economic activity and wider retail offerings near the public housing.

On the other hand, some NYCHA residents and other critics have raised a number of concerns. Like all new construction, the proposed developments may take away some of the benefits the absence of development brought to neighbors (the public housing residents and others), such as open space and parking for residents and employees. NYCHA plans to replace all parking for existing resident permit-holders, and will also replace other lost amenities (like gardens or seating) where land is available.<sup>9</sup> But existing residents often oppose new development because they fear that promises won't be kept, or that the new amenities will not be to their liking. Further, like many people around the city seeing new development go up around them, the residents of the public housing fear inconvenience or detrimental public health effects from unwanted noise, vibration, and increased traffic the construction may cause, disruptions in some existing amenities, and change more generally.

Some object that more than 20 percent of the units should be devoted to affordable housing (some argue that all the units should be affordable, but that would result in no revenue for NYCHA, so it misses the point of the proposal). NYCHA's leasing proposal presents

an implicit tradeoff—creating more affordable housing in the developments would mean less revenue for NYCHA.

Residents also worry that this is the start of a trend that will result in a wider private-sector encroachment onto NYCHA land that might mean comparable increases in density and losses of open space at NYCHA properties across the city. But others argue that NYCHA residents, like other owners and renters throughout the city, have no right to freeze development of neighboring areas at the level it was when they moved in.

Whether or not it moves forward with this proposal, there is little question that NYCHA and the city must think creatively about how to address NYCHA's long term capital needs and preserve this critical source of affordable housing. The mayoral candidates should offer specifics about what changes, if any, they would want to make to NYCHA's proposal, and explain how they would make up the revenues lost through any proposed limits. More generally, the candidates should be asked for details about how they plan to work with NYCHA to both decrease costs and increase revenues in order to reduce its operating deficit and provide a capital budget adequate to maintain and improve the aging NYCHA stock.

<sup>8</sup> New York City Housing Authority. *Land Lease Initiative Pre RFP Discussion Document*.

<sup>9</sup> New York City Housing Authority. *Lease Sites*.



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# 8

## **Should the next mayor allow homeless families to move to the top of the waiting list for housing vouchers or public housing?**

In recent months, the homeless population in New York City has reached its highest level since the Great Depression. While the city and state have adopted a variety of strategies to house the homeless, the growth of the population shows that much more needs to be done to assist homeless households seeking to move from shelter to permanent housing.



## WHY IT MATTERS

In recent months, the homeless population in New York City has reached its highest level since the Great Depression.<sup>1</sup> While the city and state have adopted a variety of strategies to house the homeless, the growth of the population shows that much more needs to be done to assist homeless households seeking to move from shelter to permanent housing.

## THE BASICS

According to the New York City Department of Homeless Services, 49,184 individuals spent the night in the New York City shelter system on August 6, 2013.<sup>2</sup> This included 9,870 single adults, 18,284 adults in families, and 21,030 children. The 2013 NYC Street Survey, conducted on January 28, 2013, counted an additional 3,180 unsheltered individuals citywide,<sup>3</sup> for an estimated total of over 50,000<sup>4</sup> homeless individuals on a given night in 2013. Figure 1 shows how the nightly shelter population in New York City has changed over the past 30 years.

In October 2004, the Bloomberg Administration ended the practice the three previous mayoral administrations had followed of giving homeless families priority for receiving

housing assistance.<sup>5</sup> The administration's justifications for the change included both the limited supply of vouchers and public housing units and concerns that the practice encouraged some families to deliberately enter the shelter system to receive priority for vouchers and public housing. The city instead began providing a short-term rental subsidy to help families transition out of the shelter system. The second incarnation of that program, called Advantage, was terminated, however, in March 2011 following budget and policy disputes with the State of New York.<sup>6</sup>

