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The mayor's affordable housing optimism

By Brendan Cheney



De Blasio's State of the City address. *(AP Photo/Richard Drew)*

Bill de Blasio has said that his plan to build or preserve 200,000 units of affordable housing in ten years is the largest housing plan attempted by any municipality ever. But while the plan would be historic, so would the challenges that go along with it. Capital has found that portions of the \$41.1 billion earmarked for the plan are at risk.

As a mayoral candidate, de Blasio made building or preserving 200,000 units sound easy. He even said he could do it without additional city subsidy.

When he announced the plan, he more than doubled city subsidy, projecting to spend \$6.7 billion over 10 years. City capital spending per year increased from an average of \$400 million under Mayor Michael Bloomberg to a planned average of \$675 million over the next four years.

The housing plan acknowledges in parts that even after nearly doubling city spending, they will still need additional federal and state help, beyond what has historically been provided, to achieve the goal. However, the plan does not say exactly how much new funding is needed.

For example, in the description of the funding for the housing plan, the last bullet says, “We will work in partnership with the State and the Federal government to identify new resources to fund affordable housing in the City and help us meet these critical objectives.”

How much in new resources the city needs is not made clear. The budget at the back of the plan lays out all funding sources to get to a total budget of \$41.1 billion. This includes \$11.1 billion in subsidies, which are the government grants, and \$30 million in private financing, a combination of tax-credit equity, below-market loans, and market-rate loans. Most of the funding sources are existing programs and the estimates are within historical ranges.

But there is a \$1.9 billion revenue line in the budget labeled, “Potential Dedicated Affordable Housing Funds.” When asked what is included in this budget line, H.P.D. spokesman Eric Bederman said, “Securing further funding is something that we’ve committed to work on with our partners in the state and federal government. When we secure additional commitments, those will be announced.”

In other words, this revenue line is actually based on hoped-for funding from the state and federal government. The administration says it can leverage three dollars of private financing for every one dollar of subsidy. This means that if the plan loses \$1.9 billion in subsidy, it will lose an additional \$5.7 billion in private financing.

In general, de Blasio seems to be relying on the prospect of housing funding from a federal government that shows no sign of delivering. He is also calling for federal help with the \$15 billion capital budget needs at the city’s public housing.

The federal government has created a “Housing Trust Fund” from the proceeds of Fannie Mae and Freddie Mac, and New York City can expect some of that.

But we don’t know how much they are expecting from the Housing Trust Fund.

The plan also calls for \$673.7 million from the federal government’s HOME program. The HOME program funding is appropriated by Congress, now with a Republican majority in both houses. And so it is conceivable that Congress could cut HOME funding, as they have in the past under sequestration.

Taken together, there is \$2.6 billion of subsidy that is at risk of not being available for the plan. And if we again assume that the city is leveraging roughly three times as much private financing from the subsidies, than an additional \$7.5 billion of private financing is at risk. There are some reasons to be optimistic.

If we compare de Blasio’s plan to Michael Bloomberg’s housing program, it looks like the plan has sufficient funds. Bloomberg’s program built 160,000 units of housing over 10 and a half

years at a cost of \$23.6 billion. This comes to \$147,500 per unit. De Blasio’s plan calls for \$41.1 billion for 200,000 units, or roughly \$205,000 per unit. So de Blasio’s plan has more money per unit, assuming all of the money comes through.

