



# REAL AFFORDABLE COMMUNITIES: MAYOR BILL DE BLASIO AND THE FUTURE OF NEW YORK CITY

A REPORT FROM REAL AFFORDABILITY FOR ALL



## CONTEXT: THE AFFORDABILITY CRISIS IN DE BLASIO'S NEW YORK CITY AND THOSE BLOOMBERG LEFT BEHIND

Across the five boroughs, the affordability crisis is growing every day. Today, low- and moderate-income New Yorkers continue to be priced out of their neighborhoods. The incomes of countless New Yorkers are not increasing while rents keep rising. The growing gap between lower incomes and higher rents is making New York City increasingly unaffordable.

Indeed, a recent study released by *StreetEasy*, *The High Burden of Low Wages: How Renting Affordably in NYC is Impossible on Minimum Wage*, found that a New Yorker earning \$15 an hour could afford just one neighborhood: Throgs Neck in the Bronx.<sup>i</sup>

“The extent to which rent growth has outpaced income growth in New York City means low-wage workers face three options: find several roommates to lower their personal rent burden, take on more than one job, or move out of New York City,” the study finds.

According to a close analysis of the most recent Census data<sup>ii</sup>, Bloomberg’s housing efforts generated a shortage of more than 400,000 affordable units for low-income New Yorkers. Low-income here is defined as a household earning less than 50% of Area Median Income (AMI). For a household of four, that means an approximate annual income of less than \$42,000. (In 2012 New York City area median income was \$83,600 for a family of four; the 2015 New York City area median income for a family of four is \$86,300).

Overall, utilizing the 2012 census data, more than 700,000 low-income New Yorkers were left behind by Bloomberg's housing plan. To tackle the affordability crisis, Mayor de Blasio has proposed preserving or creating 200,000 units of affordable housing. He wants to achieve that goal through mandatory inclusionary zoning and dense new residential development in various neighborhoods.

To succeed, de Blasio will need to avoid repeating the mistakes of Bloomberg's housing agenda, and ensure that real affordable housing is created for the huge number of low-income New Yorkers who were not served by the previous administration and still struggle to survive.

## **KEY FINDINGS: THE FLAWS OF DE BLASIO'S HOUSING PLAN AND HOW THEY MUST BE CORRECTED**

This report analyzes whether Mayor de Blasio's housing plan will help vulnerable New Yorkers overlooked by Bloomberg. It finds that de Blasio's mandatory inclusionary and rezoning efforts, as currently conceived, will not create enough housing affordable for low-income New Yorkers disproportionately impacted by the affordability crisis. Indeed, de Blasio's housing plan will continue to leave behind many of the more than 700,000 low-income New Yorkers already abandoned by Bloomberg. Most residents in low-income neighborhoods like East New York and the South Bronx, which are slated for increased density and rezoning within the next year, will not benefit from new housing created under de Blasio's current plan.

New housing promoted as affordable in these areas will be too expensive and out of reach for hundreds of thousands of New Yorkers who live there. To avoid gentrification and displacement, de Blasio's housing plan will need to produce deeper affordability and good jobs for low-income residents in neighborhoods that will be rezoned.

As this report shows, mandatory inclusionary zoning is an insufficient response to the scope and severity of the affordability crisis. Density can be used in a better way to incentivize more deeply affordable housing and to build it with career-oriented construction jobs for residents.

This report proposes a new density bonus mechanism for creating Real Affordable Communities and distributing affordable apartments to a wide range of very low- and low-income New Yorkers. The plan offered in this report would enable more deeply affordable housing to be built and more good jobs to be created so that wages are boosted for low-income households.

