Growing Gotham

Realities, Risks, and Remedies to NYC's Population Loss

Transcript

Vimeo

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Tom Rousakis:

Good morning. I'm Tom Rousakis. I'm a CBC trustee and Chair of the Competitiveness Committee for the CBC, where we have a special focus on what should we do to ensure that New York attracts and retains residents and businesses. As we all know, New York will only thrive if it continues to serve as a global gateway where entrepreneurship, competition and collaboration create opportunities for all New Yorkers to thrive economically and to enjoy a high quality of life. In the past, the committee has produced scorecards comparing New York to its peers and also on New York's comparative advantage, human capital, and that's what we're here to talk about today. My colleagues at EY have had the fortune of advising around a lot of the regional economic development workforce plans around the state. I have advised and have the fortune to advise around a lot of the largest infrastructure projects that are going on right now in the city that will attract billions of dollars in federal capital to the region. But in a lot of respects, that's just table stakes for being the epicenter of a regional economy as well as the global gateway. What keeps me up at night is the price that we may have to pay in order to get these projects done to attract the human capital that we need and to ensure we have infrastructure that's in a great state of good repair.

We sit at a very real inflection point right now. The pandemic has driven, amplified in some cases, accelerated problems. Remote work and online retail have devastated commercial real estate, our downtowns and recovery of jobs and retail leisure, hospitality, where a lot of the lower income New Yorkers work. Housing affordability is a crisis for a growing number of New Yorkers. School enrollment has declined. There's a real concern about quality of life and amenities in New York and our top personal income and business taxes have increased to the highest in the nation. Importantly, New York's population loss has accelerated now. This trend began in the mid-2010s, but the pandemic has accelerated it.

Many have been focused on the impact of migrants and immigrants that have come to New York and the impact that has had on the city's finances, but we should also remember that immigrants have driven economic growth in New York City over the centuries. We don't need to be shrinking, as the name of this conference says, we need to be growing Gotham. Our elected officials and civic advocacy and nonprofit business leaders should be focused on what it takes to ensure New York is a great place to live, raise a family, work and run a business. That's why CBC has pulled together this phenomenal group of experts and organized three amazing panels to seize this moment and take stock. Today, we'll open by level setting with data on the facts and what we know about in- and out- migration. There'll be a lot of statistics today, so get another cup of coffee, everyone.

There'll be three panels that will deeply explore. First, change in quality and affordability of life, and whether it's damaging Europe's comparative advantage. Second, how changes in the economy are affecting jobs, mobility, real estate, and specific populations. Finally, how taxes may be affecting the mobility of higher income people who pay a significant portion of our taxes. We have three great journalists moderating today: Dana Rubenstein from the New York Times, Greg David from the City, and Laura Nahmias from Bloomberg. The goal here is to get deeper than the political polemics, dinner table speculation, to have fact- and evidence-based discussion on the realities, risks and possible remedies of New York City's population loss. We hope you come away with a deeper understanding today of what is actually going on and some new thoughts on what can and should be done, both by elected officials, civic leaders, and we, as individuals. I personally have no doubt that New York City, its economy and its population will rebound as it always has, but the question is what we can do to speed up that recovery, dampen any impact of post-Covid-related related ways of working and put New York City on a more sustainable footing going forward. With that, I'd like to bring up Don Boyd from Boyd Research and Andrew Rein, president of the CBC.

Andrew Rein:

Thanks, Tom. That was great to set us up for the day. I do want to thank a few people for making this possible. First of all, Tom and the Competitiveness Committee, and frankly all of our trustees at CBC who obviously support the organization, but I like to think, and I believe more importantly, make us smarter and better with the intellectual capital they bring to the table and make New York better with the leadership and civic leadership they bring to New York. It's the kind of thing, and our friend Dick Ravitch always would talk about how to rebuild that civic leadership so we understand how to come together, how to listen, how to talk about what's really going on and find solutions. So thank you to the trustees and especially our chair, Marissa Shorenstein, who's leading that charge actively every day to give us help focus and enhance and improve our work, but also bringing that next generation of civic leadership to the fore that we all know we need. I have to thank our staff and consultants for making this day possible. It's going to be an amazing day. Liz Siegel, Kevin Medina, Ana Champeny, and Don Boyd especially. So thank you all. So give them a quick round of applause for doing all the work.

I want to thank our moderators who are going to be great and our panelists, which is a total world-class group of people. We're lucky that's why you all turned out today not to hear me talk about thank yous, but thank you for them. It's going to be fantastic. This effort was inspired by two forces. On one hand, this concern about where New York is going and how we can continue to be as competitive and more competitive for businesses and families and people over time. And with the pandemic changing some of these trajectories, really bringing that inflection point to the fore to today. And on the other hand, the onslaught of anecdotes and misunderstandings, which is sometimes driving the wrong discussion and the wrong solutions, which is why, as Tom emphasized, we want to start with the data and then have the experts talk about these conversations.

This is just the beginning, not the end of this conversation or maybe the continuation because people are talking about it over their coffee and dinner tables every day. And last thanks is to the migration working group. When we started this effort a year ago, I'm reminded of a conversation I had with Carol Kellerman five years ago, about the Tax Cuts and Jobs Act, and she said, what are we doing? I said, I don't know. We're CBC. Let's get some smart people together to figure out what to do. And that's what we tried to pull out of the public sphere and into a working group to say, get people with different opinions and different expertise to have this conversation so we could all be smarter as individuals and then bring that to the public. And that's why we're here today, to raise the level of discussion.

So it's just a great group and you'll see the working group: City and State Comptroller's office, Tom DiNapoli and Brad Lander lending their staff. City and State Tax Departments, Governor's administration, Governor Hochul and Mayor Adams, having people at this table and demographers, City and State, both New York and New Jersey, demographers and Federal Reserve, IBO, academics policy experts, a great group coming together and they've all contributed. Some are presenting today. I won't mention them, they're all here. But I do want to mention four people, Andy Haughwout and Joelle Scally from the Federal Reserve. These are people who brought new data, the working group. So thank you, Andy and Joelle, and Jonathan Miller from Miller Samuel who has great stuff and not enough highlighted today, but continue to follow what he's doing, and Andy Beveridge from Social Explorer. Today wouldn't be possible in this data deep dive without the help of Professor John Mollenkopf from the CUNY Center for Urban Research.

So thank you John, an old friend of CBC for a long time. So as we cut through the anecdotes and preconceived notions and prefab impressions, we're here to reveal what's really happening, what are the implications and what New York's leaders should consider doing because as Tom was saying, growing Gotham is the end game here. It's easy to identify problems to tear down. We've all learned, easy to criticize, easy to tear down. People can say that about the CBC at times with our critical eye. The more important thing is to build the political will to build up and keep New York competitive. That's the challenge. That's why we're here today. And as Tom said, we would all be remiss not to realize the context because the discussion today in a certain sense has been dominated by what's called the migrant crisis, but the incredible increase in migrants and asylum seekers in New York.

On one hand, a challenge to our fisc, our social safety net. On the other hand, remembering that immigrants have been the key nutrient feeding New York's growth for centuries, literally centuries. So this influx, as massive as it is, offset some of the decline but doesn't change this conversation, and we'll get to those data in that. So as we do this, I'm going to bring up Don Boyd from Boyd Research to start our data deep dive and then I'll pick it up where he leaves off. Don has been a friend and colleague of CBC's for many decades, and I'll say that because I've been involved with them for many decades, so I don't want to age either of us. Don, thanks.

Don Boyd:

So I will start the slides and Andrew will finish them. I'm going to begin by examining some population trends. Okay, so New York City's dynamic population increased more often than not during the 20th century. This is a graph from 1900 to 2010. The decennial census natural growth from births minus deaths plus international migration more than offset domestic out-migration in most periods. It's important to understand that below the surface there's massive churn even in years in which there's little population change. The numbers of people arriving or leaving in any year often are far larger than the net change in population, so constantly churning and changing population.

So New York City's population growth slowed in the early 2010s and began declining in 2017, and that accelerated during the pandemic. The city lost more than 400,000 people in 2021 and 2022 combined. These numbers which are based on Census Bureau annual estimates are not set in stone, although we have reasonable confidence that the patterns in general magnitudes are accurate and reasonable. The 2020 census counted more people than the census annual estimates, which is why we put a break between the two sets of data. The bars are the net changes in population. So we have a break between the pre- and post-2020 census. Starting in 2017, increased domestic out-migration exceeded what were decreasing contributions from international immigration and from births minus deaths.

The figure shows you those three main components of population change. The blue bars show net births minus deaths, and that's the natural change, which has been slowly becoming less of a contributor to New York City's population change, reflecting an aging in population, impacts of Covid, declining births. The orange bars show international migration, which has been a positive contributor also, but less so in recent years, although that of course is changing at present. And then the gray bars are certainly an important concern of this conference. That's net domestic out-migration, which are all negative over this time period and accelerating after 2017, and particularly the early information post-Census suggests substantial outflows.

So the next four slides are going to explore how net out-migration in the pandemic years differed from earlier years by demographic groups. And we thank John Mollenkopf who heads the Center for Urban Research at the CUNY Graduate Center for analysis of the American Community Survey, which developed the numbers that underlie these slides. The analysis captures all in-migration and domestic out-migration because the ACS doesn't find people who are in another country, it doesn't track the international out-migration. So net out-migration during the pandemic increased across racial and ethnic groups and accelerated among whites and Asian non-Hispanic individuals. The blue bars show that the white non-Hispanic net out-migration increased the most, and if you do the average across the years in the periods, the average net out-migration in 2020 and 2021 for this group was almost five times as great as in the four prior years. So very substantial, substantial change and net out-migration of non-Hispanic Asian individuals, sort of the very light orange or yellowish bars was positive in 2016 through 2019, on average, and now somewhat negative. So we've got more people leaving than arriving.

This I think is particularly interesting. This is net out-migration in the pandemic years by income and the net out-migration in 2020 and 2021 increased across all income groups, but especially for higher income households. So that is the highest income are the darkest bars, and the lowest income are the lightest bars. And so what you see, for example, is that for the highest quintile of income above $183,220, the average annual net migration out-migration was more than five times as large as in the prior period. So the $82,000, $87,000, you see for that largest, the darkest bars was far larger than in the prior years. It also shows out-migration increased for other groups too. So on average, all those groups are larger than pre-pandemic. You can see the second bar, which is $32 to $66,000 in 2018, that income of $32 to $66,000 increased from just over $23,000 in 2018 to $37,000 in 2021.

So certainly this is a topic of interest to our panels, particularly the last panel on high income taxpayers. Out-migration increased across all age cohorts but accelerated most for the millennials. This chart shows you the blue bars, the pre-pandemic 2017 to 2019 period, the green bars, the later period, and the groups are the different demographic groups starting with, so-called Silent Generation, Boomers and moving off to millennials being second from right and

Gen Z. And so out-migration for millennials was four times as great per year in 20-21 as in the pre-pandemic years. And these are millennials were age 26 to 39 at the start of the pandemic key year ages for establishing careers and raising families. So a major change there. All the other cohorts also had increases in net out-migration in the pandemic years though.

Okay, and then net out-movers, if you will, were more highly educated and more of them employed than pre-pandemic. The chart shows you by educational attainment level in the left set of two bars and by employment status in the right set of two bars and the shares of the movers, net movers by their educational status of the different colors. I think the big takeaway is that, and you don't see this directly from the graph, but from the underlying data, the out-migration of people with bachelor's and master's degrees, the numbers of people out-migrating were more than 50% greater per year on average in the pandemic period than in the prior years. On the right we see similarly this is shares of net movers, but the big takeaway is that substantial out-movement of employed people, and again, the same kind of comparison of average per year of the employed during the pandemic years was about 30% greater than the average per year in the pre-pandemic period.

So this slide comes courtesy based on work of Joelle Scally and Andrew Haughwout of the New York Federal Reserve. They examine credit reporting data which follows a substantial and important subset of the population. It's not everybody, but it's people who work their ways into the credit reporting data. For a variety of reasons, only 13% of the 155,000 New York City residents in the data who moved out of New York City between March and December of 2020 have returned to New York City. So at least the question of how many people return, when will they return, for how long will they return is a very important question, and at least these early data suggest a relatively small proportion of people are back as residents in the city. 14% of them are in no income tax states. 40% are still in the New York, New Jersey, Connecticut region somewhere, but not in New York City and 47% are in other states.

We don't know the reasons from the data of course, for these choices, but these are important points on early information on the return. Then lastly, while the conference is especially focused on domestic migration, the huge influx of asylum seekers and migrants since April of last year, April 2022, will certainly affect migration trends. Overall, there've been over 130,000 asylum seekers and migrants who've come to New York City since April 2022. More than 65,000 are in city shelters. Over 21,000 are in city public schools. The surge will affect demand for city services, for housing needs, employment and tax revenue in ways that are hard to predict. And we look forward to insights from the panelists on these issues. And with that, I turn it back to Andrew.

Andrew Rein:

Thank you, Don. That was amazing. So people leaving during the pandemic, higher income, employed. More white and Asian, interesting and important to consider, and also the millennials. I noticed on that graph that my generation had one to the left and three to the right, I won't go on.

Part of what we're here to discuss today and just lead with some data is the reasons and the risks. And I say what may be the reasons? Because that's what our panelists are here to explore. What are the risks? That's what we're here, here to explore. What are the remedies? That's what we're here to explore. One category of reasons and risk is the attractiveness and the affordability of New York. Just to ground this in data, people are pretty familiar. Just to give a flavor of this, housing costs are high, as was mentioned in the beginning. 50% of New York City households are rent burdened, meaning they spend over 30% of their income and rent. 27% of the households are highly rent burdened. That's over 50% of their income in rent. One of the things when I looked at this that struck me is we're not that much of an outlier, which is a little bit different from history.

I think people have caught up with the problem, but we do have a higher proportion generally of renters. 67% of our households are renters and the average of these others, straight average, for those of you who are going to hassle me about not having a weighted average, a straight average of the others are 54%. And there is a variation in that. We have a more high rent burden and a high proportion of renters, so that adds onto each other. We also know that there is, after a drop in the pandemic, there's a recent uptick in asking rents. And remember, these are asking rents. Too many times people discuss this, they think everyone's paying this. These are asking rents, but they are the leading indicator and asking rents now are 28% higher than they were pre-pandemic. I don't have a slide, but I do want to call attention to a great report that our colleague did a few years ago,

Rent and Ride. Our housing costs are somewhat offset in New York because our transportation costs are lower than average. We're a transit-rich and -dependent city that helps offset some of this. Not that this isn't a huge problem, but you need to look at the whole household income. We haven't done it here, but I recommend that report Rent and Ride. Our childcare costs are high. If you look those orange bars, those five orange bars representing the five boroughs in New York City, and these are the costs of infant center-based childcare costs. Now I want to be clear about this. Infants are more expensive than toddlers, center-based is more expensive than informal or family daycare. So this is of the highest cost, but we're higher than other jurisdictions. And as a percent of income, especially in our lower income on average boroughs of the Bronx and

Brooklyn, people could be spending 47% or 32% of their income for childcare if this is their modality.