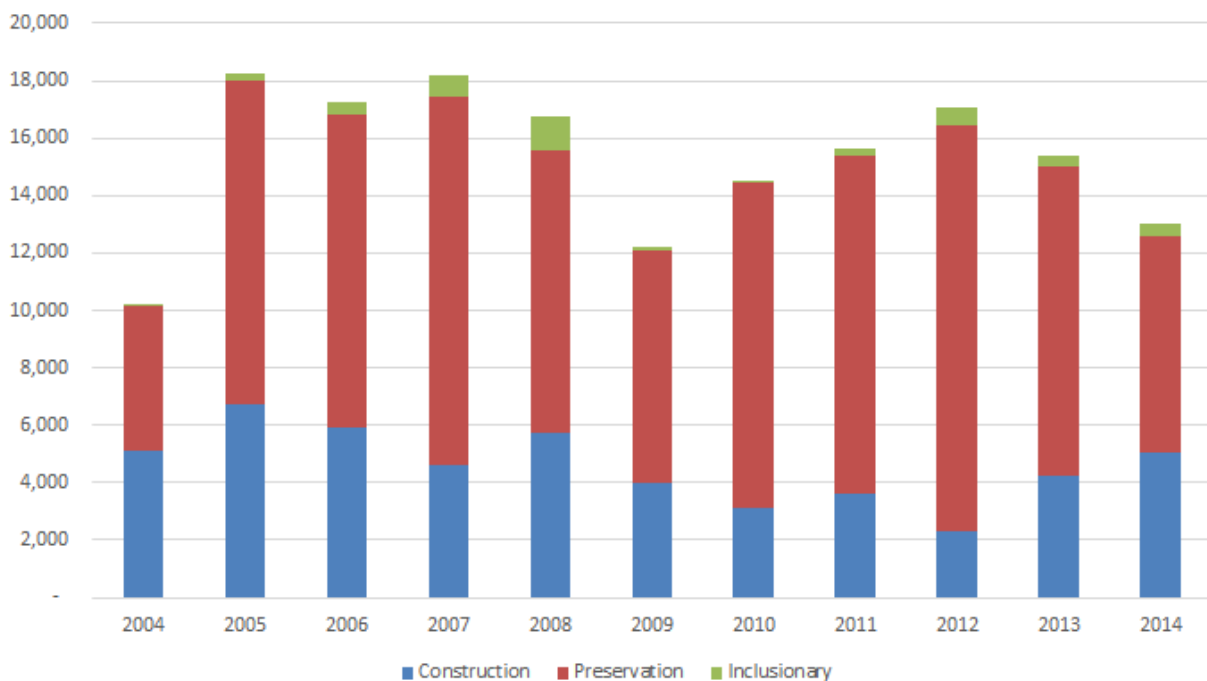
This is a very rough comparison. The actual price per unit will depend on whether it is new construction, rehabilitation, or preservation by extending tax subsidies, the income limits of the apartments, the length of affordability, the price of the land, and many other things.

And the administration announced that it financed 17,376 units of affordable housing in calendar year 2014 and spent roughly \$400 million to do that. So getting to roughly 20,000 units per year with a budget of over \$675 million seems reasonable.

And yet the administration won’t project the number of units to be built per year beyond the current year. They have said they project to finance 16,000 units in fiscal year 2015 but will not say how many units they plan to produce in fiscal years 2016 or 2017.

In order to reach 200,000 units, they will need to get build or preserve more than 20,000 units per year. But they won’t say, and maybe don’t know, when they’ll reach that threshold.

Affordable Housing Construction, FY2004 - FY 2014



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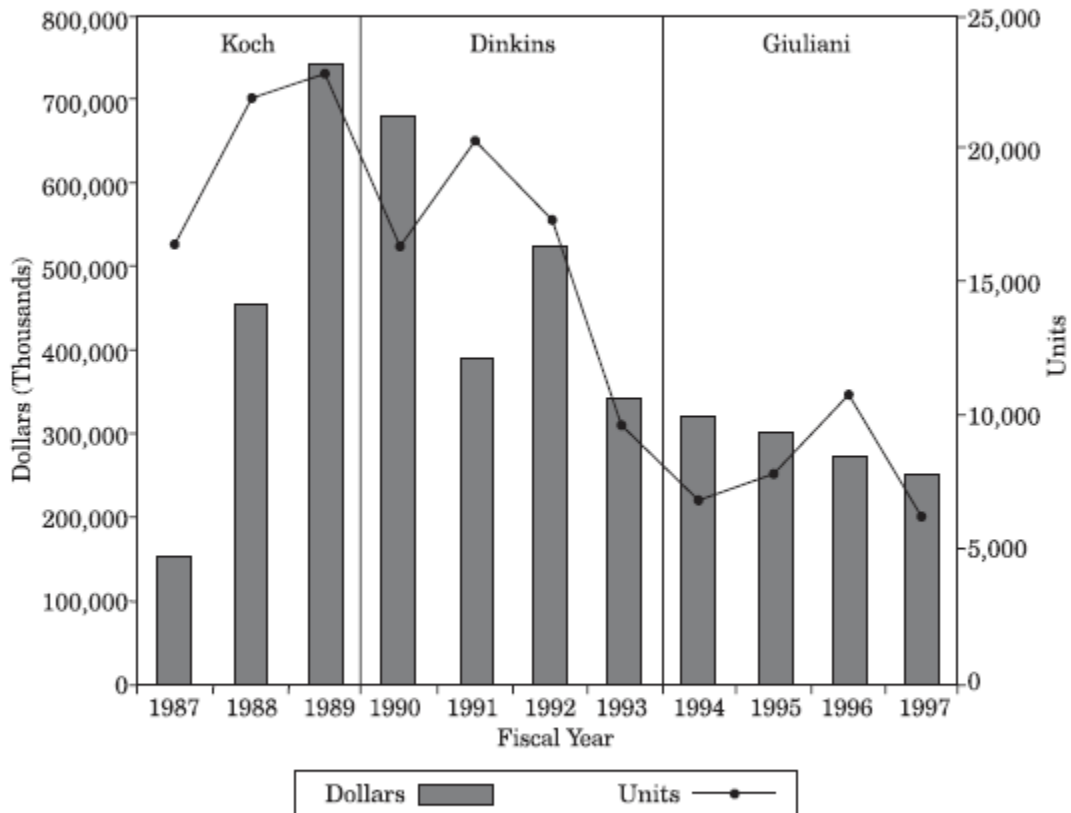
Source: Mayor’s Management Report; NYC IBO

