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<https://www.politicopro.com/states/new-york/city-hall/story/2017/02/amid-loss-of-property-tax-break-residential-construction-starts-plummet-last-year-109796>

## Residential construction starts plummet in 2016



Construction starts for non-residential buildings — including offices, hotels, schools and hospitals — held relatively steady last year. | AP Photo

By [SALLY GOLDENBERG](#)

New York City's building boom slowed in 2016, following a banner 2015 that had been buoyed by a strong economy and a rush to qualify for an expiring property tax break.

The value of construction starts dropped 22 percent, from \$41.1 billion in 2015 to \$32.2 billion last year, according to [a new analysis from the New York Building Congress](#). Put another way, projects begun in 2016 will total 51.3 million square feet of new floor space, compared to 82.2 million square feet started the year before.

The Building Congress — a trade group comprising contractors, engineers, architects and others in the development industry — counts all project starts in its analysis, including new construction as well as alterations and renovations to existing real estate and public infrastructure.

Despite the substantial drop, 2016 "remains well above the five-year average of 44.4 million square feet in construction projects initiated between 2011 and 2015," according to the report.

The city's residential sector took the biggest hit last year. The value of all construction starts amounted to \$11.5 billion, down from \$19.5 billion in 2015. Eighty-five percent of the total came from new, ground-up construction.

The most obvious cause of the drop off is the loss of 421-a — a lucrative property tax break that expired last January, after negotiations between real estate and construction union leaders failed to reach a compromise on wages. Developers rushed to start their projects in 2015 so they could qualify for the tax break, which was initially set to sunset in June. It was then extended for seven months so the opposing industries could try to work out a deal, ordered by Gov. Andrew Cuomo.

An agreement on the break was announced last month and included in the governor's state budget proposal, which is currently being negotiated.

"2015 was a hot year. I mean that's the reality of it," Building Congress president Carlo Scissura told POLITICO New York. "I think there were a lot of projects that had been planned over the years before that just jumped in 2015. A lot of condos, a lot of stuff. And then, you know, there is a segment of builders who were not sure what was happening with 421-a who jumped in."

To qualify for the tax break, developers must receive building permits and commence some type of foundation work, but they do not necessarily need a complete financing package.

"I think there was a big run-up in 2015. So, there may have been a sizable spike in activity at that point and then in 2016, when the program got suspended, there was certainly a drop off," Michael Slattery, senior vice president for research at the Real Estate Board of New York, said in an interview.

"The cost to vest is not insurmountable, but the cost to build is. So you could spend that money to vest to ensure the benefit" without completing a financing package, he added.

He said the city permitted 56,000 new residential units in 2015, compared to fewer than 20,000 in 2016. Construction starts for non-residential buildings — including offices, hotels, schools and hospitals — held relatively steady last year. Their total value dipped to \$17.3 billion, compared to \$18 billion in 2015, according to the report. In 2014, they amounted to just shy of \$11 billion.

The strong performance was spurred by three major new office projects: 3 Hudson Boulevard, One Vanderbilt and a new Tishman Speyer development in Long Island City, Queens. Overall, new, ground-up commercial construction accounted for 64 percent of starts in both 2015 and 2016.

Meanwhile, public schools, universities, hospitals and cultural institutions saw a drop in construction value, from \$6 billion in 2015 to \$5 billion last year, and public works initiatives fell slightly as well.

"Our biggest concern right now is the relative lack of new investment to improve and add capacity to the transportation and infrastructure systems that will be relied upon to accommodate all of the private sector investment occurring throughout the city," Scissura said.