That is a huge cost for families. We have paid special attention, and Tom mentioned at the beginning, to the declining school enrollment. This is really important. As we've seen before the pandemic, 51,000 fewer students in our schools during the pandemic, that plummeted another 90,000. You add those together, that's 140,000. That is significant. The budget guy in me says, fewer people to serve saves you some money. The one who's thinking about the future of New York and our competitiveness says our public schools are part of what we need to have high quality and enrollment is an important harbinger of things. Charter schools same period went up 40,000, 140 minus 40, that's a net of a hundred thousand. Private schools are not on these data. It's the different data sets, but there has been a slight decline in private school enrollment, so that's not where they're going.

The question here, and it's part of what we explore today and we need to keep thinking about, is this the collateral damage of fewer people in New York or are people in part voting with their feet concerned about the school system? A question we haven't answered yet, but this is something to be considered, of course, in terms of affordability and quality of life, public safety is a paramount concern. We all hear that New York's crime has declined tremendously over the decades. But we did see a significant, relatively significant, not by historical standards, but an uptick during the pandemic. And we've seen that flattening and turning around fortunately in places. So in the pandemic, we saw murders go up, and we saw an increase in murders, which obviously is critically important, but also bellwether. But now we've seen decline in murders, decline in grand larceny and robbery.

But assaults are flat and auto thefts are up. So it's a mixed story, but we've seen the turn of that and that's critically important because public safety remains a concern for people. Of course, as we talked about the pandemic kind of accelerated some economic restructuring trends tremendously. Fortunately, our gross employment is back to where it was pre-pandemic, but we know that the top line data sometimes mask what's going on underneath. We are back a year after the nation got back to that same pre-pandemic level, meaning we're lagging. Not uncommon in history, but we should note that we are lagging. But what we see here in those red circles is leisure, hospitality, wholesale and retail trade, we are 82,000 jobs short of where we were pre-pandemic, which shouldn't shock us as we've seen remote work, and we'll talk about that in a second.

But that reduction has been offset in part by an increase in health and social assistance jobs. It's good that we have the offset. The economy's always going to be shifting, but many of those new jobs like home healthcare aids are not the highest paying jobs. So it's good that we're back to where it was, but we need to think through how the economy shifts and what that means for New Yorkers' needs in New York's growth. Not surprising as we talk about those retail jobs, e-commerce increased dramatically during the pandemic. Taxable sales increased between 2020 and 2023 from six and a half billion to $12 billion, almost doubling, a significant change. We also know that more people are working from home. I'm in the office five days a week, but that's not for everyone. Who's in the office more than three days a week?

Good to see. We have one shaking of hand probably. We are the outliers. So thank you for being here today. Who's in the office under three days a week? We love you too. So return to office Kastle system, those swipes we're at 50% of where we were pre-pandemic. The New York City Partnership does a survey. I think their numbers are a little higher, but nothing's close to where we were pre-pandemic. What we see on the right, which is interesting, journey to work data. We see, let me make sure I get the right data here, we see the number of people who work from home increased by 450,000 people more than tripling between 2019 and 2022. Obviously 2021 is the worst of it, and we don't know what 23 looks like. We're settling back in some uncertain but more consistent data. We'll see over the next couple of years hopefully, but it more than tripled, the number earning who work from home earning under 50,000 doubled while those earning over 75,000 increased sixfold.

Very different about who's working from home. Obviously, fewer people in our downtowns affect those employment numbers, but they also affect the increased stress in the commercial office market. And here we see that commercial office vacancies have doubled from 10 to 20% roughly. Some portion of this acceleration is the sublease market. Obviously people have longer leases and they're needing less space. Some portion is as rent leases turnover, people are using less space and newcomers are using less space than they would've before. We also see that increase in vacancies. Look, historically after the 2001 recession, after the Great Recession, these are recession-driven changes, but now we feel something that's much more economic transformation-driven. We'll see what the future brings, but it's changing how much we're in the office, and that's a more fundamental shift most likely than a cyclical economic shift like we've seen before.

Fewer people in offices, higher vacancy rates means less rent, means values can go down in commercial real estate. And so this is a significant risk not only to our real estate markets, but our city fisc. We see that our commercial property tax levy, $13.7 billion of that levy comes from commercial properties. The highest risk is in those Class B and C, those other office buildings, not that all class A buildings, also some are challenged as well, but the biggest risk in that class B and C buildings. And there we see the revenue base of 2.8 billion of the levy that's the most at risk and we'll have some discussion about that today. We'll also talk about high income earners.

As we heard from Don, more of the out-migration, the increase was among all groups. So this is not just a high income earner issue, although we're concerned about the acceleration of high income earners in part because they pay a share of our revenue. So we see that, as mentioned, I think by Tom, in the beginning with the 2021 increase in the temporary seven year temporary personal tax increase in 2021, our combined state city rate vaulted to the top of the nation, 14.776% top marginal rate exceeding California 13.3%, New Jersey 10.75%, Connecticut 6.99%. So we are higher than other states, and we also are one of only 18 states to have an estate or inheritance tax. And you'll see on that left graph, you don't see Florida and Texas because they don't have personal income taxes.

They also don't have estate or inheritance taxes. And that's part of the challenge. So the question becomes is this a cause? And that's part of the discussion we'll have today. But as I said, part of our concern here is that these filers, people earning over a million, pay a significant share of our taxes and support our services. In New York State, if you look on the left in tax year 21, less than 2% of the filers were millionaires, but they represented 44% of the personal income tax levy and 31% in 22, an extraordinary year for personal income tax revenues. Extraordinary year on Wall Street capital gains, of course. But in 2022, 13 and half billion dollars, 31 and a half billion dollars representing one quarter of state operating fund spending, a significant portion come from these followers over a million. If you look in the city, different tax structure, cutting to the chase, almost $7 billion of revenue, around 10% of our taxes come from people earning over a million. Now, interestingly here, our share of the nation's millionaires has declined, but the number of millionaires in New York has increased. So our share declined between 2010 and 2020 from 12.7% to 8.9%. If our share stayed constant, we'd have 22,000 more millionaires today. But our share declined.

And you can see California went up, Florida went up a little, Texas went down a little. On the other hand, it's good we have more millionaires paying more taxes. The number of millionaires increased 52%, which is a good thing. But nationally, it more than doubled, which is why our share is going down. I will also note, and the data aren't here because we don't have national comparisons, the number of millionaires accelerated New York in 2021. It was also a huge capital gains tax year. And so we wait to see whether that is a blip, whether that begins a new level, we have to see that. But it was an extraordinary year, and there's a potential that the number of millionaires actually goes down in 22, and we'll wait to see what happens. Lots to talk about in that third panel. And ending on migration with high earners, we see from state tax data department that there was a 50% increase in-movers from 20 to 20 to 21.

You see that yellow line of all taxpayers. But that increase for millionaires tripled 50% overall, but the millionaires tripled. And if you look on the right in 2020, that growth was mostly among the five to 25 million earners. In 2021, it accelerated among 25 million plus. So we're seeing where that shift is. And with that, I will end and you can digest, you can take it all in. I also want to say you can take it in by clicking that QR code on the front of your program. And the slides are all there, lest us hold data. Data should be democratic. So we've gone with the data dive and let's bring up our panel, our first panel on affordability and attractiveness, the comparative benefit or threat, hosted by Dana Rubenstein from the Times. And what a great group and thank you all for being here.

Dana Rubinstein:

Hey everyone, thank you for being here. I'm Dana Rubenstein, James Parrot, Ingrid Gould Ellen, Nicole Gelinas, Richard Buery. And we're going to talk about affordability. So I'm going to start with one question that I'd like each of you to answer. Housing production has fallen. Office buildings are half empty. Jobs have come back, but many are lower paid. Major felonies have risen. Public school enrollment is on the decline, and apparently so has the population. Is the price of entry for New York City no longer worth it to people? And any of you can begin. Ingrid?

Ingrid Gould Ellen:

I'll go ahead and start, and thank you to CBC for inviting me and for organizing this great day. I do want to just sort of start by just kind of raising a flag on the census data. And this is all with due respect to John, and there's nothing that you did that was wrong with that analysis, but the census numbers are estimates and that's what they are, and it's been a particularly tricky time to get accurate census numbers. And actually the census itself does show, sort of the latest numbers do show at least sort of a turnaround, at least in Manhattan. We've been doing some analysis using a consumer reference data set, which basically is, it's sort of a creepy data set that draws all sorts of information from change of address forms and cell phone plans.

And there we're beginning to see, I mean we do see the same kind of patterns of out-migration, that uptick in out-migration beginning to slow a little bit in the more recent years. But we're also seeing people moving back in to the blocks where people are moving out of, and that's something, I mean, it's really difficult to track out-movers, but it's even more difficult to identify in-movers. So I just want to say I think the jury is still out. And I will say to that point that rents are rising. So if rents are rising, that suggests we're not seeing these sort of spikes in vacancy as the city is sort of emptying out. I don't think that's what's happening right now. I think that in terms of, I'll say just a little bit more about affordability. I think that the truth is that rents are rising all across the country right now for a variety of reasons. I'm happy to talk about that. New York City is sort of in the middle of that when you look at big cities across the country.

And if you look at the rent burdens, I will say also on the rent burdens that what's really different about New York is the rent burdens sort of climb higher up the economic ladder. Low-income renters are burdened regardless of where they live. They do not have the incomes that can support the operating costs of housing. But what's really different in New York, in New York, we have more renters, we have higher income renters, we have more low income renters who are in subsidized housing. And so basically moderate- and middle-income renters are significantly more rent burdened in New York than elsewhere. That's not a new phenomenon. This is something that has continued. So I would say the numbers with the pandemic. I think that New York has seen similar average increases. Actually New York is one of the few big cities were rent increases in the city have outpaced those in the suburbs.

It's one of five big cities around the country for which that's true. But we were starting at a really high level of rent. And so I think this is sort of a continued concern and I am happy to talk more later about what we should do about it. But I think I'd say the jury is still out. I think there are still people, lots of people, who want to live in New York and are choosing to live in New York. But I do worry about the affordability over the longer run.

Dana Rubinstein:

How then do you account, Richard, for the, I mean, do you agree with Ingrid, first of all on her assessment of the data? And then secondly, how does one account for the decline in school enrollment, public and private?

Richard Buery, Jr.:

Well, first of all, good morning, thank you for having me. Thanks. CBC. I'm not going to disagree with Ingrid about data or anyone on this panel who we rely on a great deal always as we think about it at Robinhood, to help think about the data. These are three of the folks who we rely on. So I guess to step back, I mean, I fundamentally agree and I guess I should just step back even further. I come to the conversation with some optimism, which sometimes can require some discipline, but I'll bring discipline to my optimism. Although admittedly, conditional optimism and I think historically about our city, I mean it's important to remember that this is not the first time our city has faced a crisis and not the first time that people have said that our city is on its last legs. Just go back the last a hundred years, Spanish flu, 9/11, Sandy, I mean, pick your poison.

The city has struggled and the city has recovered. And I think that is because there are fundamentals to the city which make us an attractive place for people and businesses. And I think on a basic level, those fundamentals are still here. A well-educated population, a strong transit infrastructure, a school system which can be infuriating, but which fundamentally is at its heart a strong public school system. So all the things that bring arts, culture, et cetera, all the things that make us an attractive city remain. I think the question is always, if a recovery is going to happen, what did that recovery look like and who benefits from the recovery? And that's where the choices we make as policy makers, I think make a difference: how the city recovers, who's able to benefit from that recovery when it happens. When I think about those fundamentals of where I fundamentally agree

and I think about the strong fundamental of the city, the thing that causes me the most concern fundamentally is affordability. Because ultimately all of those things are premised on this being a place where people can come live and raise a family. And I do think that those fundamental questions of affordability are certainly under threat in New York, and I think that speaks to the kind of city we will be. And all the challenges, we talked about the burdens, we at Robinhood think a lot about housing and childcare as the vanguard of the affordability crisis. These are crises that are experienced by all New Yorkers, but they are most profoundly experienced by low-income New Yorkers. So we talked about the rent burden numbers. We have a survey that we do called the poverty tracker where every quarter we talk to about 4,000 New Yorkers who have lived experience in poverty,

and these remain the two linchpins of low income New Yorkers crises. We have 80% of our respondents talk about being rent burdened—paying 70% or more of their income in housing. Childcare numbers are deeply unaffordable based on federal standards. I think the federal standard is 7% of your income being spent on childcare. Based on the cost of childcare in New York, you'd have to earn an income of $300,000 to be able to have affordable childcare in New York. It's a segment that has lost capacity, lost thousands of slots with deep impacts for working New Yorkers. We know that over 40% of New Yorkers with children under four either stopped working or reduced their hours during the pandemic because of lack of childcare, and those numbers haven't really recovered. So I am optimistic, but I think the single biggest priority for us of the city really is to address these affordability crises. And I would elevate housing and childcare because I think if we can't fix that, then people will stop coming. People will continue to leave. And that will have deep impacts on not only the viability of the city, but the vibrancy of the city, of the city that we all want to live in. And you asked the question about schools.

We don't really know what's happening with schools or I don't really know what's happening with schools presumably at the function of the broader affordability crisis. But what I will say about the data, it's a threat for a number of reasons. Because it's not like when the population of the system reduces that the cost of the system reduces, the cost of the system are fixed. And so the fewer students we have, obviously the economics of the school system, which are already challenged, are going to be even more challenged, and are going to begin to be a more fundamental problem to our ability to have the kind of sustaining school system that is one of the anchors of what allows people to live here.

Dana Rubinstein:

Nicole, what is your feeling about whether New York City is at some sort of inflection point and is still worth the cost of living here?

Nicole Gelinas:

Well, thank you, Dana. If we look to the past 40 years of New York City's post fiscal crisis recovery, we've never succeeded on the affordability piece. The piece that we've succeeded on is the attractiveness piece. So the city's been a construction site for 40 years. We've built more than 600,000 units of housing since 1990, but building new housing has not made housing cheaper. We are pressured from above, the global rich, and we're pressured from below, the global poor. So we can never build enough housing. It's never going to be an equation where you build enough and suddenly it becomes cheaper. What has worked and the reason we build housing is not for housing to become cheaper. We haven't failed. It's just that we're trying to solve the wrong problem.