Homeless advocates propose reinstating priority status for homeless families applying for public housing or housing choice vouchers. Several candidates for New York City mayor have endorsed this approach. Currently, priority for housing choice vouchers is given to victims of domestic violence and to families for whom lack of permanent housing is the "primary barrier" preventing reunification with children in foster care.<sup>7</sup> NYCHA gives priority for public housing units to these same groups plus youth aging out of foster care, and intimidated witnesses.<sup>8</sup> NYCHA also gives working families a preference for public housing.<sup>9</sup>

1 Markee, P. (2013). *State of the Homeless 2013*. Retrieved from <http://www.coalitionforthehomeless.org/pages/state-of-the-homeless-2013>

2 New York City Department of Homeless Services. (2013). *Daily Report, 8/7/2013*. Retrieved from <http://www.nyc.gov/html/dhs/downloads/pdf/dailyreport.pdf> (on file with the Furman Center)

3 New York City Department of Homeless Services. (2013). *HOPE 2013: The NYC Street Survey* [PowerPoint slides]. Retrieved from [http://www.nyc.gov/html/dhs/downloads/pdf/hope\\_2013\\_web\\_presentation.pdf](http://www.nyc.gov/html/dhs/downloads/pdf/hope_2013_web_presentation.pdf)

4 The Street Survey has been criticized for undercounting the number of unsheltered individuals in the city, so this may understate the actual total.

5 Bosman, J. (2009, April 22). Bloomberg policy blamed for families in shelters. *The New York Times*. Retrieved from <http://www.nytimes.com/>

6 Secret, M. (2011, May 31). Clock ticks for a key homeless program. *The New York Times*. Retrieved from <http://www.nytimes.com/>

7 Office of the New York City Public Advocate. (2013). *Section 8 - Housing Choice Voucher Program*. Retrieved from <http://pubadvocate.nyc.gov/housing-guide/A/1>

8 Office of the New York City Public Advocate. (2013). *Affordable Housing*. Retrieved from <http://pubadvocate.nyc.gov/housing-guide/B>; New York City Administration for Children's Services. (2013). *Housing Support Services*. Retrieved from [http://www.nyc.gov/html/acs/html/support\\_families/housing.shtml#3](http://www.nyc.gov/html/acs/html/support_families/housing.shtml#3)

9 New York City Housing Authority. *Applying for Public Housing*. Retrieved from [http://www.nyc.gov/html/nycha/html/assistance/working\\_family\\_pref.shtml](http://www.nyc.gov/html/nycha/html/assistance/working_family_pref.shtml)



