Report to the New York City Public Advocate: Affordable Housing in New York City

Part One: The Context of Affordable Housing in New York City

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Part One:	The Context of Affordable Housing in New York City
Part Two:	Inclusionary and Related Zoning Approaches to Affordable Housing: A Reference Manual
Part Three:	New York City Affordable Housing Policy Options
Part Four:	The New York City Affordable Housing Atlas
Part Five:	Affordable Housing Compendium: New York City & National Affordable Housing Programs

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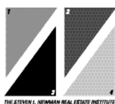

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Preface

This Report has been prepared by the Steven L. Newman Real Estate Institute of Baruch College under assignment to the Public Advocate of the City of New York, and on behalf of the City Council. This Report consists of five documents which together enumerate descriptively and quantitatively the state of New York City's affordable housing, historic problematics of housing support programs, policy considerations currently in play, and thus provides recommendations as to how need can be met through innovative production, financing and incentive mechanisms.

Part One of the Report exposes the gap between the demand for and supply of affordable housing in New York City. It presents the trends, dimension and basic reasons for the affordable housing crisis, and an inventory of programs now available to produce affordable housing.

Part Two of the Report presents the key elements and trade-offs associated with inclusionary zoning and related zoning options to promote new housing development, and particularly affordable housing development, in New York City.

Part Three of the Report provides recommendations not only on the inclusionary and related zoning options, but also presentation of an ambitious concept to vastly expand affordable housing production.

Part Four of the Report is a new atlas of the City of New York, showing by census tract the avail-ability of land for redevelopment. This is a joint effort of the Newman Institute and the Center for Advanced Research of Spatial Information of Hunter College.

Part Five of the Report is a compendium presenting the affordable housing programs of jurisdictions from across the nation.

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Introduction

The following study exposes the gap between the demand for and supply of affordable housing in New York City. It presents the trends, dimension and basic reasons for the affordable housing crisis, and an inventory of programs now available to produce affordable housing.

This Part of the Report is the first in a series of five documents being prepared by the Steven L. Newman Institute of Baruch College, under assignment to the Public Advocate of the City of New York, and on behalf of the City Council. The other documents are:

- Part 2 Report—A presentation of the key elements and trade-offs associated with inclusionary zoning and related zoning options to promote new housing development, and particularly affordable housing development, in New York City.
- Part 3 Report—Recommendations not only on inclusionary and related zoning options, but also p resentation of an ambitious concept to vastly expand affordable housing production.
- Part 4 Atlas—A new atlas of the City of New York, showing by census tract the avail-ability of land for redevelopment. This is a joint effort of the Newman Institute and the Center for Advanced Research of Spatial Information of Hunter College.
- Part 5 Anthology—A compendium presenting the affordable housing programs of jurisdictions from across the nation.

In this study, policies for stimulating both subsidized and market-rate housing will be evaluated. The emphasis will be placed on zoning and other regulatory aspects of housing development and their interaction with existing subsidy programs. We will evaluate the capacity of existing subsidy programs and identify notable gaps in public subsidy programs, where they are apparent.

Section One hereunder presents the support and control mechanisms of, and impediments to, housing production in New York City. Section Two exposes the scope of need for affordable housing units in the City, and defines "affordability." Section Three catalogues and provides commentary on existing housing support programs opperated by City and State agencies. Section Four quantifies the production of units and level of public support under these programs. Section Five provides insight into European practices regarding affordable housing, as they relate to New York City's own cousing crisis.

This Briefing Book offers no recommendations and articulates no policy preferences. It is intended to establish a foundation of agreed-upon facts and unbiased analysis to inform the decisions of elected officials, to lay a groundwork for future work of the Newman Institute, and to facilitate the public debate on affordable housing. Part Three of the Report offers ideas and recommendations for encouraging new market-rate and affordable housing development.

Background

New York is again, as it has been at other critical moments in its three-and-a-half-century history, at a strategic turning point.

On one hand, significant structural changes, begun following the end of World War II, have transformed a great portion of the economic base of New York City, and far-ranging questions arise about its economic future within regional, national and global economies. Transportation and communication technologies continue to facilitate broad economic and employment decentralization. These technologies have fueled, over the past quarter century especially, an intensified expansion of economic activity widely into New York's surrounding metropolitan region, and have heightened the broad, long-term dispersal of business functions and employment opportunities across the entire northeast corridor as a whole. In addition to these "local" geographic issues there are macroeconomic changes under way that will deeply affect New York's future: The increasing importance of Asia to international markets and economies of the 21st century raises questions about whether New York City can remain—as an East Coast and Euro-focused city—the economic locus of international United States business interests in the 21st century that it was during the 20th century. There is the chance that West Coast, Asia-oriented cities such as Los Angeles will assume even greater significance as the primary international entry ports to the United States economy.

Both regional and international economic market forces have contributed to the residential exodus from New York City since the early 1950s. While in the past decade immigration to New York City has swelled, the long-term sustained residential presence of immigrant communities in New York City—and the continual flow

of immigrants to the United States in general during a period of high international security tensions—only adds to the long-term questions about New York's economy. In many, if not most, of these arenas, there are only limited amounts of initiative and control, which New York City alone can take.

On the other hand, the strengths of New York as a residential market have been enhanced over the past two decades by a variety of domestic and immigrant demographic factors—especially over the past decade in the broader real estate cycle beginning approximately in 1993. The comparative desirability of New York City, especially Manhattan and parts of Brooklyn, Queens and Staten Island, as residential locations for upper-income individuals and families was re-established strongly after a period of decline lasting nearly three decades in which the population of the city fell from approximately eight to seven million people, and then stagnated at that level. The interest of upper income groups in the most desirable parts of the five boroughs established a classic trickle-down effect on other boroughs and neighborhoods. This dynamic continues today and has in effect created a good measure of the affordable housing dilemma in which the city finds itself: uncertain of its commercial future, but confident, short of another major terrorist attack, that its allure as a residential seat for a heterogeneous international population is more secure than ever. Today, residential land values exceed commercial ones in almost all parts of Manhattan below 96th street, with very few exceptions. Mixed-use developments at the highest end of the Manhattan development market are sustained financially more by their residential components than their commercial sections.

Changing national immigration policies have created a virtually new city demography since the end of World War II: the outerboroughs are a polyglot mix of Asian, African, Indian, and Latin American families. Equally important, especially in Manhattan, has been its desirability as a dense nineteenth-century pattern city—one of the last to survive intact in the United States—which has increased its allure to a wide variety of persons with well-above-average incomes.

The conversion of many Upper East Side, West Side and Greenwich Village apartment houses in the late 1970s and 1980s significantly diminished the supply of rental housing in these prime middle-class areas. The buildings which remained rental, in the face of gradual abandonment of the most onerous aspects of rent control, and the creation of a new category of "rent stabilization," added to the cost of rental housing in New York City, (especially in Manhattan, where rent control has had its greatest impacts). The draw of senior citizens to Manhattan as a viable retirement option, the allure of the city as a security haven for foreign investment during the 1990s, and the intensified interest among young people, fresh from college and begining their careers in New York City has added to the demand side of the equation for housing. The impressive success of many new immigrant groups coming to New York and with homogenous ethnic zeal reclaiming small neighborhoods and subseqently larger sections, often by the sweat of their own hands with little or no government help, have also served, on a market-wide basis, to increase the overall costs of housing in New York City today.

These new and dynamic market demands have eclipsed the overall supply of housing in the five boroughs, raising the costs of significant components of rental and a preponderance of ownership housing exponentially. Consequently, the debate over what is affordable and who is responsible for "creating" affordable housing has intensified over the past decade in New York City. Captive to its own success, the problems of distributive access on some established ethical—or strategic—bases have been brought, as they have before in New York City's history, to the forefront.

In the last quarter of the 19th century, waves of Italian and Eastern European immigration to a newly prosperous labor-hungry New York City and region spurred a prior affordable housing crisis. The construction of old-law tenements, housing that could be managed by the struggling immigrant groups, was developed in various parts of New York, notably on the Lower East Side. The commentary of Jacob Riis and successor criticisms of physically deprived solutions to affordable housing needs has remained the benchmark in New York City, resulting in the first major wave of government regulatory structures in regard to standards—the new law tenements. These tenements, undoubtedly vastly superior to the "old-laws" nonetheless interrupted what had until then been a market approach to the provision of affordable housing. Then, with the market interrupted by regulation, since approximately the 1930s with advent of the con-

struction of the first New York City Housing Authority development on the Lower East Side, First Houses, there has been an acceptance on the part of New York City that it bears some responsibility for creating affordable housing opportunities. In effect, the New York City Housing Authority was a trade-off for the regulation of markets to prevent the re-creations of the old-law tenement conditions and, to allow "the market" by itself to resolve the demands for affordable housing.

Since the 1930s, and more importantly since the end of World War II, the methods of creation have been launched in one of three ways:

- constructing new residences wholly owned, dispensed and managed by the City of New York through the New York City Housing Authority;
- building housing units that were deemed, by a continually shifting calculation, to be affordable through various regulatory incentives and programs to private sector developers, including the actual transfer of real property owned by the city to a prospective developer; and
- subsidizing through monthly income payments, either to tenants or to building owners in behalf of a tenant, a partial payment for a monthly rent.

While varying in its exact numbers, the basic formula for affordable-income housing has rested on two premises and their consequent calculations:

- a family should not be forced by the market to spend more than 25% - 30% of its net after-tax income on housing;
- housing which (on the basis of this 25% - 30% formula) exceeds in annual rental or ownership cost this percentage of income, is deemed "unaffordable." Average incomes across the United States (including New York) have usually been calculated on the basis of the decennial national census.

Over the past seventy-five years, these three approaches to the creation of affordable housing have achieved the following number of residences:

In the five boroughs of New York City:

- Publicly built and owned (and dispenses) housing: 247,500 units
- Direct subsidies and real estate grants: 103,600 units
- Publicly assisted housing through loan subsidization programs, government bonds cost-write-down programs: 296,600 units
- publicly assisted housing through government tax abatement programs: 32,754 units

The lack of affordable housing in New York City is at least a century old; the initial push to provide safe housing for low income populations can be dated to at least as far back as the Jacob Riis's 1891 book *How the Other Half Lives*. His depiction of low-income New Yorkers living in squalid conditions and the accompanying social pathologies set the stage for affordable housing debates to come.

For many years after his book and the accompanying wave of reformers, the focus was on cleaning up the slums and improving safety. The cost of the housing, while important, was not the primary issue. Over time, as the condition of slums were improved, the goal of reformers changed. In the early 1960's, there was a significant change in how housing issues were viewed by government and reformers. Whereas the previous goals of housing advocates had been to provide *safe housing*, with the Great Society programs of the Johnson Administration from 1964 - 1968(including the "war on poverty"), the focus shifted to providing *decent housing*. Basic safety issues such as protection from fire and protection from the elements had been essentially provided; the goal was now to provide middle-income quality housing to low-income people. For better or for worse, the goal of the reformers keeps shifting; as middle income people continue to benefit from technological advances in housing, such as air conditioning, the new advances are then set forth as the new standard that low income housing should aspire to.

This new goal was the result of many confluences, but the primary reason was that reformers had a moral belief that a certain level of housing quality should be provided to all citizens regardless of income. Those who did not share this belief also would sometimes argue for affordable housing as a "merit" good; in other words, it is a product that will not be provided in sufficient quantity if the private market is left on its own and it provides benefits to society as a whole that justify its subsidization (i.e., the public funding of college education is a more common example).

New York City has a unique role in the history of affordable housing production. It has a physical environment that is extremely challenging to new development and also has developed an extremely complex

regulatory framework regarding housing development and occupancy. New York City is the gold standard against which all affordable housing programs can be tested; if they can work here, it is likely that they will work anywhere. Whereas many cities are expensive to live in, New York City is consistently ranked at or near the top in cost of living studies. This is not just a result of the physical structure of the city; New York is consistently ranked as one of the top cities to live in on a global scale. As such, global consumers help drive the prices of upper income housing.

What is remarkable about New York is that unlike in other cities, the affordability issue matters for most residents and not just low income populations. In addition, our regulatory environment is extremely challenging. Any attempt to provide affordable housing, whether through tax abatements or low interest financing, must contend with complex zoning, building regulations, and rental regulations.

Zoning and planning

While the overall issue of affordability has remained the same, the rationale for the programs has shifted. At the turn of the century, housing for low-income individuals was genuinely unsafe. The original 1916 zoning code was focused around resolving health and safety issues.

As it stands right now, it is difficult to build as-of-right housing under the 1961 zoning ordinance. In order to regularize the process of granting variances, the city established in 1975 the Uniform Land Use Review Process. This extended process creates a format under which community boards have a formal input into whether or not a development should proceed. Unfortunately for developers, many community boards are particularly hostile to new development.

Rent control

The rent control system in New York has a long history. While rent control dates back to post WW I in New York City, the modern system, "rent stabilization" is a product of the Rent Stabilization Law of 1969.

Vacancy decontrol, in its modern form, was enacted in 1993 (e.g., there had been two high rent decontrol periods in the 1960's). Estimates of the number of units that have been destabilized vary widely depending on whether one asks a landlord group or a tenant group.

The New York City Rent Guidelines Board, the organization that sets the rent increases for stabilized apartments, recently published a comprehensive report ("Changes to the Rent Stabilized Housing Stock in New York City, 1994-2002") that estimates there has been a net loss of 43,000 regulated stabilized units over this 8 year period. This represents less than 5% of the city's stabilized housing stock.

The rent stabilization laws were renewed with vacancy decontrol left intact and the rent threshold for vacancy decontrol unchanged at $2,000 per month. What was remarkable about the renewal is not that it was extended for eight years (until June 15, 2011) but that the threshold is still not indexed with inflation. The rent threshold may have been intended originally only for luxury apartments, but it is now simply a matter of time before $2,000 is within reach of middle income New Yorkers and "luxury" decontrol becomes simply vacancy decontrol.

Mitchell-Lama

The passage of the Limited-Profit Housing Companies Law in 1955 (and its amendments in 1959 and 1960), or as it is commonly known as "Mitchell-Lama," was probably the state's greatest push into providing affordable housing for middle income households. The model was that developers would be enticed to build for middle income individuals with low interest tax exempt financing and partial real estate tax abatements in exchange for limiting their profits and dividends to 6 percent. After 20 years, the developer was given the opportunity to pre-pay their low interest mortgage and leave the system and its regulations on rent levels. While the program built

Current programs and their impacts

Throughout this entire time from 1960, housing has remained unaffordable in New York City. The history of a lack of affordable housing in the city suggests that this problem will not be solved with simply one more incremental program; a drastic change is needed in the way that housing is constructed and delivered to market if the affordability issue is to be solved.

There are six agencies that are primarily responsible for the development and rehabilitation of affordable housing in New York City. Three of them operate exclusively at the city level, two of them are state agencies that have significant operations in New York City and one is a private not for profit.

The six agencies are:

City NYC Housing Authority
NYC Department of Housing Preservation and Development
NYC Housing Development Corporation

State NYS Housing Finance Agency
NYS Division of Housing and Community Renewal

Private NYC Community Presenation Corporation

This report seeks to create a profile of New York City conditions at present, including the options for affordable housing that exist within the current body of regulations and practices, and the new sets of regulations, practices and incentives that may be considered to expand the population of affordable housing, and also to define anew what the demographic balances of the city seem to be at present, what the demand for affordable housing actually is.

Underlining these discussions is the need for new land and demographic profiles of the city's residents. Part Four of this Report: "The New York City Affordable Housing Atlas" will expose this issue in greater detail.

1: Key affordable housing policy concerns in New York City: 2004

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1: Key affordable housing policy concerns in New York City: 2004

Foreword

Since 1991 real rental prices for new apartment leases in New York City have increased by about 3 percent annually. Prices for owner-occupied homes have increased by about 4 percent annually over the same period. Those housing price trends are generally a positive indicator, as they reflect strong demand for city living and the public's confidence that the city's prospects are bright. However, in a more favorable development climate, demand for housing would express itself in greater housing creation and slower price inflation, allowing the city to maintain its cost-of-living competitiveness and thereby to sustain its economic growth. If housing price appreciation is too fast, it will inhibit migration and cause economic growth to slow.

While over one million city households own their housing and therefore benefit financially from price appreciation, approximately an equal number have low- or moderate-incomes and are vulnerable to high housing cost burdens or to housing instability. Research has shown that immigrants, the elderly, and single women with children are most adversely affected by high and rising housing prices.

It is both a moral imperative and a matter of enlightened self-interest that local government, and through it the public at large, play an active role in ensuring that housing costs be distributed equitably and that housing options for low-income families are provided. Many families vulnerable to high housing costs are long-time New Yorkers whose lives should not be disrupted simply because their incomes have not kept pace. Others are newcomers to the city who were attracted by its promise of opportunity and upward mobility, and who should be given the same opportunity to improve their lives as earlier generations of migrants enjoyed. It is also important to the cityís future that people of all income classes are accommodated in appropriate proportions. Many occupations, from teaching to nursing to entertaining, do not pay salaries competitive with those in business and finance, but are still critical to the efficient functioning of the city and to maintaining its quality of life. Moreover, many of those who start out with modest incomes, whether they be young singles from the mid-West or immigrant families from the mid-East, eventually contribute to the creative and entrepreneurial energy of the city and to its long-term prosperity.

If public subsidies are to work effectively (i.e., the taxpayer receives the maximum return on his investment), then the most efficient housing market possible must exist. Unfortunately, two key government regulations ñ the current zoning resolution and the current building code prevent the city's housing market from functioning smoothly. The problems and impacts related to the zoning resolution and the building code must be understood and then corrected. Without doing so, public subsidies will attempt to correct market deformations, rather than address affordability. Nonetheless, the city must have the latitude to craft appropriate public subsidy programs that are efficient and state-of-the-art; therefore, the regulatoryenvironment must provide it with the flexibility it needs to do so.

We shall briefly touch upon the problems and issues related to the zoning resolution and the building code and then we shall turn our attention to an overview of the regulatory and statutory environments in which the city has crafted its New Housing Marketplace programs. We shall thereafter provide a brief description of the principal subsidy programs proffered under the New Housing Marketplace.

Production of Market-Rate and Cross-Subsidized Housing

New York's golden age of private-sector housing production was the decade following the First World War, when more than 500,000 housing units were built. Housing construction was stimulated by the completion of the subway system and growing automobile access, which opened up vast new areas in the outer boroughs for residential development. Almost all of it was unsubsidized private housing, although the decade saw some of the earliest public efforts to promote housing construction for low-income families.

Immediately following the Second World War, a great amount of lower-density housing development occurred in northern and eastern Bronx, eastern Queens and southern Brooklyn. Housing production in New York City has declined almost continuously thereafter. During the 1950s new housing creation averaged about 32,300 units annually. In the 1960s annual production increased to 36,900, with new construction spurred by the overhaul of the Zoning Resolution in 1961 and developersí consequent rush to develop projects under the older, more permissive zoning regula-

tions. By the later part of the decade, annual production had decreased to about 17,000 units per year, a level at which it stayed for much of the 1970s. During the 1980s production fell to about 10,400 units per year, and during the 1990s, to about 8,200 annually. In the later 1990s and the early years of the present century, there has been a revival of residential construction citywide, with building permits rising from 5,135 units in 1995 to over 21,000 in 2003.

Public Funding

The long-term secular decline of housing construction in the city undoubtedly has a number of causes. One possible cause that is often neglected is fluctuations in public funding for assisted housing. During the 1950s public housing built by the New York City Housing Authority (NYCHA) accounted for almost 23 percent of all housing creation citywide. Similarly, during the 1960s, public housing and Mitchell-Lama housing accounted for nearly one-third of all new housing built. During the first half of the 1990s, when overall housing construction was at historically low levels, over three-quarters of all new housing creation in the city was assisted by the federal, state and city governments. In recent decades the shift of federal housing expenditures from new development to the refunding of existing obligations, and the relative retrenchment of state involvement in housing development, may have amplified the decline in housing creation. In order to understand the production trends more fully, it would be useful to separate statistically unassisted from assisted housing production. It is certain, however, that the long-term decline in market rate, unassisted housing construction has been dramatic.

Land availability

Over the past century, the City has had a range of sources of developable land: for example, privately owned farmland and undeveloped tracts in its earliest years, lands acquired through the urban renewal in mid twentieth century, and large tracts of property abandoned by private owners in the 1970s. For the first half-century of the existence of Greater New York, large tracts of vacant and underdeveloped land existed, particularly in the outer boroughs that provided the resource to support the expansion of the City's housing stock. By the late 1960s, most large tracts of undeveloped land had been developed in four of the boroughs; development in Staten Island was slower and began after the completion of the Verrazano Narrows Bridge in 1964.

One cause of the gradual decline of housing construction in the city is uncontestable: the exhaustion of easily developable land for residential use. As late as the 1960s, there were still large tracts of former agricultural, recreational or institutional land available for housing development in the boroughs. Today, only Staten Island retains any developable "greenfields," and virtually all housing construction in the other boroughs involves infill development on isolated sites, with environmental problems often a legacy of their prior uses. Developers with experience in producing affordable housing, whether assisted or not, now complain about the lack of available sites and the high cost of acquiring them when they are identified.

The exhaustion of the supply of readily developable land during the post-War period raises several important issues regarding the future of new housing construction in the city. First, how much land remains for residential development and where is it?

Of the City's over 150,000 acres of land, 39 percent (approximately 58,000 acres) is used for housing, and four percent (6,000 acres) is used for industry and manufacturing. Only 7.5 percent (11,000 acres) of the City's land is classified as vacant. Over one-quarter (27 percent) of the Cityís land is developed with one and two-family homes; this percentage is highest in Queens (36 percent) and Staten Island (33 percent). Land zoned for lower-density residential and manufacturing uses and that land which is currently vacant land are the possible locations for the construction of affordable housing in the future. This amounts to 46,000 vacant lots within the five boroughs, containing over 475 million square feet of lot area. At existing citywide residential densities, that vacant area could support over 350,000 additional housing units. Much more new housing, which would be affordable to the typical working class family with two wage-earners, could be created on our available vacant land using available private conventional financing. The public subsidies now required to create housing for these families and even those of higher incomes would be freed up to subsidize housing for many more lower-income families. Part Four of this Report: "The New York City Affordable Housing Atlas" will expose this issue in greater detail.

Due to the current strong residential market, developers of both affordable and market rate housing are looking to other sources of developable land. These

have tended to be lower-density residential areas that are not currently developed to their full zoning potential and underutilized areas that are currently zoned for manufacturing. Generally, residential uses are not permitted within manufacturing districts. Exceptions are made for special "mixed use" districts such as Hunters Point in Queens, and Tribeca or SoHo in Manhattan. Despite zoning restrictions, residential development continues in manufacturing districts, implemented through small scale rezoning, variances from the Board of Standards and Appeals, limited special permits in specific areas, and illegally, without certificates of occupancy for the housing created. This is of course, how residences first began in SoHo thirty years ago, and is a trend that continued in neighborhoods such as Williamsburg and is in its early phases in Bushwick/East Williamsburg.

Why, then, do developers find it difficult to find, or prohibitively expensive to purchase, buildable lots? Are these lots locked up in obsolete zoning districts, are they in areas that are not marketable, or are there other obstacles to their development?

One countervailing force may be that advocates for the preservation of manufacturing in New York City argue that preservation of purely manufacturing zoning relieves market pressures, which lead to industrial displacement. Thus, the manufacturing district designation, initially created to segregate industry and thereby protect residences from noxious and incompatible uses, is viewed by some as a tool for industry preservation and economic development.

Any city policy aimed at significantly raising the level of market-rate housing production must begin with a thorough analysis of site availability.

While there are excellent data on land uses that await analysis using modern GIS methods, information on land prices has been a chronic source of frustration to housing researchers in the city. Most of the evidence is anecdotal, because access to land transactions data through commercial vendors is costly and because the data contain many ambiguities. Yet, land is the single biggest input in housing development and is by far the most variable cost factor. Anecdotal evidence suggests that land prices do not decline as steeply with neighborhood marketability as do apartment rents or selling prices, leading to a disproportionate concentration of development sites in the cityís least desirable neighborhoods. This would seem contrary to the efficiency of the land market, as land should be priced at a level that makes it equally developable in each neighborhood. That it is not suggests either that market rents in some neighborhoods are below those necessary to make new construction feasible even with costless land, or that many landowners are holding onto sites for speculative purposes. A better understanding of land prices and the operation of land markets would thus help to clarify the economics of private housing construction in New York City.

Zoning

Zoning controls the type and intensity of use of land. Historically, zoning and land use controls were created to limit the conflicts that were thought to arise from incompatible uses in close proximity. New York City enacted the countryís first zoning ordinance in 1916. The current Zoning Resolution is an over 1,000-page three-volume document written in 1961 and regularly amended since then.

Zoning has obviously had a profound impact on new market-rate housing production in the city. Most knowledgeable observers consider the current zoning regime, adopted in 1961, to be significantly more restrictive than the 1916 regulatory framework. In fact, a simple regression of housing completions on a time trend and a dummy variable for the 1961 zoning change obtains an r-squared of .62 and indicates that the new zoning depressed housing creation by about 12,000 units per year between 1964 and 2002.

While the Zoning Resolution does not explicitly address the cost of housing produced, practically such regulations may materially affect the cost of housing: requirements for large lots, large unit sizes, and required accessory parking can increase housing costs, as can limitations on the amount of land area zoned for housing. There are sections within the Zoning Resolution that mention affordable housing--usually defined as non-profit or public low income residences. They do not afford a mechanism for creating affordable housing, but rather, provide less restrictive requirements for defined housing types. For example, parking requirements are reduced for non-profit or public low-income residences.

The one exception to this is the inclusionary housing provision, which was enacted in 1987. This section is the City’s only zoning-based tool for the creation of

affordable housing. It is limited to the City's highest density residential (R10) districts and has had limited effect on the affordable housing stock.

The 1961 zoning overhaul was motivated, in part, by a desire to limit the total population density that could result from a full build-out of the city. Consequently, some of the suppressing effect on new housing construction was intentional and presumably desirable. If public priorities have changed since 1961 in favor of more housing development, there are clear political mechanisms for city government, or specific communities, to pursue rezoning actions that would permit higher density. Except in particular and limited areas, however, communities have generally resisted upzoning proposals, and have often pursued zoning changes that would further restrict housing density. Consequently, City Planning has focused on change-of-use zoning, which enables housing to be built as-of-right in currently underutilized industrial areas and engenders less community opposition. Since such actions are inherently place-specific, there is a limited mandate for this study to investigate the cityís rezoning proposals or to identify areas that should be targeted in the future. There may be, however, some generic issues related to area-wide rezonings that can be analyzed in subsequent stages of this study.

There may also be elements of the 1961 zoning framework that have had unintentionally adverse effects on zoning actions. In particular, there needs to be a thorough analysis of how Floor Area Ratio (FAR) density controls interact with other elements of the zoning resolution, especially those that govern building envelopes. Builders and architects report that in some zoning districts or subdistricts, the building bulk controls are more restrictive than the density controls, so that they are not able to realize all of the FAR that is ostensibly permitted. In other areas, they find that the density controls are more restrictive, meaning that additional FAR could be added without changing the permissible building size and bulk. There has never been a thorough, public analysis of how these zoning regulations interact in each district and of how they should be reconciled. Such an analysis could represent a major contribution of this investigation

NYC developers, architects and other land use practitioners note that there are situations in which new buildings cannot be designed in such a way as to fully utilize all of the floor area generated by their zoning lot. Height and setback regulations contained within the Zoning Resolution can require infeasible higher floors (due to setback requirements). They can also, through absolute height caps (particularly in the Housing Quality Program), make it impossible to use total floor area generated.

Modifications to height and setback regulations would permit full build-out of permitted residential density. However, this conflicts with the intent of contextual zoning, which is to encourage the construction of generally lower, squatter buildings that reflect the existing built environment.

We are not a city of heavy industry and we will never be one. We are not a city of one-, two- and three-family houses--although we have some vibrant neighborhoods consisting of these residential uses--because the economics of homeownership don't work for the vast majority of our residents. Rezoning and upzoning vacant land to a medium density residential uses could create the development potential for nearly 2 million dwelling units that would house approximately 5 million residents.

There are areas of the City that are served with sufficient infrastructure to support additional residential bulk. For example, specific neighborhoods that are within walking distance of mass transit may be suited for higher density development. An analysis of such areas, with the input of local elected officials and community groups, may provide a number of neighborhoods that could be reasonably upzoned to permit higher density residential development.

Such upzoning could provide appropriate neighborhoods for denser infill development, yet the popular trend throughout the City has instead been to downzone residential neighborhoods. Upzonings tend to be generally unpopular with current residents.

Another area of potentially significant zoning reform is parking. The on-site parking requirements for new housing development, which are regulated by the zoning resolution, are a major source of consternation to architects, and sometimes to developers. Parking requirements add to the cost of developing housing and restrict the available architectural and design options. Yet, simply reducing or eliminating parking requirements would not be desirable, since the parking costs would not disappear, but would rather be

shifted to the community at large. There is a pressing need for a review of the city's residential parking requirements and for new approaches that can better reconcile housing development and other public goals.

ULURP and CEQR

Development that is in strict agreement with the New York City Zoning Resolution is said to proceed "as of right" and requires no discretionary approvals by City government. For such projects, not even site plan review is required in New York City, unlike in most jurisdictions of New York State. However, applications for discretionary actions (such as rezoning or special permits) from the City Planning Commission are subject to a public review process known as the Uniform Land Use Review Process ("ULURP") and to the City Environmental Quality Review ("CEQR"). An application for a text amendment undergoes a similar review procedure, the public review period of which is somewhat briefer but with pre-certification requirements that are comparable to that of proposals requiring ULURP. Less significant actions may only require the authorization or certification by the CPC. Authorizations, such as those required in special natural area districts and in Staten Island's Special South Richmond Development District, are subject to such briefer public review. However, they must also undergo lengthy staff review (and on occasion environmental assessment) prior to referral to the community board.