The problem we solved is all of this new housing is an attractor for the upper middle class and the upper class. In growing this cohort of the population so that we have new taxpayers to fund the massively expensive public services and social services that the city provides, the middle class tax base on its own could not provide the revenue for the services that New York City provides, for better or for worse. So how have we been able to succeed in growing the population despite housing unaffordability across the board? It has been on the attractiveness side of the equation again for the same 40 years since the recovery of the fiscal crisis. It's striking that every mayor, supported in some measure by the state government, has said to the public: You're not going to pay less, you're actually going to pay a lot more in some cases in both taxes and housing costs, but you're also going to get more for the money that you are paying.

So if you start in the 1980s, the Koch administration state government raised a slew of taxes, in return for that we got rebuilt subways. We actually had subways that were functional for the first time since the 1970s fiscal crisis. You go ahead a decade, Mayor Dinkins, Mayor Giuliani, Mayor Dinkins convinced the state legislature to raise the income taxes. He also raised the property tax, but in return, he added 5,000 police officers. Both Dinkins and Giuliani used that base to bring the felony rate and the homicide rate to levels that most people would never have imagined bringing the murder level from multiple times the national average to well below the national average. So we were paying more, but we were getting more. Bloomberg was also not a tax cutter or a cost cutter, but he improved the public realm. Park lands in all five boroughs, bike lanes, bus lanes made New York attractive to people who had a choice globally of where they wanted to live and wanted these amenities. And even de Blasio, his main improvement to the city's public realm was pre-K. Pre-K was not an anti-poverty program. It was a universal entitlement.

Dana Rubinstein:

Which was stood up by Richard Buery.

Nicole Gelinas:

Upper-middle class, upper class parents put their kids in pre-K. This was a childcare solution across the board. So again, paying more but getting more. So it's striking that here we are halfway through the Adam's term before he runs for reelection, and we are not only paying more, because we just had one of the biggest state tax hikes in history this summer: the governor's billion $0.10 increase on transit taxes, but we're not getting any more. As Andrew said in his presentation, felony crime is still well above 2019 levels. It's close to a third above 2019 levels. The murder rate, despite some improvements under Adams, is still 16% above 2019 levels. Petty larcenies a quarter above 2019 levels. So unless those things turn around more dramatically than the mayor has been able to turn them around, this will be the first mayoral term since the recovery of the fiscal crisis where you are paying more not to get more, but you are paying more to get less.

And I'll stop in a minute, but the other big thing to leave you with, and I'll get to my optimistic solutions hopefully later, but we haven't even begun to see the budget cuts coming because of the mayor's attempt to apply the right to shelter to something that the right to shelter was never designed for. Four billion a year for the next three years, 12 billion at least, to spend on right to shelter for an unlimited, undefined population. This has not even yet begun to cut into public services. So, we've answered the question, will people pay more for more? Yes, they will. We haven't answered the question of will they pay more for less and a lot less, but unfortunately we may get the answer to that in the next few years.

Dana Rubinstein:

James, is your outlook as grim as Nicole's?

James Parrott:

It's definitely grim. I guess I'm also optimistic because I do fundamentally believe that New York City has a lot of positive attributes from a quality of life, from an economic opportunity perspective, and I don't think that's diminished very much. Nonetheless, we have a lot of challenges, which we've shown before that we can address those. I wanted to start off by commenting on one of the slides. It shows that millionaires pay 41% of income taxes in New

York City. We need to remember that they also have close to that percent of total income and that the income tax is only a portion of New York City's tax structure. When you combine residential property taxes and sales taxes, I think it's very clear we have a regressive overall tax structure that hits New York City residents. So we need to keep that in mind.

And I also wanted to comment on Nicole's observation about how crime has come down, but it's still well ahead of what it was in 2019. It's very hard to get current data from other cities, but I'm not sure that New York City is necessarily worse off than many other cities. And clearly the pandemic disrupted life in so many ways. I'm struck by the fact that gun sales in the United States in 2020 skyrocketed compared to the year before, and they continued to rise in 2021. That's not just a New York City phenomenon, that's everywhere. That was associated with the increase in murder rates everywhere, not just in New York City.

Andrew talked about how by the total employment level, New York City has now finally gotten back to where the pre-pandemic level was a year behind the national average. We continue to lag not only in employment rebound, but in many other indicators. And when the 2022 American Community Survey data came out, we sat down to look at that to see how things had compared to 2019 and median household income in New York City had declined by 7% compared to 2019. Among the 10 largest cities in the country, that was by far the largest decline. That was four times the decline in median household income in the country. Poverty went up by 2.3 percentage points in New York City. In no other large city was there a poverty increase like that. Nationally, the poverty increase, again, this is the federal poverty measure so it's an antiquated measure, but it is a yardstick that you can apply across the board and it tells you something.

So cash incomes were not rising in New York City, and most of the poverty increase was in extreme poverty. And extreme poverty is measured by one half of the overall poverty rate. Black unemployment rate is double what it is, more than double what it is for whites In New York City. Nationally, there's been a convergence of unemployment rates, and unemployment rates across the board by racial ethnic group decline in 2022, not so in New York City. They went opposite directions. Black unemployment went up. The out-of-school, out-of-work rate for black youth in New York City, 18 to 24, is back up to where it was 10 years ago, 26%. It had gotten down to below 20% before the pandemic. In many indicators, the economic wellbeing of most New Yorkers as has suffered a lot compared to the half dozen years before the pandemic. When we saw historic increases in incomes for people in the bottom half of the population in New York City led by historic real wage increases.

This was true across all ethnic and racial groups. Real incomes rose 20% over that period and we're seeing a return to a divergence, and a divergence on the decline in New York City. Poverty declined by a quarter in the six years before the pandemic, and now we've seen an increase in poverty rate. And income distribution, for the first time in 40 years income polarization had stabilized in New York City in the last half dozen years before the pandemic. We've seen a return to that. The top 1% share of income in New York City went from 36% in 2019 to 39% in 2020 and to 42% in 2021, or in 2022 it's 42%. So again, a return to income concentration. So in terms of the attractiveness of New York City, affordability not only relates to the cost of something, but also what incomes are. And from an income perspective affecting most people,

we have serious challenges out there. In terms of some of the physical challenges we face, which are very real, I think a good case can be made that New York State needs to do more to help New York City. To the extent that there was out-migration of millionaires from New York City, my reading of the data, and more recent data may change that, my reading of the data for 2020 and 2021 is that most of the millionaires who left New York City went elsewhere in New York State. So to me, the income tax rates are still very high in New York state. That's the tax rate that actually went up. The New York City income tax rate didn't go up, it hasn't gone up for decades. So it's not high taxes that are driving people out of, millionaires out of New York City, it's lifestyle choices, people moving to second homes in Long Island and Mid-Hudson Valley and so on.

So those incomes are still in New York State. Commuters whose jobs are in New York City have a hundred thousand more jobs than before. New York City residents have a hundred thousand fewer jobs than before. So clearly a lot of middle class and upper middle class people who had jobs in New York City moved to the suburbs for lifestyle, family reasons, affordability reasons possibly; they still have those New York City jobs. So New York City residents have fewer of those jobs. For all of those reasons, I think it's incumbent upon New York State to do more to help out New York City in terms of fiscal pressure.

Dana Rubinstein:

What then is the cause of both the increasing income disparities, the racial disparities, the hollowing out of, I don't know, the ability to live in New York City? What is causing people to leave?

Ingrid Gould Ellen:

That was multiple questions.

Dana Rubinstein:

Well, what do you think is, I mean, is it like the economic shift brought by the pandemics?

Ingrid Gould Ellen:

Yeah, I don't think we have great information about why people leave. And we have also the other piece of it that we always focus on who's leaving, and we don't focus as much on who is moving in New York, but that's just as important and arguably more important. And we have even less information about who's moving in. But I would say, and I don't want to suggest that we shouldn't be paying attention to quality of life issues and that obviously any level of crime is in a sense too high, right? I mean, we should be really laser focused on quality of life, and on schools, but I do think that when you look at why people are leaving, I think that it does seem like the evidence points to sort of affordability concerns as really being a key driver. And housing is on the top of that list. Absolutely. Schools and childcare are there too. But that really does seem to be what is pushing people out of New York. And maybe that was accelerated to some degree during the pandemic when people are more likely, and this is part of the reason why rents are rising across the country, is people are, now that they're working from home now more often people want more privacy, they want more space. And so that's actually increased demand for housing across the board. But where is it cheaper? Where do you go when you want more housing and you want more space? Well, often you go to places where the land and the housing is somewhat cheaper. So I think affordability is a key concern. And in terms of, I mean, well, maybe I'll wait to respond to your building point, Nicole, until we talk about policy.

Dana Rubinstein:

How would you say the Adams administration is doing in tackling these affordability issues? He has rolled back or halted the expansion of 3K, for example, which I know was something that a lot of people count on to make raising a family in New York City, more affordable. On the other hand, he has this new zoning amendment that is very pro-growth that maybe will help mitigate some of the housing affordability challenges in the long run. What is your assessment?

Richard Buery, Jr.:

So just first to follow up. I mean, I would say anecdotally, it would certainly seem like affordability for those who can afford to leave, that equation is becoming more and more in play for all the reasons that Ingrid said. I think that the Adams administration really has prioritized driving forward an affordability on both housing and childcare. If you look at the housing agenda, certainly desire to remove barriers to housing, access to housing development. And what we would say is, and maybe this speaks to the affordability point, just as much as it's important to create more housing and more affordable housing, we also have to increase the ability of people to pay for that housing. But you have to do those in tandem. We know that things like housing vouchers are successful, they help people afford housing, but if you have more housing vouchers without more supply, you're not going to solve the problem.

And so I think a public policy focus that is focused both on the supply of housing, on the ability people to pay for housing is the right one. And I think fundamentally, the Adams administration has supported those things but these are not problems that we can solve in City Hall. It requires deep partnership with Albany and the federal government to actually drive an agenda. I think similarly on childcare, I might not agree with every element of how the Adams Administration has approached the childcare question, but I do think fundamentally the Adams administration has prioritized the expansion of childcare and we've worked very closely with the administration to support innovation on increasing supply of childcare, increasing affordability, supporting workforce, increasing access to childcare during unusual hours where there're a real dearth of support if you're working construction, if you're a police officer, just the ability to find childcare from 6:00 PM to 9:00 AM is almost impossible. So I think fundamentally the Adam administration has the right values, but I do think they need a lot of help and I am very sympathetic to the really deep financial pressures that the administration is facing now and is anticipating. And so I wouldn't say that I agree with every part of the agenda, but I think fundamentally I think the administration is trying to move in the right direction.

Dana Rubinstein:

You guys agree with that?

Nicole Gelinas:

I think the biggest issue Adams faces and where he may not be getting the right advice is in maintaining fiscal flexibility. So the city has now just signed its final labor agreement with the uniformed forces, with the sanitation department last week. We've got union contracts going three years into the future for essentially the entire city workforce. It's fine that the wages are keeping up with inflation. Everybody wants their wages to keep up with inflation. Where the city has failed, and certainly this did not start during the Adams administration, De Blassio never made progress. Bloomberg never made progress, is on work rules and labor force flexibility. So that were getting more work done for the same amount of hours for more pay, you have to go back 30 years, more than 30 years for the last significant productivity improvement that we saw in a union contract in the city.

It's not just the city, it's the MTA as well. MTE also signing agreements with its biggest union and other unions without asking for any work rule, flexibility and return. So what does that mean when we have to cut the budget? You're immediately cutting into public services and social services, you are laying off people or you are cutting back hours so people see that impact immediately. And that is something it's now a missed opportunity because you can't go back and open up these labor agreements that we just signed. But he has made his own life more difficult for the next two years as he has to really start to think about budget cuts. For example, size of the police force is getting close now to a three decade low. So he has made progress on cutting shootings and cutting homicides, what he said he was going to do in focusing on gang plagued neighborhoods in certain target hot spots and both the federal and state prosecutors going after targeted gang crime, violent crime has worked, but there are no resources to deal with anything else, including the quality of life and lower level crimes that most people see in their day-to-day life. Unless we get a miracle from somewhere that will not improve in the next two years.

Dana Rubinstein:

Ingrid?

Ingrid Gould Ellen:

Yeah, I mean I think that the budgetary pressures are real. I do want to sort take a moment and just sort of commend the administration for doing, I think the City of Yes proposals really are significant. I mean they all sort of individually seem sort of small bore and it's really about what the city can do on its own without help from Albany and the federal government, although some of it does require help from Albany, but things like loosening the parking minimums, allowing for accessory dwelling units, offering a citywide density bonus if 20% of the units are affordable in a building, allowing for sort of small apartment buildings, the kind of walkup apartment buildings that we love in New York around transit stations. And so this is all gentle density increases and I think this idea of also requiring every neighborhood in the city to contribute and to do their part is both the right thing to do morally, but it's also I think politically a wise strategy. And obviously there's a lot more that needs to be done. I think that focusing on the office conversions is also something Arpit is thinking a lot about right now, but I think the city really does need help from the State, ultimately, to continue invest. I mean New York has been a leader in investing in subsidized housing and using its own funding, but again, the budgetary pressures are real and so I think, maybe I'll save for later sort of the other things that the city could do on the affordability front. But I do think that there are a collection of very wise strategies being offered, particularly out of city planning.

Dana Rubinstein:

James, is the city doing enough?

James Parrott:

So I'm also not an expert on zoning, but I do think that the recent initiatives from the city planning department seem to make a lot of sense. They seem to be intuitive and long, long overdue. We're hopeful that that will pan out. I agree with Rich certainly that it may not be the most desirable policy to back off of the expansion of 3-K at this point. The article in this morning's Times on 120,000 homeless people, homeless students in city schools is really, really a daunting challenge. And again, I think this sort of reinforces the need for the state to become more of a fiscal partner with the city in addressing the refugee challenge and the homelessness problem in the city schools.

