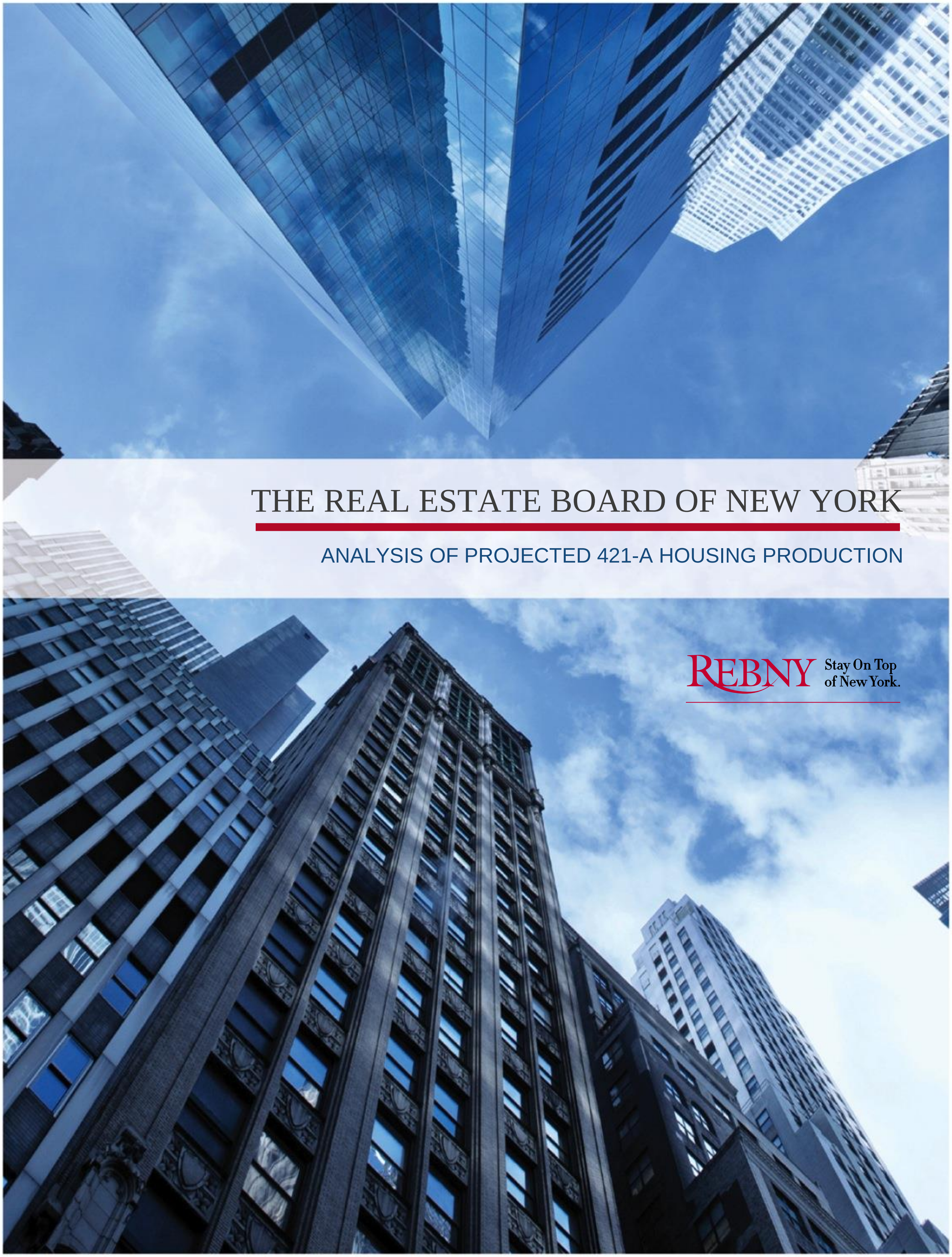

THE REAL ESTATE BOARD OF NEW YORK

ANALYSIS OF PROJECTED 421-A HOUSING PRODUCTION

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ANALYSIS OF PROJECTED 421-A HOUSING PRODUCTION

The 421-a partial tax exemption program is set to expire in June 2015. While some have called for the termination of the program, the negative effect on housing production would be significant if the 421-a program were not renewed. New York City would likely experience a sharp drop off in the production of new housing units, a major loss of middle income and other affordable housing construction, a continued skewing of the market toward condominium units rather than rental production, and a further increase in housing costs.