Previously, Wiley Norvell, a spokesman for the mayor, said that under past housing plans, production needed time to ramp up. Mayor Michael Bloomberg’s plan did ramp up, but at the same time that the goals increased. The original plan announced in 2002 called for 65,000 units by 2008. The plan expanded in October 2005, calling for 165,000 units in ten years. The first

year of that ten year plan was fiscal year 2004. By the second year, 2005, the city produced 18,340 units, more than would be needed on average to reach the goal.

The first year of Mayor Ed Koch’s housing plan to build or preserve 150,000 units in 10 years was 1987 and the plan built or preserved over 20,000 units in 1988, according to a 1999 report by Alex Schwartz.

Figure 1. Capital Commitments for Housing in Dollars (Thousands) and Units, 1987 to 1997



Source: City of New York, Department of Housing Preservation and Development, unpublished data.

Source: *New York City and Subsidized Housing: Impacts and Lessons of the City’s \$5 Billion Capital Budget Housing Plan*, by Alex Schwartz

One of the main factors making de Blasio’s housing plan more difficult than he proposed as a candidate is the limits of mandatory inclusionary housing. In his campaign policy book, de Blasio said a mandatory inclusionary housing program would generate 50,000 units in ten years.

When asked how many units they now expect to get from the mandatory inclusionary housing program, H.P.D. spokesman Eric Bederman would only say, “The housing plan doesn’t project targets for specific programs across a decade. Critical factors ranging from the housing market to

federal funding to the land use process will all play determining roles in what specific programs produce.”

This seems to walk away from the estimate in the campaign plan.

In the past, the voluntary inclusionary housing program generated 4,000 units over 10 years, from 2004 to 2013. Supporters of the mandatory program believe that the mandatory nature will generate far more units. But development is voluntary by nature, so if the program doesn't lead to profits, developers won't build.

There are other risks facing the program. Construction and land costs are increasing. According to a report by the **New York Building Congress**, construction costs increased 5 percent in 2013 and 5 percent in 2014. And at the height of the building boom, construction costs increased by 12 percent in 2006 and 11 percent in 2007.

And the cost of land is increasing. The cost of developable land per buildable square foot increased 33 percent from 2013 to 2014 and has doubled since 2009, according to data provided by Adrian Mercado, vice president for research at Cushman and Wakefield.

There is also the specter of prevailing wage requirements. Labor advocates have long been pushing for requirements that prevailing wages be paid at all projects with city subsidy. A study by CHPC found that this could increase total development costs for affordable housing by 25 percent.

And finally, the administration has committed to providing deeper affordability than under the previous administration. This means making the units affordable to lower income households. Providing deeper affordability usually means providing more subsidy.

Without help from Washington, or with changes that increase costs, de Blasio could find that he has to increase city spending even further, or moderate his goal.