Those contracts, those municipal contracts, those weren't enormous increases. I mean the total dollar amount needed, it was large because there are 325,000 city employees, but they were 2 to 3 percent wage increases. Real wage increases, when you look at who's been getting wage increases in New York City, this is another case where sort of the national narrative where people see that low income workers have benefited a lot from a tight labor market and so on and are getting significant wage increases, that's not the story in New York City. In New York City from 2019 to 2022 is that wages for people in high income industries like finance and tech and professional services and so on, increase on a real basis, two and a half percent a year, five times the increase for people working in low and middle income industries. The city has a real vacancy shortage at this point, it's really compromising the ability of the city to deliver a whole range of city services. Just to name one, the response time on EMS is going up. So the city can't back away from those problems and it's also got to do more. We have a labor market that doesn't always function as well as it could on its own. One of the reasons why we had these historic improvements in wages and incomes before the pandemic was that we had a doubling of the minimum wage in New York City. And one of the reasons why wages nationally have gone up for low-income workers is that the dozen or so states that have a minimum wage above the federal level index their wage for inflation. So it went up steadily in recent years. New York state, the only state that has, along with California, the first state to reach $15 an hour minimum wage where it reached in New York City back in 2019, but it wasn't indexed. We didn't index it.

So New York City residents paid the minimum wage have seen no increase in that wage floor. That's contributed to this fall in median household income and the rise in poverty rates. So there's more that New York City could do working with the State to address the quality of jobs in New York City and again, improve incomes for low income people. I do think that part of what the Adams administration is looking at on childcare is how they can address the supply constraints in terms of the people providing childcare, family-based childcare providers have among the lowest wage of any workers in the economy. We depend upon those people to provide affordable childcare at flexible hours in the evenings and so on. And we have to do more in order to make the economics work for those small entrepreneurial, mainly women, who provide childcare services in their home. So I think the Adams administration is looking at that. That will also take the cooperation of the state in terms of changing the reimbursement rates that are allowed for subsidized childcare.

Richard Buery, Jr.:

Just to follow up on that point, because I think it can't be reiterated enough, the fundamental challenges of the childcare system, including family care providers, where for infants in particular there is a massive dearth of capacity for infant childcare, it's concentrated in family childcare providers, I think 92% women, overwhelmingly women of color. Not only is it horribly underpaid nationally and locally paid worse than dog walkers, worse than all sorts of other professions, we also make it really hard administratively to run those businesses and we deeply underinvest in training and support so that people who really want to do a great job, it's an amazing opportunity not only to provide childcare, but to support early cognitive development. You have these great platforms and we don't invest in these women who run these centers. Again, I'll just sort of go back to what I said before, this is one of the areas where I think that the society we should focus, because not only is that childcare critical to allowing people to be able to go work, from an educational perspective it's one of the most important things we can do in terms of our investments, in terms of young people being able to have productive positive early childhood development experiences. And so again, investing in childcare, investing in affordable housing, I think are the most critical things we can do for all the equity thing that you've raised as well as for our continued competitiveness as a city,

Dana Rubinstein:

It was recently an op-ed in the times that talked about how Tokyo in the past 50 years produced as many units of housing as exist in New York City now. Nicole recently argued that you can't build your way out of this affordability crisis, that New York City is just inherently an affordable, and I suppose the last time it was affordable was in the seventies when it wasn't really a very successful city. So do you think truly that this is something that we can build our way out of Ingrid, or Nicole, or anyone?

Ingrid Gould Ellen:

Want to follow up and then I'll...

Nicole Gelinas:

I agree with Ingrid. We should be building housing. I like the phrase gentle density. I'll steal that phrase at some point. But it is not going to make housing cheaper because it hasn't. We can never build enough housing so that there is enough vacant housing for it to become cheaper. The housing market at the upper-middle income and upper income works and there is adequate supply and choice of high quality housing for people making anywhere from $150,000 to a hundred million dollars a year. The part of the housing market that doesn't work is the rest of the housing market, which has multiple problems beyond supply and demand, including the rent-regulation market that effectively keeps a million of these units off of the marketplace, as Howard has written many, many times over the years. But that does not mean that we should not build housing. As for all of the global examples that people pick out and say we should do this, we should do that, of course we should do some of it.

But the population of Japan has not been rising. Immigration, although they're allowing more immigrants, is heavily restricted and controlled and middle-class people live in spaces that even New Yorkers would consider to be too small. So it's not that we shouldn't do any of that, but there is no "aha, this is what's going to make housing cheaper", that is not going to work. We will induce demand for every housing unit that we build. And there is also the issue of cutting up housing. People say we should build small units of housing. Well, people make their large units of housing into small units of housing really without the government's help. I mean that is true at the upper end of the market with roommates partitions in these so-called luxury one bedrooms and it is massively true at the lower end of the market where entire neighborhoods of Queens and the Bronx, what used to be middle-class and working-class housing has now been cut up into effectively boarding houses for newcomers. Again, there's nothing in itself that's wrong with that, but this is a real pressure on the middle-class and the working-class housing market as well. You can have a three-family building where you've got 15 households living there. And so there's effectively nothing that we're going to do about that from the angle of just building more housing.

Ingrid Gould Ellen:

Let me just sort of back up for a second and just say that your sort initial premise that we've been building and building and building and we haven't made any progress, I mean we actually have built a lot less housing in New York over the last few decades than we did in the post-war period. I mean, yes, we're still building, but comparatively to how large the city is and the growth and the demand for living here, we're building very little housing. That's number one. Number two is that I think building is necessary, I don't think it's sufficient to address the affordability challenges, certainly at the lower end of the market I think. But I think it is absolutely essential and I think that while you can say that yes, we've built and we haven't seen rents fall, but there's lots of evidence and there's growing evidence, and actually we have an event next week at the Furman Center where we have done sort of a new analysis of the literature on the impact of the creation of new housing and even creating market rate housing does depress rents, it does moderate rent increases.

Let me say that. It doesn't depress rents. It's going to moderate the rent increases that would have occurred. And it's not just at the high end of the market. You also see those filter through the market through chain-migration. And so building really is critical and I think that, again, I will commend the Department of City planning for really trying to push for building a smaller, it's essentially small increases in every neighborhood will add up to a lot. But we also need to make sure that we build different types of housing. I think also pushing for more, yes you have a lot of people that are sort of illegally living in group settings, but we should I think go back to embracing SROs and rooming houses and ways for people to live in smaller spaces. I think the market shows the demand is there for that, but a lot of these crowded spaces are not as safe as they could be, and we're also not building new options and not building in ways that accommodate that kind of sharing. I think that also allowing for more flexibility in the use of buildings, again, I know it's not easy and it's expensive to convert office buildings to housing, but there is no reason that we should put any barriers in the way of those kinds of conversions. I mean it's like the building already exists and there are buildings where this can work, and especially as the office market as it's now, it's softer, the residential market continues to be strong that we really need to, this is a case where I think we need to get government out of the way in terms of we need to expedite those conversions and streamline those approvals and remove the FAR cap of 12 to allow that.

Again, if that building already exists, then it's hard to make a case that we shouldn't be building that high. But again, I think we do also need to continue to invest in subsidized housing, continue to invest in our public housing stock, which really is an anchor of diversity in the city and in many of the city's neighborhoods.

Dana Rubinstein:

If I may in our one minute left, I'm wondering if each of you could sort of provide one prescription, one policy prescription that you think would actually help address the affordability issues in New York City. Nicole, would you like to start?

Nicole Gelinas:

I think the most important triage issue right now is maintain the upper income tax base because you need it to support the city budget. Without that, you have a much worse crisis than we're facing now. And you do that by considering people's day-to-day lived experience. Disorder does not scale up very well in New York City, unlike in much of the country. Even the rich cannot insulate themselves from day-to-day disorder. The only way they can do that is to move out and move somewhere where you can create a gated community. So unless we address the disorder and lower-level antisocial behavior that has cropped up over the past four years, and doing this is not that difficult, we will be facing bigger issues five years down the road.

Dana Rubinstein:

Rich?

Richard Buery, Jr.:

Most of what we just talked about already. Massive investments in our childcare infrastructure, making it easier for people to invest in the creation of more childcare support the people who provide childcare, expand access continuing to invest in wages by increasing the minimum wage, increasing connections to job opportunities for low-income New Yorkers and expanding access to housing vouchers. So again, we are both increasing people's ability to pay for housing while doing all the common sense things we should be doing to expand the production of housing.

Dana Rubinstein:

Ingrid?

Ingrid Gould Ellen:

Yeah, I will fully agree on the housing vouchers. I will say one thing just on the zoning proposals, which I think really are important, but I do think also there's going to be a big political lift and there's going to be a lot of battles when it gets to particular developments, particular neighborhoods. And so I think the mayor really needs to sort of stand behind those proposals politically. And so I think that that's going to be really critical in addition to sort of getting Albany and getting the state legislature on board as well.

Dana Rubinstein:

And lastly James.

James Parrott:

Well, two things. We're at the point where we're moving into budget season in high gear City's going to have a budget modification soon. Governor will propose the executive budget at the state level. What we didn't see this past year in Albany was the City and the State, the executive and the legislature working together to address the housing challenges, the myriad housing challenges, not only that New York City faces but around the state. Hopefully that will change because a lot of us do believe that New York City has very strong fundamentals. What we really need at this point is effective governance from the City and from the State. And the migrant crisis is a daunting challenge. It really is a federal responsibility, but the federal government has abdicated that responsibility. Under a federal system that falls to the state then to play an important role in that. The city can't do it on its own.

So the governor and the mayor really need to work together on that. And on the revenue side, I do believe there's a limit to how much you can raise the top income tax rate, but we need to understand that we have a regressive tax structure in New York City. I think it's long past time to look at ways of getting some PILOT revenues from some of the charitable institutions in the City that have long benefited from that and that benefit from a very vibrant New York City with quality public services that require resources to fund those. So that's not going to be a big money raiser, but it's something that has to be addressed.

Dana Rubinstein:

Great. Thank you all of you.

Laura Nahmias:

Thank you so much everyone for being here and I am really honored to be moderating this panel with so many illustrious people. I'll introduce you guys. This is Professor Arpit Gupta of NYU. I think even if you don't know him personally, you're probably familiar with some of his recent work as it's filtered down through all of the news media. He's one of the authors of a very influential paper that has come out about work from home and the commercial real estate apocalypse. Is that the exact title? Provocatively titled a good read. I would highly recommend it to all of you. This is John Rose from the Boston Consulting Group. This is James Patchett, currently with McKinsey and an alum of city government for many years, and this is Francesco Brindisi from the New York City Comptroller's Office. So it's great to have all of you here. I was going to start out with, not to data overload all of you, especially given Andrew's presentation this morning, but just a couple of numbers from a recent EDC report.

Apparently office visitation reached 64.4% in the second quarter of 2023. Kastle metro area office occupancy data, which I know a lot of us have been tracking for the week ending October 5th, 2023 was at 49.5%. That was up 26.3% from January 1st, 2022. According to the Partnership for New York City return to work survey, we're at 58% return to office rate as of September 2023, up from 52% as of February 2022. According to REBNY's own office visitation metric we're at 64.4% office visitation rate. Subway ridership is at 67.6% of pre-pandemic level. According to the Partnership for New York City, the commercial vacancy rate in Manhattan was 22.4%. As of Q2 2023, the most recent Partnership survey found that 64% of employers have a hybrid schedule.

And according to Bloomberg's data, the percentage of US office sector, commercial real estate, commercial mortgage-backed security loans tracked by Bloomberg that are 90 or more days delinquent rose to 2.42% on October 26th. The last time the delinquency rate was this high was in 2013 when the economy was climbing out of the aftermath of the 2008 global financial crisis. So I wanted to start out with all of you, and I assume there's going to be a variety of opinions here. How big of a problem is this? The not fully returned office visitation, the not fully returned subway ridership? And is there an extent to which people in city government or state government are over-optimistic about the possibility that it will all come back to a pre-pandemic normal? Do you want to start out? Yeah, I'll pick on you first.

Francesco Brindisi:

The government, state government, that's me. No, I don't think that there is a sense of optimism in what people expect going forward, and I don't think that optimism is what is in the projections that the city's doing in terms of tax revenues. I'll give a couple of things. If you were sitting in January or March of 2020 before everything happened and you made the projection for the city's economy, you would have some sort of amount of tax revenues. So collected in 2020, 21, 22 23, Josh and I did it in January and all of our fiscal monitors did it. And there's like six competing projections. The pop quiz is where are tax revenues now in 2023 relative to all of these forecasts that were made before the pandemic, higher or lower, raise your hands. Higher, you're the minority, but you're right.

And those are projections that were made based on economic trends. The economy was growing and so on and so forth. Now a whole lot of things happen. I'm not saying that there is no impact on tax revenues to a certain extent. The real impact we're going to start seeing now is going to unfold more now in the future after all of the distortions and all of the support programs and the income support programs and the federal reserve lowering rates and all of those kind of things now that are unwinding, right? But I don't have a sense that people are just projecting tax revenues or projecting economic gains that are too optimistic.

John Rose:

So I mean, first of all, everybody's using slightly different definitions on all of the statistics, but I think if you step back and also looking at bottom up, what's happening today versus top down, but I think if you step back, it probably isn't, Is it going to return to normal? The question is in what ways has the experience of Covid changed society and what are those fundamental changes and how will they play out? And there are several fundamental changes, one of which is around workforce attitudes towards work have changed and this whole notion of hybrid working has changed. Society learned or the workforce and employers learned how to work effectively in a remote environment because they had to. And so the notion that everybody's going to go back to five days a week in an office is sort of against interest. It's against interest on the employer side, it's against interest on the employee side. And we have been doing, we're now in our third or fourth year of statistically valid both employer-matched employer and employee surveys. And we see a very consistent answer emerging. Our numbers will be specifically different. We're using job days and we're doing our denominator is the theoretical potential number of remote job days that could be worked across industries and across jobs versus the job days that are being worked.

And our statistic is on average coming out of Covid, 48% of the job days that could be worked remote that were worked in place will now not be worked remote. That gets when you add the 5% up to essentially 53% in New York City, it's higher, it's 60%, but it's all plus or minus in the same zones. And when you think about the underlying drivers of it, I'm sure you do the same types of work, since I worked at McKinsey for close to 20 years, that we do at BCG, the firm we like to think of as the Brooklyn Consulting Firm, not the Boston Consulting Company, but a group. But we do a lot of work with companies on how to improve margins and drive costs. Hybrid working, not pure remote working, is the first silver bullet that anybody's found in which you can lower costs, put more disposable income in the pockets of your employees without increasing compensation and also create lifestyle benefits, particularly if you do it mindfully in a flexible way that accommodates people who want to work five days a week and people who don't want to work at all.

