

**Evaluation of
Commercial Revitalization and Commercial
Expansion Tax Expenditure Programs
Prepared for New York City Council Finance
Committee Pursuant to Local Law 18**

NYC Independent Budget Office

Dec 18, 2017



Evolution of Commercial Revitalization Program

1995: Commercial Revitalization Program (CRP)

What:

- Property Tax Abatement
- Commercial Rent Tax reduction

Who:

- Non-Residential
- Lower Manhattan
(South of Murray)
- Built before 1975

2000: Commercial Expansion Program (CEP)

What:

- Property Tax Abatement

Who:

- Non-Residential
- Manhattan North of 96th & outer boroughs
- Built before 1999

2005: CRP Expansion

What:

- Commercial Rent Tax reduction

Who:

- Non-Residential
- Expanded Lower Manhattan
(south of Canal Street)
- Built any time



Other Programs and Modifications

- 1995:
 - The 421-g program for conversion of commercial buildings into multiple dwellings in the CRP region.
 - 14-year abatement of about 80 percent of the real estate taxes paid on the property before conversion.
- 2005:
 - Commercial Rent Tax (CRT) exemptions for World Trade Center.
 - CRT exemptions for Downtown ground floor retail.



Overview of Findings

- **Cost:** CRP and CEP cost \$27.4 Million in 2017
- **Participation rates:** CRP 22% and CEP 1% max.
- **Effects:**
 - Downtown vacancy rates went down after 1995, but not because of CRP.
 - Employment numbers show a similar result.
- **Design:**
 - Participants already invest much more than the “minimum required physical improvements.”

Participation Requirements

Lease Terms & Physical Improvements



Small firms (# Employees < 125)

- 3 years or longer lease for both programs
- \$5 Minimum Physical Improvement for CRP and \$2.50 for CEP.



Large firms (# Employees > 125)

- 10 years or longer for both programs
- \$35 Minimum Physical Improvement for CRP and \$25 for CEP
 - (respectively, \$10 and \$5 for renewal leases)

CRP and CEP Benefits



- Property Tax Abatement
 - Minimum of applicants property tax per sq. ft. and \$2.50
 - For 3 or 5 years with 2-year phase-out schedule
 - 10 years for Manufacturing in CEP

CRP and CEP Benefits



- Property Tax Abatement
 - Minimum of property tax per sq. ft. and \$2.50
 - For 3 or 5 years with 2-year phase-out schedule
 - For 10 years for Manufacturing in CEP
- Commercial Rent Tax (CRT)
 - Only Part of CRP (Downtown Manhattan)
 - Tax base reduction equal to 100% of gross rent.
 - 1995-2005: 3 or 5 years with a last 2-year phase-out
 - After 2005: no phase-out.

CRP and CEP Costs in 2017



- Total Cost in 2017:
 - **\$27.4 Million**
 - Equivalent to paying 197 police officers per year
- Property Tax Abatement
 - \$18.4 million
- Commercial Rent Tax Reduction
 - \$9 million



EVALUATION



What were the goals?

- Does the law state the goals of these programs? No!
- Based on the testimonies and the design of the program, assumed CRP-CEP goals are:
 - Reduce vacancy rates
 - Short term: through CRP/CEP benefits
 - Long term: through building improvements
 - Increase employment



To Evaluate

- Program Participation Rates
- Neighborhood Effects
 - Office Vacancy Rates and Rents
 - Employment Level
- Building/Lease Level Effects
 - Investment or Physical Change
 - Owners' Rental Income



To Evaluate

- Program
 - Neighborhood
 - O
 - E
 - Build
 - Invest
 - Owners' Rental Inc
- Are the programs meeting their goals?
 - Are the goals still relevant?
 - Are the programs efficient?