ULURP involves (i) preparation and filing of an application(s) which requests the authorization (s) and any associated actions and its related CEQR documentation with the Department of City Planning; (ii) administrative review by DCP to determine whether the application(s) and CEQR documents contain sufficient information for intelligent public review; (iii) certification of the application by the City Planning Commission when it is determined to be sufficiently complete to commence the formal public review process; and (iv) the public review period.

The duration of the formal, post-certification phase of the ULURP process is limited to approximately seven months by the New York City Charter: sixty days for the Community Board; thirty days for the Borough President; sixty days for CPC; and fifty days for the City Council. However, the duration of pre-certification review is not constrained by formal time limits and can range from five months for smaller noncontroversial projects to in excess of two years for larger projects which generate substantial public controversy.

CEQR is the City's vehicle for administering the State Environmental Quality Review Act, which mandates an environmental review process for all projects involving discretionary public actions. The first step in this process is the preparation by the project sponsor of an environmental assessment ("EAS") evaluating the potential effects of the project on its environmental setting. The EAS is filed with and reviewed by the CEQR lead agency–that is, the agency principally responsible for approving the project, which is for land use matters generally DCP. The lead agency will then review the EAS and, on the basis of the EAS and any supplemental information it receives during its review, determine whether the project may have a significant effect on the environment. A documented determination that the project will not have a significant environmental effect terminates CEQR review. A determination that the project may have a significant effect triggers the CEQR requirement that the project's effects be evaluated in an environmental impact statement ("EIS") prior to the time the project is approved. An EIS may take a year to prepare and revise to obtain DCP's determination that it is complete as a draft document. Public review may not commence until this occurs.

The public review process, although it may extend up to seven months in length, is a known quantity. The pre-certification period is open-ended, culminating in a determination by DCP staff that a land use application and its environmental review are complete and can commence public review. The pre-certification review period is at least as lengthy as the public review period, and usually considerably lengthier. The cost of consultants and of time must be carried by the project, which tends to restrict such changes to the higher market areas.

The discretionary approval process is lengthy and the cost and time incurred tends to discourage development that requires such actions. The public review period of ULURP is well defined within the City Charter. However, the steps leading up to ULURP are more open-ended. Within the existing SEQR it may be possible to explore whether the City could look at a more defined and streamlined EAS and over-all process. In many other municipalities of the state the environmental assessments are 10 to 15 pages long and the

process of making a determination of significance takes two to three months. It may be possible to look at trying to achieve a more efficient CEQR within the existing legislative framework.

Building codes

The city's building code is an outdated document that proscribes the methods of and materials for construction within the city. Generally, new cost-saving methods and materials cannot be introduced without legislative action of the City Council or an equally lengthy and burdensome administrative process handled by the Department of Buildings. As a result, labor- and cost-saving methods and materials do not become available in the city although they are readily adopted by other large cities. A simple comparison of construction costs in other cities with those in New York illustrates the problems generated by the building code.

The cost of construction in New York City is approximately 25% higher than the average cost for all other large cities. Some of this excess cost is attributable to the city's high labor costs and to New York ís density, which presumably would not change if the building code was revised, but it does not account for all the increased cost. For instance, New York's construction costs are about 10% higher than San Franciscoís, which mandates stringent earthquake protections and is also a high cost labor market with similar built densities as New York.

It has been estimated that the cost of construction in the city could be reduced by 25% if the city modified and adopted a model building code, which would enable the quick adoption and use of new construction technologies, methods and materials as well as eliminate redundancies and duplicative requirements. This cost reduction would enable 130,000 more families to afford newly constructed housing in the city, a number larger than the housing stock of many American cities and enough to house most if not all of the 300,000 person population increase the city incurred from 1990 to 2000.

Five years ago The Furman Center for Real Estate and Urban Policy at NYU's Law School released the authoritative study of housing construction costs in New York City. The report, which is often misconstrued as dealing primarily with building code issues, actually addressed a wide set of regulatory issues including: rent regulation; brownfields, land use review; labor; environmental regulation; institutional corruption and other issues. Under various scenarios it estimated the cost savings possible from its recommendations ranging from 19 to 25 percent compared to existing building conditions. However, all of those scenarios involved recommendations that went far beyond replacing the city ís existing building codes with a model building code. A scenario involving only that change was not estimated. Some experts estimate that building code changes alone could reduce construction costs by 3 to 5 percent. Even if those savings are realized, an important question is whether they would be passed on to buyers or capitalized into higher land prices, as demand for housing would remain unaffected.

The Department of Buildings has since undertaken an ambitious reform of the city's building codes modeled on the report's recommendations. The Department has convened numerous committees on which some 200 construction and development experts are participating. The committees are evaluating which aspects of the model building code can be adopted by New York City and which require modification for the city's use.

Can market-rate housing be affordable?

"Affordability" is an ambiguous term that has its uses, but also creates confusion. Without answering the associated question, "Affordable to whom?" it has little practical meaning. However, it is worthwhile to look at some of the least expensive, substantially unsubsidized housing being produced in the city to determine the question in reverse: "For whom is the least expensive new housing affordable?"

Some of the least expensive ownership housing is now being produced under HPD's "New Foundations" program. The New Foundations program provides essentially free land ($250 per lot) but no other explicit subsidies. In one representative project, Rental Management Associates is building 25 homes on Chester Street, Dumont Street and Rockaway Avenue in Brownsville. The homes feature two dwelling units, a 2,220 square-foot duplex unit for the owner and a 1,100 square-foot rental unit. Selling prices, which are negotiated with HPD, range from $330,000 to $350,000. Assuming the rental units can be rented at about $1,000 per month and that the owner receives a high loan-to-value mortgage, the homes are affordable to households earning about $50,000 annually and above. Through a related HPD program, known as

"Cornerstone," the Briarwood Organization is building fourteen 3-family, 4-story homes in Harlem. This project also receives essentially free land but no direct subsidy. The homes feature a 3-bedroom duplex unit for the owner and two 2-bedroom rental units. The home prices are not regulated, but they may be sold only to purchasers with household incomes up to 250 percent of area median. Those houses are being sold for prices ranging from $595,000 to $643,000.

Using these affordable projects as a baseline, it is apparent that the private sector cannot deliver completely unsubsidized new housing (i.e., with privately purchased land and no income or rent restrictions) for households earning much below $75,000 annually, even in less marketable neighborhoods.

Tax incentives

It is sometimes possible to provide housing to low- and moderate-income households through the private sector by creating internal cross-subsidies. Most commonly, this is done by providing tax incentives to the developer. Federal tax exempt private activity bonds, the amount of which are limited by statute, require private housing developers to provide low-income units in return for the lower tax-exempt financing costs. Usually, this is done in an 80-20 configuration with the larger proportion of the units rented at market rates and the lower at rates affordable to families earning no more than 60 percent of area median income. New York City also provides 421-a real estate tax abatements to projects within a "Manhattan Exclusion Zone" if they set-aside 20 percent of the units for families earning no more than 80 percent of the area median. Often, developers availing themselves of the 421-a option also seek tax exempt financing in order to receive both benefits with the same set-aside. They also usually receive federal Low Income Housing Tax Credits that are linked to the tax-exempt bonds.

Since the mid 1980s (when both federal bond finance and local 421-a laws were changed) approximately 5,000 low-income housing units have been produced in the city under the "80-20" program. Many also received the federal benefits.

Although 80-20 projects often involve the cross-subsidy of low-income tenants by higher-income tenants in the short run (because the low-income rents do not usually cover maintenance and operating costs), some critics argue that the present value of the tax benefits translates into very high unit costs for the affordable housing. Although the cost-effectiveness of the combined programs is a matter of debate, housing policy experts have other issues with the program. One problem is that it is attractive to developers only in the highest-rent districts of Manhattan. "80-20" options are almost never used in the other boroughs, because market rates are not high enough for significant cross-subsidy and because some local tax exemptions are available as-of-right. A second issue is that over time an enormous income gap has opened up between the 80 percent market-rate renters and the 20 percent low-income renters. In Manhattan projects, a 10-fold or greater difference in annual incomes between the two groups is common.

Aside from the social implications of creating such polarized "mixed-income" housing, the programs exclude an enormous middle band of New Yorkís income earners. To address that problem, some housing policy experts have argued that the 421-a program should be modified to give developers a greater range of options in order to encourage the provision of middle-income apartments. Such changes in the local program would not, however, alter the federal requirements.

Inclusionary Zoning

An inclusionary zoning ordinance is a land use control targeted at producing affordable housing, harnessing the power of the real-estate market to create affordable housing units without up-front investment of public dollars. Inclusionary policies either tie development approval for projects of a certain size to, or create regulatory incentives for, the provision of low- and moderate-income housing as part of a proposed market-rate development. One of the benefits of this type of program is that it ensures that the natural market mechanisms, which drive private residential development also create affordable units. Furthermore, it is a way of ensuring that there is development of affordable units in an otherwise upscale market, and that–in most cases–the below-market rate units are integrated into the overall development program. While actual units on-site are preferred, alternatives can be permitted when on-site units are not feasible such as payment of fee in-lieu or donation of units off-site.

An increasing number of communities throughout the country have been turning to inclusionary zoning to

leverage market-rate housing demand. New York City has had a limited inclusionary housing program in its zoning resolution since 1987. The City's program is a voluntary, density-bonus program that is available to developers only in R-10 residential zoning districts, the highest-density zoning districts. For a variety of reasons it has been seldom used, producing only several hundred affordable units over its 16-year program life.

During the past two years there has been a growing interest in inclusionary zoning in New York, on the part of housing developers, policy experts, and community groups. Part Two of this Report: "Inclusionary and Related Zoning Approaches to Affordable Housing: A Refference Manual" addresses this question.

Case Studies in Rezoning

Hudson yards

On June 21, 2004, the Department of City Planning certified as complete the ULURP application for the Hudson Yards proposal. This proposal for the rezoning of a large section of west Midtown includes a large residential component. Mixed-use residential and commercial districts would be located in areas with existing residential and commercial uses and in areas currently zoned manufacturing to encourage such mixed-use development. The proposal would strengthen these existing neighborhoods by directing compatible, predominantly residential development to these areas, and requiring building bulk envelopes that reinforce each area's distinctive built character. These areas include Ninth Avenue, Tenth Avenue between West 34th and West 41st Streets; West 34th Street between Eighth and Tenth avenues; West 42nd Street within the Special Clinton District; and Eighth to Ninth avenues within the Special Garment Center District. It is estimated that the rezoning of the Hudson Yards will result in the development of 12,000 new housing units.

Greenpoint-Williamsburg

This summer, the Department of City Planning will be certifying the rezoning of Williamsburg and Greenpoint on the northern Brooklyn waterfront for ULURP review. The rezoning is based upon the agency's Greenpoint-Williamsburg Land Use and Waterfront Plan, in which the Department of City Planning proposed zoning changes to allow for housing and open space, in tandem with light industry and commercial uses, along two miles of Brooklyn's East River waterfront and upland neighborhoods. The Greenpoint-Williamsburg study area in Brooklyn Community District 1 covers approximately 170 blocks where the zoning, for the most part, does not permit new residential buildings. The study area is bounded roughly by the East River, the Williamsburg Bridge, the Brooklyn-Queens Expressway, and McGuinness Boulevard. If adopted, the Department of City Planning proposal would create opportunities for 10,000 new housing units along the waterfront and in the upland areas. No provisions have been made to mandate the inclusion of affordable housing in future development in the Greenpoint-Williamsburg rezoning area.

Hunters Point subdistrict rezoning

In June 2004 the City Planning Commission approved a new zoning proposal to moderately increase density and to encourage mixed-used development (housing and light industry) in the Hunters Point neighborhood of Long Island City, Queens between the Citigroup office tower at Court Square and Queens West on the East River waterfront. The area proposed for rezoning is located in the southwest portion of Queens Community District 2 and covers approximately 43 blocks of the Hunters Point neighborhood in Long Island City.

The agency estimated that the proposal would create opportunities for about 300 housing units in new buildings that will blend into the established neighborhood scale.

Other Manufacturing Areas

Manufacturing districts are not solely located on the City's waterfront. Other areas exist, which are currently zoned for manufacturing use, thereby precluding or severely limiting residential development, yet with a declining manufacturing presence. For example, on June 23, 2004, the CPC approved the rezoning of 5 midblock areas between Fifth and Sixth Avenues and West 17 and 22nd Streets. The area was rezoned from an M1-6M district to a C6-4A, permitting, within the same 10 FAR density, the construction of new residential buildings and the as of right conversion of manufacturing and office space to residential uses. This rezoning reflects the actual land use within the district, which is strongly commercial, with a substantial residential component (approximately 300 units). A study prepared for the Department of City Planning found that only three percent of the study area's floor area was actually occupied by light manufacturing uses. DCP estimates that approximately 900 new resi-

dential units could be created within this area, primarily on current vacant sites used as parking lots. A C6-4A district is an R10 equivalent district, thereby allowing the provisions of Inclusionary Housing on some or all of the development sites.

Redevelopment of manufacturing districts has additional costs to both the developer and to the community. Lands previously used for industrial and automotive uses may be contaminated with hazardous materials and are often known as "brownfields." Site remediation or clean up to residential standards can add a substantial cost to site development, although the recently enacted New York State Brownfield Cleanup Program currently provides substantial subsidies for the reuse of such properties.

Properties that are located along waterfront have the additional constraint of conforming to the City and Federal Governmentís flood plain restrictions, as well as the frequent subsurface conditions that are typical of such sites such as high water tables. This also adds to the cost of and constrains the site design of redevelopment. The City's requirements contained within Section 62 of the Zoning Resolution that mandate the provision by private developers of publicly accessible waterfront open space is another cost incurred by such developments. The cost of these site constraints and other competing public benefits must be balanced with the demand for affordable housing.

The rezoning of manufacturing districts can increase financial pressure on existing industrial and commercial users that cannot compete with residential market; potential impact on employment sector; from a planning perspective, permitting residential development in formerly manufacturing districts requires expansion of City services and infrastructure, such as schools, parks, and, ideally, mass transit.

Affordable Housing Districts

On November 12th, 2003, City Council Member David Yassky and Brooklyn Community Board 1 submitted a proposal for an amendment of the NYC Zoning Resolution to establish an "Affordable Housing Zoning Districts." Under this proposal, developers in newly rezoned areas would be required to include a specified percentage of affordable housing as part of their developments. Affordable housing programs would be mandatory in large rezoning such as the Williamsburg-Greenpoint rezoning and the proposed Hunter's Point rezoning. By imposing the inclusion of affordable housing on residential development, the City would reclaim a portion of the increase in property values resulting from these rezoning. Eventually the requirements of a mandatory affordable housing program would be imputed into the cost of land.

The proposed Affordable Housing Zoning District could be mapped onto any new or existing residential (or equivalent commercial zone) zones of R6 or higher. The affordable housing district would require all future residential development to include affordable housing either on-site or within the same community. The percentage of affordable housing to be included in each development would be determined according to a sliding scale designed to include working class and middle-income families who are priced out of NYC's housing market.

Zoning and Quality of Life

A balanced approach to zoning as a means of encouraging housing development should include a comprehensive look at broader planning and quality of life issues raised in each particular location. How does the area provide for the total needs of an increased population? In addition, how does one do this in such a manner, so as to successfully integrate a lower income population within one which is more affluent? These modifications include both upzoning (permitted a greater intensity of use) or downzoning (reducing the permitted density). If areas currently zoned for manufacturing are rezoned to permit housing, what tools can the City use to ensure that they become (i) viable mixed-use communities with all of the ancillary uses, public services, transit access and local amenities that they need as well as (ii) avoid displacement of viable industrial and commercial uses?

Some questions to ask are: will adequate school seats be available? Where will local retail be provided? Are there adequate public recreational resources–and if not and the developer is expected to provide them, how does this affect his or her ability to provide affordable units? What access is there to mass transit? How will parking be provided?

How can denser development be provided that does not jeopardize the qualities that brought people to the neighborhood initially, such as light, air and open space. In existing residential areas, how does one provide realistic housing opportunities without

impacting the area's quality of life? How does one ensure that higher density development is attractive and doesnít reduce the value of the neighborhood to those currently living there?

Few of the City's lower density neighborhoods are adequately served by mass transit. Automobile ownership is necessary in these areas and in fact, rates of automobile ownership far exceed City-wide levels. Proposals to increase density in such areas must take into account the need for parking for tenants and owners and must balance this with the financial impact of providing dedicated accessory on-site or off-site parking.

Illegal conversion of existing lower-density units into multiple units is a widespread and longstanding urban and suburban phenomenon. Illegal conversions can ranged from the relatively benign "granny flat" to the creation of illegal rooming houses and dormitories within existing single-family structures or apartments. These units exist outside of the City Building Code and often do not meet minimum standards of health and safety.

Production of subsidized housing

The 1950s-70s saw the creation of large subsidized apartment complexes on formerly undeveloped land: Co-op City, Starrett City, Lefrak City, for example. The post war era also saw extensive Federal housing programs that led to the expansion of low- and moderate-income public housing and for moderate- and middle-income tenants and owners in such building types as the garden apartments, so common in the outer boroughs. State and City funding led to the creation of tens of thousands of middle-income units through the Mitchell Lama program.

As argued above, any new housing produced for families earning less than about $75,000 annually must be either cross-subsidized by market-rate development or subsidized directly with public funds. The following discussion will focus on city programs, but it is important to realize that there is still approximately $2.5 billion of federal housing money flowing into New York City each year, in the form of Public Housing operating and modernization subsidies, Section 8 vouchers, Federal Low Income Tax Credits, Community Development Block Grants and through other, smaller programs.

There are two basic sources of funding available to the city: (i) Federal sources and (ii) municipal sources. The Federal sources include two Federal block grant programs: the Community Development Block Grant (CDBG), and the Low Income Housing Tax Credit (LIHTC). The municipal funds are derived from (i) the issuance of general obligation bonds; (ii) the issuance of private activity bonds through HDC; (iii) the revenues derived through HDC activities; and, (iv) forgone tax revenues.

Federal sources of funding

CDBG can be used for a wide variety of community redevelopment and urban improvement programs including housing; they are one of the most flexible sources of funding available to the city. These funds were an important source of acquisition funding during the city's urban renewal era of the 1960s and 1970s. Under the Koch 10-Year Plan, HPD used CDBG to cover the cost of managing the housing acquired through in rem tax foreclosure. HPD continues to use these funds principally for its disposition efforts related to the in rem housing and, as these properties are privatized, CDBG funds will become an important component of financing in certain New Housing Marketplace programs.

CDBG is provided based on a formula-driven calculation that historically benefited the older urban areas of the Northeast and Midwest. The formula had taken into account factors such as the age of the existing housing stock, poverty levels, etc. Recent revisions to the formula, such as re-weighting the importance of the age of a municipality's housing stock, have redirected funds to growing Sunbelt states. While these funds are very flexible and can be used for a wide variety of purposes the risk arises that the cityís share may be reduced in favor of other cities across the country, which have greater political clout in Washington.

HOME funds can be used solely to rehabilitate existing or create new housing for lower income families, i.e., families earning 80% of area median income or less. The funds are drawn from HUD accounts for specific projects that are registered with HUD. HUD imposes strict time limitations on the use of the funds. As a result, HOME funds cannot be used to drive the front end of housing production. In addition, the program is governed by a complicated series of rules and regulations that make the funds difficult to use in combination with other sources of funding especially for the

rehabilitation of existing occupied properties, etc. And like CDBG, the HOME funding formula has begun to change recently such that the city's total share of the HOME pot has diminished to the benefit of more politically favored areas of the country.

Under the LIHTC program, New York State receives a formula-drive, per capita allocation of tax credits, which it provides to developers who then sell the credits to investors to raise equity for affordable housing. The city receives a sub-allocation from the state that is roughly proportionate to its population but certainly not to its need. The city is reliant on the good graces of the state for this source of funding. Moreover, the LIHTC is particularly restrictive in its use: it can only be used to subsidize rental housing for families earning 60% of area median income or less. The subsidy is not sufficient to cover all the cost of construction and therefore must be combined with other funds. If combined with conventional financing then income targeting must be adjusted towards the top end of the allowable range in order to cover debt service. In addition, the LIHTC is essentially sold on the private market and is therefore subject to market fluctuations although New York City generally benefits in this regard since the principal investors in the LIHTC are financial institutions, many of which are either headquartered in NYC or have substantial operations here. However, proposed changes to Federal income tax formulas, including the modest dividend tax exclusion and the radical flat or value-added tax, would severely comprise the value of the LIHTC. In summary, the LIHTC is subject to state allocations, is relatively restrictive in its use, and, can change in value due to changes in the market.

Municipal sources of funding

As mentioned above, municipal funding for housing is derived from (i) the issuance of general obligation bonds (GOB); (ii) the issuance of private activity bonds through HDC; (iii) the revenues derived through HDC activities; and, (iv) forgone tax revenues.

The Koch 10-Year Plan was principally financed through the issuance of general obligation bonds. This source of funding is generally under the city's complete control although it is subject to Federal limitations related to tax-exempt use as well as state imposed debt ceilings. If GOB proceeds are utilized, then Federal restrictions require that a capital project result; therefore, the funds cannot be used to finance a project unless the city is fairly certain that the project will actually happen. This essentially limits the city from taking advantage of more efficient mechanisms for potentially financing housing. For instance, numerous corporations have moved to better deploy their balance sheets through the use of a guaranty to secure obligations; Fannie Mae and Freddie Mac both back housing assets through the use of guaranties. Mechanisms other than issuing GOBs to secure such guaranties are available to the city but have not been widely explored. Nonetheless, regardless of the mechanism for funding these guaranties the city will consistently bump up against debt ceilings established by the state legislature, which must be consistently renegotiated within a heated political environment, or by the capital markets. Given all the demands on the city for new capital projects including building and rebuilding schools, improving transportation linkages, etc. this pot of funding is not unlimited.

The final source of municipal revenue that funds housing preservation and development in the city is foregone real property tax revenue, which is the basis of the city's tax incentive programs. The statutes governing these programs are found in the RPTL and changes to these complicated, highly specific laws require legislative action by both the city council and state legislature.

In Rem Property

The 1970s and early 1980s in New York City were characterized by wide scale abandonment of real property throughout the City's lowest income neighborhoods. The City's then policy of taking tax-delinquent properties ("in rem") resulted in a publicly-owned stock of occupied and vacant housing and land. This "free" city-owned property, coupled with Federal and City subsidies, led to the 20-year expansion of the City's affordable housing stock beginning in the 1980s. The current boom in urban real estate values and changes in the City's policies to deal with real estate property tax delinquencies has depleted this resource for less expensive land.

During the final term of Mayor Koch, New York City embarked on an unprecedented municipal effort to create and preserve low- and moderate-income housing. Nearly 50,000 units of vacant, in rem buildings were turned over to not-for-profit groups and private developers and rehabilitated, as were some 45,000 units of occupied in rem housing. In addition, vacant

city-owned land was used as the basis of two large-scale homeownership programs. The effort was rightly hailed for creating or rehabilitating some 125,000 units of affordable housing, and for revitalizing some of New York's most distressed neighborhoods.

That effort is coming to an end. Only a few specialized vacant building rehab programs are still operating to deal with the vestiges of the once extensive in rem portfolio. Likewise, the occupied in rem stock is down to 5,500 units and most of those properties are programmed for disposition and rehabilitation. The New York City Partnership's New Homes Program, which produced thousands of affordable, owner-occupied homes during its 20-year program cycle, has been terminated because virtually all of the suitable sites have already been utilized. HPD is now at a crossroads, as is recognized by Mayor Bloomberg's "New Housing Marketplace" plan.

The task of HPD and its related agencies will be to adjust to the exhaustion of its in rem resources. The agency no longer has very many vacant buildings to rehabilitate, occupied buildings to privatize, or vacant sites to build upon. The focus of the agency is consequently turning from gut rehabilitation to moderate rehabilitation, from low-density to high-density new construction, and from mass production programs to site-specific and niche programs. With those changes there is a shift in responsibility from HPD itself to its Housing Development Corporation affiliate (HDC), which has expertise in financing new, multi-family housing development.

Critics of the Bloomberg Administration's housing policies have argued that its programs are unjustifiably skewed toward middle-income households. That focus on middle-income housing creation appears to reflect two Administration viewpoints. First, that providing housing for very low-income households is primarily Washington's responsibility, and the city should limit its involvement to filling gaps in federal programs for low-income people and concentrates it resources on households above 80 percent of AMI, for whom there are no federal programs. That position is a political determination and probably beyond the scope of this study. The second viewpoint is more pragmatic: the lower the income of the housed family, the deeper the subsidy required, and the fewer units that can be produced with limited resources. While that perspective is a policy truism, it is usually supported by the assumption that the more new middle-income units that are created, the more existing dwellings filter down to lower-income groups. That is an empirical assumption that is subject to testing.

A second assumption, shared by almost all those concerned about affordable housing, is that the problem can be solved, or at least ameliorated, by government action. However, the city's ability to affect housing prices, or the availability of housing for any income group, depends on the elasticity of demand. Is demand for housing in the city finite, so that a greater supply of assisted or unassisted housing will increase vacancy rates and moderate prices? Or is demand, in the range within which housing supply can realistically be expanded, essentially elastic? Will each new housing unit create its own demand, so that vacancy rates do not increase, prices do not moderate, and the lowest-income families are still shut out of the market? This study is only the latest, if the most elaborate, effort to identify ways of expanding the supply of housing in the city. But even if it is successful and leads to new policies that promote residential construction, the conditions that prompted it may persist if new supply is matched by new demand. We therefore present, in the following Section, the demand-side of the housing equation as well.

2: Demography and Demand of Affordable Housing in New York City

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A. Definitions of Affordable Housing

Introduction

The purpose of this portion of the New York City Affordable Housing study is to agree upon a definition of what constitutes affordable housing and then to quantify affordable housing need in the five boroughs of the City of New York. This will involve a discussion of: (1) who needs to be served by affordable housing; (2) what portion of the population is contained in each of the components of the definition; (3) where the definitions of need originate; and (4) how accurate these need definitions are given the housing experience in New York City. This portion of the study will involve defining affordable housing need related to: (1) those income-qualified households who cannot afford their housing (cost-burdened need); (2) those income-qualified households who are living in crowded or deteriorated housing (rehabilitation need); and (3) those income-qualified households who will grow in the future for whom the market will not provide (new construction need). Finally, there will be a discussion on how these components of need compare for New York City as a whole and for each of the boroughs.

Basic Definitions (I)—What income groups require housing assistance in New York City?

The long-accepted standards for very low-, low-, and moderate-income households are those whose household income falls between 0 and 135 percent of median family income calculated for a six-county Primary Metropolitan Statistical Area (PMSA) that includes the five boroughs of New York City (Bronx, Brooklyn, Manhattan, Queens, and Staten Island) and Westchester County. Each of the five boroughs is simultaneously designated as a county in this definition of region. Regional median family income is just over $62,000 for a household size of four in 1999.

Very Low Income (>50%)	= Below $31,800
Low Income (50%-80%)	= $31,800 to $49,600
Moderate Income (80%-135%)	= $49,600 to $83,700

Each of these levels is adjusted upward by about 8 percent for household size increases of 1 and downward by about 10 percent for household size decreases of 1. Overall, in the City of New York, there are approximately 2.1 million very low-, low-, and moderate-income households of about 3.1 million total households (2004). The definition of very low and low income is derived from HUD Section 8 Eligibility Requirements. The definition of moderate income comes from accepted New York City housing practice to define a group above 80 percent of median income (80%-135%) that may also require housing assistance.

In terms of income requirements for the analyses that follow, those households between 0 and 135 percent of median family income are deemed as requiring affordable housing assistance if: (1) they spend more than they should for housing; (2) the housing they occupy is overcrowded or deteriorated; and/or (3) this income group will grow into the future and will not be responded to directly by the unassisted housing market.

INCOME GROUP SERVED:

Very Low-, Low-, and Moderate-Income Households—Regional Median Family Income $62,000, Household Size = 4
135% / Moderate Income — 80% / Low Income — 50% / Very Low Income

Basic Definitions (II)—What are the definitions for the specific components of housing need?

Affordable housing need is defined as comprising three basic components: (1) Cost-Burdened Need (those who pay too much); (2) Rehabilitation Need (those who live in deteriorated or overcrowded housing); and (3) Future Need (those households that will be created in the future for whom the market will not provide). The specific definitions are as follows:

Cost-Burdened Need

Households are viewed as cost burdened in New York City if they are very low-, low-, and moderate-income households and pay more than 35 percent of their income for rental costs or more than 40 percent of their income for ownership costs. The difference between what rent or ownership costs are and what they would pay if these costs were reduced to 35 percent or 40 percent of income, respectively, equals the average subsidy costs. Average subsidy costs multiplied by the number of households, by income group and size configuration of housing unit, is summed both by borough and for the City as a whole. Data on income and rent for 1999 to 2000 are converted to 2004-2005 equivalents using an inflation factor of approximately 15 percent for income and 24 percent for rent.

Cost-Burdened Need:

Renters	> 35% Income (Gross Rent)
Owners	> 40% Income (Ownership)
Income 2004 1	5% Above 1999 Income
Rent/Own Status 2004	24% Above 2000 Costs

Housing Deterioration Need:
Housing is deteriorated in New York City if it is occupied by a very low-, low-, or moderate-income household and is: (1) older housing with one major deficiency or (2) newer housing with two or more major deficiencies. Older housing is pre-World War II and defined by the Census as housing constructed in 1939 or earlier. Newer housing is housing constructed from 1940 through 1999. The three housing deficiencies used to determine deteriorated housing are: (1) lacking complete plumbing; (2) lacking complete kitchen, or kitchen not in unit; or (3) crowding—1.01 or more persons per room. Housing rehabilitation costs are costs to cure these deficiencies, taken from the American Housing Survey (2003) as average expenditures per unit for bathroom/kitchen repairs, and internal structure reconfiguring (crowding). These are made equal to the dominant size configuration for a housing unit by tenure (either 0-1 or 2+ bedrooms) and adjusted upward or downward for the remaining size configurations. They are further expressed in 2004 dollars.