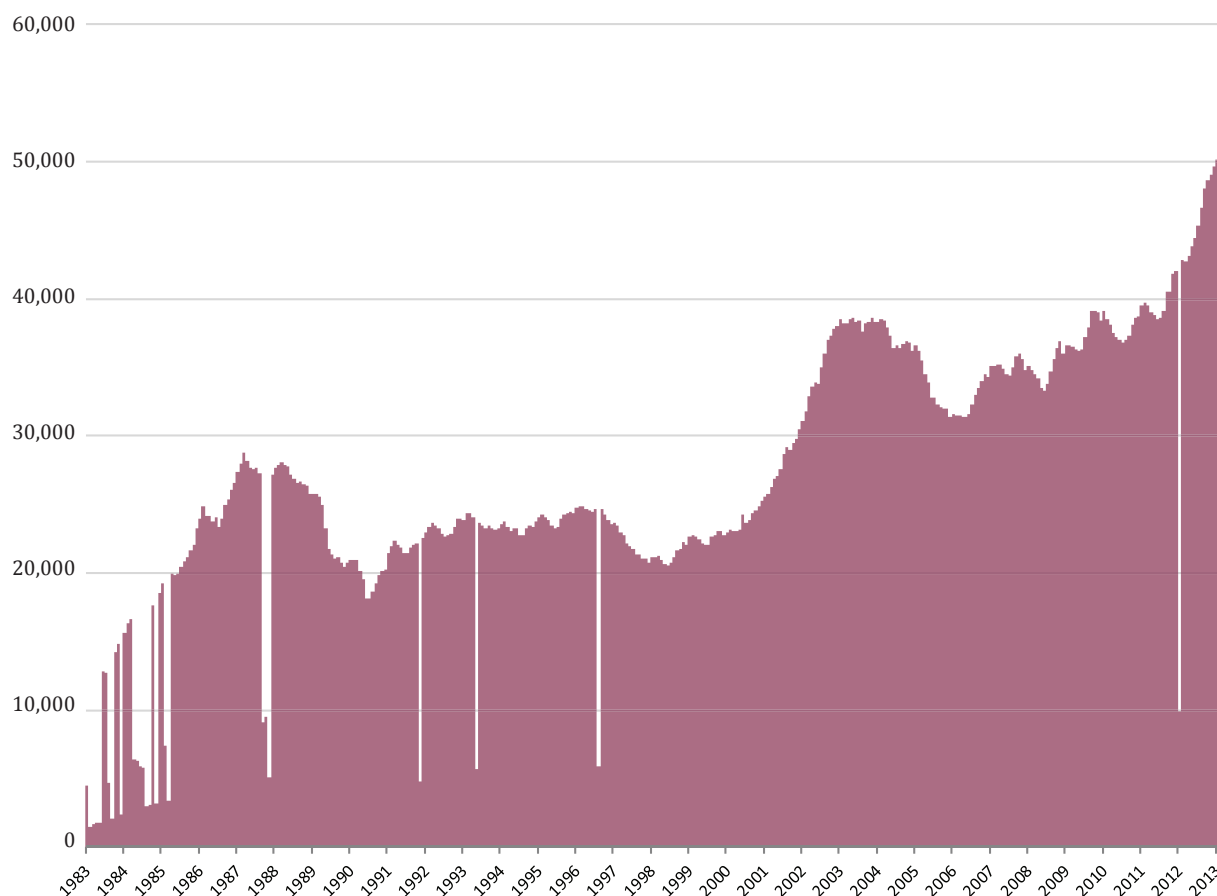
## QUESTIONS & CONSIDERATIONS

Homelessness in New York City has reached crisis levels, and many of the mayoral candidates have said they support policies to help homeless individuals and families transition to permanent housing. Recent policy discussions have focused on prioritization for federal subsidies. However, the number of vouchers and public housing units that become available in any given year is nowhere near enough to house all the families currently

in shelters. NYCHA reported a public housing turnover rate of 3.04% in 2012,<sup>10</sup> which would make just over 5,000 units of conventional public housing available each year. The turnover rate for vouchers is similarly low, and federal funding shortfalls, compounded by the federal budget sequester, puts even the availability of

<sup>10</sup> New York City Housing Authority. (2013). *About NYCHA Fact Sheet*. Retrieved from <http://www.nyc.gov/html/nycha/html/about/factsheet.shtml>

**FIGURE 1: New York City Nightly Shelter Population, 1983-2013**



Source: Coalition for the Homeless (using data from New York City Department of Homeless Services, New York City Human Resources Administration, and NYCStat shelter census reports)\*

\* Coalition for the Homeless. (2013). *New York City Homeless Shelter Population, 1983-Present*. Retrieved from [http://coalhome.3cdn.net/jfa876dd2296ef791b\\_4rm6i64oh.pdf](http://coalhome.3cdn.net/jfa876dd2296ef791b_4rm6i64oh.pdf)



this small number of vouchers at risk.<sup>11</sup> With a homeless population of approximately 50,000, the vouchers and public housing units available don't come close to meeting the need.