Haves and Have nots

DATA

Available Data

- **Neighborhood Office Rents and Vacancy Rates**
 - Cushman and Wakefield (1984-2016)
- **ZIP-Code by Industry Employment**
 - Department of Labor ES-202 data (1989-2010)
- **Buildings Sq. Ft., other exemptions, etc.**
 - Property Tax Administrative Data (1984-2017)
- **Owners' Rental Income**
 - Tax Commission Income and Expense (TCIE) (1984-2017)

CRP-CEP Applications Data

- **CRP/CEP Applications**

- Haves:

- 2010-17: Address, Lease term, Program Type, Expenditures, # Employees, Owner's Name, Tenant's name, Office or Manufacturing
- 1995-2010: Address, Lease term, Program Type

- Have Nots:

- Detailed records are destroyed for applicants prior to 2005.
- For 2005-10 there are only hardcopies.



Data: Have-Nots

- **Building Level Vacancy Rates**
 - Source: Currently collected by DOF
- **Establishment/Address level employment**
 - Source: QCEW matched over time
- **Income and Expense For all owners**
 - Source: Real Property Income and Expense (RPIE)
- **Other Limitations:**
 - Commercial Rent Tax data did not record CRP Special Reduction
 - until 2017
 - No building level data
 - No consistent record of past Property Tax Abatements
 - They are only recorded on a rolling basis

