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Jump-starting new housing production key to recovery

BY STEVEN SPINOLA
REBNY PRESIDENT

The high cost of development in New York City — real estate taxes, construction cost and government approval — make the 421a program a necessity for builders, lenders and all New Yorkers who rely on the housing, the jobs and the tax revenue the program helps generate.

The 421a partial tax exemption program is fundamentally a housing production and job creation program that is most effective in a good market. It is a necessary element in the construction of new multi-family housing in New York.

In the recent boom period (2000 and 2008) New York City completed, on average, more than 18,000 units annually; in the recessionary-ridden 1990's, we averaged annually 8,200 units.

Last year, we issued permits for less than 6,000 units. Based on new permits through May 2010, we are not likely to improve on this total.

As a result of the decline in new housing permits and in production activity, the current difficulties in the housing market, and the continuing problems in the credit market, we are likely entering a period in which new housing production will be lower than the 90's, which was the worst decade for housing production since World War II.

During the boom period, new residential construction accounted annually for more than 57,000 construction jobs; \$3.5 billion in wages and salaries; \$744 million in city and state tax revenue (exclusive of property taxes), including sales tax, mortgage recording and transfer taxes, payroll taxes and personal income taxes.

In addition, this new housing production was annually generating approximately 1,450 permanent jobs, including building service workers, whose \$76 million in wages and salaries generated \$6.8 million in city and state tax revenue.



A robust housing production market in which 421a plays an instrumental role provides enormous economic benefits to our city and state.

Beginning in the 1980's, New York City launched a series of initiatives that would take advantage of the strong New York housing market. They also parlayed a strong Manhattan housing market and creative tax and development policies into the construction of affordable housing with the negotiable certificate program, the inclusionary housing program and the 80/20 program.

These housing initiatives, for which the city has received insufficient credit and recognition, were intended to complement the city's more robust program to create and preserve affordable housing for a wide range of income groups.

During the boom period, these programs were producing a large number of affordable units. Since then, the changes in the 421a program and the economy have reduced the private sector production of affordable housing except for the handful of 80/20 projects that received financing and proceeded.

REBNY has discussed the current program, the state of the housing market and what could be done to jumpstart new housing production, including affordable housing that is linked to the 421a program, with its members.

Here are our recommendations:

- Extend the 421a program. The high cost of development in New York and the

enormous and inequitable tax burden on new residential development in general and condominium projects in particular make 421a essential. No one will build or lend without these benefits.

- Establish an option for 80/20 projects that would make the low income units permanently affordable and would keep the market rate units in rent regulations, provided the real estate taxes on the building are set at 12 percent of its gross income.

Unless such a provision is created, the 20%

low income units will not stay affordable. Once these units lose their affordability, they are never going to return to the affordable housing inventory. The high real estate taxes (30% or more of gross income) on these properties will compel owners to make these units market rate.

Recent projects that were approaching the end of their 20-year benefit schedule have been sold with plans to convert to ownership housing. We estimated that there are approximately 25,000 units built under the 80/20 program with 5,000 on-site affordable units. This feature would provide a reasonable mechanism to retain the affordability of these units. This proposal highlights the enormous real property tax burden on new and existing housing, why 421a is necessary and how tax policy is having a destructive impact on housing policy.

- Extend the construction period benefit

an additional 36 months for projects that have been stalled. These projects which have started construction and have building permits in hand provide the fast and most efficient method to trigger the job creation and housing production benefits that are a key goal of the 421a program.

We estimate there could be between 7,000 and 10,000 units whose construction has stalled. More importantly, this change will encourage lenders to finance these projects and get them back into the market.



- Expand the program to include conversions. The conversion benefits were a key ingredient to the revitalization of Lower Manhattan. Granting 421a benefits for conversion activity provides another way to produce housing, create jobs and generate affordable housing.

- Restore 421a benefits to Floor Area Ratio (FAR) 15 zoning districts. Earlier legislation failed to correct this oversight.

REBNY will continue to speak out in favor of the 421a program and keep you informed of any progress.