Moreover, there are many non-homeless individuals and families competing for these limited spaces. The New York Times recently reported that the waiting list for public housing had grown to 227,000 in July 2013, with wait times ranging from three months to many years.<sup>12</sup> And the populations listed above also receive priority. As a result, the number of individuals entering public housing from shelters shrank from 1,600 in 2004 to 100 in 2012.<sup>13</sup>

Critics of granting a priority for shelter residents contend that such a priority may create incentives for people to leave undesirable living situations (where they are doubled up, for example) to enter a shelter when they otherwise would not. The Bloomberg Administration cited a decline in shelter applications following the announcement of the end of the Advantage program as evidence for this theory.<sup>14</sup> Supporters of giving priority

to shelter residents countered that this decline was a seasonal fluctuation and that moving into shelters remains the last resort for struggling individuals and families.<sup>15</sup>

Some researchers point out that the debate often assumes that the homeless population is monolithic, and that any priority would have to be given to shelter residents across the board. But the research indicates that most homeless families are homeless because of income problems, just like the many other families on the waiting list for public housing or vouchers, while a much smaller group of families have other serious barriers to stable housing, such as disabilities. The city's policy about priorities should distinguish between these populations and their differential needs.

But, as was discussed above, even if the priority policy is adopted (whether for all shelter residents or just for those at most risk of extended homelessness), it will come nowhere close to meeting the housing needs of the city's homeless population.<sup>16</sup> Other policies that aim to reduce the number of households who enter the shelter system in the first place are also essential. For example, the next administration may want to expand the Homebase Community Prevention Program, which studies suggest has been effective in reducing the number of shelter entrants.<sup>17</sup>

11 In its 2012 analysis of a city council proposal to reinstate preference for homeless families for vouchers and public housing, the Independent Budget Office reported that vouchers are not likely to be available for a year or two because of federal funding constraints. When and if they do become available, according to NYCHA, there would be 4,500 vouchers total turning over in a year. Champeny, A., New York City Independent Budget Office. (2012, June 14). Letter to Patrick Markee, Coalition for the Homeless. Retrieved from <http://www.ibo.nyc.ny.us/iboreports/dhspriorityletter61412.pdf>

12 Navarro, M. (2013, July 23). 227,000 names on list vie for rare vacancies in City's public housing. *The New York Times*. Retrieved from <http://www.nytimes.com/>

13 Navarro, M. (2013).

14 Secret, M. (2011).

15 Secret, M. (2011).

16 It is also important to note that some households will not qualify because they will be eliminated by NYCHA's eligibility rules.

17 Rolston, H., Geyer, J., and Locke, G. (2013). *Evaluation of the Homebase Community Prevention Program: Final Report*. Retrieved from <http://www.abtassociates.com/Reports/2013/Evaluation-of-the-Homebase-Community-Prevention-Praspx>



In short, meaningfully reducing the city's homeless population will require both an influx of resources and creative thinking that goes well beyond the question of whether or not to give all or some shelter residents priority for NYCHA housing subsidies. It will also require a significant commitment from the state, which is a critical partner in homelessness prevention and shelter programs because of the large share

of the funding for these programs that comes from the state budget. Accordingly, candidates for mayor should be pressed for specifics not only about their views on the priority issue, but also about the other strategies they think are most viable to reduce the swelling ranks of the homeless.



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# 9

## **Should the next mayor offer to cap the property tax levy on 421-a rental properties in order to preserve the affordable units within those buildings?**

Property tax expenditures to encourage the preservation of affordable housing have generated controversy in this year's mayoral race. One prominent proposal recommends capping the total annual property tax liability of large rental buildings based on the buildings' rental income, if their owners agree to keep 20 percent of their units affordable by renewing their participation in the city's largest tax-based affordable housing program, known as the 421-a program.



## WHY IT MATTERS (CONT'D)

Offering tax breaks to real estate developers may incentivize the construction or preservation of affordable housing, but such subsidies can also deprive the city of much-needed revenue. As the city faces significant budgetary challenges, policymakers must ensure that tax subsidy programs like 421-a are structured as efficiently as possible—giving away no more than is necessary to persuade developers to offer affordable units.