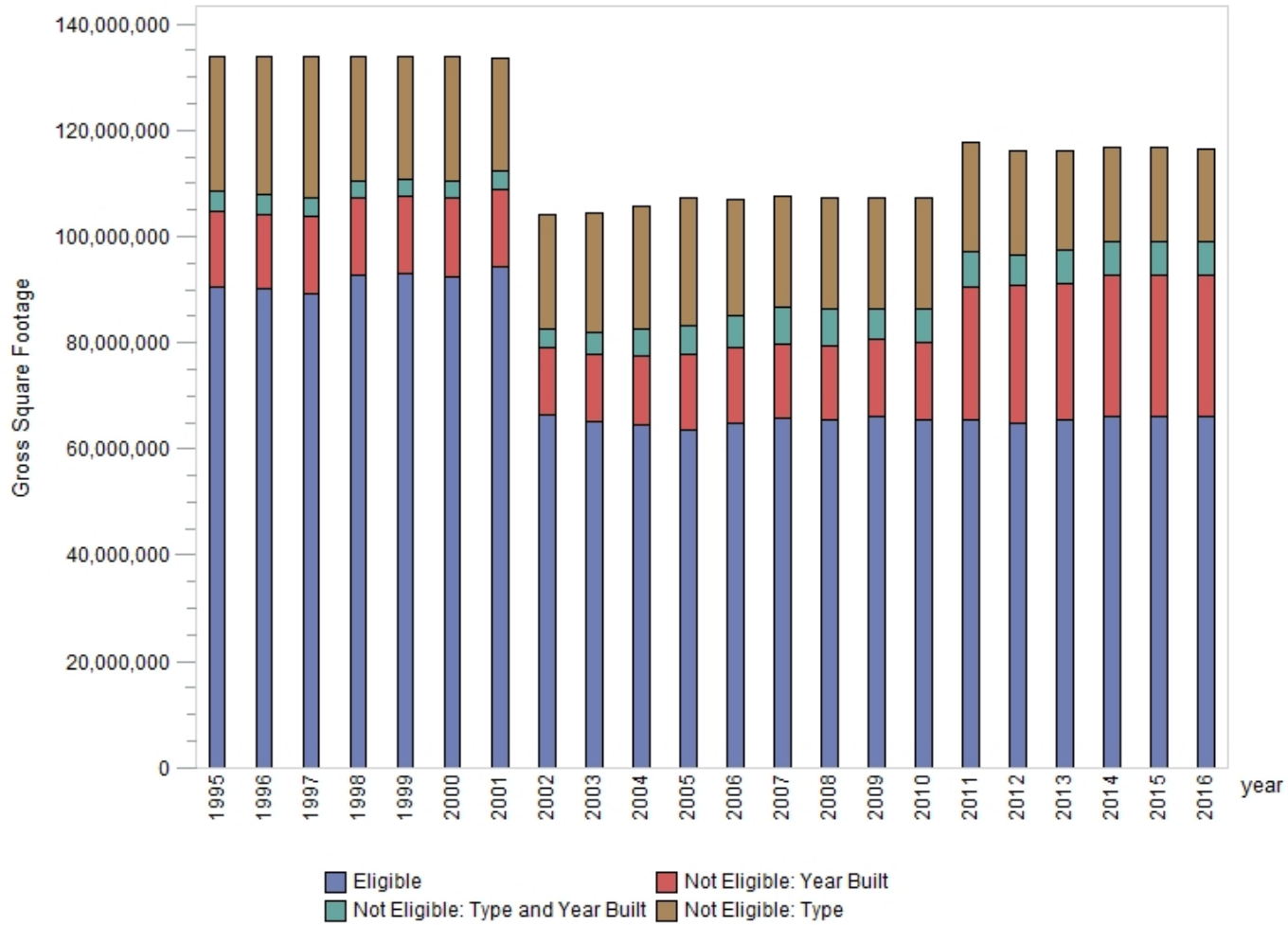


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ELIGIBILITY AND PARTICIPATION