Rehabilitation Need:
Very Low-, Low-, and Moderate-Income Households in Deteriorated Housing

	Units Built:	– Units With:
1. Crowding (1.01+/Room)	1939 or earlier	– +1 Deficiency
2. Incomplete Plumbing	1940 or newer	– + 2 Deficiencies
3. Incomplete Kitchen / Not in Unit		
	Equals	– A Deficient Unit

Costs from 2003 American Housing Survey—amount spent in 2003 [in 2004 $] to:
remodel kitchen, create bathroom, create bedroom (structural change)

Future Need
Future need in New York City in the five boroughs is determined using New York State Information Systems (NYSIS; Cornell University) projections from 2005 to 2010. Population projections are subjected to headship rates by age cohort (18-24, 25-34, 35-44, 45-54, 55-64, 65-74, and 75+) to derive forthcoming households. Households are matched to housing need by size (0-3 persons/0-1 bedrooms; 4+ persons/2+ bedrooms), and representative unit costs by borough are determined using average 1990-2000 ownership costs per unit (owners) and gross rent per unit (renters). These costs are compared to what future households can pay at 35 percent and 40 percent of their income for renters and owners, respectively, and the difference is multiplied by the number of households projected to grow into the future. This is done by tenure and size configuration of forthcoming units for each borough and for the City as a whole. About 75 percent of a projected future household growth of 105,000 will require affordable housing under the aforementional definition of qualifying household incomes.

Future Need:
New York State (NYSIS Projections) — 2005-2010
~ 75% of 100,000 Household Growth
~ 3.5% of Existing Stock, 5 Years; 7%, 10 Years

B. Quantification of Demand

Cost-Burdened Housing

Total costs to meet the housing cost burden in New York City is $7.4 billion annually. This would be the subsidy costs of paying the difference between what housing is being produced for and what occupants can pay at 35 percent of income for renters, or 40 percent of income for owners. Almost two-thirds (64.9 percent) of these costs ($4.8 billion) would subsidize renters; the remaining 35.1 percent ($2.6 billion) would subsidize owners. Subsidy costs ($7.4 billion) and the number of units (1,020,890) are similarly proportional for those requiring subsidies in smaller versus larger housing units. In terms of the number of cost-burdened households, Brooklyn has the most, at 329,200 units. Queens, at 257,923 units, is second, or 21.7 percent lower than Brooklyn; Manhattan, at 213,864 units, is third, or 35 percent lower than Brooklyn; the Bronx, at 177,394 units, is fourth, or 46.4 percent lower than Brooklyn; and Staten Island, at 42,500 units, is fifth, or 87.0 percent lower than Brooklyn. In terms of very low-, low-, and moderate-income households in Manhattan, 49 percent of the households can't afford their housing; in Brooklyn, 48 percent; in Queens, 43 percent; and in the Bronx, 44 percent of households can't afford their housing. In Staten Island, 38 percent of households can't afford their housing. For New York City as a whole, about 46 percent of very low-, low-, and moderate-income households can't afford the housing they occupy.

Cost-Burdened Need (Annual—2004+)

	Rent (Act.$ / Aff.$) ($2004)	Own (Act.$ / Aff.$) ($2004)	Units (#) ($2004)	Subsidy ($)
MANHATTAN	$1,211 / $577	$2,148 / $935	213,864	$1.8 Billion
BROOKLYN	$865 / $409	$1,986 / $1,013	329,200	$2.2 Billion
QUEENS	$1,012 / $522	$2,006 / $1,104	257,923	$2.0 Billion
BRONX	$790 / $355	$1,935 / $1,047	177,344	$1.1 Billion
STATEN ISLAND	$978 / $503	$1,873 / $1,108	42,559	$0.3 Billion
CITYWIDE	$969 / $466	$1,993 / $1,054	1,020,890	$7.4 Billion
Subsidy to:	792,000 Renters ($4.8 Billion) (35% of income)	228,000 Owners ($2.6 Billion) (40% of income)	=1,000,000 Units = ($7.4 Billion)	

Rehabilitation Housing Need

Approximately 164,627 units, or 6.9 percent of the housing occupied by very low-, low-, and moderate-income households, are deteriorated. This stock is older housing with one major deficiency or newer housing with multiple deficiencies. Almost 90 percent of the deficient units are of rental tenure; and, at a 2-to-1 ratio, they are smaller as opposed to larger units. Of the 164,627 units, about 57,663 units are in Brooklyn; about 36,000 to 37,000 units each are in Queens and Manhattan; about 32,000 units are in the Bronx; and about 1,800 units are in Staten Island. To repair these units would cost $4.96 billion. This costs would be incurred at $1.5 billion to $1.7 billion each in Manhattan and Brooklyn; $1.0 billion in Queens; $730 million in the Bronx; and $50 million in Staten Island. Ongoing subsidy costs to make these units affordable, once rehabilitated, are about $0.85 billion annually, with 37.0 percent of these costs in Brooklyn; 46.1 percent of these costs relatively equally split between Manhattan and Queens; 15.5 percent of these costs in the Bronx; and 1.3 percent of these costs in Staten Island.

Rehabilitation Need (Annual — 2004+)

Location	Rent (# / $)	Own (# / $)	Units / Costs / Subsidy (A-$)*	
MANHATTAN (Mean Cost/Unit: $40,330)	35,787 / $1.4 Bil.	1,705 / $0.07 Bil.	37,492 / $1.51 Bil.	$200.8 Mil.
BROOKLYN (Mean Cost/Unit: $28,753)	50,685 / $1.4 Bil.	6,978 / $0.22 Bil.	57,663 / $1.66 Bil.	$ 313.3 Mil.
QUEENS (Mean Cost/Unit: $27,932)	27,899 / $0.76 Bil.	8,131 / $0.25 Bil.	36,030 / $1.01 Bil.	$189.1 Mil.
BRONX (Mean Cost/Unit: $22,982)	29,997 / $0.68 Bil.	1,681 / $0.04 Bil.	31,678 / $0.73 Bil.	$131.5 Mil.
STATEN ISLAND (Mean Cost/Unit: $30,016)	1,390 / $0.04 Bil.	374 / $0.01 Bil.	1,764 / $0.05 Bil.	$11.2 Mil.
CITYWIDE (Mean Cost/Unit: $30,113)	145,757 / $4.36 Bil.	18,870 / $0.60 Bil.	164,627 / $4.96 Bil.	$846.0 Mil.

* Annual costs to occupy and afford a unit

Future Housing Need

(Summary of Affordable Housing Demand—Part C Table) — To answer future very low-, low-, and moderate-income housing need for a five-year period in New York City will require 80,262 additional housing units. This is a growth rate for very low-, low-, and moderate-income households of about 3.5 percent over the five-year period 2005 to 2010. Sixty-seven percent of the required new units (53,307) will be of rental tenure; 85 percent of these will be small units. About 26,600 new units will be required in Queens; about 17,500 new units in the Bronx; 14,500 new units in Manhattan; about 12,100 new units in Brooklyn; and 9,485 new units in Staten Island. These additions amount to 4 percent of the very low-, low-, and moderate-income housing stock in Queens and the Bronx; 3 percent in Manhattan; 2 percent in Brooklyn; and 8 percent in Staten Island.

Future Need (2005-2010) — All Units

Location	Total Cost of Construction ($2004)	Delivery Cost/Month ($2004)	Occupancy Cost—35% ($2004)	Cost Difference/ Units (#)	Annual Subsidy ($2004)
MANHATTAN	$2,98 Bil.	$3,639	$704	$1,932 / 14,548	$0.34 Bil.
BROOKLYN	$1.61 Bil.	$1,723	$814	$909 / 12,138	$0.13 Bil.
QUEENS	$3.93 Bil.	$1,921	$1,123	$798 / 26,576	$0.25 Bil.
BRONX	$1.60 Bil.	$1,180	$794	$381 / 17,479	$0.08 Bil.
STATEN ISLAND	$1.47 Bil.	$2,029	$983	$1,046 / 9,485	$0.12 Bil.
CITYWIDE (All)	$11.59 Bil.	$1,873	$913	$961 / 80,262	$0.93 Bil.

Summary

Clearly, cost-burdened households dominate future affordable housing need in New York City. The annual costs of dealing with the cost-burden issue are extremely large. But, as will be shown, this response involves a relatively large number of units. Rehabilitation housing need is less costly, but it is an incremental response — a one-time need until new Census data on deterioration and crowding are available. Future housing need is also less costly but involves only a relatively small number of households projected to grow over the period 2005 to 2010.

Cost-Burdened, Rehab and Future Need Units and Costs

Location	Cost-Burdened Units	Cost-Burdened Costs	Period
Citywide	1,020,890	$ 7.4 billion	Annual
	Rehabilitation Units	Rehabilitation Costs	Period
Citywide	164,627	$ 0.85 billion	Annual
	Future Need Units	Future Need Costs	Period
Citywide	80,262	$ 0.93 billion	Annual

Relative Numerical Summary

	Base Data		Affordable Housing Need		
Location	Total Units	Income-Qualified (Households) (2004)	Cost-Burdened (Households) (2004) (%)	Rehab. Need (Add'l. CB) (Households) (2004)	Future Need (Hslds.) (2004) (2005-2010)
MANHATTAN	758,001	478,478 (63)	213,864	37,492	14,548
BROOKLYN	901,805	744,945 (83)	329,200	57,663	12,138
QUEENS	819,525	634,619 (77)	257,923	36,030	26,576
BRONX	479,648	421,628 (88)	177,344	31,678	17,479
STATEN ISLAND	169,756	113,551 (67)	42,559	1,764	9,485
CITYWIDE (HH)	3,128,735	2,393,221 (77)	1,020,890	164,627	80,262
CITYWIDE (Cost)			$7.4 Bil.	$0.85 Bil.	$0.93 Bil.
				Annual	Annual

C. Affordable Housing Need by Component and Community District in New York City

Cost-burdened Affordable Housing Need

In New York City, there are 3.1 million housing units of which 2.4 million fall below 135 percent ($84,100) of median income ($62,300). These households are located primarily in The Bronx, Brooklyn, and Queens. As a share of total housing units, income-qualified households in these boroughs range from 88 to 77 percent (Figure 1). Of these, approximately 1.02 million renters (800,000) and owners (220,000) pay more than 35 percent or 40 percent, respectively, for income. This is about 43 percent of the income-eligible households of New York City (see Table 1). The greatest percentage of cost burden (45 percent of income-eligible households) is found in Manhattan, followed by Brooklyn (44 percent), Bronx (42 percent), Queens (41 percent), and Staten Island (37 percent).

Within the various boroughs, cost burden is much more uneven. It is most pronounced (50 percent or above for income-eligible households) in Manhattan in Community Districts 1 and 2 (Tribeca, Noho, Soho, Little Italy), in Community District 6 (Murray Hill, Stuyvesant Town), and in Community District 8 (Lenox Hill, Yorkville, Roosevelt Island) (Table 1). It is also high in Brooklyn in Community District 12 (Borough Park, Ocean Parkway). On the other hand, cost-burdened affordable housing need is lower (below 40 percent of income-eligible households) in Manhattan in Community District 3 (Lower East Side, Chinatown), Community District 11 (East Harlem), and Community District 12 (Washington Heights, Inwood) (Figure 2). In Brooklyn, cost-burdened affordable housing need is lower in Community District 2 (Brooklyn Heights, Boerum Hill). In Queens, it is lower (below 40 percent of income-eligible households) in Community District 2 (Sunnyside and Woodside), in Community District 13 (Laurelton, Queens Village, Glen Oaks), and in Community District 14 (The Rockaways and Broad Channel). In The Bronx, cost-burdened affordable housing need is high and, in fact, never falls below 40 percent in any of the community districts. On the other hand, in the three community districts in Staten Island (North Island, Mid Island, and South Island), cost-burdened affordable housing need is relatively low and never gets higher than 38 percent of income-qualified households. Thus, cost burden is most severe in Manhattan and Brooklyn community districts and least severe in Staten Island and Queens community districts. There are also community districts in Manhattan where cost-burdened households, as a share of income-eligible households, are less of a problem (East Harlem—CD11) and Washington Heights—CD12).

In closing, the numerical scale of the cost-burdened population also bears mentioning. The cost-burdened population is eight times higher in Brooklyn (330,000 households) than it is in Staten Island (42,500 households) due both to their differences in overall income-qualified households (Brooklyn [745,000] has 6.5 times the income-qualified households of Staten Island [115,000]) and also due to the lower median household incomes found in Brooklyn ($36,700 annual median versus about $61,000 in Staten Island) (see Table 1).

In addition, again in terms of the scale of cost burden, Queens is second in overall magnitude with 258,000 cost-burdened households; Manhattan is third with 214,000 cost-burdened households; The Bronx is fourth with 177,000 cost-burdened households; and Staten Island is fifth with 42,500 cost-burdened households (see Table 1).

With regard to large concentrations of cost-burdened households in community districts, i.e. more than 25,000 cost-burdened households per district, the following locations are clearly noticeable (see Table 1). More than 25,000 cost-burdened households are found in Manhattan's Community District 7 (Lincoln Square, Upper West Side), Community District 8 (Lenox Hill, Yorkville, Roosevelt Island), and Community District 12 (Washington Heights, Inwood). Cost-burdened households in significant number are also found in Brooklyn's Community District 11 (Bensonhurst, Bath Beach, Gravesend); and in Queen's Community District 1 (Astoria and Long Island City), Community District 7 (Flushing, Whitestone, College Point), and Community District 12 (Jamaica, South Jamaica, Hollis). The only other concentration of cost burden in community districts of more than 25,000 households is found in the Bronx Community District 9 (Soundview, Castle Hill, Parkchester).

In sum, cost burden affects New York City residents (except for those live in Staten Island) relatively evenly (in terms of share of the population) at 41 to 45 percent of those who are income-eligible. In Staten Island, 37 percent of those who are income eligible are cost-burdened. This means that there are somewhat compensating effects in the cost of the local housing stock for the significant differences that are found between median incomes in Manhattan

($52,500+) and median incomes in Brooklyn ($36,700). Median housing cost in Manhattan (2004 $) is $1,035 monthly to occupy housing; median housing cost in Brooklyn is $872 monthly to occupy housing.

Rehabilitation Affordable Housing Need

There are approximately 165,000 deteriorated housing units that are occupied by income qualified households. These are units that lack a complete bathroom, lack a complete or do not have exclusive use of a kitchen, or are overcrowded. These characteristics are paired with the age of a housing unit such that if the unit is older (pre-1940), only one of the above characteristics need apply to designate the unit as deteriorated; if the unit is newer (1940 to 2000), two characteristics must be evident to signal a deteriorated unit.

On average, in New York City, 7 percent of the housing stock occupied by income qualified households is deteriorated. This ranges from highs of 8 percent in Manhattan, Brooklyn, and The Bronx to a low of 2 percent in Staten Island. Six percent of the housing stock occupied by income eligible households is deteriorated in Queens (see Table 1).

Significant locations of housing deterioration below the borough level (where 10 percent or more of the housing stock is deteriorated) are in Manhattan's Community District 3 (Lower East Side, Chinatown) and Community District 12 (Washington Heights, Inwood) (see Figure 3 and Table 1). In Brooklyn, locations of significant housing deterioration are found in Community District 1 (Greenpoint, Williamsburg), Community District 4 (Bushwick), Community District 7 (Sunset Park, Windsor Terrace), Community District 12 (Borough Park, Ocean Parkway), and Community District 14 (Flatbush, Midwood). In Queens, the only location of housing deterioration is found in Community District 2 (Sunnyside, Woodside). In The Bronx, locations of significant housing deterioration are found in Community District 4 (Elmhurst, Corona), in Community District 5 (Morris Heights, University Heights), and in Community District 7 (Kingsbridge Heights, Bedford Park, Fordham). In Staten Island, there are no locations of significant housing deterioration.

At the other end of the spectrum, locations of relatively low housing deterioration (less than 5 percent of the housing stock occupied by income qualified households) are found in Manhattan's Community District 6 (Murray Hill, Stuyvesant Town), and Community District 8 (Upper East Side, Yorkville, Roosevelt Island) (see Figure 3). Other locations of lower housing deterioration are found in Brooklyn's Community District 16 (Ocean Hill, Brownsville), Community District 18 (Canarsie, Marine Park, Mill Basin); and, in Queen's Community District 6 (Rego Park, Forest Hills), Community District 8 (Fresh Meadows, Kew Gardens), Community District 11 (Bayside, Douglaston, Little Neck), Community District 12 (Jamaica, South Jamaica, Hollis), Community District 13 (Laurelton, Queens Village, Glen Oaks), and Community District 14 (The Rockaways, Broad Channel).

In The Bronx, the only location of relatively low housing deterioration is Community District 10 (Throgs Neck, Co-op City, City Island). In Staten Island, all community districts (North Island, Mid Island, South Island) have relatively low housing deterioration.

The relative numerical scale of housing deterioration (for units occupied by income-eligible households) also bears inquiry. Housing deterioration in Manhattan, Queens, and The Bronx amounts to 32,000 to 37,500 units in each borough. In Brooklyn, housing deterioration is approaching 58,000 units, and in Staten Island it is not even 2,000 units. Large numerical concentrations of deteriorated units (more than 5,000 units) are found in Manhattan's Community District 3 (Lower East Side, Chinatown) and Community District 12 (Washington Heights, Inwood); in Brooklyn's Community District 7 (Sunset Park, Windsor Terrace), Community District 14 (Flatbush, Midwood); and in The Bronx's Community District 7 (Kingsbridge Heights, Bedford Park, Fordham). Concentrations of deteriorated units of more than 5,000 are not found in community districts in either Queens or Staten Island.

In sum, rehabilitation affordable housing need is relatively evenly distributed in select locations of each of the boroughs except Staten Island. Staten Island's percentage distribution of the stock occupied by income-qualified households is one-quarter to one-third that of the other boroughs.

New Construction Affordable Housing Need

Over the period of 2005 to 2010, New York City will expand its household population by 105,200. This will comprise 79,200 low- and moderate-income households (below 135 percent of median income) and 25,500 middle- and upper-income households. If future (2005-2010) New York City experience reflects the past (1990-2000), this will be met by about 115,000 new housing units almost all directed to middle- and upper-income households. The reality of this is that the new construction market is predictably building to the middle and upper levels of the housing market at a rate of four times what is needed and not building at all to the very low and low levels. This leaves unsatisfied future low- and moderate-income housing demand in significant numbers in all parts of the city. This type of situation cries out for an inclusionary component related to market housing as well as a large new housing program targeted to the lower middle-income sector of the population.

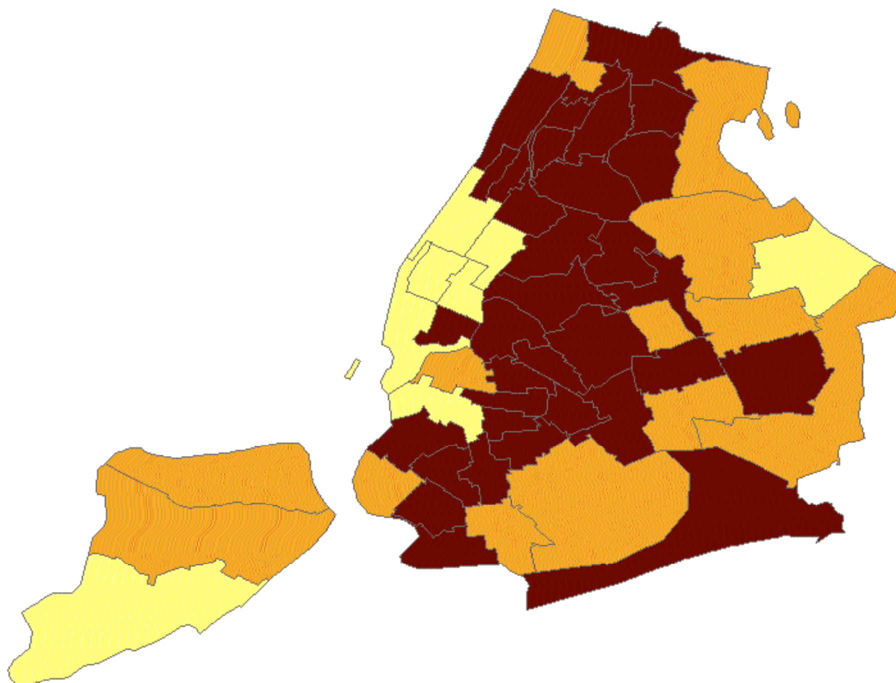
New construction affordable housing demand for the period 2005 to 2010 (approximately 80,000 units in total) will be highest in Queens (26,600 units), second in The Bronx (17,700 units), third in Manhattan (14,600 units), fourth in Brooklyn (11,600 units), and fifth in Staten Island (9,500 units) (see Table 1). As a percentage of the current 2005 housing stock, occupied by income-eligible households, future affordable housing need has a pattern somewhat different from absolute need. It is highest in Staten Island (8 percent of the existing stock); it is in the middle in Queens and The Bronx (4 percent of the existing stock); and it is lowest in Manhattan and Brooklyn (3 percent of the existing stock), respectively (see Table 1). Thus, Staten Island often is immune from affordable housing need due to its relatively high household incomes and its sound housing stock is at two and one-half times the New York City average in terms of percent of future affordable housing need of the income-eligible stock. In terms of absolute numbers, Queens has one-third of the future affordable housing need.

Below the borough level, significant locations of future affordable housing need (5 percent or above of the income eligible stock) are found in Queens in Community District 12 (Jamaica, South Jamaica, Hollis), Community District 13 (Laurelton, Queens Village, Cambria Heights); and in all three of Staten Island's Community Districts (North Island, Mid Island, and South Island) (see Table 1 and Figure 4). Low relative levels of affordable housing need (2 percent or below of the stock) are found in Manhattan's Community District 8 (Upper East Side, Yorkville, Roosevelt Island); and all of Brooklyn's eighteen community districts.

Significant absolute concentrations of future affordable housing need (above 2,000 units for the period 2005-2010)) are found in: Manhattan's Community District 7 (Lincoln Square, Upper West Side); Queen's Community District 1 (Astoria, Long Island City), Community District 3 (Jackson Heights, East Elmhurst, North Corona), Community District 5 (Maspeth, Middle Village, Glendale), Community District 7 (Flushing, Whitestone, College Point), Community District 12 (Jamaica, South Jamaica, Hollis), Community District 13 (Laurelton, Cambria Heights, Glen Oaks); Bronx's Community District 3 and 6 (Melrose, Claremont, Crotons Park East; East Tremont, Belmont, West Farms), Community District 9 (Soundview, Castle Hill, Parkchester); and in all three of Staten Island's community districts (North Island, Mid Island, South Island).

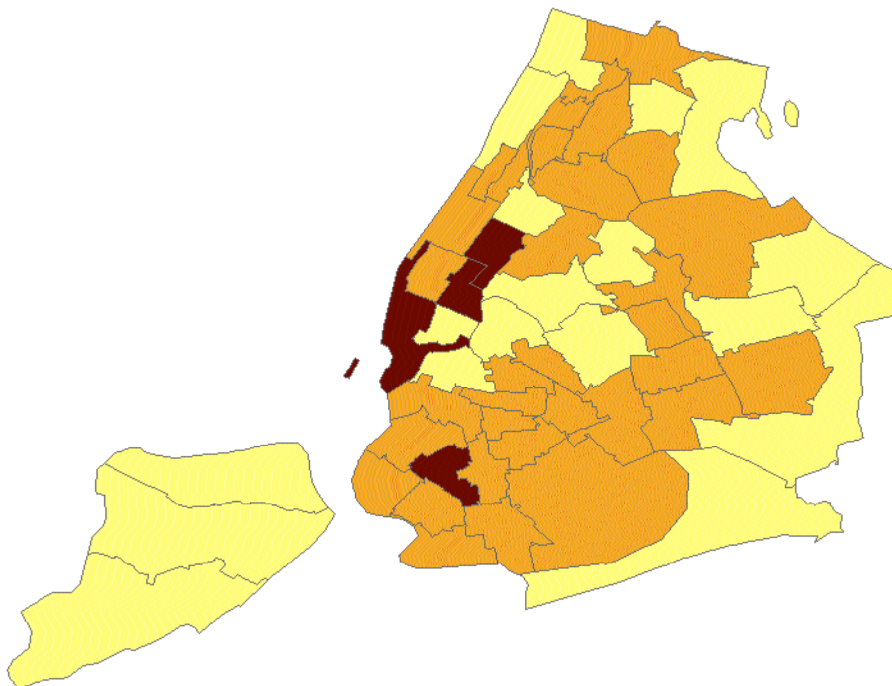
In sum, more new construction affordable housing need is required in Queens and in The Bronx and less so in Manhattan, Brooklyn, and Staten Island. As a share of existing income-qualified units, Staten Island has significant (two to three times the other boroughs') relative new construction affordable housing need.

Figure 1: Significant locations of Income Qualified Units as a Percent of All Units



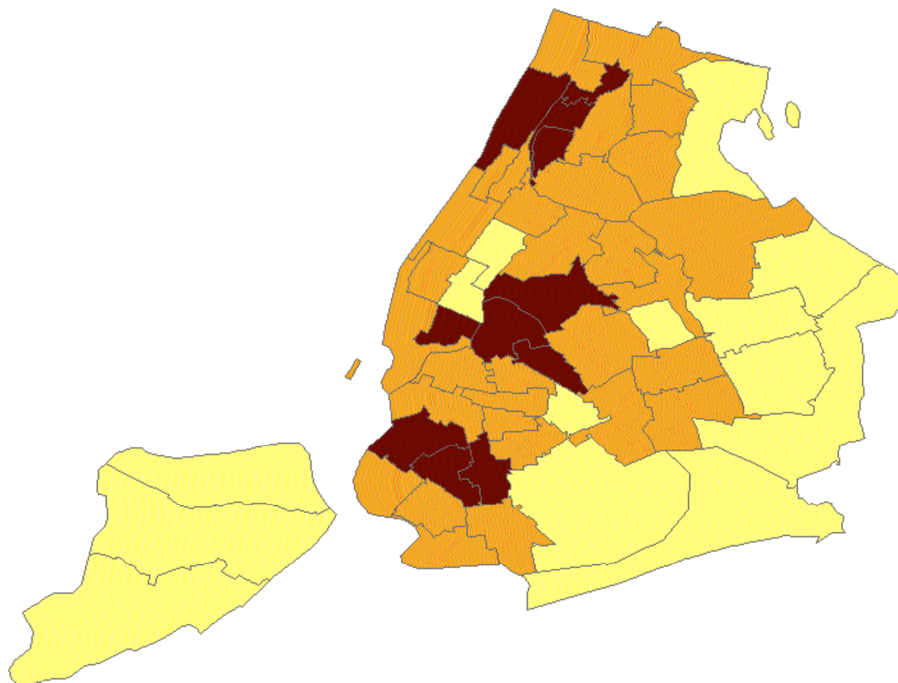
Source: U.S. Census Bureau, 2000Census ofPopulation and Housing, 5% Public Use Microdata Sample, (updated to 2005)

Figure 2: Significant Locations of Cost Burdened Affordable Housing Need



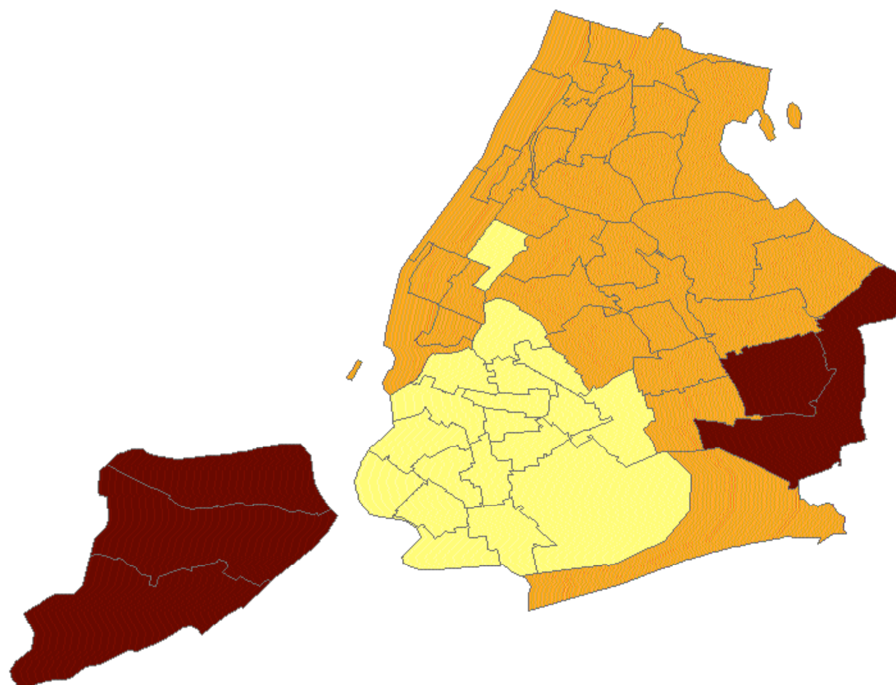
Source: U.S. Census Bureau, 2000Census ofPopulation and Housing, 5% Public Use Microdata Sample, (updated to 2005)

Figure 3: Significant Locations of Rehabilitation Affordable Housing Need



Source: U.S. Census Bureau, 2000Census ofPopulation and Housing, 5% Public Use Microdata Sample, (updated to 2005)

Figure 4: Significant Locations of New Construction Affordable Housing Need



Source: New York State Information System (NYSIS): Projections 2005-2015,U.S. Census Bureau, 2000Census ofPopulation and Housing, 5% Public Use Microdata Sample, (updated to 2005)