## THE BASICS

In fiscal year 2013, New York City granted approximately \$1.5 billion in tax incentives for the development and rehabilitation of housing.<sup>1</sup> These tax expenditures represent an alternative to direct appropriations, but have a similar effect on the city's bottom line. The city's largest housing-related tax expenditure is the 421-a program for the construction of new apartment buildings, which cost the city nearly \$1.1 billion in forgone revenue in FY2013.<sup>2</sup> Buildings constructed under the 421-a program are exempt from property taxes for 10 to 25 years.<sup>3</sup> Developers in "Geographic Exclusion Areas" (recently expanded to include all of Manhattan and select areas in the outer boroughs) can obtain a 421-a exemption if they make 20 percent of the units they construct affordable—by setting rents at rates affordable to lower-income New Yorkers<sup>4</sup> and subjecting

the units to rent stabilization, or by selling the units for below-market prices. Affordable units in rental properties constructed under the 421-a program must remain rent stabilized for 35 years, after which owners are free to rent them at market rates once the existing tenant vacates.<sup>5</sup>

A recent proposal calls for offering a new benefit—a property tax cap—to provide incentives for the owners of 421-a rental properties reaching the end of that fixed period to preserve affordable units within their buildings. The proposal suggests capping the property tax liability of a 421-a building reaching the end of its affordability restrictions at 28 to 31 percent of gross rental revenue for 30 years in exchange for keeping 20 percent of the property's units affordable and subject to rent stabilization.

**New York City's largest housing-related tax expenditure is the 421-a program for the construction of new apartment buildings, which cost the city nearly \$1.1 billion in foregone revenue in FY2013.**

1 New York City Department of Finance, Office of Tax Policy. (2013). *Annual Report on Tax Expenditures*. Retrieved from [http://www.nyc.gov/html/dof/downloads/pdf/13pdf/ter\\_2013\\_final.pdf](http://www.nyc.gov/html/dof/downloads/pdf/13pdf/ter_2013_final.pdf)

2 Nearly half of the FY2013 421-a tax expenditure benefitted rental properties (as opposed to condominium developments).

3 More specifically, participating properties are exempt for a period of time from any increase in property tax liability resulting from construction (i.e., developers still pay property taxes on the value of the land). The exemption is then phased out over time.

4 Typically developers of rental buildings are required

to set these rents at a level affordable to a household earning 60 percent of the area median income.

5 The latest amendment to the 421-a program requires landlords to maintain stabilization for existing tenancies upon benefit expiration.



## QUESTIONS & CONSIDERATIONS

The property tax is one of the most powerful policy levers the city has at its disposal to affect the behavior of local real estate developers. Because property taxes represent a large liability on any real estate project's balance sheet, even partial relief can be enough to incentivize developers to include affordable housing units in their plans.<sup>6</sup> Calibrating these incentives, however, is a tricky matter. Unless developers believe a program's tax savings outweigh the forgone revenue from the required affordable units, the program will sit unused. If the city sets incentive levels too far beyond the threshold of profitability, however, it will provide an unnecessary windfall to developers. Because the city is not privy to these developers' financing models, market forecasts, and risk tolerances (let alone future market conditions), calibrating tax incentives to be appropriately generous prior to the construction and leasing (or sale) of units is very difficult.

Calibrating incentives designed to be used after a building is built, however, is less difficult. Once a building is constructed and its units rented,<sup>7</sup> it is easier for the city to understand the level of tax relief necessary to encourage an owner to preserve affordable rental units. The rental revenue forgone by offering 20 percent

of units for below-market rents is fairly easy to estimate—it is (roughly) the difference between the mandated affordable rents and the market-rate rents being charged in the other 80 percent of units.<sup>8</sup> The city already has access to the actual rents being paid by market-rate tenants in almost all of these properties through the annual Real Property Income and Expense Statements owners file with the Department of Finance.<sup>9</sup> Using these data, policymakers can estimate the true cost to developers of preserving affordable rental units as often as necessary, making it considerably easier to design a well-calibrated tax incentive.

