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Testimony Submitted to the City Planning Commission

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The Citizens Budget Commission is a nonpartisan, nonprofit civic organization that since 1932 has been devoted to influencing constructive change in the finances and services of the New York City and State governments. With a reputation for independence and objective research, CBC has been an outspoken and influential advocate for government reform – and unique in that the organization confines its advocacy to areas on which it has conducted research.

We appreciate the opportunity to provide written testimony.

Recently, a number of elected officials and housing advocates have criticized aspects of the Mayor's Housing New York Plan as insufficiently focused on creating housing units for the lowest income households. They argue that the Plan's definition of "affordable" housing is too broad and that developers should be required to provide more affordable units in exchange for the zoning and/or tax benefits to be conferred. In order to assess these concerns it is necessary to understand the economics of housing construction in New York City: How much does it cost to build residential units, and what level of rent is needed to generate sufficient revenue to cover those costs?

If certain tenants cannot afford the necessary rents, then other tenants must have their rent set high enough and/or there must be government subsidies to cover the shortfall. But there is a limit to how high rents can be set and still attract tenants, and there is a limit to how much city government can afford to provide in construction or rent subsidies.

In order to consider the relationship between land prices, construction costs, rents, income levels, and subsidies, CBC released an analysis entitled "The Cost of Affordable Housing." The analysis, which used robust land and construction cost data from a commissioned report for the New York City Housing Development Corporation, demonstrates how the costs of new construction impacts tenant rents.

The report shows that the high combined cost of land prices and construction results in rents that are unaffordable for many based on the commonly-used 30 percent threshold for housing affordability.

It raises three points to consider in assessing the Housing Plan:

(1) increasing the required share of affordable units in new developments increases the subsidy required from market rate tenants and/or government;

(2) markets with higher land prices and construction costs require more subsidy for the same number of units and;

(3) the subsidy per unit required can increase significantly based on whether the unit is reserved for a low-income household or a middle-income household.

Additionally, subsidies will need to increase over time when operating and maintenance costs exceed rent increases allowed by the Rent Guidelines Board. Thus, the more affordable housing units required, and the lower the income levels specified, the more costly the subsidies will be, the more difficult it will be for developers to structure projects that recover construction costs, and the smaller the total number of affordable units that the City will be able to incentivize and support.

The high cost of housing development forces trade-offs between income levels, affordable shares, and location. It is challenging to simultaneously lower the income level required for affordable units while increasing their share of the total, spreading the units geographically, and keeping the costs manageable. Options for increasing the efficient use of land, reducing construction costs, and effectively using cross-subsidies should be explored to maximize the amount of affordable housing that can be produced.