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OPINION GREG DAVID

Mayor has a housing dilemma

The de Blasio plan faces a daunting problem: the math

The headline-grabbing figure in Mayor Bill de Blasio's housing plan released last week is 200,000—the number of affordable-housing units he plans to build or preserve during the next decade in what he described as “literally the largest and most ambitious affordable-housing program initiated by any city in this country in the history of the United States.”

Three other numbers are equally important—five, seven and eight—and they illuminate the limitations, uncertainties and unintended consequences of his program.

Five is the percentage increase in total housing units projected for the city during the next 10 years. It is a small number.

Seven is the percentage rate of return developers target when building housing. It's also the assumed rate of return of the city's pension funds, which are expected to invest in the program. It is a big number.

Eight is the billions of dollars of city money slated to be spent on affordable housing. It is a very big number.

Let's start with five.

The de Blasio plan's 200,000 units of affordable housing can be divided into two parts: Some 120,000 will be preserved; some 80,000 will be newly constructed. Separately, the plan envisions pri-

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BORROWING TODAY

| | Total debt |
|------|------------|
| 2002 | \$56.4B |
| 2013 | \$108.2B |

Source: Citizens Budget Commission

PAYING TOMORROW

| | Debt service |
|------|--------------|
| 2014 | \$4.98B |
| 2018 | \$7.82B |

Source: Independent Budget Office

HOUSING REBOUND

| | Permits |
|------|---------|
| 2009 | 6,057 |
| 2010 | 6,727 |
| 2011 | 8,136 |
| 2012 | 10,599 |
| 2013 | 18,095 |

Source: New York Building Congress

The addition of 180,000 apartments represents a rise of about 5% in the city's housing stock—not much, given the city's population gain, and about the same as during Mayor Michael Bloomberg's tenure. (Blogger Stephen J. Smith on the Next City site wryly noted that put Mr. de Blasio “just to the left of Bloomberg”—emphasis on the “just.”)

So the plan may create affordable apartments for a group of New Yorkers, but it won't make the city more affordable as a whole because the housing supply won't increase enough to satisfy growing demand.

Then there is the number seven.

Developers say they need about a 7% profit to make projects with both market-rate and affordable housing attractive enough to justify the risks.

Early in the Bloomberg era, the usual mix was one-fifth affordable, but that number grew over time, often reaching one-third.

Mr. de Blasio disparages 80/20. Instead, he proposes something called 20/30/50: a fifth of the units for the poorest New Yorkers, a third for those slightly better off and half for what he says are middle-income residents. The details are more than a little sketchy, but that suggests so many low rents that a 7% return seems very unlikely.

Builders aren't the only ones who need 7%. The mayor wants pension funds to increase their investment in affordable housing, to \$1 billion. The fiscal health of the city's retirement system depends on a 7% return, and normally its investments in real estate are designed to achieve profits above that number.

Either developers won't build or the city will need to offer big subsidies not specified in the plan. The city, if the pension-fund returns are mediocre, may end up having to make bigger contributions to the retirement system to keep funding levels up.

Finally, there is eight.

The city will invest \$8 billion in affordable housing during the next 10 years, a nearly 60% increase over the Bloomberg era (including the pension-fund money). That money will come from some other policy priority.

The city's debt doubled during the Bloomberg administration to more than \$100 billion, and the annual debt-service costs are already rising. That will be a severe burden if interest rates rise, so more borrowing is problematic. Something will have to give.

“It's competing with a backlog of capital needs the city already has, which are significant,” Morningstar credit analyst Rachel Barkley told *The Bond Buyer*, calling herself “concerned” about the financial burden of the plan.

What will be sacrificed? Maybe schools, maybe parks, maybe transit. There is no way to know. But these three numbers highlight the key issues to watch as the administration fleshes out the very crucial details.