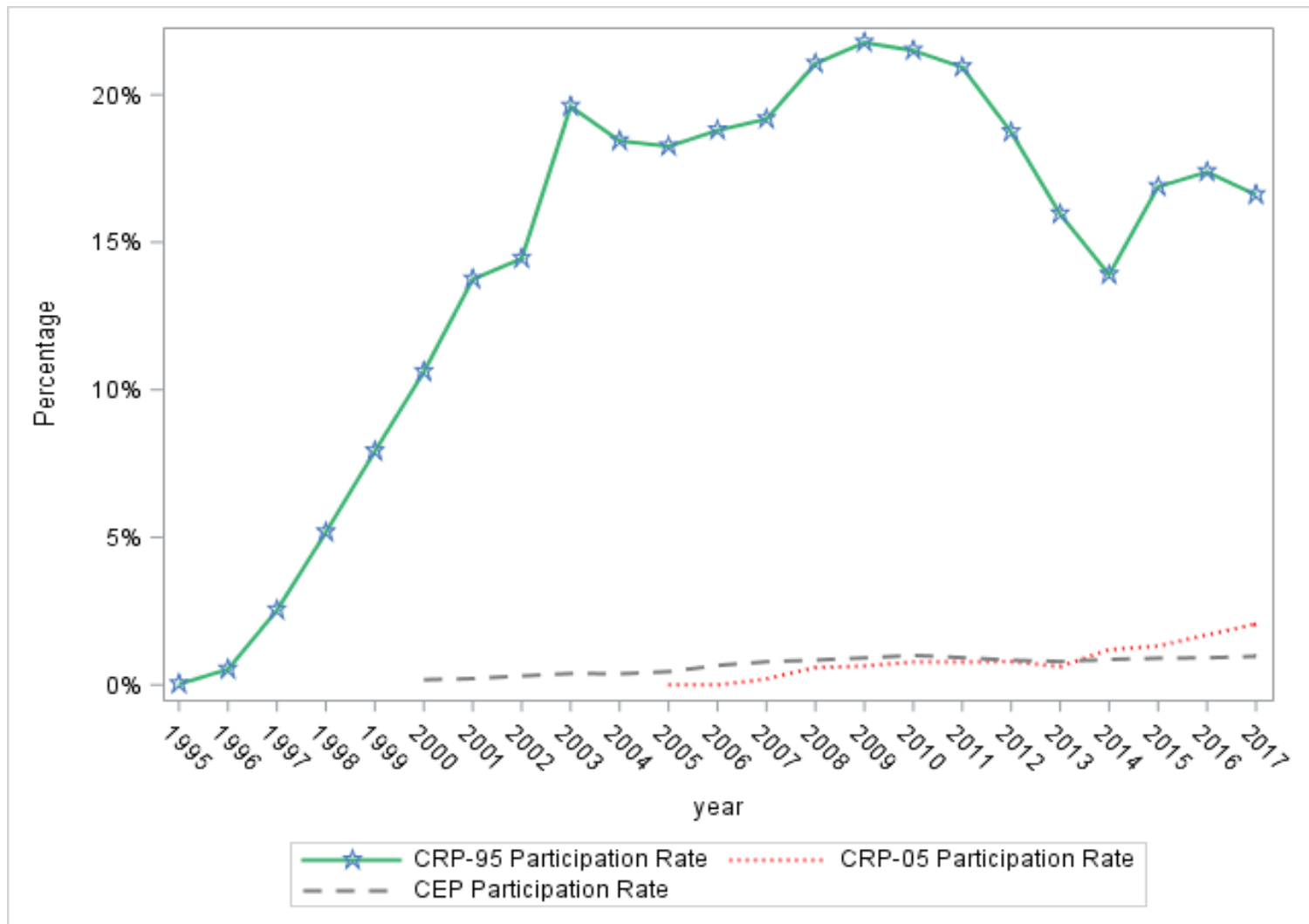
Eligibility



Gross Sq. Ft. of Downtown Commercial and Mixed-Use Buildings by CRP Eligibility

Independent Budget Office of NYC

Participation Rates



Participation/Eligibility - Summary

- The majority of downtown buildings are office space that were built before 1975.
 - About 12mn SQ feet were turned residential by 421-g
- The maximum CRP participation rate was 22%.
- Although number of CEP applications has recently grown, the participation rate is very low (1% at its highest).