## **BLOOMBERG'S PLAN: A CLOSER LOOK AT MORE THAN 700,000 NEW YORKERS HE LEFT BEHIND**

We used the most recent Census data to determine unit affordability by household size and to determine the supply versus demand by affordability level at each household size. Supply refers to the number of units in the city affordable to certain AMIs and demand refers to the number of households with incomes of those

corresponding AMIs. This analysis reveals a shortage of housing for those making less than 40% of AMI across all apartment sizes. There is a shortage of units for households making between 41%-50% of AMI for all unit sizes except for three- and four-person households. Given that the affordable housing situation has worsened for these New Yorkers, it is clear that the housing crisis continues for low-income New Yorkers households earning below 50% of AMI – \$43,150 for a family of four in 2015.

As the table below shows, many apartments are created at 50% to 60% of AMI, mainly because funding and investment programs target this income band so that income and investor equity can be optimized. The table reveals an apparent surplus of apartments at those moderate-income levels, while a severe and growing shortage exists for real affordable housing for New Yorkers earning 50% of AMI and less.

**Table Below: An Overview of Units Created Across Area Median Income Levels**

<b>% of AMI</b>	<b># of Units</b>	<b>% of Units</b>	<b># of Households</b>	<b>% of Households</b>
<b>&lt;30%</b>	168,510	7.93%	621,630	30.20%
<b>31-40%</b>	103,591	4.87%	171,171	8.32%
<b>41-50%</b>	151,967	7.15%	164,019	7.97%
<b>51-60%</b>	256,364	12.06%	119,668	5.81%
<b>61-70%</b>	323,636	15.22%	127,978	6.22%
<b>71-80%</b>	340,509	16.02%	100,833	4.90%
<b>81-100%</b>	368,023	17.31%	187,661	9.12%
<b>101-120%</b>	133,609	6.28%	131,602	6.39%
<b>121-180%</b>	173,167	8.15%	236,711	11.50%
<b>&gt;180%</b>	106,516	5.01%	197,182	9.58%

According to this data, the number of rental apartments affordable to the 956,820 households making less than 50% AMI in 2012 was 424,068. Within this universe, there are 128,820 Section 8 voucher holders who are low income and, through use of their voucher, are generally able to afford middle-income apartments (generally rent affordable up to 74% or 89% of AMI).

When looking strictly at household size versus units available, it is easy to develop the misperception that single-person households are the only underserved group in the city.

In fact, this belief has driven a number of flawed housing policies like Mayor Bloomberg’s plan to create micro-units. The reality is that low-income households, who are unable to find housing that is affordable, are further burdened by the inability to find appropriately sized housing.

Analyzing the deficit of affordable units at each household size, there is a total gap of 532,752 units for households earning 50% of AMI or below. To adjust for the existence of housing vouchers like Section 8, 128,820 voucher holders was removed from the analysis. The final result is a lack of 403,932 affordable units for 710,649 low-income New Yorkers.

**Table Below: The Gap in Units by Affordability Level and Household Size**

	<b>Gap in Supply Versus Demand (&lt;50% AMI Households)</b>	<b># of People Affected</b>
1 Person	(243,164)	(243,164)
2 Person	(87,335)	(174,671)
3 Person	(34,908)	(104,723)
4 Person	(15,399)	(61,595)
5 Person	(15,726)	(78,631)
6 Person	(3,932)	(23,594)
7 Person	(3,467)	(24,272)
<b>Total</b>	<b>(403,932)</b>	<b>(710,649)</b>

## **DE BLASIO'S MANDATORY INCLUSIONARY ZONING: WHY IT WILL FAIL TO ADDRESS THE AFFORDABILITY CRISIS**

Mayor de Blasio's mandatory inclusionary zoning requires affordable housing for all new developments that request an increase in buildable square footage, with a focus on neighborhoods that will be rezoned for increased residential construction in order to make room for denser, taller apartment buildings.

The affordability requirement will be triggered whenever any rezoning begins.

Specifically, the de Blasio plan includes three options for requiring affordability in new developments that will be built in rezoned neighborhoods.