Using a property tax cap to persuade expiring 421-a rental property owners to retain affordable units would not take advantage of the availability of these data to help set appropriately sized incentives. Moreover, the most recent amendments to the 421-a program require that, upon expiration of the benefit, developers keep affordable units affordable for the duration of any existing tenancies. Thus, at least with respect to new 421-a projects, affordability requirements associated with the tax cap would only benefit tenants new to the property after the expiration of initial benefits. Finally, a 30-year property tax cap would provide valuable predictability to property owners, but render the size of the incentive offered unpredictable to the city. Should property tax rates applied to rental buildings raise significantly over the next 30 years, the city could end up providing a subsidy to property owners well in excess of rental revenue forgone by keeping 20 percent of their units affordable.

<sup>6</sup> Some have argued that 421-a subsidies are critical to address the disparities in the effective tax rates for rental buildings, relative to single family homes, co-ops, and condos. The Furman Center examined these disparities in two recent publications. See Furman Center for Real Estate and Urban Policy. (2013, July). *Shifting the Burden: Examining the Undertaxation of Some of the Most Valuable Properties in New York City*. Retrieved from [http://furmancenter.org/files/FurmanCenter\\_ShiftingtheBurden.pdf](http://furmancenter.org/files/FurmanCenter_ShiftingtheBurden.pdf); Furman Center for Real Estate and Urban Policy. (2012). *State of New York City's Housing and Neighborhoods 2011: Distribution of the Burden of New York City's Property Tax*. Retrieved from [http://furmancenter.org/files/sotc/Distribution\\_of\\_the\\_Burden\\_of\\_New\\_York\\_Citys\\_Property\\_Tax\\_11.pdf](http://furmancenter.org/files/sotc/Distribution_of_the_Burden_of_New_York_Citys_Property_Tax_11.pdf)

<sup>7</sup> The property tax cap proposal applies only to 421-a rental properties.

<sup>8</sup> This is a rough estimate because affordable units may not be as desirable as market-rate units due to their location in the building (e.g., on a lower floor) or level of finish (e.g., less expensive appliances), and thus the market rents they would command might be lower than existing market-rate units.

<sup>9</sup> Although the Department of Finance waived the requirement to file a detailed rent roll in FY2012, it is clear it has the capacity and authority to gather these data.



There are, however, certain benefits to using a property tax cap as an incentive to preserve affordable units. First, a cap would, of course, encourage the preservation of affordable units that might otherwise be lost. Second, unlike a tax exemption, a property tax cap pegged to gross rental revenue would adjust with changing market conditions, minimizing the windfalls to developers that might accrue otherwise (though the benefit size could still grow if tax rates were to increase).

Using a property tax cap as an incentive to persuade expiring 421-a rental-property owners to preserve affordable units raises a number of questions. Mayoral candidates should explain why a flat cap should be used instead of a more nuanced assessment of the subsidy needed to make up the difference between the affordable rents and market rents.

More broadly, candidates should say whether they believe the city should make preserving affordable units in 421-a projects a priority, and why. The 421-a rental buildings that contain affordable units tend to be located in the city's most expensive neighborhoods and, accordingly, the subsidy required to make these units affordable to low-income New Yorkers is comparatively high. By subsidizing affordable units in more affluent neighborhoods, the city helps to deconcentrate poverty and promote neighborhood diversity, but at a cost, and those funds could be used instead to generate even more affordable housing. Candidates should explain what they believe to be the right balance between these competing values.



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# 10

## **How should the next mayor prioritize the preservation of existing affordable housing units?**

Over 45,000 existing units of affordable housing will expire from their current affordability restrictions and require new subsidies during the next mayor's first term. Resources for preserving those units likely will be quite constrained. The next administration accordingly will have to make hard choices between funding the construction of new affordable housing or preserving those currently affordable units, and will have to set priorities about which units to preserve, and at what cost.



