Why Affordable Housing Is the Key to NYC's Economic Comeback

2020 is gladly in the rearview mirror, and it would appear things can only improve from here. While the natural cyclicality of the market tells us things must get better at some point, there are lots of things that have to happen to get back on track in New York City.

So, why is affordable housing such an important component of the city's future? There are several reasons. But, first, some background.

What the city is going through now is not simply a health crisis. If so, vaccines would get everything back to normal within months. However, we have a real estate fundamentals crisis, a political crisis and a fiscal crisis as well.

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On the political side, the headwinds are significant and are one of the major reasons why so many lifelong New York City investors are buying properties out of town for the first time ever. The rent law changes in June of 2019 materially eliminated the incentive for the private sector to invest in our housing stock. The 14 percent dilapidation rate of the 1970s has been reduced to just 0.04 percent today. This rate will climb based upon these policy changes. This will make life more difficult for residents of the Big Apple.

Another political headwind we face revolves around the positions taken by elected officials in opposition to economic development. Many years ago, the opportunity to convert the Kingsbridge Armory in the Bronx into a shopping mall was quashed by politicians who were seeking too many concessions from the developer, and, all these years later, the 2,000 permanent jobs that project would have created are nowhere to be found.

Anable Basin in Long Island City was another colossal miscue. The opposition was based upon giving large corporation tax breaks that, in reality, "cost" the city nothing, as they would have reduced future tax increases that no one owed to the city at that time and that no one is going to pay now. The tens of thousands of private-sector jobs, both direct and tangential, were vaporized. Not to mention that the big corporation just announced a $2 billion initiative to stimulate affordable housing in the areas where their headquarters exist. What a whiff!

And, most recently, the rezoning of Industry City was shot down.

So, we ask ourselves, why would these seemingly accretive initiatives get the thumbs down from our elected officials? The common answer is that the improvement to the local neighborhood will have such a positive impact on the area economically that long-term residents will be priced out. I have been told that another reason to halt projects that will economically stimulate neighborhoods is that many new residents won't know the local officials and may not vote for them in the next election.

So, the key to getting these projects supported by local officials would seem to be the creation of enough affordable housing, such that long-term residents don't have to worry about being displaced. As I have written for years, provided with the right incentives, the private sector will do whatever you want it to do, just like water running downhill.

First, the Affordable Housing New York tax abatement program should be renewed now, not at, or after, its expiration. Like Anable Basin, this program does not reduce a single cent of current taxes. It reduces future taxes temporarily, and then, after the abatement burns off, tax collections are increased significantly and affordable housing is created.

Second, a 421g type of tax abatement program should be implemented citywide to incentivize the conversion of physically obsolete office buildings and shuttered hotels into affordable housing. This move would add desperately needed affordable housing units and reduce the supply of office space and hotel rooms, which would enhance fundamentals in those important sectors.

Third, have New York state increase the 12 floor-area-ratio cap on residential density.

Fourth, with the 12 FAR cap lifted, there should be a significant increase in density above the current as-of-right FARs if the builder pledges to build a rental building as opposed to a condo. A deed restriction could ensure that there is no possible conversion of the asset, even decades into the future. This zoning bonus could be limited to zones in close proximity to mass transportation, and there can be a corresponding reduction in density in zones far from mass transit.

Fifth, the city must take advantage of the significant land that is owned under, and around, public housing. In Manhattan alone, the city owns hundreds of acres of land upon which a relatively small population lives. In private-sector developments, lot coverage is generally 70 to 80 percent. In public housing, from what we can see, the coverage is below 20 percent. This creates an opportunity to build new properties without displacing any tenants. Upon completion, tenants can move from old buildings to new buildings that are a mix of free-market and affordable units, and the old buildings can be demolished to make way for additional mixed-income buildings.

These changes would provide enough affordable housing, such that economic development initiatives would have a better chance of approval. Those would broaden our tax base and help our beloved city's recovery.

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