- **Option A):** 25% affordability at an average of 60% AMI. Can be used with additional direct subsidy (additional to the value generated with up zone, tax exempt bonds and 421 a or other tax abatement)
- **Option B):** 30% affordable at an average of 80% AMI. Can be used with additional direct subsidy like option A
- **Option C):** 30% affordable at an average of 120% AMI. Cannot get additional direct \$\$ subsidy (just the additional value generated by the up-zone and tax abatement)

None of these options will help the more than 700,000 New Yorkers left behind by Bloomberg. All of those New Yorkers earn 50% of AMI or less - meaning, \$43,150 or less in 2015 for a family of four.

This mandatory zoning requirement will not create any real affordable housing for current residents in low-income neighborhoods like East New York and the South Bronx, even when the "average" concept is taken into account.

To create an average of 60% of AMI, for example, a developer could build units at 40% and 80% or 30% and 90%. But the problem is that the city's Department of Housing, Preservation and Development (HPD) does not incentivize either the higher income units (80% and 90% of AMI) or the lower-income units in a real way that would allow for a financially feasible project with a mix of units for tenants at 40% or 30% of AMI.

Unfortunately, the most common funding source for building low-income units, The Federal Low Income Housing Tax Credit program (LIHTC), incentivizes apartments to be built at 60% of AMI. The city's Department of Housing, Preservation and Development (HPD) also requires developers to build a bulk of affordable apartments at 60% of AMI in an effort to maximize the use of limited subsidy dollars. Given these priorities and funding streams, it is very difficult to achieve deeper affordability without some additional direct city capital subsidy.

As new apartments at higher income levels are introduced into low-income areas, economic integration will only be created and maintained if current residents are able to stay in the neighborhoods that will be rezoned. But none of the three options for mandatory inclusionary zoning proposed by de Blasio will achieve this goal.

Bottom line: current residents in low-income communities of color will not be the beneficiaries of new housing required under mandatory inclusionary zoning. The same low-income people whose affordable housing needs were ignored by Bloomberg will continue to be ignored.

New so-called affordable housing will overwhelmingly go to wealthier, whiter outsiders – people who come from other neighborhoods. Instead of limiting gentrification and displacement, de Blasio's mandatory inclusionary zoning plan will likely accelerate them.

Race is an undeniable factor here and needs to be acknowledged: mandatory inclusionary zoning, as currently conceived by the de Blasio administration, will lead to the whitening of neighborhoods like East New York and the South Bronx that are scheduled to be rezoned.

Based on existing income levels, residents of color in East New York and the South Bronx will not gain access to new housing. It will be too expensive for them, unless their wages are increased substantially.

The local media is increasingly running stories about gentrification, land speculation, and higher real-estate prices coming to East New York<sup>iii</sup>. The concern among longtime residents is that de Blasio's mandatory inclusionary zoning will exacerbate, rather than halt, these trends.

That brings us to another major deficiency of de Blasio's approach to tackling the affordability crisis: in his plan, there is no vision for job quality, even though the rezoning of neighborhoods will impact thousands of new jobs, and present opportunities to increase economic opportunity for the most vulnerable low-income residents and communities.

The lack of attention to job quality is even more disconcerting when you consider the recent evidence showing that even \$15 per hour isn't enough to make low-income neighborhoods affordable. Low-wage

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workers and their families living in neighborhoods that will be rezoned will not be helped by mandatory inclusionary zoning in any way. They will be left behind.

Yet, bizarrely, de Blasio has dismissed the concerns of low-income residents and real affordability advocates. In August, he said: "Some people, I think, almost argue we have some poor neighborhoods and they should just remain poor,"<sup>iv</sup> falsely equating criticism of his mandatory inclusionary zoning plan with a defense of the concentration of poverty.

The reality is that low-income New Yorkers have every reason to be anxious and skeptical about de Blasio's plan in its current form: previous rezonings, most notably in Williamsburg, led to rapid gentrification and displacement, rather than real affordability and good quality jobs.

Emphasizing the neglected housing and job needs of low-income New Yorkers left behind by Bloomberg is not an effort to maintain or deepen poverty. On the contrary, it's part of an effort to help low-income residents attain a better standard of living in their neighborhoods and gain access to increased affordability, economic opportunity, and higher wages.