Table 1: Cost Burdened, Rehabilitation, and Future Affordable Housing Need

Community District	PUMA Area	Total Units -2005	Income Qualified Units -2005		Cost Burdened Households -2005		Rehab Need Households -2005		Future Very Low, Low or Moderate Need (2005-2010)	
Manhattan		**#**	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**
1&2	3810	68,775	32,930	-48	17,393	-53	2,503	-8	932	-3
3	3809	71,019	59,533	-84	22,514	-38	6,701	-11	1,884	-3
4&5	3807	72,934	42,244	-58	19,958	-47	3,179	-8	1,152	-3
6	3808	89,789	42,165	-47	22,033	-52	1,869	-4	1,372	-3
7	3806	110,687	55,658	-50	25,387	-46	4,124	-7	2,055	-4
8	3805	126,693	54,064	-43	29,100	-54	1,347	-2	1,318	-2
9	3802	47,904	39,292	-82	16,686	-42	3,586	-9	1,096	-3
10	3803	48,728	44,426	-91	19,097	-43	2,433	-5	1,321	-3
11	3804	44,021	39,583	-90	15,184	-38	2,425	-6	1,486	-4
12	3801	77,450	68,583	-89	26,513	-39	9,324	-14	1,952	-3
Manhattan Total		**758,000**	**478,478**	**-63**	**213,865**	**-45**	**37,491**	**-8**	**14,568**	**-3**
Brooklyn										
1	4001	51,902	46,035	-89	18,355	-40	4,643	-10	786	-2
2	4004	49,818	34,896	-70	13,728	-39	2,027	-6	515	-1
3	4003	44,161	40,487	-92	19,056	-47	2,585	-6	659	-2
4	4002	36,389	34,435	-95	16,148	-47	3,913	-11	570	-2
5	4008	47,542	43,323	-91	19,805	-46	2,909	-7	1,020	-2
6	4005	48,907	30,298	-62	13,066	-43	1,934	-6	193	-1
7	4012	45,182	38,707	-86	15,830	-41	5,172	-13	472	-1
8	4006	47,221	40,827	-86	17,125	-42	2,571	-6	665	-2
9	4011	42,777	37,627	-88	16,923	-45	3,146	-8	816	-2
10	4013	52,430	38,082	-73	15,511	-41	2,487	-7	395	-1
11	4017	65,197	53,836	-83	25,167	-47	4,367	-8	791	-1
12	4014	50,642	42,472	-84	21,044	-50	4,937	-12	281	-1
13	4018	47,266	41,724	-88	18,485	-44	2,361	-6	865	-2
14	4015	58,310	48,578	-83	20,307	-42	5,695	-12	677	-1
15	4016	57,725	44,524	-77	18,782	-42	2,887	-6	639	-1
16	4007	38,975	36,682	-94	17,690	-48	1,528	-4	602	-2
17	4010	50,523	43,138	-85	20,125	-47	3,285	-8	920	-2
18	4009	66,836	49,274	-74	22,054	-45	1,216	-2	707	-1
Brooklyn Total		**901,803**	**744,945**	**-83**	**329,201**	**-44**	**57,663**	**-8**	**11,573**	**-2**

Table 1: Cost Burdened, Rehabilitation, and Future Affordable Housing Need (Continued)

Community District	PUMA Area	Total Units -2005	Income Qualified Units -2005		Cost Burdened Households -2005		Rehab Need Households -2005		Future Very Low, Low or Moderate Need (2005-2010)	
Queens		#	#	%	#	%	#	%	#	%
1	4101	79,733	65,074	-82	27,015	-42	4,837	-7	2,731	-4
2	4109	51,606	41,792	-81	16,125	-39	4,227	-10	1,589	-4
3	4102	58,272	49,951	-86	19,808	-40	4,531	-9	2,058	-4
4	4107	46,686	39,907	-85	17,430	-44	3,457	-9	1,637	-4
5	4110	65,913	52,942	-80	20,988	-40	2,682	-5	2,203	-4
6	4108	54,162	37,121	-69	15,620	-42	1,333	-4	1,493	-4
7	4103	93,997	70,889	-75	28,977	-41	3,346	-5	2,921	-4
8	4106	56,920	40,415	-71	14,668	-36	1,242	-3	1,672	-4
9	4111	48,235	38,708	-80	17,435	-45	3,191	-8	1,446	-4
10	4113	42,235	32,508	-77	13,513	-42	2,105	-6	1,369	-4
11	4104	46,473	29,150	-63	11,753	-40	390	-1	1,167	-4
12	4112	72,811	60,229	-83	25,653	-43	2,484	-4	2,900	-5
13	4105	64,640	44,306	-69	16,595	-37	1,170	-3	2,096	-5
14	4114	37,841	31,627	-84	12,341	-39	1,039	-3	1,288	-4
Queens Total		**819,524**	**634,619**	**-77**	**257,921**	**-41**	**36,034**	**-6**	**26,570**	**-4**
Bronx										
1&2	3710	43,563	41,559	-95	16,871	-41	2,982	-7	1,821	-4
3&6	3705	48,039	45,915	-96	20,927	-46	2,565	-6	2,011	-4
4	3708	44,268	41,962	-95	18,335	-44	4,927	-12	1,702	-4
5	3707	44,548	42,251	-95	19,865	-47	4,977	-12	1,754	-4
7	3706	44,936	41,123	-92	18,005	-44	5,353	-13	1,576	-4
8	3701	43,956	32,566	-74	12,498	-38	2,124	-7	1,199	-4
9	3709	64,615	58,177	-90	24,158	-42	3,449	-6	2,512	-4
10	3703	47,629	36,709	-77	11,711	-32	759	-2	1,498	-4
11	3704	47,814	40,103	-84	16,201	-40	2,406	-6	1,651	-4
12	3702	50,279	41,262	-82	18,773	-45	2,136	-5	1,752	-4
Bronx Total		**479,647**	**421,627**	**-88**	**177,344**	**-42**	**31,678**	**-8**	**17,476**	**-4**
Staten Island										
1	3903	61,527	45,433	-74	16,789	-37	1,311	-3	3,793	-8
2	3902	50,343	33,019	-66	12,632	-38	304	-1	2,766	-8
3	3901	57,886	35,099	-61	13,139	-37	149	0	2,936	-8
Staten Island Total		**169,756**	**113,551**	**-67**	**42,560**	**-37**	**1,764**	**-2**	**9,495**	**-8**
City Total		**3,128,730**	**2,393,220**	**-76**	**1,020,891**	**-43**	**164,630**	**-7**	**79,682**	**-3**

Source: U.S. Census Bureau, 2000Census ofPopulation and Housing, 5% Public Use Microdata Sample, (updated to 2005)

D. Demand and Supply Models

Goals and Strategies to Address Affordable Housing Need

- View components of affordable housing demand
- Provide relative comparison of magnitude/cost of addressing components of demand
- Develop an affordability model that will be sensitive to strategies of addressing demand
- Allow strategies to reduce demand—by type, location, tenure, and income group
- Price resultant strategies to gauge relative impact

By preparing models such as those described below, one could ask the question—How best could $250 million be spent to address the affordable housing issue in New York City? What might be a distribution between income subsidy, rehabilitation, and new construction strategies to maximize $250 million spent for affordable housing purposes? While clearly this will require additional analysis, one can see how this question could begin to be answered.

Strategy A: Producing Less Expensive Housing: A Supply-Side Strategy

In order to answer questions on what would be the most advantageous ways to deal with the future affordable housing issue in New York City, a housing model is created to view components of housing costs. This is illustrated for a 1- to 3-room rental unit coming onstream in Manhattan in 2004. The example shows a unit that costs $160,000 ($250/sq. ft.) and the division of these costs between site and structure costs, yielding total costs ($159,507). These costs are then converted to monthly occupancy costs according to the portion that is spent on principal, interest, taxes, insurance, utilities, and maintenance ($2,033). Data reflect what was delivered in each borough from 1990 to 2000 in 2004 dollars. Total figures for this strategy involve all types of housing (not just small rental housing) delivered in all boroughs.

Housing Model (Rent 1-3 persons — Manhattan Example)

Capital Costs (Site)		Costs—Intervention Points
Land	$31,901	Zoning—Available Land
Site Preparation	15,951	Provide Improved Site
Soft Costs	15,951	Processing Time—Fast-take
Capital Costs (Structure)		
Exterior Shell	$55,828	Building Code Revisions
Interior Finish	23,926	Prefab-Minimize Costs
Equipment (HVAC)	15,951	Equipment Subsidy
Total	$159,507	
Operating Costs		
Principal	$443	Lower Overall Cost
Interest	513	Interest Write-Down
Taxes	665	Tax Forgiveness
Insurance	13	
Utilities	133	Utility Subsidy
Maintenance	266	Unequal Maint. Share
Co-op Fee	0	Co-op Fee Reduction
Occupancy (Cost)	$2,033	
Subsidy Cost		
Occupancy (35%)	$578	
DIFFERENCE	$1,455	Interventions Reduce Difference

This model is linked to components of future demand such that as costs are reduced through: (1) increases in density; (2) reductions in site preparation costs; (3) building code relaxations; (4) mortgage interest write-downs; and/or (5) real estate tax forgiveness—affordable housing need strategies such as the above reduce housing costs. This allows more of the units coming onstream to reach a larger proportion of very low-, low-, and moderate-income households. The modeling effort enables one to view the relative impact of one or another housing cost reduction strategies on future affordable housing need in New York City. In other words, affordable housing demand is reduced because new housing is produced that has benefited from a cost-saving measure exercised during the production of this housing. It should be realized that new construction is very costly relative to the costs of rehabilitation, and both new construction and rehab costs are expensive relative to costs of income subsidies.

Strategy A —Spending $150 Million in Reducing Future New Housing Costs through a Variety of Methods

Reducing Costs in Various Housing Cost Sectors

Location	Double Density		Reduce Construction Costs		Halve Interest Rate	
Borough	Cost ($-millions)	Added Affordable Units	Cost ($-millions)	Added Affordable Units	Cost ($-millions)	Added Affordable Units
Manhattan	21.5	98	49.4	176	63.7	330
Brooklyn	11.6	152	26.6	326	34.3	429
Queens	28.2	785	65.0	1,658	83.8	2,247
Bronx	11.5	222	26.4	881	34.1	1,203
Staten Island	10.6	101	24.4	260	31.4	359
Total	$84.3	1,358	$191.7	3,301	$247.4	4,604

Reducing Costs in Various Housing Cost Sectors (Continued)

Location	Halve Property Taxes		Reduce CO-OP Fees		All Together (not additive)	
Borough	Cost ($-millions)	Added Affordable Units	Cost ($-millions)	Added Affordable Units	Cost ($-millions)	Added Affordable Units
Manhattan	74.6	390	4.8	0	193.0	1,812
Brooklyn	40.2	533	4.6	0	106.0	2,311
Queens	98.1	2,675	10.9	209	258.4	8,696
Bronx	39.9	1,491	2.9	2	103.6	3,846
Staten Island	36.8	482	5.2	0	98.1	2,463
Total	$289.7	5,571	$28.5	211	$759.1	19,128

Spending $150 Million to Reduce Future New Housing Costs as a Housing Strategy

Location		Units That Become Affordable		Units That Remain Unaffordable	
Borough	Spend ($-millions)	Affordable Units #	Affordable Units %	Unaffordable Units #	Unaffordable Units % *
Manhattan	38.1	358	2%	13,877	95%
Brooklyn	20.9	457	4%	9,860	81%
Queens	51.1	1,718	6%	19,906	75%
Bronx	20.5	760	4%	11,913	68%
Staten Island	19.4	487	5%	7,984	84%
Total	$150.0	3,780	5%	63,540	79%

* Numbers do not add to 100% because some units are already affordable.

Strategy B: Repairing Existing Deficient Housing Units: A Supply-Side Strategy

Existing housing that is deteriorated can be rendered nondeteriorated for $25,000 to $40,000 per unit, on average, in New York City. This is about 20 percent of the cost to create a new unit in most parts of the City. Obviously, many of these units do not require "gut" rehabilitation. Costs vary by item—it is less expensive to render a bathroom complete than it is to render a kitchen complete and of exclusive use. Each of these are less expensive, on average, than costs to reconfigure a unit to reduce crowding. Similarly, it is less expensive to rehabilitate a unit in the Bronx (depending upon what needs to be done) and more expensive to rehabilitate a unit in Manhattan. By applying costs per unit to render units sound, a cost for rehabilitation can be derived. For the most part, the costs of rehabilitation are already less than the costs of new construction because site costs are not involved. Further, in many cases, some portion of the structure is sound before rehabilitation begins. There are additional savings that can take place, such as long-term interest-rate subsidies on rehabilitation costs or specific building code forgiveness (leading to cost reductions) in the process of rehabilitation. These further reduce the costs of rehabilitation. The costs to improve the unit are added to the current costs to carry the unit, and the required subsidy costs to render the unit affordable are calculated. Units reflecting cost savings are layered onto the demand for affordable housing, and demand is reduced to the degree that the units are more affordable.

Strategy B — Spending $25 Million Annually on Deteriorated Units to Render Them Sound ($8.33 M on Rehab Only Need; $16.67 M on Already Cost Burdened Need)

	Units That Become Affordable			Units That Still Are Unaffordable		
Borough	Number	% of Units	% of $-Cst	Number	% of Units	% of $-Cst
Manhattan	2,185	9%	1%	21,117	91%	87%
Brooklyn	5,301	15%	3%	30,685	85%	93%
Queens	3,647	18%	4%	16,812	82%	94%
Bronx	3,531	20%	5%	14,465	80%	93%
Staten Island	158	13%	2%	1,011	87%	94%
Total	14,821	15%	3%	84,090	85%	92%

Strategy C: The Cost-Burdened Income Subsidy: A Demand-Side Strategy

One way of reducing the demand for affordable housing is to subsidize the income of those who currently reside in sound housing that is not affordable. In many cases, this is the least expensive of all housing strategies—existing housing is rendered affordable by subsidizing the costs of those who live in this housing. This subsidy, at $500-$1,000 per month, averages $6,000-$12,000 annually. This is one-quarter of the costs of rehabilitation and five percent of the costs of new construction. Although no new units are being created, the income subsidy will render four times the number of units affordable as money spent on rehabilitation, and twenty times the number of units affordable as money spent on new construction. Thus, the alternatives for addressing the affordable housing issue in New York City clearly present themselves.

Strategy C— Spending $75 Million Annually on Cost Burdened Units (applying 1/3 to units with least burden, 1/3 to units with middle burden, and 1/3 to units with greatest burden)

Location	Units That Become Affordable			Units That Still Are Unaffordable		
Borough	Number	% of Units	% of $-Cst	Number	% of Units	% of $-Cst
Manhattan	18,138	8%	2%	195,726	92%	98%
Brooklyn	25,374	8%	1%	303,827	92%	99%
Queens	18,894	7%	1%	239,029	93%	99%
Bronx	16,176	9%	1%	161,169	91%	99%
Staten Island	3,797	9%	1%	38,762	91%	99%
Total	82,378	8%	1%	938,513	92%	99%

CONCLUSION

If the above were the desired distributions of allocating $250 million annually for affordable housing purposes, about 100,000 of 1.3 million housing units that are ,or will become, unaffordable could be rendered affordable. Thus, for an expenditure of $250 million annually, about 8 percent of the City's housing that is currently not affordable could be made affordable. This would amount to 8 percent of the cost-burdened units, 15 percent of the units requiring rehabilitation, and 5 percent of the required new construction units.

HOW DO YOU MAXIMIZE $250 MILLION ANNUALLY?

$ 75 MILLION – COST BURDEN	=	82,378 HOUSEHOLDS (8%)
$ 25 MILLION – REHAB	=	14,821 HOUSEHOLDS (15%)
$150 MILLION – NEW	=	3,780 HOUSEHOLDS (5%)
$250 MILLION	=	100,979 HOUSEHOLDS (8%)

3: An Overview of New York City and New York State Affordable Housing Policies and Programs

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3: An Overview of New York City and New York State Affordable Housing Policies and Programs

A. Commentary on Agency Programs

In evaluating the housing policies and opportunities of city government, it is important to distinguish between two issues that are often conflated in popular and media discussion. The first issue is that of new housing construction by the private sector, which is created without public subsidy or is subsidized only through as-of-right incentive programs. Such housing production is important for expanding the housing supply to accommodate a growing population, for renewing the housing stock by gradually replacing obsolete housing with that which meets modern standards of comfort and amenity, and for stimulating the mobility that facilitates a more efficient use of housing resources. New, unsubsidized housing production, however, will not fundamentally alter the cost of housing in the city or the region or provide opportunities directly to low- and moderate-income households. At best, healthy levels of new housing construction will temper market price increases that will otherwise occur. In certain cases, such as with federal or local tax incentives or inclusionary zoning, market rate housing can be leveraged to cross-subsidize units for lower-income groups.

The second issue concerns housing creation that is subsidized directly through discretionary public programs. It is the most direct way of providing housing for families of low- and moderate-incomes, but it can require very large subsidies when it is directed at households in the lower two income quintiles. In order to stretch public subsidy dollars, assisted housing is often directed at middle-income families under the assumption that some of the units they vacate will filter down to lower income households. There are other justifications for subsidizing middle-income housing production, however, including expansion and renewal of the housing supply, workforce retention, and community revitalization.

Statutory authorities

The city cannot make funding available to the public except by the authority granted to it under various state statutes. The principal state statutes that govern housing are, the General Municipal Law, the Private Housing Finance Law and the Real Property Tax Law. The GML is important because it provides the only statutory authority that the city has to make grants but such grants also require the consent of the city council. The PHFL is the body of statutes that govern HDC and that enables the city to make loans through HPD. HPD does not have general authority to make loans but only explicit and limited authority granted to it under specific articles of the PHFL including articles 5, 8, 8A 11, 15 and 22.

Generally, these statutes promulgated to address very specific housing issues such as minor rehabilitation loans to private owners or the creation of housing for homeless adults by nonprofits. In order to respond to new issues or changed conditions the statutes must be amended. While the state legislature has generally been receptive to minor amendments such necessitates time and political capital. As a result, the city does not have the flexibility it requires to keep up with changing needs or to take advantage of new techniques for financing housing. The same is true of the tax incentive programs provided under the RPTL including J51, 420-c and 421-a: they lack the flexibility to respond to changing housing trends and they are often tightly constrained by political considerations.

HPD programs

Many of HPD's mainstay programs, most notably the Partnership's New Homes Program and the various vacant building rehabilitation programs, have been terminated because of the depletion of in rem holdings. The agencyís focus has returned to moderate rehabilitation and other housing preservation efforts.

Most of the new construction or gut rehabilitation programs of the agency are now project-specific. For example, the agency recently issued RFPs for two projects it is sponsoring in conjunction with NYCHA, one in the Morris Heights area of the Bronx and the other in the Mott Haven Area. The agency expects to do other projects in conjunction with NYCHA, which has unutilized development rights and vacant land at or near some of its existing projects. The closest HPD currently has to a traditional, multi-round RFP program is the Cornerstone Program, which is primarily geared to building new multi-family housing on vacant, city-owned sites. The financing, however, is done through the HDC programs discussed below.

The principal issue relating to HPD's current production programs is its access to, and utilization of,

vacant land. The New Homes Program has been discontinued and no RFPs have been issued for its sister program, New Foundations, in several years. Presumably, the phasing out of these programs is due to a lack of suitable, city-owned sites. Yet the Department of Citywide Administrative Services continues to sell city-owned residential land at public auction, with no development restrictions attached. Housing experts and planners have questioned that practice for a number of years, and no full explanation of how sites are designated for auction or for affordable housing development has been provided either by the Giuliani or Bloomberg administrations.

HDC programs

HDC provides two limited but important sources of funding for housing: it can issue private activity bonds secured by project level revenue and it can reinvest the revenues it derives from this activity back into housing. Like the city itself, HDC's ability to issue debt is constrained by state imposed debt ceilings and by the capital markets. In addition, tax-exempt bonds–an important source of debt that HDC can issue–are sub-allocated to HDC by the state and is therefore only available to the city if the state wishes them to be. Moreover, HDC's revenue resources are not unlimited.

Prior to the late 1990's, HDC was principally engaged in providing taxable and tax-exempt bond financing to private developers whose projects met its criteria and to serving as the financial arm of HPD, which got most of its direct subsidy money from the federal government or the city capital budget. In 1998 the agency launched its New Housing Opportunities Program (New HOP), through which, for the first time, it provided direct subsidies to affordable housing development from its own excess reserves.

The New HOP program is targeted at middle-income households earning up to 250 percent of area median income. HDC provides subsidies of up to $45,000 per unit and taxable bond financing for rental projects with 20 or more units. Maximum rents are $1,395 per month for 1-bedroom apartments and $1,810 for 2-bedroom units. The subsidies are provided in the form of 1-percent to 3-percent second mortgages or blended with bond proceeds to produce a below-market rate first mortgage. Since its inception, several thousand new housing units have been produced through the program, although recently the agency reports that the program is undersubscribed.

Since the launch of New HOP, HDC has complimented it with other subsidy programs. The Mixed-Income program provides taxable bond financing, which requires developers to set-aside 20 percent of the dwelling units for low-income households, and also provides direct subsidies of up to $45,000 per unit. In return for the subsidies, the low-income units must be affordable to households earning no more than 50 percent of area median income and another 30 percent must be affordable to families earning no more than 250 percent of AMI. The other half of the units can be rented at market rates without regard to household incomes. Another program variation is known as LAMP, or Low-Income Affordable Market-Place. This program combines tax-exempt bond financing, 4 percent Federal Low Income Housing Tax Credits, up to $50,000 per unit of direct subsidy, and in some circumstances HPD or DHCR loans or subsidies. All of the units must be affordable to households earning no more than 60 percent of AMI.

Direct subsidy programs

Direct subsidy program include both capital grants and interest rate reduction subsidies; both city and Federal funds are used to provide these subsidies.

The capital grant programs generally include those initiatives assisting the city's lowest income residents including homeless families and homeless single adults living with disabilities including mental illness, AIDS, etc. The purpose of the capital grants is to ensure that there is no debt service chargeable on the units reserved for these formerly homeless families and individuals. The capital grants are often combined with other forms of subsidies like the Federal low-income housing tax credit, which is described in greater detail below, and together these sources cover all capital costs. The two principal programs under the capital grant category are the Mixed Income Rental Program (MIRP), which is intended to create housing for homeless families and low-income working families; and, (ii) the Supportive Housing Loan Program, which funds housing developments for persons living with disabilities. In exchange for these grants, the owner must accept referrals from the city's homeless shelter system for the term of the grant/loan, which is usually 30 years.

Under the Federal low-income housing tax credit (LIHTC) program, New York State receives a per capita allocation of tax credits and, by agreement with

the state, the city receives a sub-allocation roughly proportionate to its share of the state's population. The city allocates the LIHTC to developments where rents are affordable to households earning no more than 60% of area median income. The credit provides a 70% present value on the depreciable costs incurred in the construction or rehabilitation of the property. The credit is received over a 10-year period commencing with construction completion and affordability is required for 15-years.10 The LIHTC is syndicated to investors at roughly 80-cents per LIHTC and generates equity capital to finance construction and rehabilitation costs. The LIHTC is an important component of the city's low-income housing development strategy and is often combined with the loan programs described below.

The interest rate reduction programs include a wide range of programs to encourage the preservation of existing affordable housing and the construction of new affordable housing. The programs benefit a broad swath of income groups including middle-, moderate- and low-income families. Generally, the city provides a below market-rate mortgage loan that may be combined with a conventional market-rate mortgage loan. The cityís mortgage loan brings down the overall cost of debt service so that the rents (and in some cases the maintenance and common charges) are made affordable to the targeted income groups. Affordability will be restricted for at least the longer of the term of the loan or the tax abatement received.

The principal preservation loan programs through which these interest rate subsidies are made available to owners of existing housing developments are (i) the Article 8A Program, which funds up to $25,000 per unit for the upgrade or replacement of one or two building systems; (ii) the Participation Loan Program (PLP), which funds up to $48,000 per unit for moderate building-wide rehabilitations of properties larger than 20 units; (iii) the Third-Party Transfer Program, which funds moderate to substantial building-wide rehabilitations of properties on which the city would have otherwise foreclosed due to property tax delinquency; (iv) the Mitchell-Lama Repair Loan program, which provides up to $7,000 per unit to make needed capital repairs to properties in the Mitchell-Lama program; and, (v) the Small Buildings Loan Program, which funds up to $55,000 per unit for moderate building-wide rehabilitations of properties with less than 20 units. Properties receiving any of these loans may also receive a property tax break, generally under the J-51 Program (described in greater detail below), which further enables the property owners to avoid rent increases.

The principal programs through which the city makes interest rate reduction subsidies available to developers for new construction are the Low-income Affordable Marketplace Program (LAMP) and the New Housing Opportunities Program (New HOP), both of which are run out the city's Housing Development Corporation along with the Mitchell-Lama Repair Loan program whereas all the other programs are run out the city's Department of Housing Preservation and Development. LAMP combines a $45,000 per unit, 1% loan with tax-exempt bond financing and as-of-right 4% credits (both of which are further described below) to developers of housing for families earning no more than 60% of area median income (AMI). New HOP combines a 1% mortgage loan of $30,000 to $45,000 per unit with market-rate mortgage financing to develop housing for moderate- and middle-income families earning no more than 250% of AMI and rents or purchase prices generally affordable to families earning 100% to 125% of AMI.

B. Summary Description of Programs

There are six agencies that are primarily responsible for the development and rehabilitation of affordable housing in New York City. Three of them operate exclusively at the city level and two of them are state agencies that have significant operations in New York City, and the one remaining is private:

City	NYC Housing Authority NYC Department of Housing Preservation and Development NYC Housing Development Corporation
State	NYS Housing Finance Agency NYS Division of Housing and Community Renewal
Private	NYC Community Preservation Corporation

While all six agencies have as part of their mission the development of new housing, the tools that they use in their programs to achieve this goal vary widely. The differences among agencies stem from a combination of factors including their source of financing, their primary mission, and their traditional role in the development process.

As an aid to the reader, each agency's programs are categorized in the following table and organized by the type of suport applied by the programs. The seven types of support that we have used to organize this document are:

- Government Ownership or Operation
- Direct Subsidy
- Land Subsidy
- Loan Programs
- Bond Financing
- Tax Credits
- Tax Abatements

Please note that while some programs employ multiple tools, these programs are categorized only under their primary type of support, and are not double-listed.

Programs by agency and Program type

	New York City			New York State			Private
	NYCHA	HPD	HDC	HFA	DHCR	CPC	
Government Ownership	Conventional Public Housing	–	–	–	Housing Operations	–	
Direct Subsidy	Section 8 HOPE VI	Partnership New Homes HomeWorks Nehemiah Neighborhood Entrepreneurs Neighborhood Redevelopment	–	Affordable Housing Program	Neighborhood Preservation Companies Legislative Member Item Program New York State HOME Program	–	
Land Subsidy	–	ANCHOR Large Scale Development Cornerstone Program Inclusionary Zoning	–	–	–	–	
Loan Programs	–	Supportive Housing Loan Partnership New Homes New Partners Program Participation Loan Program Small Building Loan Program Third Party Transfer Home Improvement Program Senior Citizens Home Assistance Neighborhood Homes Program	–	HOPES Taxable Mortgage Initiative Empire Housing Fund	Housing Trust Fund Program Homes for Working Families Initiative Housing Development Fund Senior Housing Initiative	Low–, Moderate–, & Middle-income Financing	
Bond Financing	–	–	Mixed-Income (50/30/20) Middle-Income Housing Low-Income Housing 80/20 Program Liberty Bond Program	80/20 Program Senior Housing Program 501(c)(3) Bond Financing All Affordable Program	–	–	
Tax Credits	–	–	–	Low-Income Housing Credits	Low-Income Housing Credits	–	
Tax Abatements	–	New Foundations Program Store Works J-51 421-A, B, G 420-A, C Urban Development Action Area Article XI	–	–	–	–	

New York City Housing Authority (NYCHA)
While NYCHA is not a significant builder of new housing, it plays a significant role in housing City residents. According to the 2000 Census, NYCHA Public Housing represents 8.6 percent of the City's rental apartments and is home to 5.2 percent of the City's population.

Government ownership or operation
Conventional Public Housing
NYCHA operates 346 conventional public housing developments and selects applicants based on household income, family composition and current living situation.

Direct subsidy
Section 8
NYCHA administers the US Housing and Urban Development's Section 8 program in the City of New York. As of October 31, 2003, there were 87,448 existing apartments subsidized by this program.

HOPE VI
In general, the Section 8 Housing Choice Voucher Program works as a rent subsidy allowing families to pay a reasonable share of income for rent with the government making up the difference up to a specific limit. The subsidy paid to the landlord, called housing assistance payment (HAP), is usually the difference between 30 percent of household income and the contract rent. Funding provided by HUD.

New York City Department of Housing Preservation and Development (HPD)

HPD is the primary NYC agency that is responsible for the construction of new housing. It manages the following programs that are relevant for the purposes of our study.

Direct subsidy

Partnership New Homes

HPD works with the Affordable Housing Corporation of the State of New York and the New York City Housing Partnership (Housing Partnership) to create new homes throughout New York City for families earning between $32,000 and $75,000 a year. The program produces condominiums, single-family town houses and two- and three-family homes.

Developers are selected through a Request for Qualifications (RFQ) issued and advertised jointly by HPD and the Housing Partnership. To ensure that the completed buildings are affordable, the City may provide (depending on market conditions) a subsidy of $10,000 per unit (i.e., $30,000 for a three-family home), as well as the subordinated value of the City-owned land, in the form of a loan that evaporates over a 25-year period. All homes also receive a 20-year partial Real Property Tax exemption pursuant to Article 16 of the New York State General Municipal Law. Additional funding of up to $15,000 per unit may be provided by the New York State Affordable Housing Corporation. The marketing of the homes to purchasers is carried out by local not-for-profit organizations, which advertise the availability of the homes and review applications.

HomeWorks

Under this program, small, vacant City-owned buildings are completely rehabilitated by experienced builders to create one- to four- family homes for sale to individual homebuyers at market prices. There are no income limits for the buyers (in a majority of the homes), nor are there any income or price limits for any rental apartments. However, the builders generally work with lenders to provide mortgages with low down payments and the lenders take the income from the rental apartments into account in qualifying homebuyers for loans thus making many of the homes affordable to moderate- and middle-income buyers.
To make the program feasible, the City conveys the buildings to the builders at nominal prices and may also provide a subsidy in the form of a zero per cent, nonamortizing loan that evaporates over a period of six years. The City also provides partial tax abatement to homebuyers for a six-year period. Where the buyer does not require a subsidy, there will still be a resale restriction.

Homebuyers are selected through lotteries that are carried out by the builders under HPD supervision. Preference for 50% of the homes is given to current residents of the communities in which the homes are located, and preference for 5% of the homes is given to uniformed members of the New York City Police Department. Homebuyers are required to occupy at least one unit in their homes as their primary residence.