THE EFFECTS

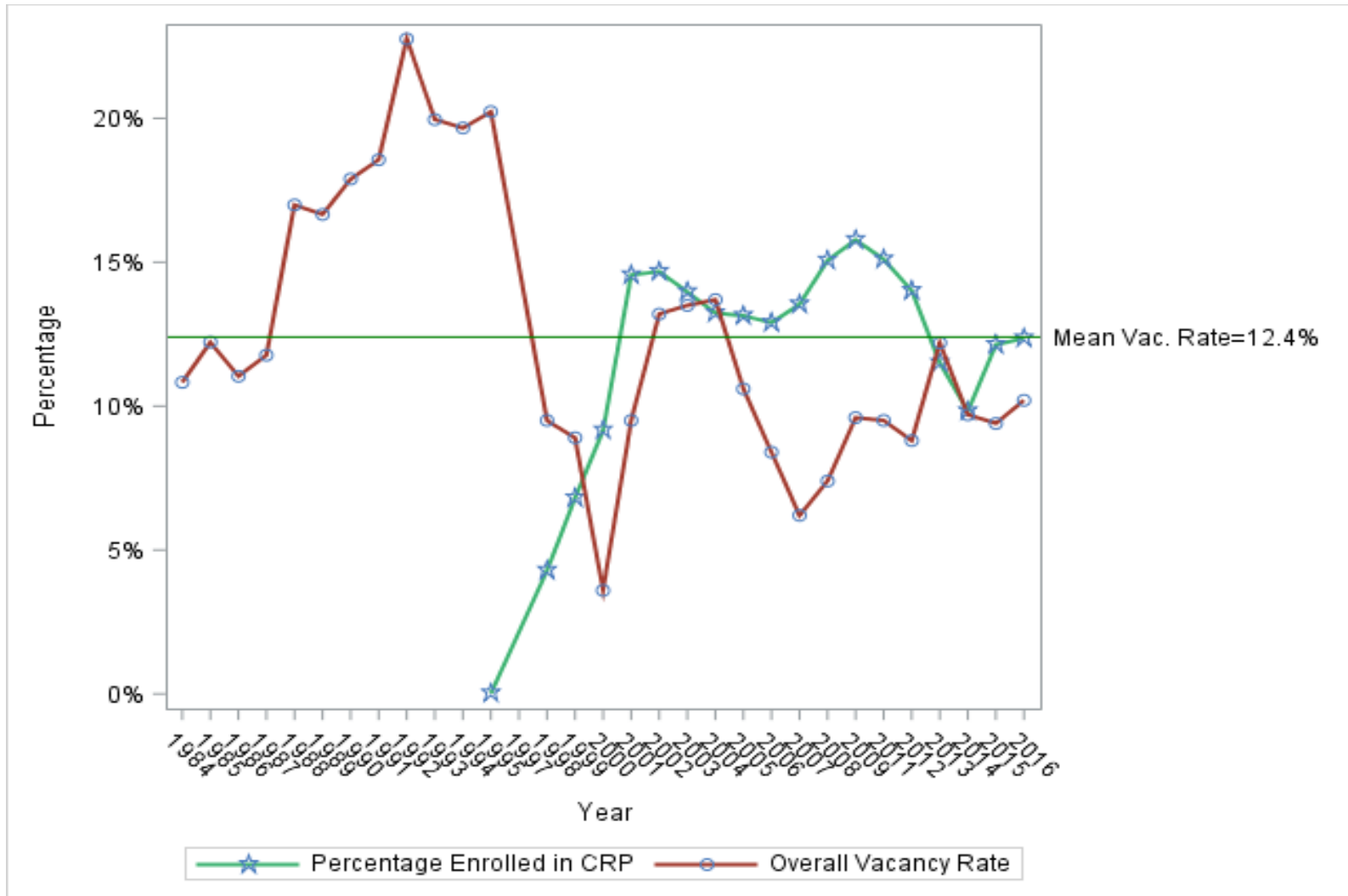
Treatment and Control

- Basic Question:
 - what would have happened without these programs?
- Solution Concept:
 - Consider an experiment with “treatment” and “control” groups.
 - Compare the outcomes of the two groups.



OFFICE VACANCY RATES

Vacancy Rates vs. CRP Enrollment Rates in Downtown Manhattan



Deviations from Historical Averages



Vacancy Rates - Summary

- We do not observe any off-the-trend effects of CRP on vacancy rates.
 - Similar trends in other areas, including Hudson Waterfront in New Jersey.
 - Considering 1984-2001, our regression estimates show a very small negative effect which is statistically insignificant. That is no effect.
 - Similarly, no effects are found for office rents.