So it's hard to imagine that corporations are going to try to move away from that. And it's hard to imagine employees who are getting lifestyle benefits, incremental, disposable income from the same amount of work at the same level of compensation are going to want to change. And they've been remarkably consistent over a multi-year period in their responses. And the debate about is it a 50% on average or a 60% on average, it's not a 90% on average. And so that's a persistent degree of change. And also people have changed the way in which they think about the arc of their careers and the role of their careers. So there is a greater dropping out of the workforce. It doesn't show up in the employment statistics because the employment statistics have their own definition again of what is the workforce. And there's a group of people who are persistently now out of the workforce who are interested in working but not interested in working full-time and they don't show up in the stats because the stats aren't structured that way. So there's both an issue of hybrid working that's not changing, an issue of attracting people to the workforce that is different now than it was before, and a structural change. There are industries in New York City that have been structurally damaged and are not going to return. And there are industries that are accelerated. So it's a different universe and you can miss it in the day-to-day statistics of tax receipts are better or employment's up. Employment's up. The mix is different.

Laura Nahmias:

Yes, Professor.

Arpit Gupta:

Yes. So I think there are two things to keep in mind in understanding those statistics. One is the timeline of how long is this all going to really take to play out? Because office leases are long-term in nature. Office loans are also long-term in nature and therefore the large shifts that you've seen in vacancy and the slides earlier are all coming from the small fraction of office leases that have actually expired over the last couple of years. Therefore, that means that in the coming years you're going to see this fundamental business transformation really have a much deeper impact as more and more firms experience the expiration of their leases. And then the financial impact is also going to be seen as those loans start maturing. And then finally, as property taxes start to reset given the changes in value. So just to say it's going to take a really long time for us to really figure out what these impacts are going to be.

The second thing that's important to understand is the statistics is how bifurcated the impacts have been on the office stock. There's a lot of trophy, A-class office that's actually doing pretty well, that is attracting the residual demand from those employers that do still want an in-person presence. Those offices are doing perfectly fine. It's this whole class of B- and C-class office that is really bearing the brunt of these shifts because they're predominantly catering to the types of office tenants that are more interested in saving money and therefore they're really seeing the huge increase in vacancy as a result. So people often also talk about San Francisco, right? It's a city that is seeing these trends on steroids. They've got overall for their city a 30, 35% vacancy rate depending on what number you look at. Well, the reality for New York is we have a San Francisco-sized problem inside New York.

If you look at certain sub-neighborhoods, the Financial District for example, you'll see much higher vacancy rates if you break out our office stock by quality, you'll see that lower-quality office stock is really seeing massively increased vacancy rates and that generates a problem. It generates a problem most obviously for the office landlords that own this space. Now, I think there are things that we can do about it. There's ways to repurpose or redeploy that space and maybe we can come to that later. But I think just to set the stage, I think it is a big concentrated problem and a subset of the real estate universe and I think still an uncertain question about how all that plays out in the city, which will take many years to play out when we're also going to be have to considering the expiration of the federal subsidies and the higher interest rate environment.

Laura Nahmias:

I'm curious for your thoughts on that, James. And also just to make sure we're all on the same page here, what we're talking about is a phenomenon with leveling out at this 50 to 60%. This is both the descriptive of what is currently happening and what you all tend to see playing out for quite some time in the future. Is that correct, or not?

James Parrott:

Well, I think most of the statistics suggest, I mean you look at the data it all kind of levels off, it hits around 50 to 60% and it's just been stuck there for a while. And all the survey data says the same thing. At my core, I'm kind of like a math nerd, and I started out my career doing the intersection of economics and economic development, and I guess I've kind of been doing that ever since. But the first thing that I learned was that the way that you think about economics fundamentally is you think about transportation and the cost of people's time. So let's just say in a world, so let's say you have a certain amount of time you're willing to spend commuting. Let's say right now you live in Brooklyn and that's like 40 minutes a day and you're doing it five days a week and then suddenly the next day, the next week you only need to go in three days a week.

Well, suddenly you can afford to spend an hour and five minutes those three days each direction and it takes you the same total amount of commuting time. So the same cost of time spent commuting. So what does that mean? It just means you're willing to live farther away with the same cost to you. So it has a lot of implications in particular, it means it explains the reason at least that we've seen to date the whole "everyone moved to Miami" thing. I mean that's a little bit overblown. I personally think though Miami is lovely, especially this time of year.

I think that being said, I think what we mostly see is suburbanization trends. So you've seen like a five to 7% directionality of people moving out of the core of the city towards suburban areas. And it's obvious why you can afford to do that for the same amount of commuting time costs. So I think that's just the thing. And what does that mean? It means for people riding in the subway, it means lower foot traffic. It means big impact to retailers, restaurants, a lot of them make their money on that last 20%. That last 20% is gone. That's a huge problem for you, so they can afford to pay less rent. I mean there are real implications there. I think just on the property tax thing, I personally think that as a core concern, at least in New York, it's probably not the big thing because commercial property taxes are 20% or something less anyway, even if you cut that in half. I mean it's a single digit impact to the city's overall budget. So I don't think that's an existential issue. What I think is existential is what is the value proposition of New York City? What is its reason for continuing to be the place that it is today? And I think it's very much there. It's just that's the question that I think needs to be answered.

Laura Nahmias:

Francesco, actually, do you know, off the top of your head, what those property tax numbers are, how much of it is office?

Francesco Brindisi:

Office, commercial is 40% of the property tax levy. Everybody should know that taxes are two thirds of the revenues of the city and the property tax is 46% of all of the tax revenues and then you share it down and so on and so forth. So if you get to office, it's about 6%, six to 7%.

John Rose:

But it's also, I think none of us believe the issue is the 6% by itself, it's the second and tertiary impacts of the write-downs that are coming, the lower foot traffic, the impact on services that draft off of businesses that used to be in that space. I mean the 6% is 6%, but the ecosystem implications of that from a banking loan perspective and from a workforce perspective and from a restaurant perspective are where the material impact is. And that has other implications for city tax revenues, not just the 6%.

Laura Nahmias:

Yeah. Can you unpack a little bit of that for us? Perhaps Professor Gupta, what is the horizon for when we're going to see the worst secondary and tertiary impacts from this leveling off of the vacancy rate? Is there a year at which you're going to see things explode?

Arpit Gupta:

I think it's a slow burn. And so I think Francesco's team did a great job outlining some potential impacts of the impact on the office on property tax revenue. Another way of thinking about it is to kind of look back at the early nineties. That's another period when New York City also suffered a pretty substantial shock to commercial real estate and particularly to office as well. And it took, we saw many years for that to kind of play out in terms of lower property tax revenue, other knock-on consequences to the city. And New York City in the end was sort of saved by the boom that happened in the late nineties that kind of brought the market back. So I don't think there's one magic number or one magic year, but I think the reality is all the trends that we're talking about are just going to take a really long time to play out.

Whether we're talking about tenants in office buildings, deciding whether or not to reduce space, whether we're talking about the property tax assessments that'll take many years to play out, whether we're talking about the associated impacts on other businesses, other retailers, the foot traffic consequences, the impact on the transit system is maybe one of the more immediate shocks because they're seeing the hardest large shocks to commuting volume and transit fare recovery right now that's sort of already having an impact on possible financial performance of that agency. So there's one exact number just to emphasize the duration of the impact it's going to take.

Laura Nahmias:

Do you have a sense whether or not the biggest shocks are going to be felt within the potential timeline of the duration of the Adams administration? Will we have seen the worst of it by 2028, 2029?

Arpit Gupta:

Yeah, it's hard to say. And anything can happen in the future. You are reluctant to make projections much beyond 2028. Who knows, that AI boom could either take all of our jobs or bring more jobs to New York for that matter. So it's hard to tell. But just to reiterate, the shock is already there, I would say, in terms of the pricing. So that's the most immediate impact we can see right now. And then the shock is already there, I would say, in terms of the foot traffic, in terms of commuting volume, and then what that ultimately does, I think for tax revenues, for the state of the banking system, for the overall health of the ecosystem in New York, I think is just going to take a really long time to play out.

John Rose:

I think James, your point that that shock is also there, meaning the shock in, I have more disposable income and more time, so now I might move somewhere. The foot traffic as it relates to restaurants and entertainment is there. So a lot of the first order effects are here now, how they play out into second order effects and third order effects is hard to tell. But a lot of this is playing out in this administration at this moment in time. And again, gen AI is a huge thing. What that turns into is an industry, how this state semiconductor play creates jobs in New York City around semiconductor development. There are all sorts of other variables here too that matter. But I think your point's the right one, which is in a world that's different, that's not the same in recovering moving forward, what is the city's value proposition and its primary reasons for being and how does it manage through the discontinuities?

James Patchett:

I think the thing is there's been all of these doom loop conversations that have been going on. Yeah, I feel like everyone's, a colleague of mine did a panel like this in DC and I think the deputy mayor or someone came up to them afterward and was like, seriously with the doom loop stuff? I mean it, like it's too much. So I do think I'm actually quite optimistic about New York City. So just to put it in perspective, because I'm a big believer in New York City as I think everyone in this room is. So just to step back on what has New York City's value proposition been recently, the way that I like to think about it, because Carl Weisbrod told me to think about it this way. That's a joke that only works in this room. So thank you.

I'll take an example of my family. So I was born in New Jersey. We moved to Ohio because my dad got hired at NCR, which was headquartered in Dayton, Ohio at the time. And that was a time when people moved to where companies were. I was like, you had to go to the headquarters of that company. Well, guess what? About 10 years ago, NCR picked up and moved to Atlanta. Why did they do that? Because they didn't think they could get the quality of the talent in Dayton, Ohio, which is sad. I do have a soft spot in my heart for Dayton, but they moved because they wanted to be closer to the talent and the ecosystem that Atlanta had and all of the universities there and the expertise. So what that speaks to is the fact that the thing that has happened over the last 20 years in particular is New York City's value proposition has been about attracting great people and great talent, and therefore the companies have to be here.

So we have that going for us, which is to say it's, I don't believe that today New York City's value proposition is the great companies that are headquartered here, though they are great and super important. It's that all of the great talent that is here, and that's in some way what has kept all of the companies here. So the question is to me, how do we make sure we continue to be the place that is attracting all of that great talent, which I am extremely confident that we can do. But I also believe that, just to name Carl Webroot again, because it's popular post, what did we do after September 11th? Not to analogize this at all, September 11th, but we rebuilt Lower Manhattan. We had a real plan for rebuilding Lower Manhattan, and it was really impressive what the city did and stood up together. And there's been so much history of civic leadership in the city, and I think this is a great moment in time for there to be civic leadership to really say, how are we going to continue to move forward and make sure that we continue to be the great city that we've always been in this changing world.

Laura Nahmias:

I wonder if we can talk about policy prescriptions and all of you I know might have some ideas on that, but if Francesco, if you and John also can talk a little bit about what. So I've been getting all these press releases recently. I'm sure you guys have seen them all too, about the number of jobs and how the jobs are back. And it's not the same though for a variety of reasons. I think the slideshow showed some of this. What has changed compositionally in the workforce, if you can go over that and why it is or is not a problem. I think you've evaluated some of the industries that have come back and which ones haven't, and what does that mean essentially for the long-term health of the city?

Francesco Brindisi:

I'm going to go out on a limb, I guess. So if you looked at February 2020, I always go back to the past, the number of jobs in traditionally office-using industries was 1.5 million. If you look at the number of those jobs in those industry right now, it's 1.5 million. Of course there's a break in the trend that goes to James very correct argument. We had been growing in this industries a lot and now we're sort of like where we were before. So where do we go from now? And we have been gaining the share. If you take a look at the share of these jobs within the metropolitan area, it started increasing again in New York City versus the overall metropolitan area. So that's one factor. The other one is that we don't have as much leisure and hospitality. We don't have as much retail. Retail had problems before the pandemic of course. And we have a lot more health jobs.

And most of them, even before the pandemic started, a lot of them are in the home healthcare, which is $20,000 average wage, right? So that's an issue. I mean, Donna made a great article on Bloomberg about how much economic activity was lost in Manhattan talking about the first order effect that was like 12 billion, 12.4, wasn't some of that compensated by the fact that people stay in the city and therefore you consume more where you live. But of course, reduction in transportation costs means that there is a shifting of the density of people towards the outside. The classic textbook example, what happens is that this is not the Rust Belt, where you're just like, oh, well, all of a sudden we have manufacturing that can be done as somewhere else, right? That's part of the doom loop idea. Cities thrive on creating knowledge and as anybody has witnessed, try to learn or teach something on a video, the fact that you need to be close, it will remain a hallmark.

And it's like the vitality of the economic proposition of New York City, whether you now all of a sudden are living in the suburb or not, you're going to work here. And we have a good, I know that I'm repeating the question of long-term projections. What we have is that we have a vast array. Some people think maybe too much and there's not, the taxes are not the value proposition anymore, but we have a very flexible and very wide portfolio of taxes. And I used to joke that we have one tax for everything in New York City because we have to have one of everything. But that's what contributed to the fact that if one goes down, transaction taxes or the property tax at the beginning of the pandemic, others will compensate. And let me not talk about the fiscal framework that we have, that it's unparalleled. That helped us through many, many years of difficult times.

James Parrott:

I think you answered the question.

Francesco Brindisi:

I did not answer the question.

James Patchett:

Good, smart move in government.

Laura Nahmias:

John, I'm curious if you have more thoughts on the change. I mean, not so much the office jobs, but where below the office jobs, has the workforce in the city changed and is that a good thing, a bad thing, is it value neutral?

John Rose:

Well, it's a thing, and in a bizarre way, some of it's probably good. You talked about, and I agree that the employment and leisure, for example, is down as well as full-service restaurants, which the restaurant industry in a whole is fine, but it's fast serve, not full serve. And the B2B set of the food service industry that serves businesses is in deep trouble. What's interesting is in the change in values towards work, there's a lot less interest in a bunch of those frontline jobs. So ironically, the hospitality industry has its largest percentage of open jobs now as it has almost in any time in its history. Even though the total number of jobs are materially less. So some of it is some degree of balance. Where it becomes an issue is the collision between jobs people would like to have and the jobs that are available as the economy develops in a different direction.

Classic economic development and strategic workforce was create the jobs, create the training, and people will be trained to fill the jobs. There's now a third challenge, which is create the desire to do the jobs that are being created. That's a problem that really has not been part of classic economic development and strategic workforce and is a problem now as people's attitudes towards work and attitudes towards careers at all stages, not just entry stages, but at all stages of life and at all incomes have materially changed. And then the other thing that is true is that Covid accelerated a phenomenon that had been happening gradually, which is the delaborization of the economy. The number of jobs per GDP point had been slowly declining over the couple of years of 2020 and 2021. The pace increased by about two and a half times, and it has held that increase coming out.