To demonstrate the importance of the 421-a program to the creation of multi-family rental housing—and particularly to the affordable units that many of these projects include—REBNY has analyzed a sampling of some of the larger projects furthest along in the development pipeline. While it is not intended as a comprehensive look at all of the projects that are relying on the renewal of 421-a, this analysis begins to tally some of the market-rate and affordable rental units that would likely not be created if the 421-a program were not renewed this June—a full accounting of the units in jeopardy would likely be considerably higher. These preliminary findings indicate that over 5,484 affordable rental units would likely never be built, along with the 15,269 market rate rental units associated with the same projects.

EXPECTED 421-A PROJECTS

To begin to quantify the number of units that would likely not be built if the 421-a program were discontinued, this analysis looked at projects that are significantly advanced through the development pipeline. The chart below shows a sampling of large projects that have received their major entitlements (i.e. public reviews and approvals such as ULURP) and that are reliant on the 421-a program for their financial feasibility, but that have not yet been approved for the 421-a tax exemption[1].

Although there are many additional projects that are anticipating the use of 421-a tax exemptions to begin construction, this list is intended to highlight some of the larger forthcoming developments. This serves as a way to begin to show the magnitude of the number of units that would be affected if the incentive were discontinued—some projects would never be built, while others would likely lose their affordable component and be developed as condominium units instead of rentals. It is also reasonable to assume that this list is predictive of longer-term development trends if the 421-a program is not renewed—given that these projects are reliant on a partial tax exemption for their economic feasibility, similar mixed-income projects will continue to have the same type of financial constraints in the future.

[1] Some of the projects included here consist of multiple phases or buildings, and some parts of the development may be further advanced than others. In these cases, only those units that have not yet vested in the 421-a program are included in the figures, and those units already in construction and that have secured the 421-a partial tax exemption have been omitted from totals.

PROJECTED HOUSING UNITS BUILT USING 421-A

Project	Borough	Total Units	Affordable Units
22-25 Jackson Avenue (5PointZ)	Queens	1,000	209
33 Bond Street (Brooklyn)	Brooklyn	714	143
606 West 57th Street	Manhattan	1,028	224
Astoria Cove	Queens	1,723	460
Domino	Brooklyn	2,300	700
Essex Crossing[2]	Manhattan	900	400
Greenpoint Landing[3]	Brooklyn	5,500	1,400
Hallets Point	Queens	2,400	480
Pacific Park	Brooklyn	5,188	1,468
Total		**20,753**	**5,484**

BACKGROUND

The 421-a program has long been an integral component of the City's strategy for producing new market-rate, middle income and affordable housing. Since its creation in 1971, however, the program has undergone many modifications as the economy and housing market have evolved.

In the early 1970s, the sole intent of the 421-a program was to encourage the construction of new housing. When the City's economy and housing market was recovering from the fiscal crisis of the 1970s, the program was modified in the early 1980s to capitalize on the growth of the housing market in Manhattan.

A Geographic Exclusion Area (GEA) was created from roughly 96th Street to Houston Street that restricted the 421-a benefit to projects that included affordable housing on site or that purchased negotiable certificates. The negotiable certificate program—which was established in 1984 and administered by HPD—issued certificates to a builder for the completion of new affordable housing anywhere in the City that was built in accordance with the program's requirements. The low-income builder would then sell the certificates to a market-rate builder to allow a market-rate project in the GEA to qualify for a tax exemption.

