



Published in the

CRAIN'S

NEW YORK BUSINESS

Want to build housing in New York City? Renew 421-a

Loss of tax break portends plunge after developers rushed to beat deadline

February 7, 2016

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All is quiet on the 421-a front, the controversial tax break that expired at the end of last year because of an impasse among real estate interests, Mayor Bill de Blasio, construction unions and Gov. Andrew Cuomo.

That's more than unfortunate because three recent reports have shown how crucial a tax incentive is to building the housing New York City so desperately needs.

Developers have shown they believe it is indispensable.

In 2014, as the chart shows, developers took out some 20,000 building permits, the most in years. Given the strong economy, an increase of 10% or even 20% could have been expected the following year.

Instead, developers in 2015 filed for more than 56,000 permits, almost three times as many as in 2014. The big surge came before the June deadline for inclusion under the then-existing 421-a program, which provided an exemption from property taxes that phased out over two decades. The 421-a plan was eventually extended to Dec. 31, and a new one was set to take effect if real estate interests and construction unions could have reached an agreement by Jan. 15 on wages for those who work on new buildings. When those talks faltered in December, builders rushed to the permit office, filing for another 7,700 new units.

The reason is that property taxes on rental buildings are prohibitive.

At a recent Assembly hearing on the city's (very dysfunctional) property-tax system, both the Citizens Budget Commission and the Independent Budget Office said the effective tax rate on rental buildings was at least four times that of single-family homes and most condos and co-ops. The IBO said for some buildings, the multiple was as much as 5.8 times.

Outside the areas of Manhattan that can command sky-high rents, the property-tax burden means developers can't build reasonably priced apartments—and that's before any requirement for "affordable" units.

Using union labor will send costs much higher.



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The vast majority of affordable housing is built with less-costly nonunion workers. As construction unions have lost ground in so many other sectors, such as hotels, they have sought to use their clout to require use of their workers to build affordable housing. They gained the support of the governor, probably because the mayor didn't support the unions. The always-reliable IBO found that using prevailing wage, which leads to union labor, added 13% to construction costs, or \$45,000 per unit.

The result would be either fewer affordable units or larger city subsidies.

Builders and the mayor want a 421-a tax break lucrative enough that it would allow the city to mandate affordable rents for up to a third of all units—an arrangement that would still require billions of dollars in city subsidies.

And the unions and the governor think they can ask for more?