So as you think about the labor side of the equation, you have to think about what types of jobs are you going to try to create, how attractive are they? And you also have to do more. And I think New York State at this point and City are not necessarily doing what you see some other cities and states doing in terms of integrating some of the academic programs with some of the strategic workforce dynamics to actually create more flow into the areas where the jobs are being created. I think it's not a problem per se, and I'll agree with James. I'm optimistic about the city materially, and I've spent my whole life either in Westchester or in the city. So I've lived through periods like the seventies. So the city is incredibly resilient, but the degree of pain that we will all experience on a path to addressing those really does depend on how clearly and how ahead of the curve some of these issues get picked up and worked on. And so how much extraordinary effort and pain and human pain occurs versus how much more thoughtful transition. But I do think that there is this need to think differently as a consequence about economic development and strategic workforce in a linked manner and how it ties much more explicitly to the education system. Now the good news is New York City has access to an incredible both K through 12 and university set of resources to actually work this stuff through, but it requires an integrated mindfulness.

Laura Nahmias:

Well, that's a good segue into some of the potential policy prescriptions. Let's start with the 100-foot tall elephant in the room. I think Professor Gupta, in your paper you wrote, which is really good, I recommend reading. I mean, it's a good read, found a 42% decline in long-run value for New York City office buildings. You estimated that the city's office market lost 66.8 billion worth of value between 2019 and 2022. And the key takeaway from our analysis is that remote work is shaping up to massively disrupt the value of commercial office real estate in the short and medium term. Now, assuming that we all agree that those things are true, what are we going to do with the office buildings? And secondly, how actually feasible is it to convert some of this B and C class office buildings, that they're not Mozart's masterpieces like some of the ones downtown necessarily, although some of them have their charms. What are we going to do with them and is it feasible to turn them into housing?

Arpit Gupta:

So we decided to be constructive, and we wrote a follow-up piece that investigates this more formally. And so the key things we're looking for in this follow-up work is how possible is it both from a physical feasibility standpoint as well as financial does this pencil out for the developer, right? And so we found what I think many others have, which is that there are a lot of key parameters that determine whether a building can be converted or not. That relates to most importantly, the floor layout and that floor depth. A building like this one, you have bedrooms all against the window and you're can end up with a lot of dad space in the center of the building. It's going to be very hard to convert these kinds of modern office blocks. But that being said, we have in New York City, still a large number of very old office buildings, pre-World War II buildings, some of them prezoning buildings like pre-the 1910s.

We have them still in the Financial District, which, as the CBC has pointed out, was also home to very successful program, the 421-g program, which encouraged the financial subsidization of some of those conversions in that neighborhood and was very successful in revitalizing that whole area. So we still have some office buildings in that downtown corridor. We have a lot of office buildings in East Midtown that are also not very nice that we think can also be converted. And so the hope is that when you take into account the fact that we have this bifurcation of the office stock, we have these newer buildings that are doing fine and we have this long tail of older buildings that are easier to convert. They also, by the way, have really bad environmental properties. So Local Law 97 coming in is going to expose many of these buildings to steadily increasing carbon taxes.

So it's sort of a two bird, one stone situation, three birds, one stone. You can sort of take these bad environmentally buildings, you can convert them from a use that is much lower in demand, office, to a use, residential, which is obviously huge in demand. We have these affordability challenges and also address those environmental issues along the way. So we found at the end, it's not most buildings that you can do this to, it's not anywhere close to most buildings, but let's say it's on the order of five to 10% of buildings that can be feasibly converted. That may not sound like much, but keep in mind the vacancy problems are really concentrated in a tail of buildings. So if you can take this vacancy rate from whatever, 22-odd percent, if you can bring that vacancy rate down, it'll stabilize the office market. It'll add a significant amount of residents to New York and address on some margin the affordability challenges, while also putting in more foot traffic, more commuting volume, which is going to fill up the subways, which is going to generate more demand for those kinds of hospitality work.

And so it's not a silver bullet, but it is one of the things I think that we can do to address this. One other quick thing I think we should also be thinking about that hasn't come up so far is the hotel situation. So we have now banned building new hotels in New York City. We've also banned short-term rentals in New York City. And if you've ever tried to look for a hotel room, it's very expensive in New York now, and none of us probably like tourists, but we have to recognize that they pay money and they support these leisure and service workers we're talking about. So if there is a drop in demand for that work or that restaurant and service work coming from office workers, well, we can substitute a little bit on the margin to tourists and other people that are coming into the city, but only if we build and allow them to actually stay in the city at something resembling at a reasonable rate.

James Patchett:

I just, one quick thought. First, I mean, I think office conversions obviously are important. I want to emphasize how hard it is in practice, in addition to the core of the building. I mean, you also have tenants in place and are trying to stack tenants in a way that, to the point where it makes clear economic sense to make the decision to convert is very hard. Even if your building is, it's incredibly expensive to convert, which in almost all cases it is. In addition, you have current income coming in and the way that landlords, unless they're planning to do this way in advance, do leases as they intentionally structure them so that they don't all become vacant at the same time. So that means you're making a decision maybe three years from now about whether you think the remaining 60% of your building is going to vacate over the coming seven to 10 years and making that decision to just leave it vacant in order to hope or believe that the other tenants will then vacate.

I mean, it's a very difficult challenge and practicality to make that economic decision because the tenant who is staying, who's likely to leave in eight years, if you go to them and say, good news for you, I can let you out of your lease now, then they realize you're going to convert. They want you to pay them. I mean it is just the dynamics of this in practice are actually even more challenging than you might think, even in addition to all the great points that Professor Gupta made. Just one other thought on the hotel thing, I just want to note. New hotels are not banned. They require a land use process.

Arpit Gupta:

None have been granted.

James Patchett:

What's that?

Arpit Gupta:

None have been granted.

James Patchett:

Yeah, it's not banned. It's just to be clear, unlike Airbnb, which I would just distinguish between the two. Yes.

Laura Nahmias:

Yeah. Okay. So it's super hard to convert them. Only five to 10% maybe could effectively be converted. What else could you theoretically do to address the office buildings and is there currently in place any program that we could be using to affect any of that change? Or does there need to be a new one created?

Francesco Brindisi :

I think a slide that Don presented or Andrew presented, looked at a vacancy rate, right? It was 10% for a long time and then now it's twice as much, right? And the base is about 460 million square feet. So if you take 10% as the equilibrium and now it's 20% more or less, you have 45, 50 million. And certainly that's not all conversions to residential. The Economic Development Corporation launched a finite in terms of 10 million square feet, a deeper tax incentive for upgrading existing office space to AAA plus, whatever that is. Because one of the strange things that happens is market, which Arpit mentioned, is that there is a shortage of supply at the very top of the market and then we see Wells Fargo taking a previously retail space to go into Hudson Yards. So that's another one. So that's 10 million. I don't know the five to 10%, I don't know what that equates to another 10 million. So then there is the remainder, right?

And not that I know what the silver bullet is, but the prices will go down and the economy will start growing again. So that will be used in part by new jobs and in part they will find other users. It could be health, which is growing a lot. It could be more knowledge generation from universities and colleges and schools. And so in the end I think we will move towards a place where we are closer to the highest and best use of our land, which is constrained and we will find a way to use it better in a way. Now of course it's not lost to me that health and colleges are not-for-profits. They don't pay that property tax, but I think that's the trajectory. See, I answered this one.

James Patchett:

Yeah, excellent.

Laura Nahmias:

What about, are there any sort of policy prescriptions that any of you have for the shift in the workforce or is it just about making sure that we're adapting the use of what were previously the office buildings that everyone went to?

John Rose:

I think you have to look at the office buildings as a thing for which the objective is to find the softest landing spot in a problem that exists and then turn to the other problems and figure out how to create the right set of accelerants for industries that are in fact growing and the right set of elements to create the training and desire to do those jobs because that's where economic growth and both talent in the city and revenues into the city will come from and is sort of the city's purpose. And I don't think the answer to a soft landing spot on commercial real estate addresses that second issue. And the further you can go down that second issue, the softer the landing is going to be anyway. And so what I would love to see that doesn't exist in the city or in the state is a much more integrated set of economic development, strategic workforce and related education training and incentives that would essentially create a virtuous circle that actually crosses the public sector and the private sector and the academic community in a much more active and mindful way.

And you see examples of that in places like Michigan and other states where, in fact, for selected industries, there are programs that the jobs are tied to, the degrees are tied to the funding of them and it's a closed accelerated loop. Now that's only one answer in one specific place, and I'm not saying that's the right answer here, but with the resources of the Department of Ed in terms of the size of the student body and its diversity and talent with the college and university systems that are in place here and with the industry that's in place here and with telemedicine health overall, e-commerce where gen AI is heading, there's a huge opportunity to create a set of programs and then you also need to figure out, okay, how do you find a soft landing zone for a set of buildings?

Laura Nahmias:

I'm curious in the little bit of time that we have left, I have two questions that I don't know if you could answer in, but the first one is how concerned should we be about, we're taking as a new sort of given at the moment that some of our other tax receipts are a lot better than anticipated, sales taxes, personal income taxes are coming in a lot higher. I feel like they always do conservative budgeting. Is there any concern for any of you that some of the softness in commercial real estate and in all of the products and securities that are attached to it could become a significant problem for the health of the financial industry in New York, which it does seem like has done really well throughout the pandemic. On a scale of one to 10, how concerned would you be about that at some point in the near to not that near future?

James Patchett:

I think six or seven, I don't know, but I think this is the thing. This is the secondary and third order impacts that we're talking about for sure. Just quickly, three things I promise I'll be quick. One, I think the city and state did a great job crafting a set of policies that unfortunately didn't get passed. I think that those should be revisited. I think second, in terms of what the prescription is to get more people in. I mean I think it's about, it's really office owners recognizing that people have to want to be in the office, not just that they have to be in the office. And so that's a question at the office level. And then third, I think you need to really think big about what you do with the rest of the space in terms of I think maybe federal level investment. I mean it's like how do we make sure that that space is repurposed, not just that it does something, but that it answers the question you're asking, which is how does it continue to ensure that everyone wants to be here and therefore that all those secondary impacts you're asking about don't happen. Maybe you need to build a new university in Midtown in a way that adds to our higher ed ecosystem. I mean, there's a lot of big ideas that I think should be on the table and that should be part of a comprehensive plan.

Laura Nahmias:

What about you?

Francesco Brindisi:

Yeah, so I used to work at the Office of Management and Budget. Now I'm at the Comptroller's Office. My job is to be always worried to the max about everything. But there is a concern of course about the financial system as a matter of how that sort of corresponds to the tax receipts that we have. A lot of our tax receipts from the financial Industry come from very large banks and a lot of the loans for commercial real estate are concentrated in middle and small banks. That is not to say that it's not a concern. I would go six and a half just right there. But that's the short term outlook.

Laura Nahmias:

Either of you care to, we have one minute. Any scale one to 10, how worried are you?

Arpit Gupta:

I'll go seven I guess just because I think we see just on the office loans, 8% of them now are in special servicing, meaning that they're kind of going through some restructuring workout. Depending on your data source, you'll find four or 5% of these office loans are delinquent and to Francesco's point, it's true that they're generally regional banks or securitized, not held by the very largest banks, but we have some regional banks in New York too. We've seen some of them fail recently. So I wouldn't discount the impact that has on a financial system that's already dealing with interest rate risk and dealing with deposit flight that we've been seeing. So I don't know what it means for the city financially, but I think just for the system as a whole, it is something to watch out for.

John Rose:

And I'll parse my six or seven into a two to three and eight to nine. The two to three is ultimately there are going to be good answers here and the city's going to be resilient. It's just having lived through the city in the seventies and having watched how the city responds and all sorts of things, it's hard to imagine that we won't find our way through these into a new era that will be driven by a whole bunch of stuff that we can't see at this moment. And so that's the two to three in terms of it'll all be fine. The eight to nine though is unless and until there's a much more, much clearer embracing of the nature of the problems that exist and as they're unfolding, the path there is going to be horrific. And so the amount of economic damage that occurs, job destruction and reformation in a degree of volatility that's not necessary, occurs sort of human pain as people get displaced. I'm much more concerned that we're on a path to that unless there are some more focused attempts to figure this out than exist currently. But for me it's a matter of how much pain is everybody going to suffer on a path versus is the path there

Laura Nahmias:

On that happy note, numbers were all much higher than I was anticipating on the scale of one to 10, but thank you all. On the other hand, New York is very lucky that it has so many people actively thinking about it, so thank you.

Andrew Rein:

You got to love New York. Everyone's optimistic and then can tell you everything that's wrong. This is the city we love and believe in. So thank you all very much, Laura. Thanks and all the panelists. Now we're going to bring up our third and final panel, high earner migration, tax policy, risks, landscape and impacts, moderated by our friend Greg David from the city who is also director of the business journalism program at the CUNY Newmark School. How did I do? Is that right? I should have written it down. I'm done. Thank you all.

Greg David:

I think this is actually the sexiest part of the morning, right? This is the part that gets the headlines anyway because we're here to talk about whether high taxes in New York are sending the rich people who pay for the bills out of the city and out of the state. We have four panelists here today. Amanda Hiller is the acting tax commissioner and general counsel at the New York State Department of Taxation Finance. She began serving as acting tax commissioner on April 23rd, 2021, and she's held a whole series of jobs I won't specify in government and non-government in the Albany area. On the far end is Karen Schlain, who served as deputy commissioner for tax policy and analytics in the New York City Department of Finance since 2020 and has been with the department since 1986. I spent 35 years associated with Crain's, and you're coming close, I got to Crain's in 85. Unbelievable. Cristobal Young is an economic sociologist at Cornell University, works in the overlapping fields of economic sociology, stratification and quantitative methodology. He studies social policies that moderate income inequality ranging from millionaire's taxes to unemployment insurance, and of course needing no introduction is E.J. McMahon, an adjunct fellow at the Manhattan Institute for Policy Research, the founding senior fellow of the Empire Center for Public Policy where he has authored or coauthored more studies than maybe I have even written stories. So we're going to do this in two parts. We're going to talk to the people at the City and State tax departments about what the data is, and then we're going to let Cristobal and E.J. discuss what it means. So we're going to start with Amanda. I've given them all four minutes to start. I'm told they may not keep to it, but I will be keeping them close to it. So go ahead Karen. Go ahead, Amanda.