There is broad agreement that economic diversity is a worthwhile and necessary goal for neighborhoods, but ignoring needs of low-income New Yorkers is not a way to achieve it.

As it stands, de Blasio's overarching commitment to creating or preserving 200,000 units of affordable units still raises a fundamental question: affordable for whom? And the answer is: not for the low-income New Yorkers most in danger of being priced out of the city.

## **BUILDING IT RIGHT: HOW TO USE DENSITY MORE EFFECTIVELY TO CREATE REAL AFFORDABLE COMMUNITIES**

The real affordability of new housing must match the current incomes of the vast majority of people living in neighborhoods like East New York and the South Bronx that will be rezoned and begin to address the over 700,000 people left behind by prior administrations. Unfortunately, as noted above, de Blasio's mandatory inclusionary zoning will not do that. In fact, it will create housing that is mismatched, rather than aligned, with the incomes of longtime residents, without attaching any standards to the jobs created through the rezoning process.

There is a better way forward. What follows is a bold new plan for ensuring that new housing is deeply affordable in low-income communities and built with union jobs for local residents.

This is what our proposed mechanism for Real Affordable Communities will do. In neighborhoods that will be rezoned for new residential construction, real-estate developers are being invited by the de Blasio administration to build taller, denser apartment buildings.

Density is a valuable tool and bargaining chip for low-income neighborhoods and City Council Members to use with developers. De Blasio should not give away density for free, especially given that developers see it as a crucial way to earn bigger profits on land whose value will increase dramatically.

Instead, communities and residents in neighborhoods that will be rezoned should be able to use density to negotiate the best possible deals on real affordable housing and good union jobs for their communities.

Developers should be required to meet very high standards for real affordability and job quality in exchange for increased density in new apartment buildings.

Here's how our mechanism for Real Affordable Communities would work: as each neighborhood rezoning triggers the ULURP process (the land review process), the city can create a special-purpose district that is tailored to the needs of residents who live there.

Each special purpose district will require any developer who wants to earn a density bonus to build deeply affordable apartments and create quality jobs that employ local residents and provide real paths to stable careers.

**Simply put: residents will earn higher wages building new housing they can actually afford.**

**Neighborhood affordability will be increased as poverty is decreased for low-income families.**

Low-income neighborhoods like East New York and the South Bronx will be empowered to offer a "density bonus" to developers in exchange for real affordable housing below 50 % of AMI and for career-oriented union construction jobs for local residents at new development sites.

Building taller and denser apartment buildings means developers will yield bigger profits, so they can afford to increase the depth of affordability and the wages paid to workers.

To finalize the mechanism, we have worked closely with private real-estate developers and the construction trades to develop a fair framework that will suit all parties involved.

Here are five key elements that will enable Real Affordable Communities to be created:

1. The residential upzone in East New York, the South Bronx, and elsewhere will create a significant economy of scale: it will spread the non-speculative acquisition price of land across a larger building area (more square footage) and use the reduction in price per square foot to finance well-paying, career-oriented construction jobs and deep affordability in housing.
2. The commercial upzone will help cover increased construction costs and help finance the necessary community facilities and other ground-floor spaces to benefit the neighborhood.
3. A new affordable housing division within the construction trades will allow for a wage reduction from the current rate by 40%, providing a 20% overall reduction in the hard costs of the project.
4. Subsidy is provided either by the very high market rents in high-income neighborhoods or by direct subsidy in very low- and low-income neighborhoods.
5. Initial return on investment up to 6% for private developers.

### **New Real Affordability Standards Based on Median Neighborhood Income**

Using the Real Affordable Communities mechanism, at least 50% of new apartments will be affordable at or below the median income of the neighborhood.<sup>v</sup> For example, if a neighborhood median income is at 40% of the citywide Area Median Income (AMI) in 2015 for a family of four (\$34,520/year), at least 50% of the

new units will average 40% AMI – allowing for units as low as 20% AMI (\$17,260 for a family of four) and up to 60% AMI (\$51,780 for a family of four). The balance of the apartments would be available up to 100% AMI (\$86,300 for a family of four) or could be negotiated slightly higher if neighborhood demographics allow for it.

