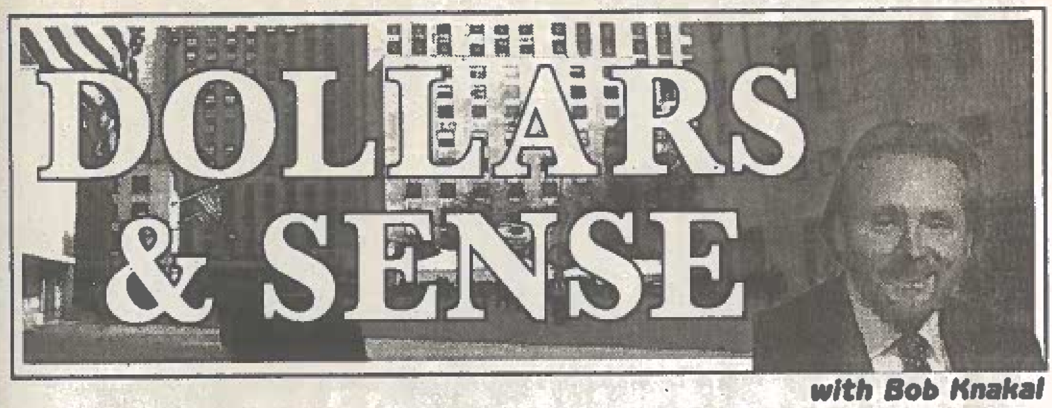


with Bob Knakal

# Wage act could wreak havoc

*Q: What is the worst piece of pending legislation that would negatively impact the real estate recovery in New York?*

A: While it is challenging to sift through all of the bad legislation that has been proposed to identify the worst one, presently I believe Intro 251-A is potentially the most destructive.

Intro 251-A is the Fair Wages for New Yorkers Act, a benign enough sounding bill (they usually have names which make them sound much better than they actually are) but one which would actually have a significant number of disastrous impacts on our local economy.

This bill would require compensation of all employees working in any development, which receives city subsidies of at least $100,000, to be paid a "living wage" starting at $11.50 per hour or $10 an hour plus benefits. This living wage is about 50 percent higher than the state's minimum wage and would have a myriad of unintended negative consequences for our economy.

I have stated numerous times that elected officials should not be able to run for public office unless they have taken an economics course or have worked in the private sector for two years prior to being eligible to run.

Simple economics dictate that this bill, if passed, would be a drag on job creation, would counter balance the very subsidies that are required to get some projects started and would simply eliminate the feasibility of other projects.

In the world of city-subsidized developments, $100,000 is not a large amount. While proponents of the legislation say that the law would only impact very large projects, if you actually read the 19 pages of the proposed bill (far be it to think legislators actually read these bills), it is apparent that this law would be applicable to "both discretionary and as-of-right assistance".

Think about how crazy the implementation of this law would be. Private firms without any link to the city would be subject to the City Comptroller's audits and penalties would be issued for non-compliance.

For real estate owners, the burden of policing tenants to make sure they are complying with the law becomes theirs. Property owners would be subject to charges of perjury if a violation is missed.

This legislation would create oppressive burdens on a broad range of employers that take advantage of city subsidies. It would even apply to those exempt from these new wage controls.

Supermarkets, which are often a component of a subsidized development, would be crushed by this legislation. In that industry, operating margins are often just 1 or 2 percent and the additional cost would effectively eliminate grocery stores from considering any subsidized development in the city.

This poses a particular problem for City Council Speaker, Christine Quinn, as this legislation would certainly undermine the FRESH program which is focused on bringing more fresh food options to the city's poorer neighborhoods, one of her signature issues.

In addition to impacting supermarkets, this legislation would also impact hundreds of thousands of homeowners as cooperatives and condos that receive any type of subsidy. These buildings would need to make sure that any contractors or subcontractors doing any work there pay all employees a living wage. Coops and condos would be burdened with potentially having to monitor and verify the wages of every nanny, housekeeper, tutor or home healthcare worker to make sure they are being paid in accordance with the law. Violations could result in penalties, fines and potentially a refunding of all city subsidies received.

Affordable housing projects would also be negatively impacted.

> *"Hurting the very people that this bill was intended to help is a likely outcome."*

Ground floor retail space often creates the tipping point of viability for these developments and procuring tenants which would have to pay uncompetitive wages would create a drag on this portion of the project.

This would result in the need for greater subsidies to make these projects feasible or a reduction in the number of affordable units created.

An additional, and far reaching, impact would be the requirement of all tenants to pay their employees the living wage if they are in a large complex receiving subsidies. What would happen to all of the tenants leasing space in the Brooklyn Navy Yard?

We saw a foreshadowing of this law 15 months ago when this restriction was applied to the potential redevelopment of the Kingsbridge Armory.

A private sector developer was willing to invest $310 million into this depreciating and dilapidated asset which currently produces no real estate taxes and no jobs and hadn't for decades.

When the living wage requirement was forced upon this redevelopment, the developer, realizing that they would be unable to rent space to tenants who would have to pay their employees higher wages there, pulled the plug on the project. 2,000 construction jobs and 1,200 permanent jobs were instantaneously vaporized by this requirement.

If we look at the lager picture, the reason subsidies exist in the first place is to make projects more feasible. To the extent they are more economically viable, these projects move along providing benefits for the local community and our economy.

Above market wages can eliminate the very subsidies that make these projects viable resulting in limited benefits for those that do move forward and will certainly prevent others from happening at all a la Kingsbridge.

We have seen what the recent increases in our national minimum wage has had on employment. Entry level, minimum wage, positions are typically filled by teenagers and the unemployment rate has skyrocketed to about 25 percent in the 16 to 19 year old bracket.

Hurting the very people that this bill was intended to help is a likely outcome if Intro 251-A becomes law. This piece of legislation is certainly one of the worst that is currently pending.