## THE BASICS

Over 250,000 units of privately owned and publicly subsidized affordable rental housing have been developed in New York City in the last 50 years under the four largest categories of government subsidy programs: U.S. Department of Housing and Urban Development (HUD) financing and insurance, HUD project-based rental assistance, New York City and New York State Mitchell-Lama, and the federal Low Income Housing Tax Credit (LIHTC). With each of these programs, the affordability requirements expire after a set number of years. At that point, the property owner can choose to renew the subsidy (if it still exists), accept a new infusion of financing with affordability restrictions (if the city offers it), or opt out of the program and let the units convert to market rate or rent stabilization. Thus far, as Table 1 shows, 68,000 units in 362 properties, representing over 25 percent of units ever subsidized in New York City under these programs, have left all subsidy programs tracked in the Subsidized Housing Information Project (SHIP) database, the Furman Center's free, searchable database of subsidized properties.<sup>1</sup>

Figure 1 shows that between 2000 and 2011, about 33,700 units left all affordability programs tracked in the SHIP database, while 28,500 units extended their affordability restrictions and 59,400 new units came online. This is fewer than the number of preserved units reported under the Mayor's New Housing Marketplace plan because that plan counts units that are not catalogued in the SHIP database (such as properties developed through the Housing Trust Fund or Housing Asset Renewal programs), as well as properties that left all programs tracked in the SHIP database but were preserved as affordable housing using city-funded programs not captured in the SHIP database (such as the Preservation Loan Program or the Small Owner Repair Program). Had the city not preserved any affordable properties and the 28,500 units that it did preserve had instead exited affordability, it would have actually had a net loss of affordable units since 2000.

<sup>1</sup> It is possible that some properties have received financing through subsidy programs that are not yet included in the SHIP database and have affordability restrictions through those programs. Additionally, many properties entered rent stabilization after their subsi-

dy expired due to previous agreements or in exchange for tax abatements. In many formerly HUD-subsidized properties, while the rents may have increased to market rate, the tenants at the time of opt out often received Section 8 vouchers.

**TABLE 1: Subsidized Affordable Properties Financed Through Any Programs Catalogued by the SHIP Database**

|                                                 | <i>Properties</i> |     | <i>Units</i>   |     |
|-------------------------------------------------|-------------------|-----|----------------|-----|
| Currently Subject to Affordability Restrictions | 2,220             | 86% | 182,061        | 73% |
| No Longer Subject to Affordability Restrictions | 362               | 14% | 68,168         | 27% |
| <b>Total</b>                                    | <b>2,582</b>      |     | <b>250,229</b> |     |

*Source: Subsidized Housing Information Project (SHIP)*



Table 2 shows that, during the next mayor's first term, the subsidies and affordability restrictions governing 129 HUD and Mitchell-Lama properties with nearly 23,000 rental units will expire, giving owners the option to leave their subsidy programs. Not every property owner will choose to opt-out of the subsidy program, but even if an owner wants her property to remain affordable, nearly half of these properties (with 14,000 units) will expire from a program that is not renewable and thus will likely require an additional infusion of subsidy from the city in order to remain affordable.<sup>2</sup> In addition, between 2014 and 2017, 392 LIHTC properties with nearly 16,000 rental units will reach the end of their 15-year subsidy term at which time some properties will seek additional subsidy. Further, 26 Mitchell-Lama properties with 7,700 units have the option to opt out at any time, though they have not done so yet. As the real estate market begins to heat up again, opting out of a subsidy program may become more desirable. Although it is difficult to predict exactly how many and which properties will require preservation money to remain affordable, these numbers show that the next administration will have to make hard choices if, as is likely, housing dollars are limited.