Nehemiah

HPD has worked with East Brooklyn Congregations (EBC), a consortium of over thirty congregations, over the past 15 years to construct nearly 2,900 single-family homes in the East New York and Brownsville sections of Brooklyn. To keep the homes affordable, HPD provides a subsidy of up to $20,000 for each home.

Neighborhood Entrepreneurs Program (NEP)

This award-winning program enables neighborhood-based private property managers to manage and subsequently own clusters of occupied and vacant City-owned building. Buildings selected for NEP are sold to a not-for-profit corporation, which retains the entrepreneurs to oversee the rehabilitation and purchase the buildings upon completion of renovations. HPD capital funds combined with federal funds, proceeds from federal low-income housing tax credits and bank financing provide sources of capital for the renovation of the building.

Neighborhood Redevelopment Program (NRP)

This program conveys clusters of occupied and nearby vacant City-owned buildings to selected community based not-for-profit organizations for rehabilitation and operation as rental housing. HPD provides capital funds combined with federal funds and proceeds from federal low income housing tax credits for the buildings' rehabilitation.

Land subsidy

ANCHOR

ANCHOR is a neighborhood revitalization program that has created over 300,000 square feet of newly constructed commercial retail space and over 1000 units

of middle-income housing on vacant City-owned land. ANCHOR uses a combination of Federal, State, City and private funds to finance newly constructed retail space and residential units.

Large Scale Development

HPD's Office of Development fosters residential, commercial/retail, and mixed-use development of City-owned land. The Office develops comprehensive, community-based plans to transform vacant and underutilized City property and through a competitive process to select development teams to purchase, develop, and manage properties designated for large-scale development.

Cornerstone Program

The Cornerstone Program is a multi-family new construction housing initiative. This initiative will create almost 3,000 new middle-income and market-rate housing units on vacant City-owned land, financed principally through private sources. Working in tandem with the Housing Development Corporation's New Housing Opportunities Program (New HOP), and other funding sources, HPD is encouraging the development of new homeownership and rental multifamily apartment buildings and townhouses. HPD has selected development teams for sites in northern Manhattan, the Bronx and Brooklyn through Cornerstone Requests for Proposals (RFPs).

Inclusionary Housing

An as-of-right program, the Inclusionary Housing Program is designed to preserve and promote a mixture of low-income, moderate-income and upper-income housing, particularly within neighborhoods experiencing a shift from mixed to upper income housing. A zoning bonus (up to 20 percent) is granted for new construction of multiple dwellings located in R10 zones in return for low-income housing. One square foot of affordable housing must be constructed or rehabilitated for each two-to-four square feet of additional space in the building receiving benefits.

The developer of a project which receives benefits must finance or perform the construction or rehabilitation of affordable units within the same community board or within 1/2 mile of the building receiving benefits. One square foot of affordable housing must be constructed or rehabilitated for each two-to-four square feet of additional space in the building receiving benefits.

Loan programs

Supportive Housing Loan Program

The Supportive Housing Loan Program provides financing to not-for-profit organizations to develop supportive housing for homeless single adults, including people suffering from disabilities such as mental illness and AIDS. Limited funding is available to create housing for families with special needs and youth aging out of foster care.

Supportive housing is intended to provide permanent housing in which formerly homeless, low-income and disabled people can live independently, with support and assistance provided through on-site social services funded by the City and State. All tenants must be low-income and 60 percent of the units must be rented to homeless persons residing in the City's emergency shelter system. Projects for families with AIDS may also be considered on a limited basis.

New Construction Loan Programs

HPD's loan programs are similar to its new construction programs in that they do not specifically target the construction of affordable housing:

- New Partners Program:
  The New Partners Program provides loans to owners to renovate small buildings where a portion of the building is vacant, and units are in need of rehabilitation. HPD provides up to $40,000 per unit for rehabilitation of units in buildings with up to 20 residential units.
- Participation Loan Program:
  The Participation Loan Program (PLP) provides low-interest loans to private owners for the moderate- to gut-rehabilitation of multiple dwellings with more than twenty units. City funds at one percent interest are combined with market-rate private financing to provide a below market interest rate.
- Small Buildings Loan Program:
  The Small Buildings Loan Program provides loans for the moderate-to-gut-rehabilitation of buildings containing between one and twenty units. Properties must be at least 50 percent residential and must be privately owned. City capital funds, loaned at 1 percent interest with a thirty year term, and/or Federal HOME grant funds are combined with bank financing to produce a below market interest rate loan.

Third Party Transfer (TPT)
The City of New York enacted legislation ("Local Law 37") to improve real property tax collection while more effectively preserving and maintaining the City's residential housing stock. The legislation allows the City, pursuant to a judgment of foreclosure by the court to transfer title of tax delinquent residential properties directly from the delinquent owners to responsible new owners. The city mandates that these new owners rehabilitate the properties soon after transfer and remove housing code violations. To facilitate this, HPD typically provides low interest loans.

Home Improvement Program (HIP)
HIP was developed in cooperation with private banks to provide loans to help small homeowners improve their properties. HIP loans of up to $20,000 are made to owner/occupants of one- to four-family homes located throughout the city. The City provides a 0% loan, which reduces the effective interest rate to 2.5 percent or 5 percent, depending on the borrower's income.

Senior Citizens Home Assistance Program (SCHAP)
In conjunction with the Parodneck Foundation, HPD provides loan assistance in amounts up to $30,100 for a single-family house, and up to $25,000 per dwelling unit for 2-4 family houses to low-and moderate-income senior citizens over the age of 60.

Neighborhood Homes Program
Under this program, HPD conveys occupied one-to four-family buildings to selected community-based not-for-profit organizations for rehabilitation and eventual sale to owner-occupants. The not-for-profit organization purchases the properties using an evaporating loan from HPD and a loan from the Local Initiative Support Corporation (LISC), Neighborhood Partnership HDFC, or a conventional lender.

Tax abatements
New Foundations Program
Under the program, sponsors purchase city-owned land and construct one- to four-family homes and/or cooperatives/condominiums to provide homeownership opportunities to moderate and middle-income families. When the sponsor purchases the land, they pay a negotiated amount in cash and deliver a note and mortgage for the remainder of the land's appraised value ("Land Debt"). Construction financing is provided through loans from private lenders and from developer equity. The City provides UDAAP Real Property Tax Exemption pursuant to Section 696 of the General Municipal Law.

Designated developers are responsible for the design, construction and marketing of the homes. The program offers no direct City subsidies; developers are responsible for obtaining or providing all necessary construction financing from private sources. HPD will work with developers to expedite required regulatory approvals. *There are no income restrictions to home - buyers and no limitations on the rents that may be charged by homeowners for any rental units.* Upon completion, the sponsor sells the homes to families who have agreed to occupy the home purchased. At least one unit in the home must remain owner-occupied for 20 years following the initial purchase of the house from the developer. The Land Debt is apportioned pro rata to each home built. Purchasers will repay the Land Debt attributable to their homes by delivering a subordinate mortgage to the City. The sum secured by the mortgage will decline by one twentieth of the original principal sum for each year of owner occupancy. Fifty percent of any resale or refinancing profit earned by a homeowner must be applied to reduce any Land Debt.

StoreWorks
The purpose of the StoreWorks Program is to rehabilitate small, vacant, mixed-use buildings currently owned by the City and restore them to private ownership and active use. The buildings generally consist of a storefront at street level and one to eight apartments above.

This program is carried out in cooperation with the development arm of Neighborhood Housing Services of New York City (NHS), an experienced not-for-profit organization that acts as developer, oversees the design and construction, and markets the completed buildings to individual buyers. The rehabilitation is financed with loans from private lenders as well as partial financing from HPD. The City also provides partial tax abatement for a period of twenty years. There are limited restrictions on resale profits.

The buildings are priced at market levels, and there are no income limits for buyers, nor any price or income limits for renters of apartments or stores. In most cases, HUD 203(k) financing will be available. Buyers may be residential or commercial occupants or investors and are selected through a lottery carried

out by NHS and supervised by HPD. Priority for 50 percent of the buildings is given to buyers who currently either reside in or conduct businesses in the neighborhoods where the StoreWorks buildings are located; and priority for the remaining buildings is given to New York City residents and those who plan to occupy the buildings.

J-51

As-of-right tax exemption and/or abatement for residential rehabilitation or conversion to certain multiple rental or owned dwellings. All rental units become subject to rent stabilization or rent control for the duration of the benefits. In rental buildings, the landlord must also waive 50 percent of the rent increase, which would otherwise be allowed under rent stabilization as a result of the work.

Projects eligible for tax incentives under this program are HPD-financed moderate and gut rehabilitation of multiple dwellings; privately-financed moderate and gut rehabilitation of multiple dwellings; privately-financed and governmentally-assisted major capital improvements to multiple dwellings; and conversions of lofts and other non-residential buildings into multiple dwellings.

Affordable housing projects generally get a 34-year exemption while other projects get a 14-year exemption. Affordable housing projects generally receive a 6% abatement while other projects get a 4 percent abatement.

Privately-financed projects in Manhattan south of 110th Street and co-ops and condominiums generally receive some limited benefits. All rental units become subject to rent stabilization for the duration of the benefits. In rental buildings, the landlord must also waive 50% of the rent increase, which would otherwise be allowed under rent stabilization as a result of the work.

421-a

Partial tax exemption for new multiple dwellings. All rental units become subject to rent stabilization or rent control for the duration of the benefits. New construction of multiple dwellings on lots which were vacant, predominantly vacant or improved with a non-conforming use three years prior to the start of construction. Buildings between 14th and 96th Streets in Manhattan are not eligible unless they receive governmental assistance, contain 20 percent affordable units, or the owner participates in the 421-a Affordable Housing Production Program.

Eligible projects receive tax exemptions of up to 3 years for construction and up to 25 years post-construction. Longer exemption periods apply in northern Manhattan, the other boroughs, other designated areas, and to projects that receive governmental assistance or contain 20 percent affordable units. All rental units become subject to rent stabilization for the duration of the benefits, with initial rents set by the office of Tax Incentive Programs (TIP).

421-b

Projects undergoing new construction or substantial rehabilitation of owner-occupied one- and two-family homes receive a construction period exemption of up to 2 years plus 8-year post-construction exemption from the increase in real estate taxes resulting from the work.

421-g

Tax exemption and abatement for conversion of commercial buildings to multiple dwellings in most of the area in Manhattan south of Murray Street/City Hall/the Brooklyn Bridge.

Eligible projects receive a construction period exemption of 1 year and 12-year exemption from the increase in real estate taxes resulting from the work and a 14-year abatement based on the existing real estate taxes in year one of the benefit term. New York City landmarked projects get one additional year of full benefits. All rental units become subject to rent stabilization for the duration of the benefits.

420-a

Complete tax exemption for projects which are owned or controlled by a not-for-profit Housing Development Fund Corporation, assisted by the city or state, and Subject to an agreement which requires use as low-income housing, reserves a portion of the project for the homeless and persons with special needs, and requires that supportive social services for residents be provided. Complete exemption from real estate taxes are granted while the eligibility requirements remain satisfied.

420-c

Complete tax exemption for housing owned or controlled by a not-for-profit Housing Development Fund

Company; and subject to regulatory agreement which requires use as low-income housing; and financed in part with a loan from the city or state; and financed with federal low-income housing tax credits.
These projects are granted a complete exemption from real estate taxes for the term of the regulatory agreement, which may be up to 30 years. There is no exemption for commercial space.

Urban Development Action Area Project
Tax exemption for rehabilitation or new construction of housing on formerly city-owned land, including properties that were transferred to a third party through Local Law 37, in an area which the City Council determines to be in need of urban renewal.

Up to 20 years of exemption from real estate taxes on the assessed value of the building may be granted. The exemption does not, however, affect taxes on land value.

Article XI
Complete or partial exemption from real estate taxes for up to 40 years for new construction or rehabilitation of affordable housing carried out by a Housing Development Fund Company (HDFC). Each HDFC is individually chartered by HPD or the State Department of Housing and Community Renewal (DHCR).

New York City Housing Development Corporation (HDC)

HDC is a public benefit corporation of New York State. It provides both taxable and tax-exempt financing for the construction and rehabilitation of affordable multi-family housing projects in New York City. HDC finances most of its activities through the issuance of bonds and notes as well as provides mortgages directly from its Corporate reserves.

Bond financing

Mixed-Income Program (50/30/20)

Under this initiative, at least 20 percent of the units in a new or rehabilitated development must be reserved for low-income households earning less than 50 percent of the New York City median income (with at least 15 percent of these low-income units set aside for very low-income families earning less than 40 percent of median income). Approximately 30 percent of the units must be set aside for households earning the lesser of: 7 or 8 times the HDC established maximum rents for "middle-income" families; or 250 percent of the New York City median income. Approximately 50 percent of the units would be set at market rates for households without regard to incomes. In addition to providing the tax-exempt financing (credit enhanced by Fannie Mae or another long-term credit enhancer) to fund the first mortgages of projects financed under the initiative, HDC may provide from $30,000 to $45,000/unit in subsidies for the low and middle-income units in the development (up to a maximum of $5 million to $7.5 million per project).

Middle-Income Housing (New HOP)

Using HDC proceeds from taxable bonds, New HOP provides permanent financing for the development of rental and cooperative housing projects with 20 or more units, including new construction, substantial rehabilitation, or as-of-right conversions of vacant non-residential properties. Bond proceeds may also be used for construction with appropriate third-party credit enhancement. HDC combines its taxable bond proceeds with subordinate financing from its own corporate reserves to offer below market rate financing.

Low-Income Housing (LAMP - formerly 100% LITE)

HDC's LAMP program (formerly known as 100% LITE) combines the use of tax exempt bond financing with as of right "4%" Federal Low Income Housing Tax Credits and other subsides to produce housing affordable to those earning less than 60 percent of area median income.

80/20 Program

This programs uses tax-exempt bonds to finance the construction of large residential buildings in New York City. In exchange for this low-cost financing, 20 percent of the units are required to be reserved for low-income tenants earning no more than 50 percent of area median income. Alternatively, 25 percent of the units may be reserved for low-income tenants earning no more than 60 percent of area median income.

Liberty Bond Program

Through this program HDC has been granted the authority by the City to issue $800 million of tax-exempt private activity bonds to provide financing for newly constructed or substantially rehabilitated multi-family rental housing within the Liberty Zone of Manhattan, the area south of Canal Street, across to East Broadway and then Grand Street from the Hudson to East Rivers. While owners of residential rental projects financed with tax-exempt bonds are typically required to set aside at least 20 percent of the units for low-income household pursuant to Federal Law, the Act waives this requirement. HDC has stated that it will give preference to projects that contain an affordable housing component.

New York State Housing Finance Agency (NYSHFA)
NYSHFA is a NYS public benefit corporation that provides financing for the construction of new housing throughout the State of New York.

Direct subsidy
Affordable Housing Corporation
AHC is a subsidiary of NYS Housing Finance Agency that promotes homeownership housing among low-income households. The program receives an annual appropriation of $25 million each year to award grants of up to $20,000 per unit ($25,000 in high-income areas, such as New York City) for construction or acquisition and rehabilitation of one- to four-family owner-occupied residential buildings. Eligible applicants are non-profit and local government entities. $15,000 is allotted directly to the New York City Housing Partnership, whereas the remainder is granted to individuals via requests for proposals.

Loan programs
HOPES (Housing Opportunities and Preservation for the Empire State)
The HOPES Program (Housing Opportunity and Preservation for the Empire State) is an HFA initiative to provide low cost, flexible financing for the preservation, rehabilitation and creation of quality, affordable multifamily rental housing.

In considering applications, HFA relies upon its financing mandate and requirements of the Federal Tax Code to create maximum affordable housing opportunities for low-, moderate- and middle-income people.

TMI (Taxable Mortgage Initiative)
The Taxable Mortgage Initiative, or TMI, streamlines the agency's taxable first mortgage debt financings. The Agency originates a mortgage and note, which are assigned to a participating construction lender acceptable to the Agency. Upon construction completion and stabilization the construction lender assigns the mortgage to a permanent lender such as the New York State Common Retirement System (NYCRS), the New York City Employees Retirement System (NYCERS) or another institution acceptable to the Agency. The State of New York Mortgage Insurance Agency's Mortgage Insurance Fund provides permanent mortgage insurance to the respective permanent lender. TMI financings may also be eligible for HFA capital subsidies.

Income is restricted to 60 percent of AMI on the tax credit projects or to 110-150 percent AMI on the moderate and middle-income projects (moderate income transactions are restricted to 110 percent of AMI in Westchester, Rockland, Nassau and Suffolk Counties). Rents vary according to income.

Empire Housing Fund Program
The Empire Housing Fund Program was established with monies realized from the refinancing of various Agency bonds and is a source of subsidy for the construction, rehabilitation and operation of low-income housing. Projects seeking financing from the Agency may be eligible to receive an Empire Housing Fund loan as a form of gap (or subordinate) financing. The funds are usually provided as low interest or, in some cases, no interest loans. Allocations are subject to an analysis of the project's need, the projected benefits to low income households, and the availability of funds.

Bond financing
The 80/20 Program
The 80/20 Program is the practical application of the federal Tax Code to projects that are financed with the proceeds of federally tax exempt private activity bonds. The program derives its name from the IRS requirement that no more than 80 percent of the units in a project financed with tax-exempt private activity bonds are to be occupied by individuals or families at market-rate rents, while the other 20 percent must be rented to low income households. The IRS defines low-income and also provides some options for the market/low income proportions of projects.

HFA's use of federally tax-exempt private activity bond proceeds enables it to offer favorable rates on mortgage loans. This form of bond financing also enables developers to receive an allocation of "as of right" Low Income Housing Tax Credits; use a range of credit enhancement option; and especially in New York City, benefit from some form of real estate tax relief. The latter is solely at the discretion of the local taxing jurisdiction.

The maximum rent on all units that are set-aside for low-income households cannot exceed 30 percent of the applicable income limits.

Senior Housing Program
The elderly, particularly those who are 85 and older, currently represent one of the fastest growing seg-

ments of the population. To meet their special needs, a variety of innovative housing alternatives have evolved such as Assisted Living projects. In recognition of both these factors and to increase its already significant contribution to affordable housing opportunities for the elderly in New York State, HFA has established the Senior Housing Financing Program.

The Senior Housing Financing Program provides financing options for the new construction or acquisition/rehabilitation of Assisted Living, Senior Rental Housing or State Licensed Senior Housing with tax-exempt private activity bonds, tax-exempt 501(c)(3) bonds or taxable bonds with or without Low Income Housing Tax Credits.

501(c)(3) Bond Financing Program

HFA's 501(c)(3) Bond Financing Program makes the proceeds of 501(c)(3) tax-exempt bonds available to not-for-profit organizations for the rehabilitation and preservation of existing affordable multifamily rental housing projects, including projects serving populations with special needs. The 501(c)(3) program also provides financing for the new construction of projects serving those same populations. The Special Needs category includes senior rental housing, senior assisted living facilities, housing for the homeless and for the handicapped.

The 501(c)(3) Bond Financing Program may be used in conjunction with other programs to preserve affordable housing including, but not limited to, the U.S. Department of Housing and Urban Development's Section 236 Interest Reduction Payments Program, Section 8 Mark to Market Program or projects developed under the Section 202 Program.

The All Affordable Program

The All Affordable Program is designed to encourage the production of newly constructed or rehabilitated multifamily rental housing in which all of the units are affordable to families earning no more than 60 percent of the Area Median Income (AMI), adjusted for household size. Many projects also include units at lower income levels (i.e., 50 percent of AMI). The pool of potential subsidy is generally larger for projects with units affordable to families earning 50 percent of the AMI. The All Affordable Program uses tax-exempt private activity bonds and subordinate financing in order to maximize the amount of "as of right" Low Income Housing Tax Credits that can be allocated to the project. The tax credit allocation is maximized when 50 percent or more of eligible project costs are financed with the proceeds of tax-exempt private activity bonds. Gap, or subordinate, financing is often required to reduce the loan at the end of construction since this type of affordable housing is typically unable to support debt service on a loan amount equal to at least 50 percent of the eligible project costs.

Under the All Affordable Program, projects obtain the gap financing from a variety of sources, including, but not limited to: HFA's Empire Housing Fund Program, the New York State Division of Housing and Community Renewal's ("DHCR") Homes for Working Families Initiative ("HWF"), and federal HOME and CDBG monies. The gap financing is often used in conjunction with "as of right" tax credit proceeds to redeem a portion of the tax-exempt bonds after a project has been placed in service.

Tax credits

Low Income Housing Tax Credit Program

The Low Income Housing Tax Credit Program was created by the Tax Reform Act of 1986 to encourage private sector investment in the development of affordable multifamily rental housing. There are two types of tax credits: the type that can be generated through the use of federally tax exempt private activity bonds, and the type that can be allocated independent of bonds. Developers of multifamily rental housing can use these credits to reduce their federal taxes and/or can sell them to raise equity to assist in the development of a housing project.

The New York State Division of Housing and Community Renewal ("DHCR") is the primary LIHTC allocating agency of Cap Credits for the State of New York. HFA is one of three sub-allocating agencies in the State of New York, together with NYC HPD and Development Authority of the North Country, does not operate in the City of New York).

New York State Division of Housing and Community Renewal (DHCR)

The Division of Housing and Community Renewal is responsible for the supervision, maintenance and development of affordable low- and moderate-income housing in New York State. The Division performs a number of activities in fulfillment of this mission, including housing operation, community development and rent administration.

Government ownership or operation

Housing Operations

The Office of Housing Operations consists of the Housing Management, Housing Audits & Accounts, and Architecture & Engineering Bureaus. These Bureaus supervise DHCR's portfolio of developments built under the Mitchell-Lama, Limited Dividend, Public Housing, Housing Trust Fund, Turnkey and Low-Income Housing Credit programs. In addition to its regulatory functions, Housing Operations also is responsible for administration of the HUD Section 8 Program, which provides rental assistance to very low-income families across the State.

Direct subsidy

Neighborhood Preservation Companies Program (NPP)

The Division of Housing and Community Renewal provides financial support for 232 not-for-profit community-based housing corporations to perform housing and community renewal activities statewide. These corporations, known as Preservation Companies, provide assistance including, but are not limited to, housing rehabilitation, home buyer counseling, tenant counseling, landlord/tenant mediation, community pride and crime watch programs, employment programs and legal assistance. A majority of preservation companies are also involved in the planning and development of capital projects including new construction and /or rehabilitation of older housing stock. Companies perform this work with the assistance of DHCR administrative funds and leveraged funds from the private sector and other governmental sources.

Preservation Companies are located in most areas of the state and primarily serve low- and middle-income residents. Preservation Companies are required to serve areas where there are significant unmet housing needs for the low-income population.

Legislative Member Item Program (MIP)

The Legislative Member Item Program (MIP) is funded by the New York State Legislature to support the efforts of not-for-profit companies, municipalities or other organizations found eligible by the Legislature. The DHCR administers those MIP awards relating to housing, community development, community renewal, and preservation.

New York State HOME Program (HOME)

The New York State HOME Program is administered by the New York State Housing Trust Fund Corporation (HTFC). The program uses federal HOME Investment Partnership Program funds to expand the supply of decent, safe, and affordable housing within the State. HOME awards for capital projects and local program administrators totaled more than $36.3 million in 2003.

The HOME Program funds a variety of activities through partnerships with counties, towns, cities, villages, private developers, and community-based nonprofit housing organizations. The program provides funds to acquire, rehabilitate, or construct housing, or to provide assistance to low-income home-buyers and renters. Funds must be distributed in accordance with needs and priorities identified in the State's Consolidated Plan.

Federal HOME Program regulations (24 CFR Part 92) set forth requirements for formula allocations, eligible activities, matching funds, qualifications as affordable housing, and compliance with other federal requirements. The regulations also establish special requirements for community housing development organizations (CHDOs).

Loan programs and bond financing

Housing Trust Fund Program (HTF)

Chapter 67 of the Laws of 1985 created the Housing Trust Fund Corporation (HTFC), a public benefit corporation which administers the Low-Income Housing Trust Fund Program (HTF).

The Housing Trust Fund Program was established under Article XVIII of the Private Housing Finance Law (PHFL) to help meet the critical need for decent, affordable housing opportunities for people of low income. The Corporation, under the direction of a Board of Directors chaired by the Commissioner of the Division of Housing and Community Renewal (DHCR), receives staff and administrative support from DHCR.

HTF provides funding to eligible applicants to con-

struct low-income housing, to rehabilitate vacant or under-utilized residential property (or portions of a property), or to convert vacant non-residential property to residential use for occupancy by low-income homesteaders, tenants, tenant-cooperators or condominium owners. HTF can also provide seed funding to eligible non-profit applicants who need financial assistance in developing a full HTF project application.

Homes for Working Families Initiative (HWF)
Applications submitted under this initiative must propose projects for substantial rehabilitation or new construction of affordable rental housing. Rents for 100% of the units must be set to meet the restricted rent requirements under Section 42 of the Internal Revenue Code (IRC). More than 50 percent of project cost (i.e., aggregate basis) must be financed by tax-exempt bonds issued by Section 142 of the IRC.

HTFC may provide HTF and/or HOME program funds in the form of a direct loan and/or through participation in the bond financing. The typical loan structure is a 30-year, 1% interest loan with interest and principal repaid from available cash flow. However, HTFC will consider alternative ways of participating in the bond financing, such as the purchase of bonds subordinate to other bonds issued for the project and bought by private investors. The applicant must provide sufficient detail of any such proposal in its application to enable HTFC to evaluate all legal and/or financial implications.

Housing Development Fund (HDF)
The Housing Development Fund (HDF) is a revolving loan fund established in 1966 under Article XI of the Private Housing Finance Law and administered by the New York State Division of Housing and Community Renewal (DHCR). The purpose of the HDF program is to provide loans to nonprofit organizations to develop low-income housing projects.

HDF loans may be used for pre-development costs, site acquisition, construction/rehabilitation financing, and other mortgageable project development costs. HDF loans may also be used to provide short term financing repaid from equity contributed by investors in low-income housing credit projects.
Because projects developed with HDF loans must provide housing for low-income residents, the permanent financing is generally State, Federal or Municipal government-aided. However, the project may be privately financed as long as it provides permanent housing for low-income persons.

Senior Housing Initiative (SHI)
Applications submitted under this initiative must propose projects for substantial rehabilitation or new construction of rental housing. Occupancy is limited to seniors, defined as households in which at least one of the members is a person 55 years of age or older. Projects may include units assisted by the HDF Program and units at market rent. If both DHCR regulated and unregulated units are proposed, the amount of HDF assistance provided by DHCR will be based upon the financing necessary to support units which are affordable to persons or households with incomes of 90 percent (80 percent in New York City) or less of area median income. A minimum of 20 percent of the units assisted by DHCR must be affordable to those with incomes of 50 percent or less of area median income. DHCR will provide the HDF assistance in the form of a no interest loan provided as construction financing with principal amortized over a term of up to 15 years. The primary source of project financing must be Section 501(c)(3) bonds (also known as civic facility bonds). Applicants must secure 501(c)(3) bond financing through a public authority serving as issuer. Such issuers include the New York State Housing Finance Agency, the New York City Housing Development Corporation, local industrial development agencies and local public housing authorities.

Tax credits
Low-Income Housing Credit Program (LIHC)
The Low-Income Housing Credit Program (Credit Program) was established under the Tax Reform Act of 1986 to promote private sector involvement in the retention and production of rental housing that is reserved for low-income households.

The Credit program provides a dollar-for-dollar reduction in federal income tax liability for project owners who develop rental housing that serves low-income households. The amount of Credit available to project owners is directly related to the number of low-income housing units that they provide.

Most projects receiving an allocation of Credit also utilize another governmental subsidy as part of their project financing. Federal subsidies such as the Community Development Block Grant (CDBG), HOME and FmHA 515 have been used in conjunction with the

Credit. On the State level, the Credit has been allocated to projects employing Housing Trust Fund and HOME Program subsidies. Local government capital subsidies have been employed extensively in projects located in New York City

Project owners use the Credit allocation as a gap filler in their development budgets. The Credit is turned into equity to fill the project gaps through the sale of the project and the credit investors.

DHCR is the lead Housing Credit Agency for New York State. Other Housing Credit Agencies are the New York State Housing Finance Agency, the New York City Department of Housing Preservation and Development and the Development Authority of the North Country.

New York City Community Preservation Corporation (CPC)

The Community Preservation Corporation is a private mortgage lender specializing in financing low-, moderate- and middle-income housing throughout New York and New Jersey. CPC lends for large and small apartment buildings, occupied or vacant, and for new construction developments, so as to stabilize, strengthen, and sustain low- and mixed-income communities Sponsored by 94 banks and insurance companies, CPC has financed more than 92,000 affordable housing units, representing an investment of more than $3.2 billion. These investments have been made with less than $1 million of actual losses to private institutional investors.

One of CPC's top priorities is working with government to create a regulatory and programmatic environment whereby large scale housing preservation and redevelopment may occur. This has meant programs for real estate tax abatement and exemption, rent restructuring and a variety of public subsidy programs which together have allowed massive amounts of private investment to support moderate rehabilitation and gut renovation of older, yet salvageable, moderate-income housing.

The New York City Residential Mortgage Insurance Corporation (REMIC) was created to attract private investment to poorer neighborhoods. The program was meant to offset concerns of long-term investors as to the vulnerability of lower income neighborhoods to the vicissitudes of the local economy.

The initial success of CPC's investments and the introduction of a new mortgage insurance program by SONYMA led to historic agreements with the Police Pension Fund and the New York City Employees Retirement system. The funds agreed to provide forward-committed, permanent take-outs for CPC construction loans, essentially freeing-up significant monies for reinvestment. The 1984 agreements were the first in the nation entered into by public pension funds to invest in the rehabilitation of older, multi-family housing. The New York City Teachers Retirement System and the New York State Common Retirement Fund both joined with their own commitments in 1991. The Pension Fund of the United Methodist Church joined in 1998. Collectively, the pension funds have committed over $675 million through CPC.