Amanda Hiller:

Okay, so first, can everyone hear me? A little closer? Okay, better. Okay, great. So I'm going to talk, I'm try to talk about trends and not specific data points. I think it's really hard to think about numbers if I'm just talking. I want to point everybody to the tax department website, that's tax.ny.gov because there's a whole bunch of tax data on there, including a bunch of charts that tell some of this story visually. So if you find something that's interesting, you might want to go look there. That data runs through tax year 21. We'll have tax year 22 data early in 2024 because a lot of those most complex returns were just filed two weeks ago on extension. So we're going to work through that data, but there's a good visual representation of a lot of this data, so that'll help make sense. So I know that there may be some debate about the progressivity of our tax system, whether it's regressive or progressive, but I will say that we are incredibly reliant on New York's high earners for our income tax revenue. There's just no question about that. We have a tax rate structure that starts at 4% and runs up to 10.9%. If you think about our tax filers in groups, 25% by income don't actually pay taxes in New York. They get about $930 million in tax related income supports like the earned income tax credit on the others.

Greg David:

I might want to point out they don't pay income tax?

Amanda Hiller:

Yeah, I mean, I'm going to speak primarily about the income tax structure. We can talk about, certainly New York is a high tax state. We have sales taxes and other transaction taxes, we have business taxes, we have property taxes that are funky in New York City, but I'll guarantee you that really high earners in New York are probably paying property taxes in other parts of New York State where that income, that property tax burden, can be incredibly high. But in terms of our income taxes alone, that lower quarter is receiving tax benefits through the tax system. But that top 200,000 taxpayers, that's 2% of the state taxpayers are paying 56% of our tax revenue. The top 200 people are paying 9.5% of our revenue. And when we're talking about that, movement of just a few people can have a really significant impact on our state fis.

And I think that that context is really important as we talk about where people are going and the rate that they're going at the tax department. We think about high earners as income millionaires, and we do that in part because there's a bracket in our tax structure that starts at a million dollars and we have a bunch of lower brackets, but that million bracket is sort of a delineator. So we think about people paying a million or more. We segment that a little bit and I'll get there, but those millionaires pay about 50% of our taxes. So when we look at those millionaires, and again, we're talking income, not wealth, when we look at those millionaire tax filers, we see a lot of churn every year. Most taxpayers who are a millionaire this year filed as a millionaire last year and will file as a millionaire next year.

But there are a lot of people who were a millionaire last year and their income went down and so now they're at 900,000. They don't count as a millionaire anymore or their income went up. We do see movement that isn't movement in or out of the state. It's just movement in terms of whether you're a millionaire or not. That said, in 2021, 5% of New York millionaires left the state who had been millionaires the year before, and 10% of the New York City millionaires left who had been millionaires the year before. The picture's still complicated because that same year we had 21% more New York millionaires than we did the year before, and we had 26% more New York City millionaires than the year before because it was a good year for the stock market. As we look at the stock market performance in 2022, I'm going to guess I don't know yet, but I'm going to guess that we're going to see a decline in the number of millionaire filers as compared to 21 just because it looks like the stock market performance is a leading indicator for the number of millionaires that we have.

And the state budget division is projecting a multi-billion dollar budget gap largely because of declining income tax revenues. So I think that as we think about our reliance on those high earners, high earners' correlation to the performance of the stock market, that's where we're seeing some trouble. But the question today is whether millionaire migration is about tax policy and that itself is a hard question to answer. Causality is always a really hard question to answer. We're trying to tease that out by looking not at the number of millionaires from year to year because we see that churns from year to year. And instead we've been doing what we call cohort analysis where we're looking at the behavior of specific millionaires over the course of time. So we look at people who were millionaires in 2016 and see whether they left the state over the next couple of years.

And we do the same for millionaires in 2017 and whether they left over the next couple of years, right up through 2021. We're not quite finished with that. We're using data that comes from tax filings and other contacts with the tax department. So separate from filings, you may be under audit, you may have updated for other reasons, you may be making estimated tax payments and indicated change of address. We also get address change data and all of that data helps give us a picture of that movement that isn't necessarily tied to tax years, but helps us understand the behavior of those millionaires over the next couple of years. And when we do that analysis, we see that the pattern of out-migration changed soon after the SALT cap was put in place. It was put in place right at the end of 2017. Taxpayers had to pay those taxes in early 2019. We see the rate of out-migration spike, we see that get even...

Greg David:

I'll give you 30 seconds,

Amanda Hiller:

Okay. We see that get even higher in 2020 with Covid and that persisted into 2021. It looks like it's slowing in 2022, but when we dig in a little deeper, it gets more interesting. In 2021, our tax brackets changed. We raised the top rate for millionaires from 8.82 to nine point something and the top, we have a new bracket for millionaires five to 25, and then a high bracket of 10.9% for millionaires over 25 million. So when we look at the migration within those groups, we see a slightly different pattern. We see that everybody started leaving after the SALT cap took effect, but not quite as pronounced in effect amongst the highest taxpayers who weren't really getting the SALT deduction and were paying the AMT instead. We see a continuing pattern when Covid hit, but when we look at 2021, we see a different pattern. The rate of out-migration, of those taxpayers paying 25 million or reporting $25 million or more, it skyrocketed in 2021 when that rate went up 2% when our income tax rate went up 2%.

Our early data suggests that that has slowed in 2022. So that suggests that the people who were sensitive to that tax change left and that we're returning back to more normal patterns. But it's certainly, again, causality is tough, but that pattern is distinctive and we saw it increase across all brackets, but it really skyrocketed both for New York State and New York City. The return is comforting, but I think that that is something that we need to be cautious about as we think about income tax solutions to the budget challenges we're facing in the years ahead.

Greg David:

Thank you. Karen?

Karen Schlain:

Good morning. Alright, I'm going to try, in my four minutes, I want to discuss more than just the personal income tax. I want to just sort of provide an overview of what we're looking at in terms of taxes most likely to be impacted by the pandemic. So thank you Francesco, for mentioning how strong revenues are. In FY 23 revenues were 73 billion. The highest ever tax revenues, that is personal income tax over 17 billion, 2.2% above the prior year highest ever. So there's a few areas of risk. We discussed previously commercial real estate. So my numbers, which are for offices plus office condos, we show a contribution of 7 billion from that group. 22% of the total 32 billion from their property tax. Well, it is real money. When you look at the history of the role finances, office market values peaked at FY 21.

So comparing FY 24 to FY 21, our total market values are down 3%. And as has been discussed, this is going to be a long-term impact as leases roll off. Interestingly, the count of parcels for offices is up 1%, but still up. Okay, so how do we stay on top of what's going on with the property tax? I think Laura mentioned delinquencies. So my team monitors those closely every week. We're looking at number of parcels that are delinquent and the amounts of the delinquencies by tax class, by property type by location, drill down to the neighborhood. So we look, like one to three family homes in a certain neighborhood in Queens. We are looking at the data in a very granular way, and it is true, I think was mentioned, delinquencies are up slightly. We attribute part of that to the expiration of our authorization for the lien sale. A lien sale is our primary tool of property tax enforcement and currently that lien sale has been suspended because we are no longer authorized to enforce it. Okay. Turning to business income taxes. There's kind of an interesting issue here.

When we look at our taxes on flow-through entities, we tax general corporate under the general corporation tax. We tax s-corps under the unincorporated business tax, we tax partnerships and proprietorships. So multi-jurisdictional firms have to allocate their income to New York City. And under these taxes, the income is allocated based on where the service is performed. I know this is getting technical, but if you're teleworking, you're not performing your service in the city. So even if your business is wholly located in the city, as long as you, I don't want to get too technical, we call this factor dilution. And we are watching this to ensure that the business allocation percentages ensure we understand how they are moving and a firm could have increased profitability. But if we're getting less than our prior share of that, that's an issue. Okay. I wanted to mention sales tax.

Our sales tax revenues, again, record breaking high, were at 9.5 billion, well above pre-pandemic levels, but even bars and restaurants, which were hit so hard, they've bounced back. They're slightly above pre-pandemic levels. So in general, I think someone mentioned remote sales. We have been very lucky. Remote sales have really bolstered our sales tax collections. Prior to the pandemic, we estimated 16% of our sales tax revenue was from remote sales. Now we're at 21%. Okay. Luckily, Amanda covered the PIT for me. Thank you. So I'll just add that we're even more skewed than the state. And for instance, those taxpayers with AGI, adjusted gross income, over a hundred million, paid 13% of our income tax. So the more skewed you are, the more dependent you are on a couple of individuals making the decision to live in your city. So the risk there is obvious.

We do have record breaking PIT revenues as I mentioned. Also the number of taxpayers is pretty much holding steady around 3.4 million. So we have seen a decline though in filers. Filers are those who the whole universe, including those who as Amanda indicated, don't pay any income tax because of refundable credits. Okay, 30 more seconds. So I just want to mention briefly, the state has done this fabulous work on migration and it's all on their website. We've been studying migration as well. We merged the files of individual records together over the years and we look for those who have either joined the roles, left the roles, or changed income brackets. And we reached the same conclusion that Amanda does. There's a lot of new millionaires from growth in income and of course in 2021 that growth was very stark due to the strong stock market, lots of capital gains realizations and that drove many new millionaires in 2021. I don't have, as Amanda again mentioned, the data is not complete for 2021 and it hasn't come in yet for 2022. But the primary source, there's two preliminary conclusions. The primary source of new millionaires is movement into the millionaire bracket, not migration in. And we also take IRS data and we look for where our former taxpayers have left. And I think this goes to something that James Parrott said, we see that the primary destination of the out-migrants is New York State outside of the City. So I hope to be able to share more in the spring once we get that updated data. Thank you.

Amanda Hiller:

Quick points?

Greg David:

Quick.

Amanda Hiller:

One, we are absolutely seeing some changes in the number of filers. New York has had out-migration for decades, net out-migration. It's spiked in the last few years, but over the course of those same decades, we've seen an increase in the number of tax filers until last year where we saw it go down slightly. But even then in 2021, the number of tax filers was higher than it was in 2018. We're still trending much higher in terms of new taxpayers than we are in terms of the net out-migration. And then two other quick points on migration. Turns out that most people who are actually leaving New York State are going to New Jersey. So we think about people as going to Florida, but across the population that is leaving New York, they're going to New Jersey. And then the other thing I just want to throw out, because we hear a lot about folks moving to Florida, and I think that this is something that gets lost in a lot of the conversation. The rate of out-migration from New York and the rate of out-migration from Florida is actually incredibly close. The problem isn't the out-migration. The problem is that people are moving to Florida and people aren't moving to New York. And I think that that's something that we all need to keep in mind as we're thinking about all this information.

Greg David:

I would only note that in your response that bars and restaurants have bounced back. Anyone who goes to a restaurant knows we're paying so much more. My partner and I can't go out for a Saturday night dinner for less than $200. I had an interesting observation that I was in Vermont for the weekend. The same meal in Vermont cost $160 all in. So it did make a difference.

Amanda Hiller:

Was it really the same meal?

Greg David:

It was just as good. The wine was just as good and a lot less. So now it's time to discuss what this data means and what it means for the relationship between taxes and migration. So Cristobal, your first four minute take on this.

Cristobal Young:

Great. Okay. So I've been studying millionaire migration for a long time, over 10 years. My primary work is with IRS, I have a co-author inside Department of Treasuries. We work with microdata, everybody's individual tax returns that are filed. Obviously it's extremely confidential data, but work on individual tax returns filed by every high income earner in the country, every state over a very long period of time. So I'll just summarize some of the basic facts that come out of this. One is that millionaire migration rates are very low. We can talk about people moving. The pandemic definitely changed that and definitely in New York the pandemic is not normal times, but in general migration rates are very low because millionaires just have a lot of embeddedness. They have a lot of things that tie them to place. They're typically the working rich. So they have a career they work in, typically an office job with a very high salary.

They're typically very married. Their marriage rate is about 90% compared to 60%. So there's multiple body problems. They often have kids, they own a home, they've often lived in their state for a long time. They're at advanced career stage where it often doesn't make sense to be moving. The people who have the highest migration rates are young people, young professionals starting out. So those are the people that are really sensitive, who are movable. Those are the most movable people and we can think of those as some of them will become the future high income earners. And where cities get high income earners from is from growing them domestically. Migration's a very small piece of that. Second, so when millionaires do move, only about 15% of them are moving for tax purposes. That's basically the proportion that get a net tax advantage from moving. So there's more that get a tax advantage from moving because they move to a lower tax state.

But there's also a bunch of people who pay higher taxes, beause they move to a higher tax state. So like rich people move to California and New York. So the balance of that is about 15 percentage points, which is also pretty close to being equal to the percent that move to Florida. But if you think about for every hundred people that move across state lines, only about 15 of them are moving for tax purposes. So there's a lot of other reasons why people move other than taxes. It's really not the number one thing for any class of people. So when we think about, to the extent that migration is occurring, and there is tax migration that occurs, it's very hard to think about, well, we can cut tax rates and we'll get them to move back because most of that millionaire population is highly stable and attached to place.

And so you're basically just cutting taxes on people who aren't going anywhere in hopes of getting a small portion to move back. So this doesn't mean the tax rates should be really high, but I wouldn't think that the out-migration we've seen around the pandemic, 85% of it is not about the tax rate. New York State has also had, and the city have had high taxes on millionaires for almost a hundred years. So it was one of the first states in the country that adopted a state income tax, that was in the 1930s, and the tax bracket back then was $80,000. If you put that update that in constant dollars to date, it's about a million dollars. So for as long as the Empire State Building's been around, New York has been a relatively high tax state for high income earners. So I think there's reasons to not think that this is the primary issue that's driving.

Not to say that it isn't happening a bit, but it's not super relevant for policy purposes. I would go back to the first panel, just to finish up, I would go back to the first panel, thinking about that quality of life I think is going to be really important and how to invest effectively and affordably in the future. Transportation, education, quality of life, the kinds of things that, the High Line is one of the great investments in recent times. Keeping the subway system going. People need to be able to move around in the city or the city stops working. So those are the kinds of things that I would think should be top priorities to think about.

Greg David:

E.J.?

E.J. McMahon:

In answering your main question, I would say what the data show and what the other data I cite will show is there actually has been, and it's I think it's inescapable, that there's been an erosion in our, if you want to call millionaire tax base, stipulating by millionaire we mean millionaire earners as I think we all agree, as opposed to millionaires by wealth who are many, much more numerous.

There was an erosion occurring in our millionaire tax base before the pandemic. The data showed it relative to the US for instance, which is one of the best measures. New York's percentage of income millionaires by AGI had dropped from rounding 13 to 9% from 2010 to 2020 almost steadily. There was like a one year pause in that. The share of millionaire AGI, of adjusted gross income, during that period actually declined faster. It went from about 15 rounding to 10. Prior to then I was tracking a significant shift in the mix of millionaire earners in our tax base because our tax base includes non-residents as well as residents. I'm talking about the state tax base, not the city tax base.