**Depth and Distribution of Affordability in East New York: Comparing Different Approaches**

Mayor de Blasio has proposed creating 1200 new affordable units in East New York. Below is a summary comparison of the depth and distribution of affordability that would be achieved using the de Blasio’s plan, the Real Affordable Communities density bonus mechanism, different options for mandatory inclusionary zoning, and the Extremely Low and Low-Income Affordability (ELLA) program <sup>vi</sup>of tax-exempt bond financing. The Real Affordable Communities approach is clearly the superior approach: it is the only one that would achieve the depth and distribution of affordability necessary for a low-income neighborhood like East New York, where a majority of households live at or below 50 % of AMI. It is also the only path that would lead not only to real affordability in housing but also to good quality, career-oriented jobs for residents. The jobs component is discussed at the end of the report before the conclusion.

**By the Numbers: Examining Depth and Distribution of Affordability in East New York**

<b>Comparison using 1,200 proposed affordable units</b>	<b>ENY plan</b>	<b>ELLA</b>	<b>Mixed-Middle income</b>	<b>Density bonus mechanism</b>
30% AMI	132	120	0	240
40% AMI	192	180	180	240
50% AMI	168	180	60	240
60% AMI	468	720	0	240
90% AMI	240	0	360	240
Over 100 % AMI	0	0	600	0
<b>Total</b>	<b>1200</b>	<b>1200</b>	<b>1200</b>	<b>1200</b>

**Financial Feasibility: How Real Affordable Communities Would Get Built in Reality**

Achieving a wider depth and distribution of real affordable units and building them with union labor adds additional costs to new residential construction. But the Real Affordable Communities density bonus mechanism ensures that these projects are financially feasible.

Below is a pro forma for an actual East New York development that shows how the Real Affordable Communities approach would work in reality. It has been shared with the de Blasio administration. The apartment complex described in the table below would be built on a plot of land that costs \$3 million in East New York. The use of the density bonus mechanism would increase the total number of apartments from 106 to 181, with a substantial number of apartments built at or below 50% of AMI. The hard cost per unit includes union labor but at a reduced wage rate already approved by the building and construction trades. That reduced rate is mentioned above as one of the five key elements for Real Affordable Communities.

	<b>Standard ELLA</b>	<b>ALT 3 upzone</b>
	60/15/15/10/ 10	20/20/20/20/ 20
<b>Total number of apartments</b>	106	181
<b>Subsidized apartments</b>	106	181
<b>Land cost</b>	\$3,000,000	\$3,000,000
<b>Hard cost per unit</b>	260	260
<b>Total development cost</b>	\$49,557,515	\$ 78,097,678
<b>HPD subsidy</b>	\$6,890,000	\$11,765,000
<b>HDC subsidy</b>	\$6,890,000	\$11,765,000
<b>Add'l subsidy</b>	\$241,279	\$6,119,934
<b>HPD subsidy per unit</b>	\$67,276	\$75,000
<b>HDC subsidy per unit</b>	\$65,000	\$65,000
<b>Add'l subsidy per unit</b>	0	\$23,812
<b>Total subsidy per unit</b>	\$132,276	\$163,812
<b>Total subsidy/subsidi zed unit</b>	\$132,276	\$163,812
<b>Units by income level</b>		
<b>Homeless</b>	0	0
<b>27% AMI</b>	11	36
<b>37% AMI</b>	16	36
<b>47% AMI</b>	16	37
<b>57% AMI</b>	62	36
<b>77% AMI</b>	0	35
<b>Market</b>	0	0
<b>Total</b>	105	180
<b>Super's unit</b>	1	1

## **Real Local Hire and Apprenticeship Standards for Career-Oriented Construction Jobs**

When implementing the mechanism for Real Affordable Communities, all construction contractors and subcontractors on developments in rezoned neighborhoods will ensure workers are hired from local communities, according to the following criteria:

- **30% of work hours performed by local residents;**
- **15% of work hours performed by disadvantaged local residents; and**
- **10% of work hours performed by local women residents;**
- **All construction contractors and subcontractors on new developments will be required to participate in a New York-certified apprenticeship program appropriate to the work they are performing.** This requirement will ensure that only responsible contractors are operating in rezoned neighborhoods, leveling the playing field for union contractors.