In 1986, a $100 million joint venture program was formed by CPC and seven life insurance companies. Called the Housing Partnership Mortgage Corporation (HPMC), the program protected developers of for-sale projects from interest rate risks in a rising rate environment. HPMC would commit up to two years in advance to purchase Freddie Mac or Fannie Mae pass through certificates with a specific yield. The certificates, in turn, would be backed by end loans given to purchasers when the housing units were built. The yield on the certificates, and by extension the rates on the end loans, were fixed when construction began. Therefore, the developer had the assurance of knowing his purchasers would have access to a specific rate of financing regardless of interest rate fluctuations during construction. CPC is expanding its relationships with both Fannie Mae and Freddie Mac and has assumed servicing responsibility for a substantial Freddie Mac portfolio.

In late 1992, CPC created CPC Resources, Inc. (CPCR) as a wholly-owned subsidiary. Its purposes include servicing mortgage loans held by the private sector, consulting on a wide range of affordable housing problems and investing equity to purchase troubled residential properties in an effort to restore their viability. The most dramatic example of this approach is the recent purchase, along with two experienced developers, of the 6,362 unsold condominiums, 438,000 square feet of commercial space and five garages at the sprawling Parkchester complex in the Bronx. It is one of CPC's most significant challenges. The $200 million plan to upgrade and modernize all 12,271 apartments, without tenant displacement, is crucial to the future of this once model development, the thousands of families who live there and this important section of the Bronx.

Another far-reaching effort was launched in 1994 in a joint CPC/SONYMA program to restore distressed middle- and moderate-income cooperatives. With CPC financing and SONYMA mortgage insurance, underlying mortgages are purchased at reduced prices, and funding is provided for needed repairs. CPC sponsor banks provide purchaser end loans. The result has been restored viability and stability for approximately 5,000 housing units and new opportunities for affordable home ownership for many families -- without any direct public subsidy.

CPC provides the following types of financing:

Construction Financing
- Acquisition/refinancing and rehabilitation of occupied properties
- Gut renovation of vacant buildings
- New construction of multifamily and single-family properties

Permanent Financing
- Forward rate lock up to 24 months
- Loan terms up to 30 years
- Fixed and adjustable rates available

Small Building Loan Program
- Maximum loan of $500,000
- Streamlined processing, reduced fees
- Construction and permanent loans available

Preservation Financing for Cooperative Buildings
- 40% of units sold/75% of sold units owner-occupied
- Terms up to 30 years
- Financing available for capital improvements

Freddie Mac
- Minimum loan of $300,000
- Cash-out of unencumbered equity permitted

Special Programs
- 3% Construction loans (East Harlem only - contact the Bronx/Manhattan office)
- 0% CDFI financing (contact your local office to determine eligibility)
- Credit enhancement for taxable and tax-exempt bond-financed construction projects.

The New Housing Marketplace

The Bloomberg Administration proposes that rational zoning, a new building code and a mix of public subsidies the best ways to create affordable housing. In December 2002, the Bloomberg Administration announced its New Housing Marketplace plan to preserve and create 65,000 housing units over the next five years; and, changing our zoning and updating our building code were central components of the plan. The plan calls for the aggressive rezoning of a number of mostly defunct manufacturing areas (e.g., Morrisania in the Bronx; Hunters Point in Queens; the Williamsburg-Greenpoint waterfront in Brooklyn; West Chelsea, Hudson Yards and Hudson Square in Manhattan; etc.). In addition, it calls for rezoning or upzoning that would enable business district expansion in Midtown Manhattan and Downtown Brooklyn. Also part of the Department of City Planning's overall strategic plan is a series of contextual upzonings (e.g., East Harlem, western Park Slope, Central Harlem, etc.) and down-zonings (e.g., Bellerose, core Park Slope, City Island, etc.). Furthermore, the plan envisions replacing the current building code with a new model building code. Finally, the plan lays out a smorgasbord of financing tools to subsidize housing production for moderate- and low-income residents. The latter take the form of direct capital grants and interest rate reduction subsidies; the Administration committed $3 billion to fund these grants and subsidies. These resources are in addition to the real property tax breaks already available to developers, which are intended to be used in conjunction with the direct capital grants and the interest rate reduction subsidies.

The principal challenge has been the temporal mismatch among components of the plan. The grants and subsidies have been available since the day the plan was announced while the rezonings are taking time to wend their way through the political process. The latter is also true for the revamping of the building code. Therefore, the subsidies may not achieve the same benefits they might have if substantial "new"land flooded onto the market and construction costs were suddenly lower.

Furthermore, while the rezonings are necessary and well thought through, they aren't exactly what the city needs. They're small pieces of the bigger puzzle: we really need rational zoning for a 21st century New York. What we have is incrementalism. Moreover, the new building code may not achieve the expected efficacy once all the deals are cut that are likely to be cut in order to achieve consensus. One might also conclude that the financing tools proffered under the plan are also incrementalist and not exactly what's necessary and effective for today's housing market. We're using tools interest rate subsidies, direct capital grants and tax exemptions that have been around for decades while the private housing finance markets have become increasingly complex and efficient. The New Housing Marketplace does not go beyond the old and familiar, the tried and the true finance tools primarily because of the constraints and limitations arising from the regulatory and statutory environment in which it operates.

Constraints and limitations

No New York City Mayor operates in a vacuum and his activities are essentially governed and restricted by Federal mandates and state regulations. This is as true in the housing arena as it is with education and social welfare. Therefore, the New Housing Marketplace is as much a product of these mandates and regulations as it is of vision and policy. Before proceeding to describe the various financing tools available under the New Housing Marketplace it is important to understand the factors that constrain and delimit these initiatives and therefore help define the ultimate outcomes that will result from the initiatives. The principal constraints arise from the source of funds for the subsidies and the various statutes under which the city provides the subsidies to developers.

Each source of funding comes with a complicated web of restrictions and proscriptions that define what the funds may be used for. Furthermore, the city's authority to make funds available to the public is governed by a series of state statutes including the general municipal law, the private housing finance law, the real property tax law, etc.

Financing Tools

The New Ventures Incentive Program (New VIP) is the bridge between the rezoning component of the Administration's plan and its construction and permanent financing tools, which are described below. Its principal purpose is to facilitate the redevelopment of areas of the city that have been rezoned by the Department of City Planning. New VIP provides acquisition and pre-development loans to developers in particular for development sites that might involve

environmental remediation. This is a type of financing that the city has not made available to developers previously, nor is this low-cost money with flexible underwriting criteria a source of financing that is readily available to developers through conventional conduits.

The other financing tools available for affordable housing development fall within three categories: (i) direct financial subsidies; (ii) tax incentives; and, to a much lesser extent, (iii) zoning bonuses. The former two categories consist of a variety of city and federal subsidies that are available through the city; the zoning bonuses are generally restricted to high-density areas of the city (i.e., R9 and R10 zones only). None of the tools are exactly new: they have been used or available for decades. What is new is that they have been packaged with the proposed rezonings and the new building code proposal, and they have been funded over a five-year period thereby demonstrating the first major commitment to affordable housing since Mayor Bloomberg Ten Year Plan in 1986.

Now is the opportune time to look beyond the New Housing Marketplace towards the genuine transformation of New York City's housing market. This cannot be accomplished without a complete overhaul of the zoning resolution, the promulgation of a new model building code, and, the provision for flexibility in the way the city provides its financial subsidies. Success on these fronts will require strong, savvy political leadership with the will and ability to build the requisite support at the local level and within the State Legislature. It will require a broad coalition of constituents including the business community, developers and housing advocates to back and champion the political leadership. In addition, the insights and collaboration of the whole host of good government organizations in the city will be needed. Our central challenge, therefore, is to develop a compelling, energetic political consensus around a new zoning resolution and a new building code in order to transform the city's housing market. These and other policy options will be explored in Part Three of the Report: "Affordable Housing Policy Options."

4: Quantification of Affordable Housing Production in New York City

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- Chart 5: Dollars per unit by program

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Geographic Breakdown
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Quantitative Analysis of Housing Production in NYC

Preface

The following report quantifies the production and reproduction of affordable housing units in New York City under the programs of six City and State agencies: NYC Department of Housing Preservation and Development, NYC Housing Authority, Community Preservation Corporation, Housing Development Corporation, NYS Housing Finance Agency, and NYS Division of Housing and Community Renewal. Each of these agencies, through various support mechanisms including operation, direct subsidies, low-interest loans, and tax incentives, have contributed to the development of affordable units. It is these individual contributions that are being counted herein.

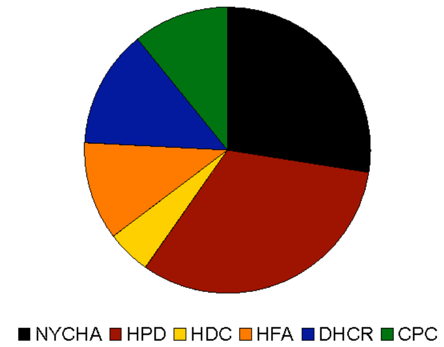
While units are not duplicated within each program, individual units or buildings may take advantage of more than one funding program under the various agencies. Thus, it would be incorrect to aggregate units produced under different agencies into a single "total affordable units produced," as this would be an over-estimate.

To get a truly accurate representation of the impact of agency intervention in the production of affordable housing, one would need to review the development proforma for each individual project containing affordable units, and apportion the credit for each unit to the agencies based on their share of contribution to covering development costs (in the case of direct subsidies) and discounted operating costs (in the case of low-interest financing and tax incentives).

A. Summary

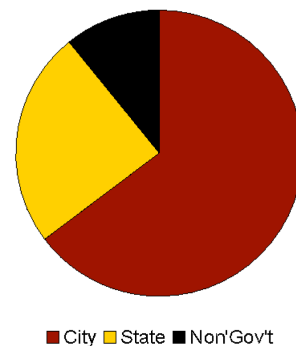
HPD and NYCHA, drawing funds directly from the City budget, represent the greatest portion of affordable housing units in New York City. Together these two agencies control, or have contributed to the development of, 392,167 units, or 62%. Second are the State agencies HFA and DHCR which control, or have contributed to the development of, 138,787 units, or 22%. Finally, the non-government agencies CPC and HDC have financed 104,358 units, or 16%.

Chart 1
Aggregate Units by Agency
(Proportional)



Agency	Units	Proportion
NYCHA	180,595	28 %
HPD	211,572	32 %
HDC	32,570	5 %
HFA	71,894	11 %
DHCR	86,959	13 %
CPC	71,788	11 %

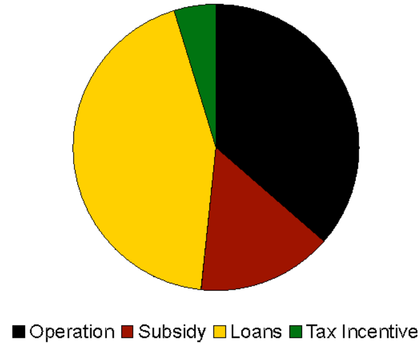
Chart 2
Aggregate Units by Authority
(Proportional)



Authority	Units	Proportion
City	424,737	65 %
State	158,853	24 %
Non-Gov't	71,798	11 %

Unlike direct subsidies and tax abatements/exemptions, loan and operational funds are recovered through debt service and rent (respectively). Loans and government-operated units therefore represent the greatest portion of housing units produced (538,995 units, or 82%).

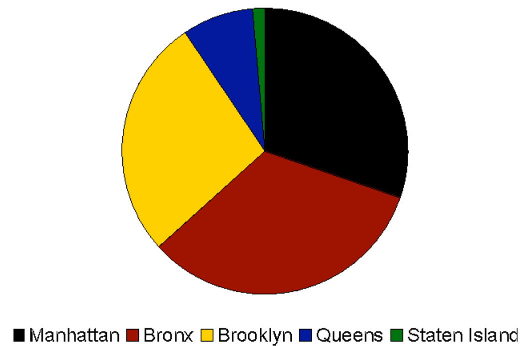
Chart 3
Aggregate Units by Program Type
(Proportional)



Program Type	Units	Proportion
Operation	247,488	36 %
Subsidy	103,602	15 %
Loans	296,665	44 %
Tax Incentive	32,754	5 %

All agencies are, for the most part, in accord in terms of prioritizing the recipient boroughs for affordable housing development funds. The Bronx, Manhattan and Brooklyn tend to get the bulk of supported housing units (574, 018 units combined, or 91% of the city total).

Chart 4
Aggregate Units by Location
(Proportional)



Location	Units	Proportion
Manhattan	199,233	30 %
Bronx	215,562	34 %
Brooklyn	178,444	27 %
Queens	52,736	8 %
Staten Island	9,125	1 %

B. NYC Housing Authority

Summary
- Chart 1: Aggregate units by source of funding
- Chart 2: Dollars per unit by source funding

Historic Trends
- Chart 3: Units per year
- Chart 4: Development costs per year
- Chart 5: Development costs per unit per year

Programmatic Breakdown
- N/A

Geographic Breakdown
- Chart 6: Aggregate units per borough
- Chart 7: Units per year by borough

NYC: New York City Housing Authority

Summary

Since 1936, NYCHA has built and continues to operate 180,595 units of conventional public housing. Funding for these projects has come from four sources: the City, the State, the Federal government, and HUD's Section 8 Housing Assistance Payment agreement. Federal funds are the most applied with 90% of all NYCHA units developed being funded thus. At $49,917 per unit, Section 8-financed units are the most costly (averaging more than 300% that of the other programs).

Chart 1
Aggregate Units by Source of Funding (Proportional)
Source: NYCHA

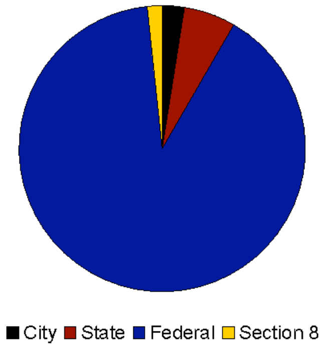
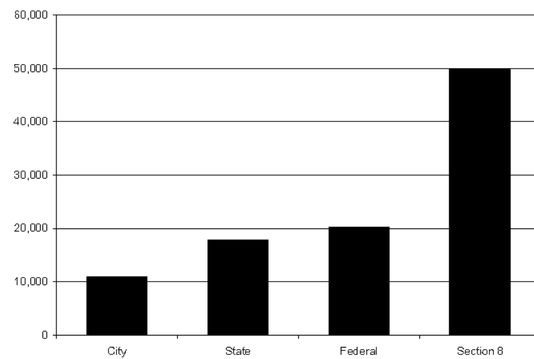


Chart 2
Dollars per Unit by Source of Funding
Source: NYCHA



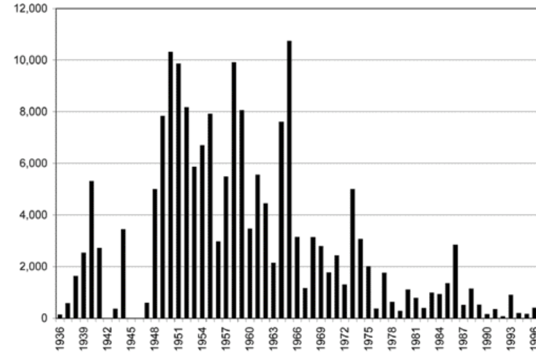
Source	Disbursement		$ / Unit
City	87,085,755	2 %	10,998
State	216,905,000	6 %	17,820
Federal	3,230,425,511	90 %	20,291
Section 8	61,847,779	2 %	49,917

Historic Trends

The greatest boom in the production of conventional public housing occurred in the immediate post-war period (1946-1951: climbing to 10,309 units). During WWII, virtually no units were built, as monies were diverted to national defense. Several peaks in production have occurred since then:

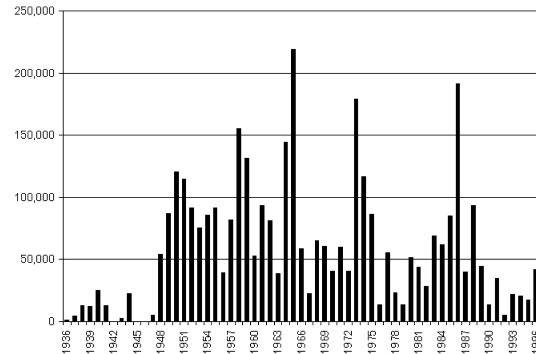
	Units	Dollars	$ / Unit
1965	10,728	1,279,000	219,000
1973	4,391	742,000	179,000
1986	2,534	321,000	192,000

Chart 3
Units per Year
Source: NYCHA



Conventional public housing production has been waning over the last 15 years. In terms of capital expenditure, NYCHA must now devote great shares of its funding to the upkeep and restoration of former developments, which are reaching the end of their useful life.

Chart 4
Development Costs per Year
(in thousands of dollars)
Source: NYCHA



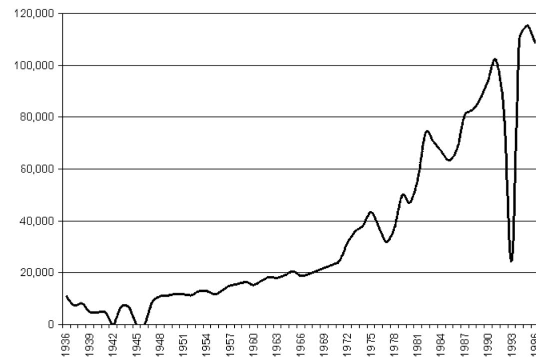
Programmatic Breakdown

not applicable

Construction costs have been rising over the years, from almost $5,000 per unit in 1940 to about $100,000 in the 1990s.

Year	Development Costs ($ 000)	Units	$ / Unit
1936	1,385	126	10,969
1937	4,148	571	7,264
1938	13,064	1,620	8,064
1939	12,103	2,528	4,788
1940	24,903	5,302	4,697
1941	12,547	2,707	4,635
1942	0	0	0
1943	2,370	360	6,583
1944	22,578	3,436	6,567
1945	0	0	0
1946	0	0	0
1947	5,042	589	8,561
1948	53,832	4,989	10,790
1949	87,069	7,818	11,137
1950	120,337	10,309	11,673
1951	114,716	9,848	11,649
1952	91,288	8,157	11,191
1953	75,189	5,849	12,855
1954	85,954	6,687	12,854
1955	91,415	7,902	11,569
1956	39,151	2,959	13,231
1957	82,013	5,474	14,982
1958	155,057	9,903	15,658
1959	131,302	8,045	16,319
1960	52,746	3,456	15,262
1961	93,025	5,550	26,761
1962	80,913	4,435	18,244
1963	38,241	2,132	17,937
1964	144,585	7,602	19,019
1965	219,191	10,728	20,432
1966	58,842	3,134	18,775
1967	22,174	1,150	19,282
1968	64,650	3,128	20,668
1969	60,739	2,791	21,762
1970	40,409	1,764	22,958
1971	59,711	2,423	24,643
1972	40,606	1,290	31,477
1973	179,244	4,991	35,913
1974	116,782	3,053	38,252

Chart 5
Development Cost per Unit per Year
(in dollars)
Source: NYCHA



Year	Development Costs ($ 000)	Units	$ / Unit
1975	86,527	1,999	43,285
1976	13,573	363	37,390
1977	55,624	1,747	31,840
1978	23,001	615	37,401
1979	13,460	270	49,852
1980	51,448	1,094	47,027
1981	43,666	776	56,271
1982	28,082	379	74,095
1983	68,805	975	70,569
1984	61,591	922	66,802
1985	84,945	1,340	63,392
1986	191,663	2,834	67,630
1987	40,087	497	80,658
1988	93,447	1,128	82,843
1989	44,315	508	87,234
1990	13,104	139	94,271
1991	34,606	339	102,089
1992	5,015	61	82,221
1993	21,994	895	24,574
1994	20,559	187	109,939
1995	17,062	148	115,287
1996	41,739	384	108,695

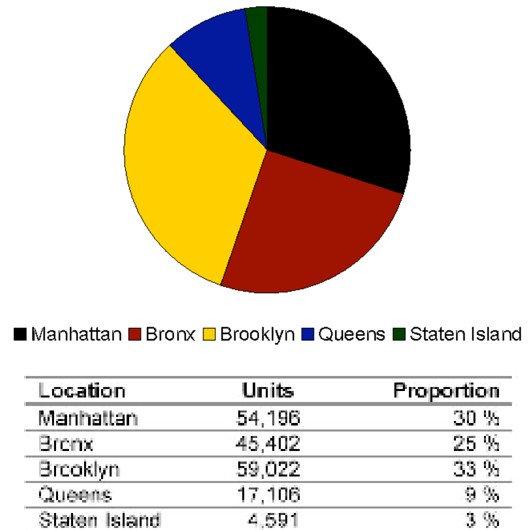
Programmatic Breakdown

Not Applicable

Geographic Breakdown

The largest amount of conventional public housing has been developed in Brooklyn (59,022 units representing 33% of the city-wide count). Manhattan, with 54,196 units amounts to 30%. The Bronx, with 45,402 units represents 25%.

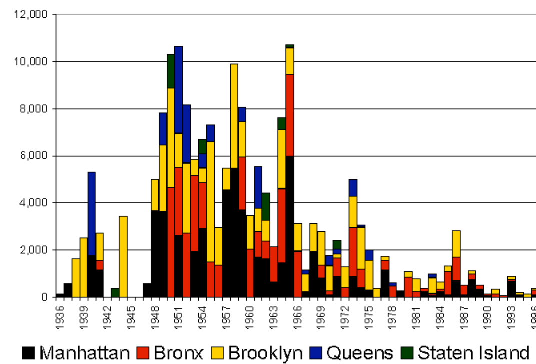
Chart 6
Aggregate Units per Borough
(Proportional)
Source: NYCHA



Location	Units	Proportion
Manhattan	54,196	30 %
Bronx	45,402	25 %
Brooklyn	59,022	33 %
Queens	17,106	9 %
Staten Island	4,591	3 %

The majority of conventional public housing units in Queens and Staten Island were developed either immediately before or immediately after WW II. No units were developed in these boroughs after the 1970s.

Chart 7
Units per Year by Borough
Source: NYCHA



Major developments of note are:

	Units	Dollars	$ / Unit
1965	10,728	1,279,000	219,000
1973	4,391	742,000	179,000
1986	2,534	321,000	192,000

C. NYC Department of Housing Preservation and Development

Summary
- Chart 1: Aggregate units by construction type

Historic Trends
- Chart 2: Units per year by construction type
- Chart 3: Ratio and construction type per year

Programmatic Breakdown
- Chart 4: Aggregate units by program

Geographic Breakdown
- Chart 5: Aggregate units by borough
- Chart 6: Units per year by borough
- Chart 7: Aggregate units per borough by construction type

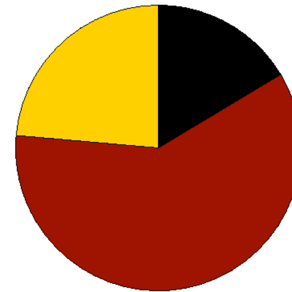
NYC: Department of Housing Preservation and Development

Summary

Since 1986, HPD has issued direct subsidies and project financing to 211,572 units. HPD applies its financing and subsidy programs to three construction types: New Construction (i.e. the development of entirely new units), Gut Rehabilitation (i.e. full overhaul of the unit or building whereby residents are temporarily displaced), and Moderate Rehabilitation (i.e. redevelopment of units that would otherwise be deemed inhabitable, but with residents still in occupancy).

At 60% (127,279 units), Moderate rehabilitation is the most applied construction type. This is because of far less demanding scope of construction, and consequently lower costs per unit. Conversely, new construction, with the most demanding and expensive construction, only accounts for 16% (34,456) of units to which HPD support was applied.

Chart 1
Aggregate Units by Construction Type
(Proportional)
Source: HPD



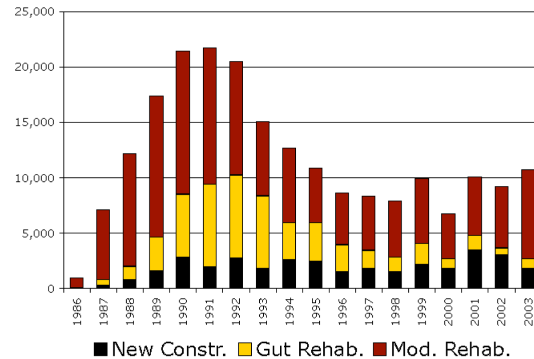
■ New Constr. ■ Mod. Rehab. ■ Gut Rehab.

Construction Type	Units	Proportion
New Construction	34,456	16 %
Moderate Rehabilitation	127,279	60 %
Gut Rehabilitation	49,837	24 %

Historic Trends

Over the years, the volume of new and rehabilitated units supported by HPD has fluctuated (for the most part) between 7,000 and 20,000 per annum. Housing support peaks in 1991 at 21,723 units. A trench in the curve occurs in 2000, at which point only 6,757 were supported. The volume of new-construction support remains relatively level around 2,000 units per annum. New construction peaks in 2001 with 3,454 units.

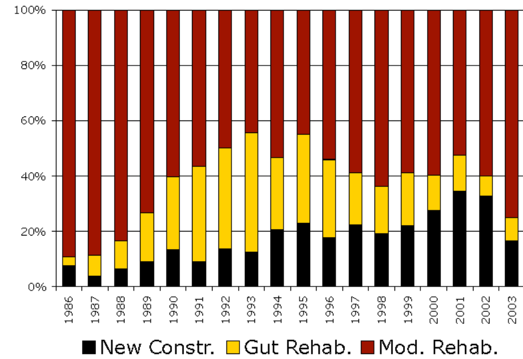
Chart 2
Units per Year by Construction Type
Source: HPD



Year	New Constr.	Mod. Rehab.	Gut Rehab.	Aggregate
1986	77	897	32	1.006
1987	284	6,336	528	7.148
1988	778	10,133	1,242	12.153
1989	1.586	12,772	3,050	17.408
1990	2.844	12,848	5,866	21.458
1991	1.963	12,278	7,482	21.723
1992	2.769	10,230	7,485	20.484
1993	1.863	6,670	6,516	15.,049
1994	2.611	5,769	3,324	12.704
1995	2.484	4,890	3,485	10.859
1996	1.534	4,658	2,426	8.618
1997	1.857	4,920	1,598	8.375
1998	1.502	5,039	1,361	7.902
1999	2.168	5,846	1,885	9.919
2000	1.864	4.,029	864	6.757
2001	3.454	5,284	1,327	10.065
2002	3.018	5,511	656	9.135
2003	1.780	8,069	910	10.759
Total	**34,456**	**127,279**	**49,837**	**211,572**

In terms of prioritizing its projects, HPD has been applying a greater portion of its resources to new construction. This has been consistently increasing from 4% in 1987 to 34% in 2001.

Chart 3
Ratio of Construction Type per Year
(Proportional)
Source: HPD



Year	New Constr.	Mod. Rehab.	Gut Rehab.
1986	8 %	89 %	3 %
1987	4 %	89 %	7 %
1988	6 %	83 %	10 %
1989	9 %	73 %	18 %
1990	13 %	60 %	26 %
1991	9 %	57 %	34 %
1992	14 %	50 %	37 %
1993	12 %	44 %	43 %
1994	21 %	53 %	26 %
1995	23 %	45 %	32 %
1996	18 %	54 %	28 %
1997	22 %	59 %	19 %
1998	19 %	64 %	17 %
1999	22 %	59 %	19 %
2000	28 %	60 %	13 %
2001	34 %	52 %	13 %
2002	33 %	60 %	7 %
2003	17 %	75 %	8 %

Programmatic Breakdown

By far, the program that has produced the most affordable housing is Article 8A with 56,509 units. Partnership New Homes (with 16,126 units), Participatory Loan Program (with 12,585 units), and the Tenant Interim Lease Program (with 11,186 units) have also proven to be successful. An additional 81,000 units have been developed under miscellaneous programs.

Chart 4
Aggregate Units by Program
(Proportional)
Source: HPD

Program Highlights

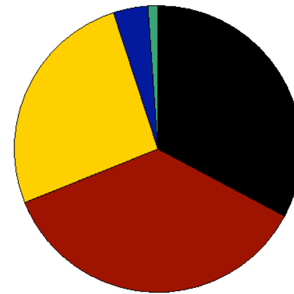
Program	Units
Article 8A	56,509
Article 7A	5,967
Section 202	5,285
Section 312	628
Section 421a	3,343
Anchor	1,931
Capital Jobs program	13
CityHome	1,027
Community Management Program	3,470
Cornerstone	461
Division of Alternative Management	9
Home Improvement Program	3,711
Homeless Housing Assistance Program	1,295
HomeWorks	914
Housing Trust Fund	2,005
Inclusionary Housing	561
Large scale Development	524
Local Initiatives Support Coordination	3,680
Mixed Income Rental Program	282
Municipal Assistance Corporation	902
Mutual Housing Association	850

Program	Units
Nehemiah	2,704
Neighborhood Entrepreneurs Program	4,994
Neighborhood Homes Program	278
Neighborhood Housing Services	2,314
Neighborhood Redevelopment Program	3,721
New Foundations	184
Participatory Loan Program	12,585
Partnership New Homes	16,126
Permanent Housing for Homeless Families	909
Primary Prevention	358
Private Ownership Management Program	7,899
Revolving Loan Fund	391
Section 8	21
Senior Citizen Home Assistance Program	268
Small buildings loan program	1,372
Special Initiatives Program	5,970
StoreWorks	172
Supportive Housing Loan Program	7,186
Tenant Interim Lease	11,186
Urban Homesteading Board	257
Other/ Miscellaneous	81,072

Geographic Breakdown

The Bronx houses the greatest portion of HPD supported units (76,641 units or 36%). Manhattan, with 69,074 units represents 33%, and Brooklyn, with 55,075 units represents 26% of HPD

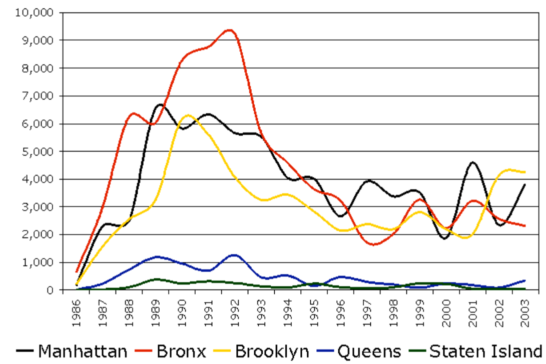
Chart 5
Aggregate Units by Borough
(Proportional)
Source: HPD



Year	Manhattan	Bronx	Brooklyn	Queens	Staten Island
1986	164	638	198	3	3
1987	2,318	3,007	1,577	235	13
1988	2,504	6,249	2,552	744	104
1989	6,557	6,034	3,253	1,187	377
1990	5,024	8,270	6,159	957	240
1991	6,333	8,762	5,610	698	322
1992	5,664	9,230	4,070	1,262	258
1993	5,529	5,657	3,256	466	141
1994	4,050	4,593	3,441	524	96
1995	4,011	3,633	2,829	155	231
1996	2,685	3,226	2,149	469	109
1997	3,922	1,717	2,372	299	65
1998	3,381	2,024	2,193	200	104
1999	3,519	3,261	2,812	89	239
2000	1,880	2,229	2,192	232	224
2001	4,569	3,221	2,012	183	50
2002	2,350	2,570	4,133	91	41
2003	3,806	2,312	4,267	349	25

In the early 1990s, HPD housing support peaked for all five boroughs: 9,230 in the Bronx; 6,557 in Manhattan; 6,159 in Brooklyn; 1,262 in Queens; and 377 in Staten Island. Since 1996, the three "priority" boroughs have tended to fluctuate between 2,000 and 4,000 units per borough per year. Queens and Staten Island have remained relatively constant at 200 units per year.