If there is such a thing as a typical millionaire, which there isn't, but it's somebody who has a lot of business interests, who if and when he or she disattaches from New York or chooses not to locate in New York, they have sufficient interest in income in New York to be a New York non-resident taxpayer. A significant shift of our millionaire tax base occurred in which more and more of our millionaire tax base was non-resident as opposed to resident. And the data show that too. This all was before the pandemic. Since the pandemic by every measure, the shift has been larger. There's been mention of the capital gains increase. This needs to be sort of underscored and put in boldface. The capital gains increase in 2021 alone and in 20 and 21, and 2020 and 21 together, was historic. It was a spike, the likes of which we have not seen since 2007. And if you know anything about 2007, you know why that occurred.

Capital gains had not recovered to the pre-Great Recession level until 2020. In 2021 it went up by about $50 billion. I'm rounding, but you would know better, to over $200 billion. There is a nearly one-to-one correlation between capital gains and the number of millionaire earners. It's the strongest statistical correlation you can find in the tax base. So you're going to see an increase in the number of millionaire earners in New York for 2021. But there also, when the federal data come out, they're delayed, there will also have been an increase in the federal data. So there won't be a reversal of the trend. So I think there's undeniably a trend. We can discuss more what it means and where it's going. A couple of comments and a couple of things Dr. Young said, when you say that, well many millionaires move to states where they're not tax advantaged.

It is impossible now for a multimillionaire to move from New York to a state that is not tax advantaged, not the taxes are the sole reason. In fact, I think much of what Dr. Young's very interesting work, which has been widely shared, and I reread your book on my way here. I say over 90% of it are essentially not to degrade them, truisms, which I readily agree, clearly there are a lot of factors that go into particularly where very wealthy and high earning people stay and go. I do think, however, that taxes are a factor, that we're pushing the envelope now far beyond where we've ever been. There's a lot of reasons for saying that, but I'll just add now and then close and we'll get into it more. The impact of the state and local tax deduction cap, of the SALT cap means the following. In terms of history, the combined state and city marginal rate peaked in the early seventies at just below 20% it was over 19%. Wow. That's something.

However, the effective marginal rate, net of deductibility, back then was short of 6%, after the very significant federal tax reform of 1986, which broadened the base a lot, from then through 2009 and even past the tax increase of 2009, the effective marginal rate net of deductibility ranged from seven ish to below nine ish. That was the combined, that was where it went. I have a chart of this and it went like this. After 2017, it is now more than twice as high as it has ever been in history. Basically the full-blown statutory rate of just under 15%. That is, if not a game changer, it changes the rules of the game. It certainly raises the stakes of the game. This is not the world we were living in before. So I would say that's why I think we've had significant erosion already and need to be very concerned about its impact on the future.

Greg David:

Dr. Young, have we reached a point in New York where the assumption or the conclusion you've drawn, that taxes don't matter much now, they will matter much because of the numbers that EJ said, the SALTtax, the SALT cap, and the rate we've driven the rate up to.

Cristobal Young:

So I've evaluated the Trump tax bill and that's the SALT cap, that's primarily the SALT cap that kicks in for people who make about $500,000 a year or more. And it's really strong for people who make a million dollars a year. So again, my study doesn't just look in New York, I'm looking at all the high tax states, but I didn't see any change/ Break this down into two things. First, the probability of migration among high income earners just do you move across state lines or not? And that wasn't affected by the Trump tax bill at all. My co-author wanted to subtitle the paper "Guys, nothing happened."

But what you do see happening is the destination of migrations does change. So again, migration rates are low but conditional on moving, what we do see in response to the Trump tax bill is more migration into the lower tax states, which primarily means Florida. And so what that means is that when high income folks move away from California, they become less likely to move to New York and more likely to move to, like, Texas. So that affects the city and that affects the in-migration rates that affects the net migration rates. So it definitely matters, but I was expecting to see a bigger effect of the Trump tax bill. It does have a substantial impact for those high income earners. It's equal to about an extra three percentage points of annual income on millionaires, is what the Trump tax bill did, compared to what you would pay if you were living in Florida, if you're a New Yorker.

So you pay an extra 3% of your annual income in New York, compared to what you would be paying in Florida or Texas. But really small effects. Now, you could argue that those effects might grow over time and it's certainly possible. So I'm always in favor of longer term research. Where we see migration happening is with the pandemic where that was pretty substantial and that was New York City that got hit the hardest. If you look at other places, like Houston, for example, didn't see any pandemic migration. So if you think it's just people wanting to get out of the city, get escaping high density, that makes sense and that's part of it. But high densities in Texas and Florida didn't really see that kind of migration. So I think some of that pandemic migration is certainly tax related.

Greg David:

I know Karen wants to talk about this. There is a workaround around SALT, and it didn't get off to the strongest start. And one of the things complicating our lives in New York is that the state put it in a year earlier than the city, creating enormous difficulty in tracking income tax revenues actually. But we are reaching the point where it's available in the city and Karen wants to talk about what it is and how we're trying to figure out what it means.

Karen Schlain:

Thank you, Greg. So when the SALT cap was enacted, we did a lot of frantic modeling, I know some of you remember this, in an attempt to influence the outcome, but in the end, the $10,000 cap really hit New Yorkers hard. Now I think you mentioned the 500,000 in up range, the income is between 200 and 500,000. They had already lost SALT due to the interaction with the alternative minimum tax. So we did a lot of modeling as I said, and the bottom line is still that above 500,000, the SALT cap was a real hit. So the state took the lead and in 2021 enacted this PTET, pass through entity tax, and in April 22, the city did so as well. And now at this point most states have enacted these. So what this does is it moves income from the individual tax return to an entity level return where it is deductible at the federal level.

So if you're lucky enough to own a pass through entity, an S corp or a partnership, and you can avail yourself of this benefit and shield some of your income from federal taxation, this is very, from my perspective, this is a great policy because it doesn't cost us anything and the feds end up absorbing some of the cost of taxes that we need to fund our services. So to me it's sort of a no brainer. Anyway, it's been wildly popular. In FY 23, the PTET generated 2.4 billion. That's a subset of the 17.2 I mentioned before because you do have to look at personal income tax and PTET holistically and that's where the monitoring gets, figuring out what's what, does get a little tricky. But we estimate that this has saved New York City owners of flow throughs about $900 million last year.

Amanda Hiller:

New York State adopted the PTET in 2021. It was a $10 billion program that year. I think it was 12 point something last year. And so that's providing a huge shift and shielding of assets and shifting the deductibility as a SALT cap workaround. But I think that what's important is that that same year is the year that we increased our tax brackets and we saw the out-migration of that top bracket of millionaires skyrocket that year. And so that may be speaking to the extent to which the PTET is a solution for those taxpayers as compared to the taxpayers in that one to five and five to 25 million brackets. It may be that just the income base is a different base for those and that the PTET solution isn't helpful for all millionaires.

Greg David:

Well, it's not helpful for people whose income is from capital gains, right?

Amanda Hiller:

Yeah. I mean it doesn't do anything for capital gains and certainly capital gains is attractive.

E.J. McMahon:

Capital gains I would add is the category of carried interest, which is a significant part of essentially the compensation and profit structure. A lot of finance firms is a capital gains, which New York taxes at the same rate as wage income. But so that is a particular impact.

Greg David:

I know Andrew wants me to do this, really delve in on the issue of share and size because you can also see this exactly in terms of Wall Street importance to New York. New York's share of the securities industry from the controller's report has declined from a third to under 20%. I think we're actually at 18% this year, but Wall Street remains the most important industry in New York. Its employment has stood up throughout the pandemic. Our latest numbers put us at 190,000, which is the highest in a decade, its contribution on taxes, et cetera. So we've lost an enormous amount of share because the industry has grown elsewhere, but we didn't lose our industry. So it seems to me that the millionaires numbers that we've seen represent something of the same phenomenon. Millionaires are increasing elsewhere in the country more than in New York, but a lot of millionaires remain here and they are still paying an enormous amount of the taxes. Is that the right way to think of it? Is it not the right way to think of it? How do we assess this?

E.J. McMahon:

I think the way you just put it is accurate and then you have to consider that statement in the context of imposing the very highest effective tax rates you've ever imposed. And again, I would add, even though it's the title of our presentation and it's the understandable focus, I totally agree and it should be obvious to everybody, that the issue in terms of your millionaire population isn't primarily migration as much as it is the churn and the role it plays and the churn, the career churn, et cetera. I've talked personally to a lot of people, to people, just in the course of working for organizations that are supported by people who have high incomes. I've talked to centimillionaires and a few billionaires and there is the embedded feature and there's a consciousness of, and there's also those who do move, there's the ties to New York to keep them in the New York tax base. There also is a thriving cottage industry, what you might call the 183 day industry of tax advisors whose whole reason for existence is to call you up and say, Charlie, this is day 179. Don't go back until January. There are phone apps that will beep and remind you you're getting into the red zone. Derek Jeter didn't work a few years ago and he paid...

Greg David:

There's a flight from Puerto Rico at five minutes after midnight, right?

E.J. McMahon:

That's right. Yeah, exactly. No, and there's Teterboro schedules that are of private planes and helicopters that are similarly arranged. So yes, obviously it's a factor. I think the numbers I've cited and I think the share feature is reflecting that drop in share, again, which was pre-pandemic. And the question again is when you are now have an effective marginal rate of as high as, and again remember carried interest as being a role in this in finance, as high as nearly 15% for a city resident, which I think is more like four or 5% difference in some cases for a no tax state. But again, the alternative isn't a no tax state and Goldman Sachs is opening up a campus in Dallas. AllianceBernstein, it almost got no coverage in 2018. that AllianceBernstein, which in any other city be a big deal, was shifting its whole management side, kept the trading floor here, move the rest of it to Nashville, a no tax state. These things happen and the question is are they going to happen more now that we've got rates where they are? I think they are. I think we cannot afford to be oblivious. And when I say afford to close this part of it, I mean when you are relying on millionaires to, as in 2021, correcting for the PTET factor, and I checked this with Amanda, actually in 2021, millionaires paid roughly 50% of the New York State income tax. Yes. Roughly 50%, maybe a little more. Only partly due the capital gain spike. So that's a problem.

Greg David:

Dr. Young?

Cristobal Young:

Yeah. So the thing I would keep in mind, this share declining, a big part of that is because of explosive growth of millionaires in California. California being the place that's competing to have the highest taxes. And so do we feel that the tremendous increase in millionaires in California is somehow taking away from New York, maybe in a very small sense, but the two high tax states. So it really speaks against this sort of example if you just sort of want to think about states where the action is happening. The other thing I would say about this and a really bright spot for New York, which I think hasn't gotten enough attention, is this startup economy in New York is really thriving. So these data are really closely tracked. Every venture capital investment deal in the country is tracked and New York City's share of that has just been growing. And so there's one story about what's changed in the startup economy in the US over time is the rise of New York, which used to be a really small player, and now half of all startup investment in the tech economy goes to California, 25% goes to Massachusetts and now New York, who each get about

12% of that. Texas has been declining. Texas doesn't have a startup economy. Florida pretends they have a startup economy, but they don't. I mean they get nothing. They get a fraction of a percentage point of it. And so these are the things that we can be excited about and this is definitely the stock of folks who are going to be in the future paying the millionaire taxes.

Greg David:

My last question's going to be on one clear takeaway from what all of you said is they're not moving to Florida yet.

E.J. McMahon:

They are, but that's not a new thing. It's somewhat increased. That's absolutely true.

Greg David:

The story isn't Florida and yet the story in the media has been Florida. So I don't know, what does that say about, and it's really affected the policy discussion I think about all this. So how does the media get it right or what does the media have to do in covering this story?

Amanda Hiller:

One of the charts on our website is looking at the destination states by age group and one of the things we see is that older people move to Florida. I think we intuitively expect that and we see older millionaires move to Florida. I don't think that's new. I think overall I'm certainly troubled by seeing an increase in the rate of out-migration generally and an increase in the rate of out-migration of millionaires because we are so sensitive to the contribution that they are making to certainly the state coffers that pay for all those goods and services that we all feel are important to help with the value proposition for New York. But I don't know that Florida itself is the story. There's a nice little map on our website that shows the destinations to different states and I think there are a lot of different factors that are driving that.

Greg David:

I want to thank you all very much and turn it back to Andrew for I guess the conclusion.

Andrew Rein:

Thank you guys. I appreciate it very much and we'll wrap on time and on budget. I don't know what that means, but it's good to say. I just want to thank you all for coming. I want to thank what an amazing group of panelists, but I also, what an amazing group actually came and talked to each other and I wish I had more time to hang out with all you and talk about these issues. Just reviewing just a couple of highlights, we heard consistent optimism including our ability to attract human capital, generate opportunity and startups. We heard about how New Yorkers are willing to pay more over time, but they need to get more over time. We heard about the real challenges and concerns about affordability and housing and childcare and wages at the low end, about economic change. Remote work is here to stay, but we've only began to see the impacts of that, more to come, changing job mix, changing attitude towards work. We heard about the concerns about high taxes and shifting locus of economic activity, budget and fiscal challenges, what to do with office space and mobility of young professionals.

We heard a lot about unknowns, no one brought a crystal ball, about what is the next area of growth. We heard that from our second panel. Everyone knows what's happening now, is optimistic, but can we predict what's the next technology revolution that increases employment in New York? So unknowns about that, about the unfolding impacts of the changes, how long they'll take, what they'll be like. We heard unknowns about the causes of moves are varied and hard to pinpoint and how different this time is in terms of the pandemic and these changes, whether it be taxes, the economic change, then shifting to what to do, set up prescriptions, massive investment in housing vouchers, childcare. And on the flip side, the challenges of our budgets, our fiscal constraints increased very high cost structure in flexible labor costs and of course migrant crisis, increasing costs, what to do, keep disorder and crime down.

I think there was general agreement about how to do that. We didn't get that discussion, but general agreement on that. The need to convert offices, but the limitations of that opportunity and the challenges. The talk in the second panel about integrating economic development and workforce more, getting back to our human capital as being able to attract, what is that, and two last things. One is we need to be proactive to make this happen and we need the civic leadership. Both of those things were mentioned and our purpose today was to get smarter and raise the level of debate. I think I learned a lot here. It was great to hear, what a great group of talent and hopefully you all are a little smarter after this day. In terms of raising the level of debate, that's on all of us. So I'd love you all to keep having these conversations. That last conversation about Florida being the case, thanks Greg for bringing in. That's what we have to do. We have to have a data-driven, more data points in this last three hours than I've heard in a long time, and look what I do for a living. But we need to raise that level of debate. It's all up to you. Thank you for coming, sticking through the morning and learning. Take care.