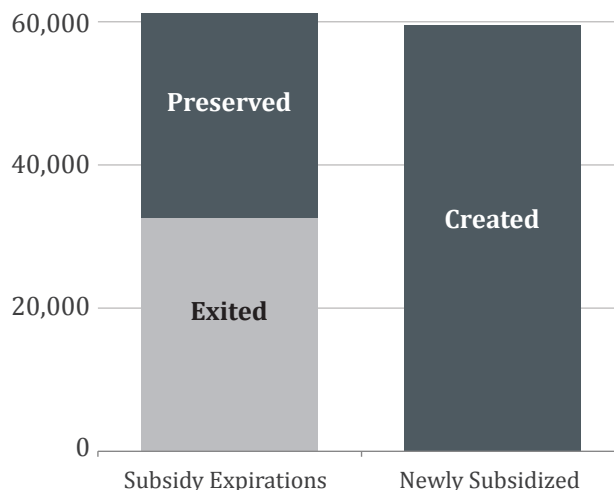
## QUESTIONS & CONSIDERATIONS

Any affordable housing plan for the next four years will likely involve a mix of new construction and preservation financing. Designing a plan will mean balancing the pros and cons of each.

There are several arguments for favoring preservation. First, in the short-term, preserving an existing unit is almost always cheaper than financing the construction of a new housing unit. Although the exact cost of either preservation or new construction varies based on the unique characteristics of each building, the Center for Housing Policy

<sup>2</sup> Many of these properties will enter rent stabilization if or when they leave their subsidy programs.

**FIGURE 1: Affordable Housing Units in Four Major Subsidy Programs that were Created, Preserved, or Exited Affordability, 2000 - 2011**



Source: Subsidized Housing Information Project (SHIP)

estimates that over the 50-year lifecycle of a building, the cost of new construction is approximately 25 to 45 percent higher per unit on average than the cost of preservation.<sup>3</sup> Thus, dollars spent on preservation can provide housing to more low-income households than the same number of dollars spent on new construction. Second, preservation generally is faster than new construction. Third, because new construction is likely to occur in the lowest-cost neighborhoods, preserving existing affordable units may allow low-income residents to live in a more diverse range of neighborhoods.

However, there are also some arguments against prioritizing preservation. First, it is difficult, and perhaps impossible, to know which

<sup>3</sup> Brennan, M., Deora, A., Heegaard, A., Lee, A., Lubell, J., & Wilkins, C. (2013). *Comparing the Costs of New Construction and Acquisition-Rehab in Affordable Multifamily Rental Housing: Applying a New Methodology for Estimating Lifecycle Costs*. Retrieved from [http://www.nhc.org/media/files/CostComparison\\_NC\\_AR.pdf](http://www.nhc.org/media/files/CostComparison_NC_AR.pdf)

**TABLE 2: Affordable Properties Eligible to Exit Affordability, 2014 - 2017**

|                                                    | <i>Properties</i> | <i>Units</i>  |
|----------------------------------------------------|-------------------|---------------|
| Expiring from all programs                         | 129               | 22,936        |
| LIHTC "Year 15"                                    | 392               | 15,899        |
| Current Mitchell-Lama that can opt out at any time | 26                | 7,700         |
| <b>Total</b>                                       | <b>547</b>        | <b>46,535</b> |

*Source: Subsidized Housing Information Project (SHIP)*

building owners will require an additional infusion of capital to remain affordable and which may choose to maintain their current affordability levels even without additional funds. Without being able to perfectly predict how individual owners will act in the absence of a preservation offer, the city may spend money “preserving” properties that would have remained affordable. Second, preserving properties alone will not actually add to the stock of affordable units and accordingly cannot remedy the existing gap between the number of low-income households and the number of affordable units in New York City. However, if preservation is deemphasized, more properties could opt out of affordability restrictions than the city can replace with new units, leaving the city with fewer affordable housing units overall.

Often the discussion over preservation versus new construction ends in overly optimistic promises to do as much of both as previous administrations have done. But candidates should confront the problem of limited resources head-on, and be ready to grapple with what criteria to use to allocate funds between preservation and new construction. In addition, if available subsidies aren’t sufficient to preserve all properties, difficult choices will have to be made about which to prioritize. While every property will involve somewhat different considerations, candidates should set forth the criteria they generally will use to choose how to spend the funds they decide to allocate to preservation.