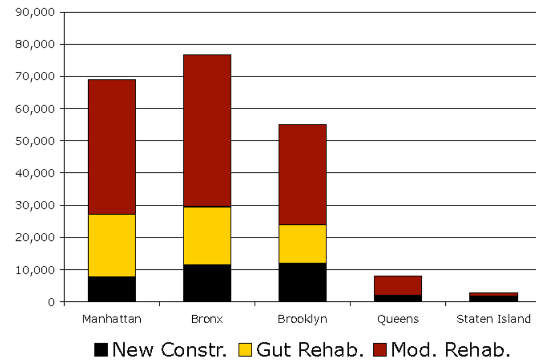
Chart 6
Units per Year by Borough
Source: HPD



Year	Manhattan	Bronx	Brooklyn	Queens	Staten Island
1986	164	636	198	3	3
1987	2,316	3,007	1,577	235	13
1988	2,504	6,249	2,552	744	104
1989	6,557	6,034	3,253	1,187	377
1990	5,824	8,278	6,159	957	240
1991	6,333	8,762	5,810	693	322
1992	5,664	9,230	4,070	1,262	258
1993	5,529	5,657	3,256	463	141
1994	4,050	4,593	3,441	524	96
1995	4,011	3,633	2,829	155	231
1996	2,685	3,228	2,149	469	109
1997	3,922	1,717	2,372	299	65
1998	3,381	2,024	2,193	200	104
1999	3,519	3,261	2,812	89	239
2000	1,880	2,229	2,192	232	224
2001	4,599	3,221	2,012	183	50
2002	2,350	2,570	4,133	91	41
2003	3,806	2,312	4,267	349	25

While the Bronx has received the most support in terms of aggregate number of units, Brooklyn has produced the greatest quantity of newly constructed units: 11,912. Conversely, Manhattan has produced much less new construction – only 7,659 – due to lack of available land. However, Manhattan has had the greatest amount of gut rehabilitation.

Chart 7
Aggregate Units per Borough by Construction Type
Source: HPD



	Manhattan	Bronx	Brooklyn	Queens	Staten Island
New Constr.	7,659	11,383	11,912	1,900	1,602
Mod. Rehab.	41,938	47,135	31,177	6,041	987
Gut Rehab.	19,441	18,123	11,386	193	88

D. NYC Housing Development Corporation

Summary
    N/A
Historic Trends
    N/A
Programmatic Breakdown
    Chart 1: Aggregate units per program by borough
    Chart 2: Dollars lent per program by borough
    Chart 3: Dollars per unit per program by borough
Geographic Breakdown
    N/A

NYC: Housing Development Corporation

Summary

Since 1971, HDC has invested almost $3.5 billion to finance the development of more than 77,000 units of affordable housing.

Note: The following data represents outstanding projects only, amounting to 32,570 units.

Historic Trends

Not Available

Programmatic Breakdown

The most popular program HDC uses to finance new construction is the 80/20 Program. Under this program, and predominantly in Manhattan, 8,434 units have been produced with loans amounting to more than $1.6 billion. The Bronx has primarily utilized the Affordable Housing Permanent Loan program (2,625 units); Brooklyn has primarily utilized the General Housing program (1,527 units); and Queens has primarily utilized the affordable Middle-Income Rental (also known as NewHOP) program (1,454 units).

Chart 1
Aggregate Units per Program by Borough
Source: HDC

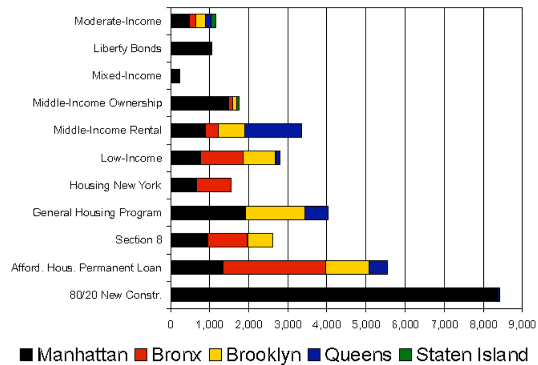
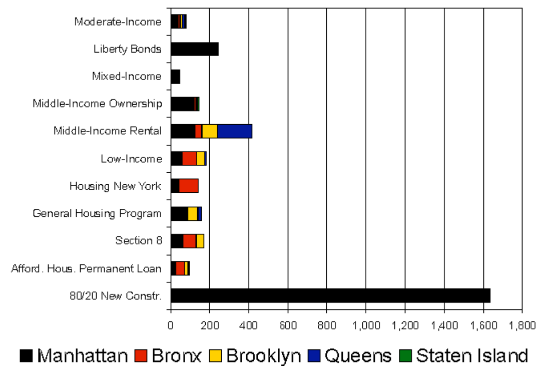
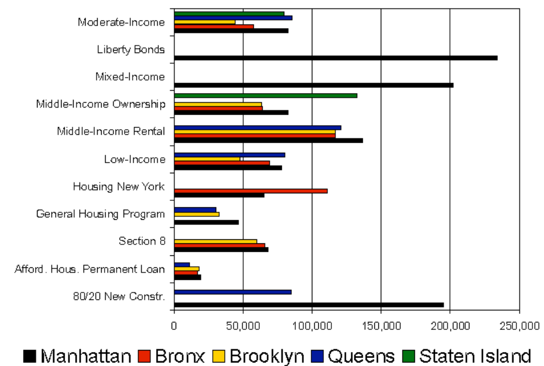


Chart 2
Dollars lent per Program by Borough
($ in 000) Source: HDC



At $233,874, Liberty Bonds represent the highest cost per unit, as they only target development in Downtown Manhattan. The 80/20 program (at $194,086 per unit) and Mixed-Income program (at $202,381 per unit) also present a high cost, as bonds issued through these programs also support the development of market units, which tend to demand a higher construction standard. Conversely, the least expensive projects are found under the Affordable Housing Permanent Loan Program, and are located – for the most part – in the Bronx.

Chart 3
Dollars per Unit per Program by Borough
Source: HDC



	Units	$ (MM)	$ / Unit
80/20 New Construction	8,434	1,637	194,086
Affordable Housing Permanent Loan	5,544	96	17,371
Section 8	2,622	171	65,199
General Housing	4,039	158	39,131
Housing New York	1,557	143	91,586
Low-Income Affordable Market	2,808	184	65,650
New Housing Opportunities	3,353	416	124,043
Middle-Income Ownership	1,768	145	82,372
Middle-Income	231	47	202,381
Liberty Bonds	1,048	245	233,874
Moderate Income	1,116	83	71,253

Location	Units	$ (MM)	$ / Unit
Manhattan	18,143	2,492	137,345
Bronx	6,216	339	54,568
Brooklyn	5,148	247	47,895
Queens	2,857	229	79,709
Staten Island	196	20	99,548

E. NYS Housing Finance Agency

Summary
- Chart 1: Aggregate units by ownership type
- Chart 2: Aggragate subsidies and loans by ownership type

Historic Trends
- N/A

Programmatic Breakdown
- Chart 3: Aggregate units per program
- Chart 4: Aggragate dollars per program
- Chart 5: Dollars per unit by program

Geographic Breakdown
- Chart 6: Aggragate units per borough
- Chart 7: Aggragate dollars per borough
- Chart 8: Dollars per unit by borough

NYS: Housing Finance Agency

Summary

Since the agency's inception in 1960, HFA has issued direct subsidies and project financing to more than 90,000 units, 71,894 of which are in New York City. HFA applies its financing and subsidy programs to two ownership types: Cooperative units and Rental Units.

At 54% (38,611 units), Rental is the more supported ownership type. However, the margin between Co-op and Rental units is much greater in terms of monies allocated to each by the Agency – whereby $3,991 million of $4,665 (for New York City) have been apportioned to Rental units.

Chart 1
Aggregate Units by Ownership Type (Proportional)
Source: HFA

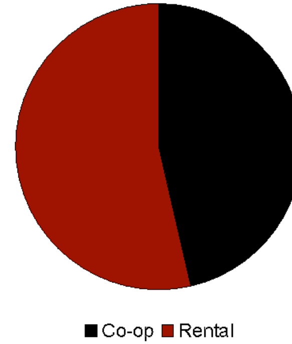
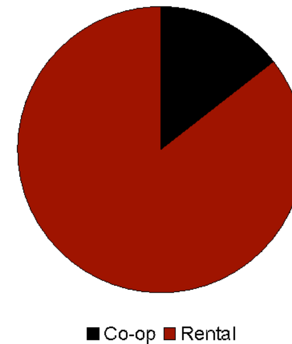


Chart 2
Aggregate Subsidies and Loans by Ownership Type (Proportional)
Source: HFA



Tenure	Units		Subsidies & Loans	
Co-op	33,283	46 %	$64 MM	14 %
Rental	38,611	54 %	$3,991 MM	86 %

Historic Trends

Not Available

Programmatic Breakdown

The three programs assisting the largest number of affordable units have been designed to address the needs of large-scale housing projects. General Housing Loan Projects are located predominantly in Brooklyn (eg. Ebbets Field, Fairfield, Trump Village, and Warbasse Houses. These are large-scale developments which alone add up to 8,766 units) and Queens (where Rochdale village consists of 5,860 units). Non-Profit Housing Projects 15,372-unit Co-op City in the Bronx. The Housing Project Mortgage program includes 5,888-unit Starett City in Brooklyn. Miscellaneous loans issued directly to individual properties predominantly target Manhattan sites.

Chart 4
Aggregate Units per program
Source: HFA

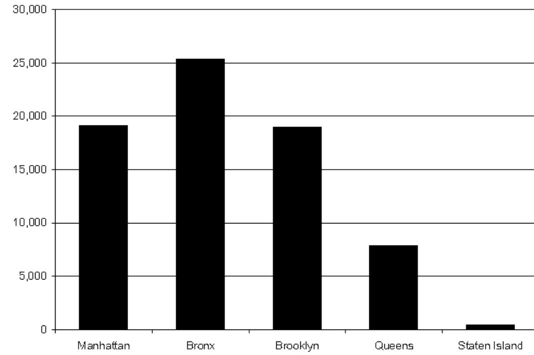
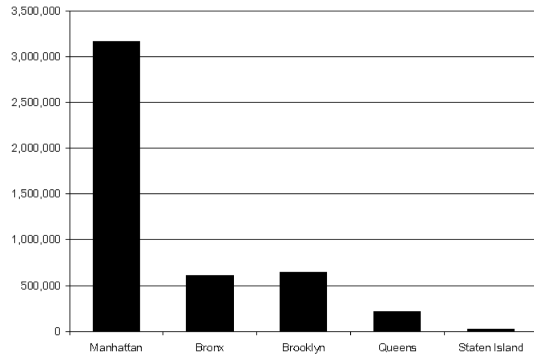
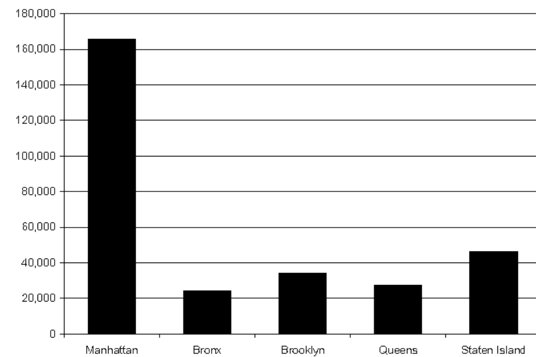


Chart 5
Aggregate Dollars per program
(in dollars)
Source: HFA



Economies of scale can be seen in the miscellaneous loans where the number of units financed tends to range between 100 and 300 per project. Costs under the Secured Mortgage Program ($266,407 per unit) are skewed by the elevated proportion of units therein being located in Manhattan, where development and redevelopment costs tend to be higher than in the other boroughs.

Chart 6
Dollars per Unit per progrm
Source: HFA



	Units	$ (MM)	$ / Unit
General Housing Loan Projects	23,483	372	15,839
AMBAC Insured Program	36	3	90,278
Construction Loan Notes	134	8	63,073
Housing Project Bonds	132	4	31,894
Housing Project Mortgage Revenue	9,502	475	49,940
Insured Multi-Family Mortgage	1,714	84	49,251
Multi-Family Insured Mortgage	502	6	11,075
Non-Profit Housing Projects	20,526	511	24,906
Normandie	1,094	100	91,012
Revenue Bonds	559	23	40,340
Secured Loan Rental	1109	158	142,110
Secured Mortgage Program	10,666	2,841	266,407
Transitional Housing Project Revenue	567	55	97,601
Urban Rental Housing	1870	26	13,684

Geographic Breakdown

The highest numbers of units supported by HFA are located in the Bronx (with 25,380 units), Manhattan (with 19,162 units), and Brooklyn (with 19,005 units).

Chart 7
Aggregate Units per Borough
Source: HFA

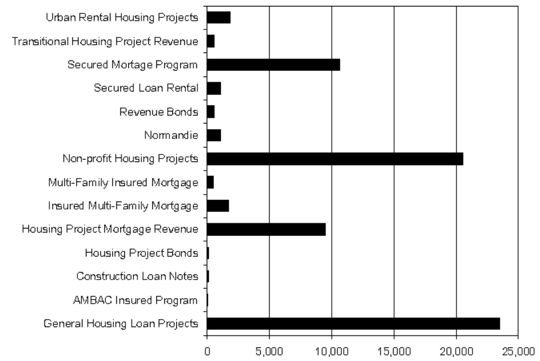
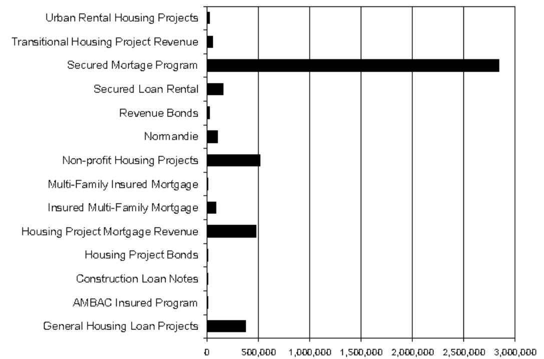
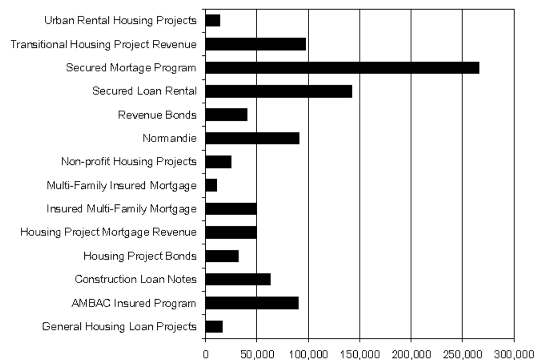


Chart 8
Aggragate Dollars per Borough
(in dollars)
Source: HFA



At $165,487, development costs per unit in Manhattan are the highest in the city: in this case averaging about 500% of the other four boroughs. Staten Island is represented by only a single development, Castleton Park, consisting of 454 Units and financed under the Urban Rental Housing Project.

Chart 9
Dollars per Unit per Borough
Source: HFA



Location	Units	$	$ / Unit
Manhattan	19,162	3,171,055	165,487
Bronx	25,380	612,554	24,135
Brooklyn	19,005	646,983	34,043
Queens	7,893	214,158	27,133
Staten Island	454	20,990	46,233

F. NYS Division of Housing and Community Renewal

Summary
- Chart 1: Aggregate Units by Program Type
- Chart 2: Aggregate Units by Program Type

Historic Trends
- Chart 3: Units per Year by Program
- Chart 4: Subsidies per Year
- Chart 5: Loan per Year by program
- Chart 6: Tax Credits per Year
- Chart 7: Aggregate Units per Year by Location

Programmatic Breakdown
- Chart 8: Aggregate Units per Program
- Chart 9: Aggregate Units per Program

Geographic Breakdown
- Chart 10: Aggregate Units per Borough
- Chart 11: Aggregate Units per Borough
- Chart 12: Aggregate Units per Borough

NYS: Division of Housing and Community Renewal

Summary

DHCR supervises Middle-Income Housing Developments. The agency is also authorized to provide direct subsidies under its HOME program, to issue loans under its HDF, HTF and HWF programs, and to issue State Low-Income Housing Credits (LIHC). By far, the greatest proportion of units produced through DHCR support are in state operation, amounting to 66,893 units, or 74%. Tax Credits also provide support to a large number of units: 17,286, or 19%.

Chart 1
Aggregate Units by Program Type
Source: DHCR

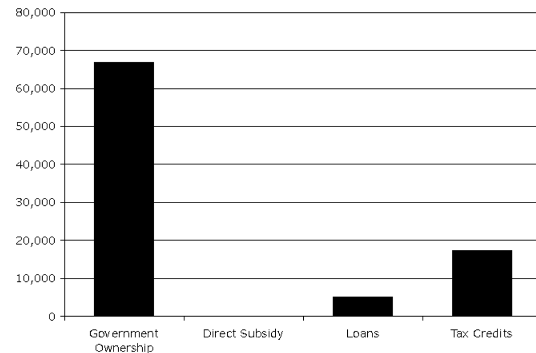
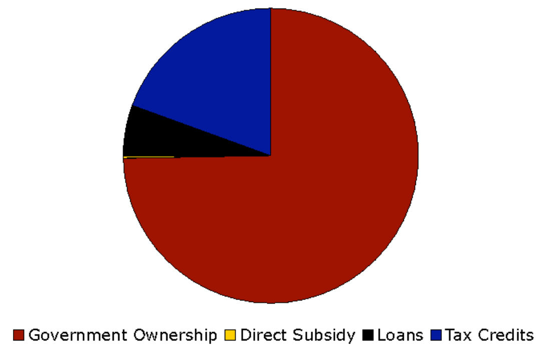


Chart 2
Aggregate Units by Program Type (proportional)
Source: DHCR

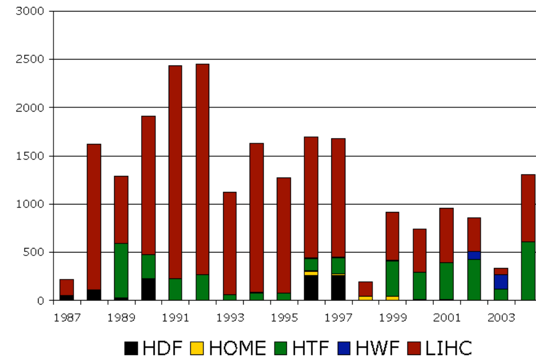


Program Type	Units	Proportion
Operation	66,893	74 %
Subsidy	167	1 %
Loans	5,158	6 %
Tax Incentive	17,286	19 %

Historic Trends

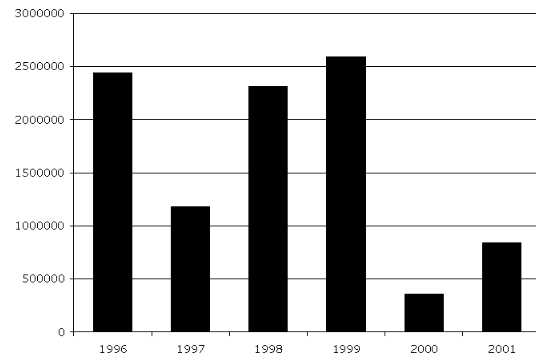
The greatest production of units as a result of Low-Income Housing Credits occurred in the early 1990s, peaking at 2,209 units in 1991. The limited amount of units supported by direct subsidies came online, for the most part, between 1996 and 1999. The disbursement of direct subsidies under the HOME program peaked at approximately $2,591,000 in 1999.

Chart 3
Units per Year by Program
Source: DHCR



Year	HDF	HOME	HTF	HWF	LIHC	TOTAL
1987	49	0	0	0	173	221
1988	105	0	0	0	1,514	1,619
1989	22	0	570	0	693	1,285
1990	227	0	245	0	1,438	1,913
1991	0	0	222	0	2,209	2,431
1992	0	0	269	0	2,179	2,448
1993	0	0	59	0	1,059	1,118
1994	0	0	79	0	1,548	1,627
1995	0	0	76	0	1,197	1,273
1996	255	49	131	0	1,258	1,693
1997	261	11	174	0	1,232	1,678
1998	0	40	0	0	155	195
1999	0	44	369	0	501	914
2000	0	12	278	0	450	740
2001	0	11	383	0	565	959
2002	0	0	425	80	352	857
2003	0	0	118	151	65	334
2004	0	0	605	0	698	1,303

Chart 4
Subsidies per Year
Source: DHCR
(in Dollars)



Historic Trends

Issuance of loans peaks at $ 29,565,000 in 1990 and at $ 20,693,000 in 2002, respectively corresponding to the peaks of the HDF program and subsequently the HWF program. Tax relief disbursements are calculated per annum, and thus accumulate as more relief is issued.

Chart 5
Loans per Year by Program
(in Dollars)
Source: DHCR

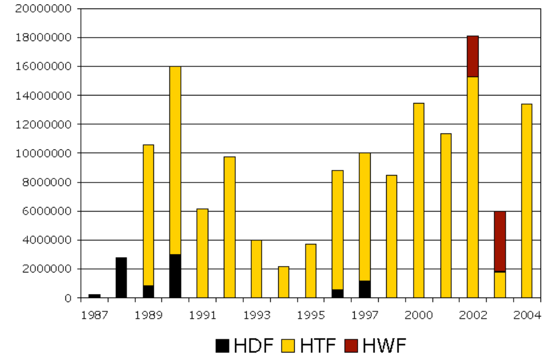
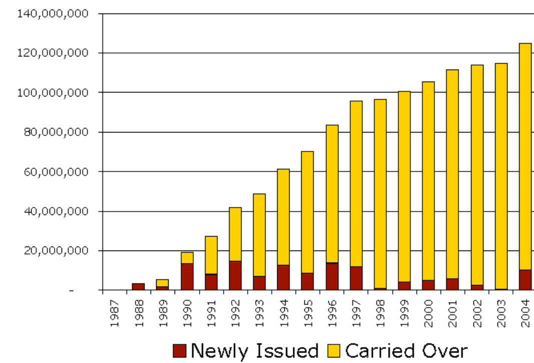


Chart 6
Tax Credits per Year
(in Dollars)
Source: DHCR



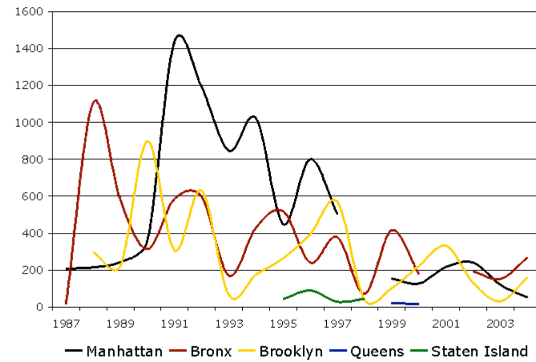
($ in 000s)

Year	HDF	HOME	HTF	HWF	LIHC
1987	209	0	0	0	58
1988	2,801	0	0	0	3,581
1989	808	0	9,795	0	1,364
1990	3,009	0	12,978	0	13,578
1991	0	0	6,126	0	8,392
1992	0	0	9,759	0	14,581
1993	0	0	3,989	0	6,353
1994	0	0	2,163	0	12,934
1995	0	0	3,721	0	8,329
1996	555	2,439	8,258	0	13,726
1997	1,185	1,176	8,865	0	11,775
1998	0	2,312	0	0	367
1999	0	2,591	8,465	0	4,121
2000	0	356	13,449	0	4,328
2001	0	638	11,330	0	5,928
2002	0	0	15,283	2,800	2,310
2003	0	0	1,802	4,180	355
2004	0	0	13,390	0	10,309

Historic Trends

The production of affordable housing units in Manhattan peaks in 1988 at 1,105 units; the Bronx in 1990 at 898 units; and Brooklyn in 1991 at 1,436 units.

Chart 7
Aggragate Units per Year by Location
Source: DHCR



Year	Manhattan	Bronx	Brooklyn	Queens	Staten Island
1987	15	0	206	C	C
1988	1,105	299	215	C	C
1989	580	222	243	C	3E
1990	313	898	359	C	C
1991	586	337	1,436	52	4C
1992	596	630	1,191	C	C
1993	170	64	846	C	3E
1994	430	175	1,022	C	C
1995	518	233	449	C	43
1996	240	394	800	C	8E
1997	378	536	502	C	2E
1998	71	40	0	C	44
1999	415	102	154	21	C
2000	178	222	127	15	C
2001	0	331	216	C	84
2002	194	131	240	122	C
2003	151	31	121	C	C
2004	266	159	52	221	C

Programmatic Breakdown

Again, the greatest portion of units NOT operated by the State result from Low-Income Housing Credits, followed by HTF loans.

Chart 8
Aggragate Units per Program
(proportional)
Source: DHCR

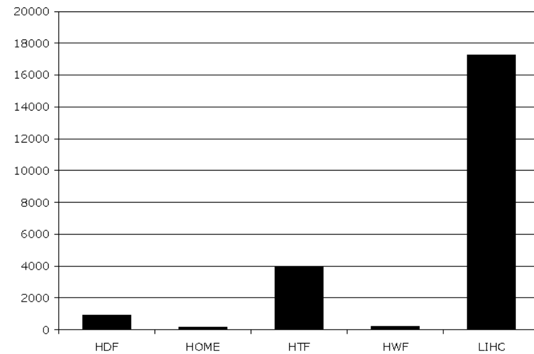
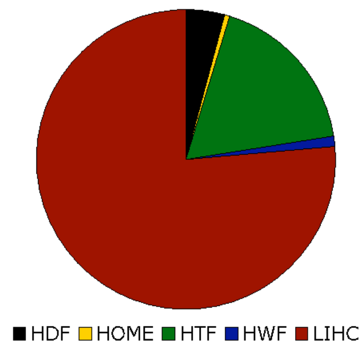


Chart 9
Aggragate Units per Program
(proportional)
Source: DHCR



Program	Units	Proportion
HDF	918	4 %
HOME	167	1 %
HTF	4,009	18 %
HWF	231	1 %
LIHC	17,286	76 %

Geographic Breakdown

Manhattan has produced the greatest amount of DHCR-supported units (6,179 or 41%), followed by the Bronx (6,206 or 31%) and Brooklyn (4,836 or 24%). Again, as is the case with the other agencies, Queens and Staten Island receive the smallest share of supported housing units.

Chart 10
Aggregate Units per Borough
Source: DHCR

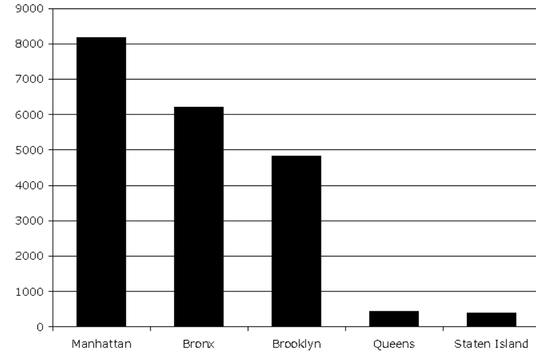
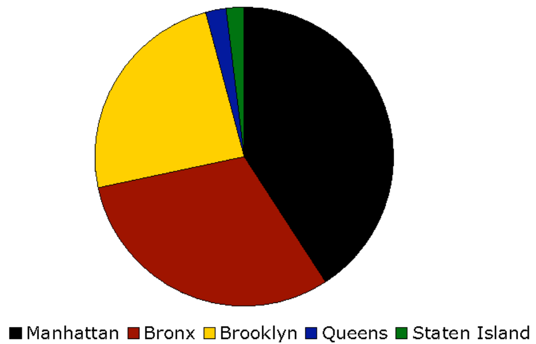


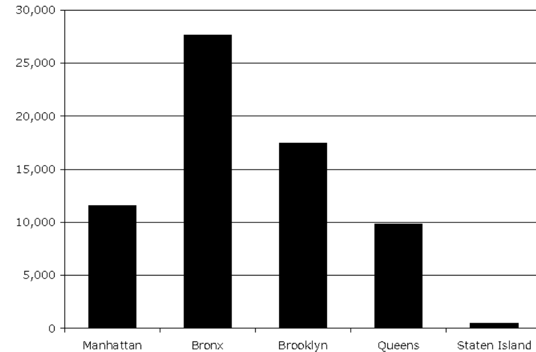
Chart 11
Aggregate Units per Borough
(proportional)
Source: DHCR



Location	Units	Proportion
Manhattan	8179	41 %
Bronx	6206	31 %
Brooklyn	4836	24 %
Queens	441	2 %
Staten Island	404	2 %

DHCR supervises Middle-Income Housing Developments for families and senior citizens constructed under New York State's limited-profit and limited-dividend housing programs. The largest amount of state-supervised housing has been developed in the Bronx (27,605 units representing 41% of the city-wide count). Brooklyn, with 17,411 units, amounts to 26%. Manhattan, with 11,590 units, represents 17%

Chart 12
Aggragate DHCR-Operated Units per Borough
Source: DHCR



Location	Units	Proportion
Manhattan	11,590	17 %
Bronx	27,605	41 %
Brook yn	17,411	26 %
Queens	9,833	15 %
Staten Island	454	1 %

G. NYC Community Preservation Corporation

Summary
- Chart 1: Aggregate dollars lent by source funding
- Chart 2: Dollars lent per year by source funding

Historic Trends
- Chart 3: Units financed per year
- Chart 4: Average loan size per unit per year

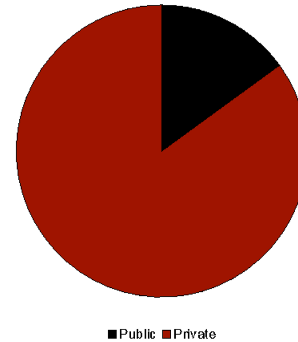
Programmatic Breakdown
- Chart 1: Aggregate units per program by borough
- Chart 2: Dollars lent per program by borough
- Chart 3: Dollars per unit per program by borough

Geographic Breakdown
- Chart 5: Aggregate units per borough
- Chart 6: Units per year by borough

NYC: Community Preservation Corporation

Summary
CPC is sponsored by more than 80 banks. Other source of private investment and credit enhancement include NYC Employees' Retirement System, NYC Police Pension Fund, and NYS Common Retirement Fund. CPC further draws funding from its for-profit subsidiary CPC Resources, Inc. Private Funds account for 85% of new construction and permanent loans closed. The remaining 15% are subsidized by the public sector. Of the private funds, 1/2 comes from the public pension funds, 2/5 comes from the banks, and 1/10 comes from insurance companies.