In the midst of the economic slowdown in the early 1990s, the City further amended the 421-a program to spur new market-rate and affordable housing, introducing a twenty-year benefit for projects that included 20 percent on-site affordable housing available for households earning up to 80 percent of AMI.

In 2008, as the economy and the City's housing market were crashing, the City and State again amended the 421-a program to dramatically reduce the availability of benefits, eliminate the negotiable certificate program and expand the GEA. Given that many multi-family rental housing developments now pay more than 30 percent of their gross revenue to taxes, the partial and temporary tax relief provided by the 421-a program continues to be critical to alleviate the high tax burden and allow new housing to be built.

[2] Excludes Site 6, which is planned as 100 units of affordable housing for seniors but is not eligible for 421-a.
[3] These figures represent the entire scope of the project, including some buildings that are already under construction.

THE NEED FOR 421-A

The City faces a systemic housing problem. New housing production has not kept pace with the growing population, which is projected to reach 9 million by 2040. We will need an estimated 20,000 new units each year for 20 years to meet this demand. Even if we reach this level, we will still not have created enough units to raise our vacancy level above five percent[4] and create downward pressure on rents.

Real property taxes have become a nearly unsustainable burden on rental housing, with many multi-family rental housing developments now paying more than 30 percent of their gross revenue to taxes. Between 2002 and 2014, the real property tax levy has increased by 130 percent, or approximately 11 percent each year. This growth has fallen more heavily on Class 2 (multi-family residential) property, and especially on rental housing, which is heavily relied upon by middle-income New Yorkers. In 2014, Class 2 properties paid 37 percent of the real property tax levy but accounted for only 24 percent of the market value of taxable real estate. Within Class 2 properties, the inequitable tax burden has fallen disproportionately on rental housing as compared to coops and condos.

According to the Independent Budget Office (IBO) Report on Real Property Taxes, residential rental buildings pay property taxes at a rate five times greater than coop and condo buildings. Given the enormous and inequitable tax burden on multi-family residential rental property, we will continue to need a robust, as-of-right tax exemption program to offset for a period of time the crushing burden of property taxes to build new housing and to preserve existing rental housing.

CONCLUSION

With the population of New York City expected to reach nine million people in 2040, new housing must be produced even more quickly than it is today just to keep up with demand, let alone to reduce the strain on the housing market. The de Blasio administration is proposing to build 80,000 affordable housing units in the next ten years, and projections show that an additional 100,000 new market-rate units will be needed to satisfy the City's expected growth. While necessary, this level of housing production is ambitious. Its likelihood of success is greatly imperiled if the 421-a program is not renewed.

In order to reach its goal of constructing 80,000 new affordable housing units in ten years, an average of 8,000 units per year must be built. The 5,484 affordable units included in this analysis represent over 68% of the units that would need to be produced in a given year. Even assuming these units will be constructed over a few years, this loss would be a significant hit to the City's housing program, especially since the projects included in this report have already gone through various time-consuming approvals processes. The time needed for new projects to go through the development, design and approvals process would make it very unlikely for the City to replace these lost units before 2024.

[4] The shortage of rental housing in New York City dates back to just after World War II, with the combination of returning war veterans and the decline in housing production during the war years. The City has been under an official "housing emergency" with vacancy rates of less than five percent since 1974, and this housing emergency has been renewed every three years since its initial declaration.

The City's housing needs continue to evolve each year as the population and real estate market changes, and as with any program, 421-a should continue to evolve along with it. Any changes to the program will of course affect how and where new housing is built, but as long as these changes are made thoughtfully and deliberatively, housing developers will likely be able to work within the new regulations.

A wholesale loss of the 421-a program, however, would be devastating to the production of multi-family rental housing, including middle income and affordable units, and would leave the City with skyrocketing property tax levies under which the housing market would be hard-pressed to operate successfully.