All employers will ensure that workers from each community and neighborhood are adequately trained. They will be required to ensure proper implementation of local hiring, through partnerships with community groups committed to boosting career opportunities for residents.

The density bonus proposed in our mechanism for Real Affordable Communities is designed to reward developers and contractors who act in the best interests of our city. To that end, local hire criteria similar to what is used in the Sandy recovery and rebuilding will be employed:

- **30% of work hours performed by local New York City residents**
- **15% of work hours performed by disadvantaged local residents;**
- **10% of work hours performed by local women residents.**

All contractors will provide at least one full-time staff member dedicated to tracking daily hiring at job sites and ensuring proper implementation, through partnerships with community-based groups involved in establishing job pipelines through pre-apprenticeship programs.

## **CONCLUSION: THE URGENCY AND NECESSITY OF CREATING REAL AFFORDABLE COMMUNITIES**

A truly affordable New York City where working people can live and thrive is all but gone. Struggling residents are increasingly running out of options for real affordable housing, as the gap between low wages and higher rents continues to increase dramatically. Neighborhoods like East New York are being hyped in the press as “hot,” spurring real-estate developers and speculators to try to cash in quickly on the next wave of gentrification in the outer boroughs, especially in areas that the de Blasio administration is planning to rezone. Indeed, it’s no secret that some members of the real-estate elite would like wealthier, whiter people to be the new faces of outer-borough neighborhoods that, until recently, were historic strongholds of affordability for African-Americans, Latinos, and a diverse mix of immigrant groups.

If de Blasio does not embrace and implement the plan presented in this report, there won't be any future for working families here. The city will become the privileged domain of the most affluent and the global super-rich – the people who continue to put upward pressure on rents and housing prices, sending them into the stratosphere, and clamor for more luxury condos.

Ensuring more real affordability in housing and good quality jobs for residents should be nonnegotiable top priorities for a mayoral administration committed to tackling inequality.

## ABOUT REAL AFFORDABILITY FOR ALL

Real Affordability for All is the largest and most diverse coalition fighting for real affordable housing and career-oriented union construction jobs in New York City. It includes a broad array of community groups, tenant groups, and construction unions. For more information: [www.realaffordabilityforall.org](http://www.realaffordabilityforall.org).

## END NOTES

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<sup>i</sup> <http://streeeasy.com/blog/the-high-burden-of-low-wages-how-renting-affordably-in-nyc-is-impossible-on-minimum-wage/>

<sup>ii</sup> This Real Affordability for All analysis of the most recent Census data was covered by the Wall Street Journal in March 2014:

<http://www.wsj.com/articles/SB10001424052702303824204579421632517181754>

<sup>iii</sup> Here are examples of recent news stories and editorials on East New York: <http://www.amny.com/real-estate/city-living/brooklyn/city-living-east-new-york-is-brooklyn-s-next-up-and-coming-neighborhood-1.10800943>; <http://www.crainsnewyork.com/article/20150911/OPINION/150919959>.

<sup>iv</sup> <http://www.capitalnewyork.com/article/city-hall/2015/08/8574706/de-blasio-housing-critics-want-poor-neighborhoods-remain-poor>

<sup>v</sup> The Furman Center for Real Estate and Urban Policy at New York University publishes median incomes by neighborhood annually.

<sup>vi</sup> For an overview of ELLA, go here: [http://www.nychdc.com/content/pdf/Developers/HDC\\_ELLA\\_Termsheet.pdf](http://www.nychdc.com/content/pdf/Developers/HDC_ELLA_Termsheet.pdf)