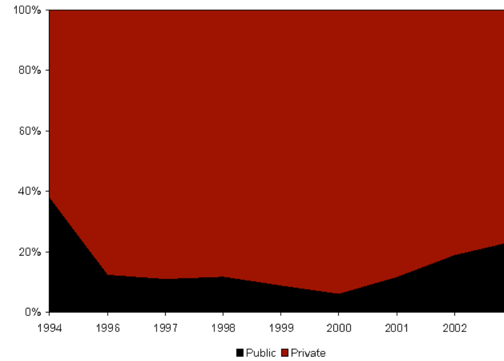
Chart 1
Aggregate Dollars Lent by Source of Funding (Proportional)
Source: CPC



Source	Loans	Proportion
Public	$345 MM	15 %
Private	$1,970 MM	85 %

While CPC has maintained a relatively constant proportion of public-to-private funding, public support of CPC's loans has been increasing over the past 4 years.

Chart 2
Dollars Lent per Year by Source of Funding (Proportional)
Source: CPC

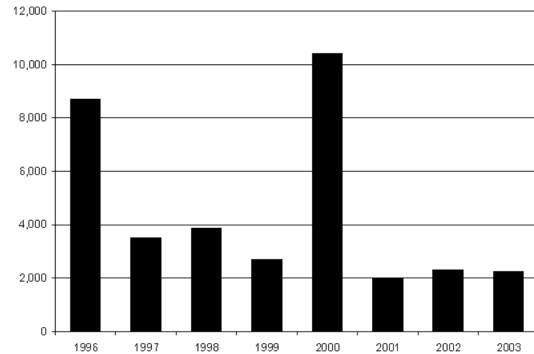


Year	Public		Private	
1994	$41 MM	38 %	$68 MM	62 %
1996	$23 MM	12 %	$161 MM	88 %
1997	$20 MM	11 %	$161 MM	89 %
1998	$24 MM	12 %	$180 MM	88 %
1999	$20 MM	9 %	$208 MM	91 %
2000	$21 MM	6 %	$329 MM	94 %
2001	$33 MM	12 %	$255 MM	88 %
2002	$63 MM	19 %	$272 MM	81 %
2003	$102 MM	23 %	$338 MM	77 %

Historic Trends

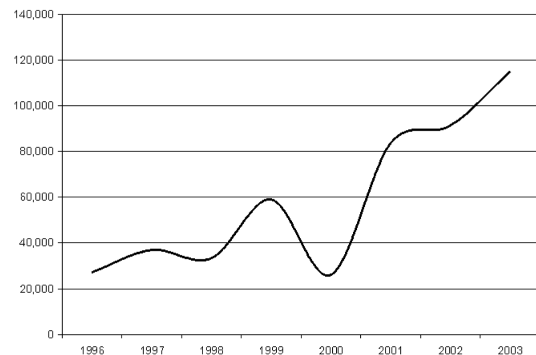
CPC tends to finance between 2,000 and 4,000 newly constructed affordable housing units per annum in the five boroughs. In the year 2000, CPC financed the redevelopment of Parkchester South in the Bronx – which amounted to 8,286 units in 117 buildings. This brought the year's total to 10,409 units throughout NYC.

Chart 3
Units per Year
Source: CPC



As construction costs have been rising over the years, so have the sizes of loans issued per unit. the trench in 2000 represents economies of scale of the Parkchester project, where construction forces, in immediate proximity, could work more efficiently.

Chart 4
Dollars per Unit and per Year
Source: CPC



Year	Loans	Units	$ / Unit
1996	$ 236 MM	8,700	$ 27,152
1997	$ 130 MM	3,516	$ 36,969
1998	$ 129 MM	3,867	$ 33,360
1999	$ 159 MM	2,699	$ 59,058
2000	$ 273 MM	10,409	$ 26,184
2001	$ 165 MM	1,975	$ 83,626
2002	$ 210 MM	2,301	$ 91,367
2003	$ 260 MM	2,258	$ 115,076

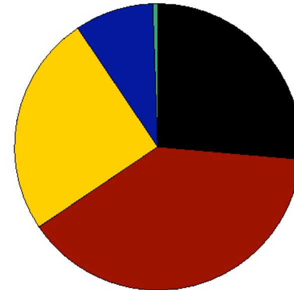
Programmatic Breakdown

Not Applicable

Geographic Breakdown

CPC tends to direct most of its financing toward Manhattan, Brooklyn and the Bronx 90% of NYC CPC-financed units were built in those three boroughs, with 39% going to the Bronx.

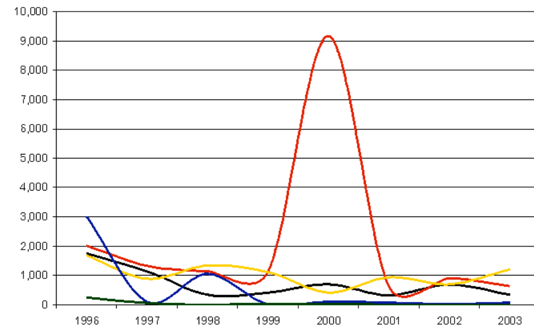
Chart 5
Units per Year by Borough
Source: CPC



Location	Units	Proportion
Manhattan	18889	25 %
Bronx	28112	39 %
Brooklyn	17947	25 %
Queens	6456	9 %
Staten Island	384	1 %

The Bronx, again, show a jump representing the Parkchester project in 2000. Manhattan and Brooklyn tend to fluctuate around 1,000 units per year, while Queens and Staten Island rarely go above 100. Queens had seen considerable investment in the late 1990s.

Chart 6
Units per Year by Borough
Source: CPC



Year	Manhattan	Bronx	Brooklyn	Queens	Staten Island
1996	1,753	2,013	1,680	3,002	252
1997	1,143	1,323	884	106	60
1998	336	1,140	1,339	1,050	0
1999	412	1,121	1,117	17	32
2000	684	9,167	421	103	24
2001	322	631	940	62	0
2002	692	898	898	13	0
2003	339	630	1,205	79	3

5: European models: European perspective and policy programs

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Foreword

The preceding review of the context of affordable housing policy in New York City, the demand for affordable housing, and the description and quantification of production mechanisms available to the City and State must be comprehended within the greater context of affordable housing policies and programs applied elsewhere in the nation and abroad. A detailed exposition of affordable housing programs in major American cities is provided in Part Five of this Report: "An Affordable Housing Compendium: New York City and National Affordable Housing Programs," which covers programs Boston, Chicago, Los Angeles, Philadelphia, San Francisco, San Jose, and in Washington D.C.

This section provides insight into European practices regarding affordable housing, as they relate to New York City's own housing crisis. Focus is given to two main issues:

- Housing policies and programs, including those that address scarcity of land for new construction, zoning and redevelopment of brownfields;
- Organizational and financial models; the institutional model in which not-for-profit developers operate and obtain finance.

The chapter starts with a brief historic overview and profile of some of the key European affordable housing markets, followed by a discussion of European best practices. We focus specifically on Dutch policy programs, because of their tradition in providing affordable housing through public programs and private partnerships.

Summary: European best practices

Building on the New York City housing supply and demand policies previously discussed, the following paragraphs discuss and illustrate several European incentives programs and development models.

Policy and Programs Incentives:

- From subsidy dependent to market-orientated not-for-profit housing associations: Many European not-for-profit developers have made a successful transition from subsidy-dependent to market-oriented and competitive development groups. The not-for-profits use private-development partnerships, cross-finance tools in mixed-income developments to sustain and expand the affordable housing stock;
- Brownfield programs: Combined environmental and zoning legislation incorporate financial incentives to support mixed-income housing development on former brownfields;
- Land-lease system: A number of European cities use land ownership to regulate land-use and reduce land cost for affordable housing;
- Political authority: Planning and rezoning procedures enable elected officials to negotiate 20% to 30% affordability of housing in urban redevelopment (up to 50% in London);
- Rent policies: Governments control annual rent increases. Rent increases above inflation are granted based on housing production agreements.

Organizational and financial models:

- Organizational-financial infrastructure: Financial funds serving the not-for-profit housing sector provide access to inexpensive financing on the capital market by guaranteeing loans. Government backs these funds providing additional securities to reduce the risk to private financial institutions;
- Many local not-for-profit housing developers have merged into larger, more competitive development and management organizations which create economies of scale for their services and increased bargaining power. Professionalization of not-for-profits makes them reliable partners for commercial developers;
- Co-oping existing rental units provides not-for-profits with equity for new construction;
- Innovative, appropriate and high-quality design raises the profile and acceptability of affordable housing.

The Dutch housing model is illustrated with a profile of not-for-profit developer Kristal.

Affordable Housing Markets in Europe

Providing affordable housing is a central concern of many European governments. Each national government develops specific programs, institutions, incentives and housing organizations. A diversity of affordable housing models result, with the northern European countries generally developing the most extensive social housing programs. However, over the past 15 years, most governments have deregulated and privatized their housing markets, transforming affordable housing markets from subsidy-driven to self-sustaining and market-oriented industries.

Housing markets in Europe vary widely. Some regions have seen large increases in construction in recent years, while a few markets like Germany's declined (see Table 1). In Europe the total construction volume in 2000 was 850 billion euro. Nearly 75 percent of the construction was completed in Germany, Italy, France, the U.K. and Spain. The construction in the Netherlands accounted for about 44 billion euro (2 percent of the GDP). About 400 billion euro is annually invested in maintenance and residential property management across Europe.

Table 1: Housing production in Europe and US 1993-2002

Country	Year	Total dwellings completed*	Dwellings completed by new construction	Dwellings completed in urban areas	Dwellings completed by private investors	Dwellings completed per 1000 inhabitants
		(1000)		(% to total)		
France	1993	398.0	287.0	-	-	6.9
	1997	342.0	282.6	-	-	5.8
	2001	-	310.0	-	-	-
	2002	-	334.0	-	-	-
Germany	1993	455.5	404.4	24.1	98.0	5.6
	1997	578.2	515.6	29.2	98.6	7.0
	2001	326.2	292.3	-	98.7	4.0
	2002	289.6	259.9	15.9	98.5	3.6
Netherlands	1993	87.7	83.7	57.6	70.7	5.7
	1997	96.6	92.3	66.5	72.8	6.2
	2001	77.6	73.0	71.0	81.2	4.6
	2002	71.3	66.7	71.1	80.4	4.1
United Kingdom	1993	186.0	186.0	-	78.9	-
	1997	191.1	191.1	-	84.4	-
	2001	175.5	175.5	-	86.9	-
	2002	183.1	183.1	-	88.7	-
United States	1993	1192.7	1192.7	-	100.0	4.6
	1997	1400.5	1400.5	-	100.0	5.2
	2001	1570.8	1570.8	-	100.0	-
	2002	1648.4	1648.4	-	100.0	-

**includes new construction, restoration, extension, conversion, etc.*

Gross investments in both private and public housing do not vary widely in the selected countries. Germany is decreasing its investments since high production earlier in the decade. Dutch investments are a bit above the European average, due to affordable housing created by housing associations that are less vulnerable for economic downturns.

Table 2: Gross investment in housing (% of gross domestic product-GDP)

Country	1990	1995	2000	2002
Germany	N.A.	7.9	6.9	5.9
France	5.5	5.0	5.1	5.2
Netherlands	5.4	5.6	6.0	5.9
UK	-	-	-	-

Home-ownership rates vary from 38% to 66% (Table 3). In countries with a relevativly small affordable housing system, the private rental sector is more dominant. The Netherlands has the largest affordable housing industry: nearly 2.3 million units (36% of the total housing stock) have been built and managed by private not-for-profit housing associations. Recently, a decrease in affordable housing has occurred in most European countries, caused by increasing home ownership and budget constraints. The cost of housing policies (as a % of GDP) have declined but are still relatively high in the Netherlands, due to active land use policies and incentives.

Table 3: Type of ownership (2002)

Country	Type of ownership: Home Ownership	Social Housing	Private Rental Market	Cost of Housing Policies % GDP
Germany	38	26	36	1.4
France*	56	18	23	N.A.
Netherlands	47	36	17	3.2
U.K.	66	24	10	3.3
EU	56	18	21	-

Source: ECODHAS

* figures do not include other types of ownership.

Table 4: Rent index of social housing (1985= 100)

Country	1990	1995	2000	2002	Change '90-'02
Germany	113	143	-	-	-
France	124	151	164	170	137%
Netherlands	119	156	185	196	173%
U.K.	154	248	306	330	214%

Table 5: Rent index of private rental housing (1985= 100)

Country	1990	1995	2000	2002	Change '90-'02
Germany	112	141	-	-	-
France	124	153	165	173	140%
Netherlands	117	151	177	186	159%
U.K.	148	211	253	304	205%

In Europe different rent regulation policies exist. France has a strong regulated fixed rent system for affordable/public housing. The rent index in the U.K. has risen due to subsidy cuts (see Table 4 & 5 above). In the Netherlands the social housing system was privatized in 1995. Future subsidies were exchanged with existing obligations on government loans. Since construction subsidies no longer exist, the rent index rose, although the Netherlands still has individual rent subsidies. The rent index of private rental housing shows some differences. Because of economic set back over the past three years the demand fort rental housing has risen, which caused the significant increase in the IL's rent index.

Housing Programs

Similar to New York, housing programs in Europe were largely developed after WO. Extreme housing shortages resulted in ambitious and rapidly growing subsidy programs in countries like France, Germany, the U.K. and the Netherlands. National governments lead combined planning and housing policies to facilitate rapid growth. Designated lands for new towns and large-scale urban expansion plans created favorable conditions for the expansion of the affordable housing stock in the metropolitan areas of London, Paris and Amsterdam.

Housing and land use policies have not been created at the European Union level. The EU stimulates European lagging regions with different incentives in order to create social and economic cohesion.

National governments have traditionally headed the housing and development efforts. Local governments were designated to execute the programs and found in the not-for-profit developers as strategic partners to invest available funds. In the Netherlands, government initiated large-scale developments to create diverse and self-sustaining populations. Affordable housing was therefore available to both low and middle

income groups, broadening political support for such large public investments. Public involvement in housing development ranged from land acquisition and sustained ownership (land-lease), to construction loans, direct subsidies, urban renewal programs, and individual rent subsidies (vouchers). By the beginning of the 1980's, affordable housing owned and operated by not-for-profit organizations had become the dominant residential product in cities like Amsterdam. Their share in new neighborhoods accounted for up to 90% (65% of the city's entire housing stock).

In Great Britain, Community Development Corporations are called Registered Social Landlords (RSL) and they provide all new affordable housing. Currently there are over 2000 RSL's who manage about 1.45 million units. In addition to the RSL's, the government owns and manages public housing.

In the 1980's, a budget crisis forced European governments to restructure the well-fare state model. A rapid transformation of the housing industry took place in the 1990's. Market-oriented development drove reform and privatization efforts. Housing programs were discontinued and development policies were decentralized reducing the financial resources available to local governments to control urban development.

The need for affordable housing however, did not change. Demand remained high with immigrants seeking opportunities in the urban centers. Rapidly rising real estate prices made more citizens dependent on some form of regulated housing. In most European markets, housing costs have risen faster than inflation.

The introduction of the Euro currency has had its effect on consumer expenses and financial markets. At the same time buildable land has become scarcer and the cost of construction of infill sites and brownfields significantly higher.

Table 6: Price index of existing housing stock (1985= 100)

	1995		2000		2002	
Country	Nominal	Real	Nominal	Real	Nominal	Real
Germany	-	-	-	-	-	-
France	211	138	292	167	390	209
Netherlands	171	147	309	249	350	263
U.K.	189	120	304	169	385	207

Housing costs have continued to rise in the past decade. This can be seen in the quotation HC/CP (Table 7). Builders say rising costs are due to European regulations for fair competition and scarcity of labor.

Governments have started to stimulate cost-efficient housing production by introducing regulatory measures and innovations in design and construction. For instance, the City of Amsterdam is trying to turn the tide on the huge increase of construction costs by easing the building permit- procedures as well as stimulating innovations in construction techniques. The UK government is aiming at easing building permit procedures to keep costs down.

Table 7: Consumer price (cp) and housing costs (hc) Indices (1980= 100)

	1995			2002		
Country	CP	HC	HC/CP (%)	CP	HC	HC/CP (%)
Germany	151	162	93%	166	177	94%
France	206	347	59%	228	448	51%
Netherlands	145	177	82%	176	229	77%
U.K	223	310	72%	-	-	-

Market-oriented housing programs responded to these challenges by creating new tools to facilitate development of affordable housing. Dutch deregulation efforts supported more entrepreneurship in the not-for-profit sector. Cross financing enabled developers to build subsidized affordable housing with the profit of market rate units. Special security funds were established to ensure affordable equity and efficient financing. Housing associations now finance new projects with their own equity. Based on future revenues of their real estate, housing associations can loan capital, financially secured by Dutch Guarantee Fund for Housing (WSW) at a reduced interest rate (at about 0.8 percent point lower than market rates). Demand for home-ownership stimulated housing organizations to sell their rentals to tenants creating new equity for new developments.

A similar program exists in Great Britain. In the program of Conventional Shared Ownership (CSO), the RSL's build, purchase and/or renovate existing dwellings for sale to buyers on shared ownership terms. The buyer purchases a share of a property and pays rent to the RSL on the remaining share. Gradually the part owner may buy further shares and eventually

own their home outright. This program is made to help those who would otherwise unable to purchase a home outright, with a priority on existing council and RSL tenants.

Dutch Incentives and Models for Affordable Housing

Policy and Programs

Dutch national government has always had strong influence on housing production. In the post war period it spurred housing production with construction and rent subsidies. Construction subsidies were used to prioritize scarce building materials for the housing sector, and rent subsidies were used to keep rent levels low. Adverse policies would have resulted in higher labor wages, which at that time would have weakened the economy still recovering under the Marshall Plan.

In the post war decades two key government policies remained in place: construction loans and grants to the not-for-profit housing sector and individual rent subsidies. For a long time, housing was regarded as a merit good supposed to be accessible to all households regardless their income.

This policy came to an end in the 1980's. The economic crisis caused severe national budget problems because of the unlimited financial contributions to the housing sector (called open-end subsidies). This counted both for the construction loans and grants and especially for the individual rent subsidies. Tenants paid higher rents but were compensated by higher rent subsidy. Housing supply and demand, particularly in the existing housing stock, was out of balance. At the same time the not-for-profit housing associations evolved as competitive developers of affordable and market-rate housing, mostly in mixed use developments in urban areas.

In the early 1990's, the not-for-profit sector was 'privatized'. In an enormous and complex administrative procedure, outstanding loans from the national government were swapped for future subsidies. The strong financial relationships between national government and the not-for-profits came to an end. For the national government, this process relieved its budget problems. The not-for-profits became less dependent on government policy. Individual rent subsidies remained in place but were constrained to stricter rules on the relationship between rent levels and tenant income.

In the nineties privatization became more and more visible. Not-for-profits became regular businesses with one important difference to the rest of the business community: net revenues from new market rate construction and sales of existing rentals were required to be reinvested in affordable housing, both for new construction and renovation. This market orientation in the not-for-profit sector also introduced other business aspects such as mergers, high risk investments and mutual competition. That conflicted with lowering the cost for the tenants, and introduction of these market principles could be confusing. And sometimes there was lack of sufficient corporate governance. It all could happen because the demand of housing in general remained high and price levels soared.

Most recently, policy issues in relations between the national government and not-for-profits include governance, rent increases and monitoring results of mutual goals.

Governance, also important in corporate life, is being introduced in the board rooms of the not-for-profits. Transparency is the main issue as is the responsibility between the managing director and the Board of Directors. Other priorities include leveling the playing field with the private developers, and fewer tax deductibles to the not-for-profits for profitable activities.

The national government still determines the general annual rent increase. In the near future this market interference will be applied to a smaller share of social housing: the rents of 5% to 20% of social housing stock will be reformed in 3 to 4 years.

On both the national and local levels, government and not-for-profits are monitoring the results of their policies.

To conclude:

Not-for-profits in the Netherlands are financially self supporting. The national government requires that they invest their financial means in the production of affordable housing. The not-for-profit housing model continues to make crucial contributions to affordable housing.

Land and planning policies

Housing developments in the major Dutch cities usually have a ratio of 20 percent rental (social & private) and 80 percent owner occupancy. From the 1960's till the 1980's it was 70 percent rental and only 30 percent owner occupancy.

With the growth of urban agglomeration and increasing political pressure to concentrate growth within the existing urban boundaries, land availability has become one of the most critical aspects of securing sufficient housing supply. Within the inner suburbs and the urban core, available sites are scarce and expensive. Rezoning (from manufacturing to mixed-use and residential) and upzoning have been popular tools for city governments, often combined with capital investments from central government. Most European countries have created environmental legislation for redevelopment of brownfields. The government's role is focused on reducing risk for developers in case of contamination and support clean-up of sites before rezoning. Local governments also use land positions to encourage pooling of sites requiring affordable housing as part of the development. In cities like Amsterdam publicly owned land is leased instead of sold. Land leasing enables manipulation of land prices to encourage affordable housing.

An example of this facilitating role in Amsterdam is the IJ-river waterfront. First, the City put together a comprehensive development plan for sites to accommodate 7,000 units. Then, private developers, including not-for-profits, were invited to submit development plans with mixed-income housing programs. The City's bargaining plan created 20% affordable housing.

Organizational and Financial Models

Dutch affordable housing programs target two supplementary sectors: the not-for profits and the commercial. Programs are based on three critical issues for producing affordable housing: real estate economics, access to land and access to capital.

Learning form the European model in New York City, implies a two-track strategy: In the short term facilitating fiscal conditions for private developers to supply affordable housing and in the middle and long term creating a sustainable business model for not-for-profit housing developers.

Commercial Developers Models

Commercial development regimes aim at producing middle income housing with temporary affordability.

Concept: A designated number of units in a new development are rented for below market rate rents for a restricted period of time (10-12 years). After that, the rentals become available for sale. At that moment, the private developer receives its postponed profit. The commercial regime is based on value increase of real estate in growing urban economies and doesn't require complicated and bureaucratic systems; it only requires one fiscal ruling upfront: the loss of income during the rental period should not be claimed as income tax afterwards.

For a few decades the Dutch government provided housing programs that encouraged commercial developers to invest in middle income housing. In the early 1990's, the program was ended because of the relatively high costs in relation to affordability. To some extent the program was comparable with the Mitchell-Lama program in New York. The program's philosophy was that through subsidies government ensured that the tenant could grow in the cost of quality housing. During a period of approximately 10 years, the subsidy was used to offer below market rate rents. Investors were attracted to new housing construction and while construction levels went up, the maximum rent level was lowered to enhance the competitiveness among rental housing units. A raise in subsidy per unit was established and in exchange, the investors could not sell the property for the first 20 years. The program was successful; approximately 120,000 private rental units were constructed between 1968 and 1985.

The arrangement changed in 1988 and became more simplified in its implementation. Independent from the construction costs the discounted cash flow of the financial contribution is 9,000. The money was paid in installments of 1,800. The number of installments depended on the interest rate that was adjusted every 5 years. Lower interest rates resulted in lesser payments. This new arrangement was supported by investors, since they received the subsidy in a much shorter period. Local governments can grant the private investor permission to sell the unit sooner than the intended time. When this is the case, the subsidy will stop, unless the buyer is also eligible for the same

subsidy. National government required a minimum period of 10 years.

To conclude:
Attracting private investors to put their money into affordable housing is a considerable challenge. From European experience, there are two basic requirements to make it successful:
First, it is necessary to have a mix of incomes among tenants. This enables the investor to make a short-term profit.
Second, a short period of approximately 10 to 15 years makes the incentive attractive. Shortening the period enables the investor to oversee the period more easily, consequently enhancing the appeal of investment.

Not-for-profits Developers Models
The not-for-profit regime aims at producing low and moderate income housing with permanent affordability.

Concept: An independent and self-sustaining not-for-profit community with financial guarantees.

For New York City this would require a revised not-for-profit business model: the quality of recently built CDC-housing with the organizational and financial scale of the former NYCHA-production.

The Dutch not-for-profit model is based on affordable finance and guarantee structures. This is key to self-sustaining affordable housing production: direct access to capital can reduce housing costs by 20 to 25 percent. The not-for-profits have created their own financial institutions, monitored by national government, which allows them to enter the capital markets. Because of their financial position (financial reserves), this most of the times results in triple-A rating finance.

In several European countries, over the years the not-for-profits have produced substantial volume of affordable housing. Lessons can be applied to the New York City situation as well because the not-for-profits in the Netherlands have been privatized to large extent while still providing permanent affordable housing; it is still their core business based on financial sound models and required by law. To illustrate the not-for-profit regime we conclude with a case study of Kristal Development.

Not-for-profit developer Profile:

Kristal Development
Kristal is a professional development corporation that develops throughout the Amsterdam region. Kristal has a tradition of commitment to housing quality. It is composed of a partnership of six not-for-profits: Het Oosten, Intermezzo, Stadswonen, ZVH, Delft Wonen en Haag Wonen in Amsterdam, Rotterdam, Amstelveen, Zaanstad, Delft and The Hague. Kristal is being incorporated in 2001.

Portfolio
Today Kristal has a development portfolio of 200 million. During 2005-2010 Kristal aims to grow from 6 to approximately 10 partners with a housing portfolio of 150.000 units. The development portfolio is expected to grow to 450 million. By that time its shareholders will integrate housing development in their strategic management of the existing housing stock and in creating value by its real estate positions in urban areas.

Kristal will meet the commonly accepted benchmark criteria in professional real estate. At the end, it aims at return on equity of 15 percent and an average return on investment of at least 5 percent with a mixed portfolio of housing, commercial real estate and specials (e.g schools, health care centers, community centers, etc.).

Mission
In urban markets Kristal is recognized as a competitive and innovative housing developer. Besides real estate development, Kristal has four fields of interest:
- Innovations in product and process: improvement market position by permanently working on new products and services (e.g. by marketing tools, web portal, domotica)
- Market research: monitor and centralize expertise
- Treasury: minimize the costs of interest on capital, optimizing financial arrangements and risk management (e.g. by cash flow management, long term financing, monitoring risks)
- IT: optimizing business processes (e.g. by administrative procedures)

Kristal aims at sustainable housing and mixed use projects as part of a comprehensive area based approach; it is all about building communities. Therefore Kristal –through its partners/shareholders-

is working closely together with grassroots organizations and local stakeholders. And Kristal looks at the long term; it has a vision for the future of cities, not only for short term real estate economics.

Business model

In its business model, Kristal has two principles:

a. Combining the economies of scale with the strengthening of the identity of its local partners; thereby it facilitates and cultivates differences in ambition, experience, risk acceptance and consumer preferences.
   Between each partner and Kristal a special corporation is being established. This corporation holds all projects of the partner. The ownership remains with the local partners, only the development rights are in the corporation. The local partner owns 90 percent of the shares, Kristal owns 10 percent. This also reflects the results and risks. Net results are being directed to the local partner/housing association. The separate corporation is being headed by two directors; one of the local partner, one of Kristal. Decision making is based on consensus building.

b. Reflecting the roles between local shareholder and Kristal in the development process. It is aimed at strengthening professional qualities of both. The strength of the local partner is at the beginning of the process (acquisition) and the end (management). The strength of Kristal is its focus on development and construction and marketing.
   In its strategy, Kristal and its local partners/housing associations combine the best of both worlds: the power of a professional real estate development firm with the local roots of the housing association as professional manager of rental housing in urban markets. It is a well conscious choice for area based development in areas of transformation. In the latter, the housing associations already have housing and land positions or have the possibility–in partnership–to acquire new land (sometimes as result of rezoning).

This business model does not compete with private developers. The business model does not exclude partnerships with private developers.

Benefits

The Kristal model creates benefits for several involved parties:

- for the locally based partners/housing association it strengthens the synergy between housing development and management. It provides economies of scale in the fields of housing development, new products and services, treasury, market research and IT;
- for the renters and buyers it enlarges direct access to urban markets;
- for local government it provides a sustainable partner in affordable housing and community services, e.g. schools, health care;
- for private developers it provides a knowledgeable partner in local situations, particularly in development and management of affordable housing as part of larger commercial developments;
- and for real estate investors in (e.g. pension funds), it provides stable conditions for creating value on the long term, by building and managing sustainable communities.