EMPLOYMENT

Employment: Downtown

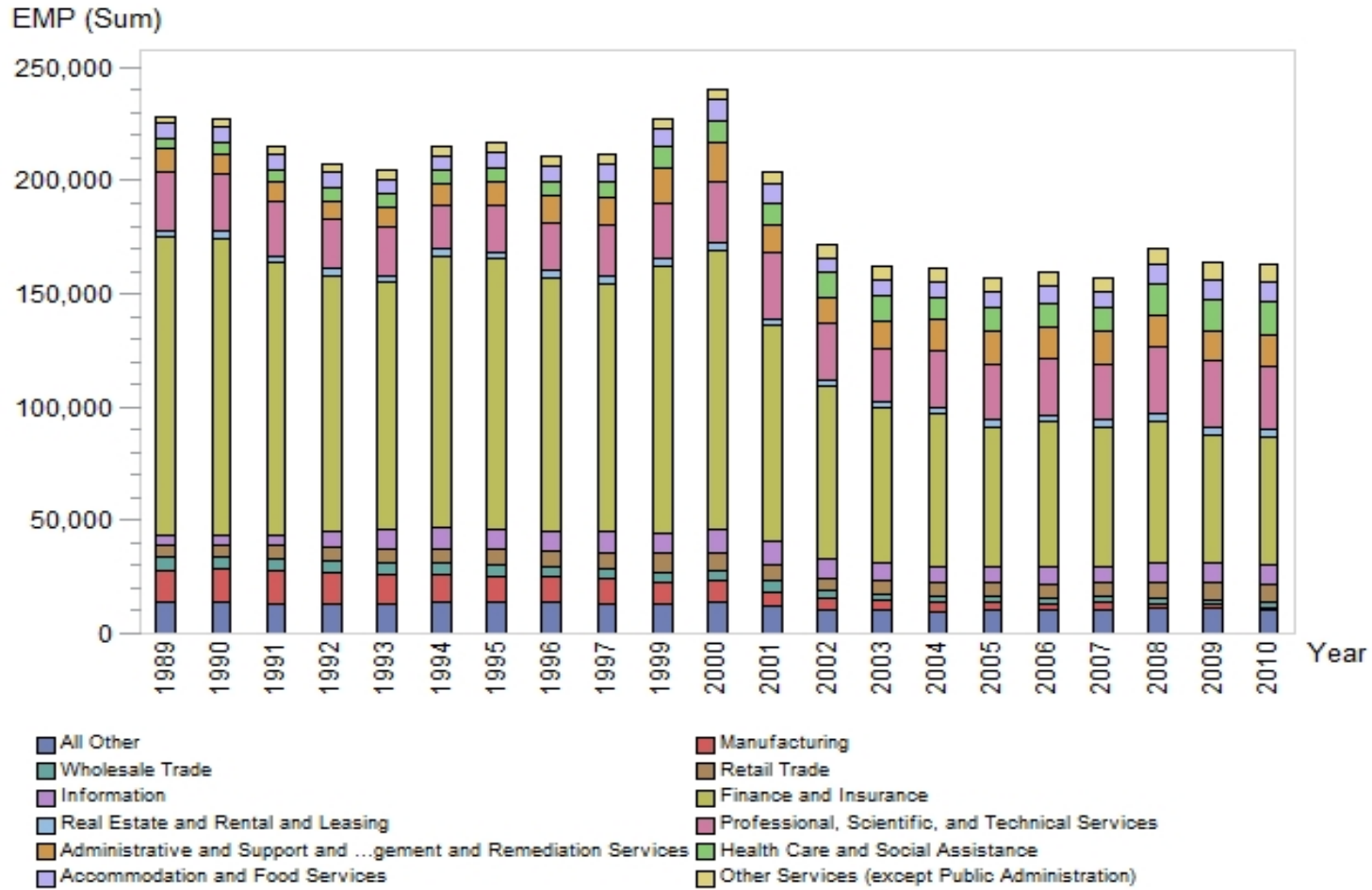
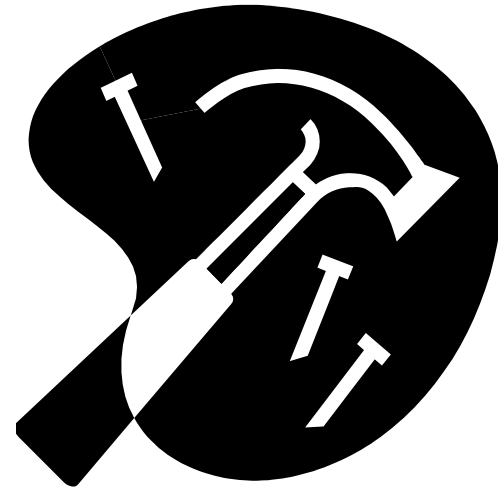


Figure: CRP Region

Employment - Summary

- Again, very similar trends are found in Midtown.
- However, Downtown employment grew slower during 1995-2000.
- Industry composition matters a lot:
 - After controlling for industry composition, post-95 Downtown still grew at a slower rate.
- Similar results found for CEP employment.
 - Highly expected given the low participation rates.



PHYSICAL IMPROVEMENTS

Effect of \$5 Minimum Expenditure Requirement (CRP Applications 2010-17)

<u>Expenditures Less than ...</u>	Percent of Applicants
\$6 Per Sq. Ft.	20%
\$10 Per Sq. Ft.	38%
<u>Expenditures Greater than ...</u>	
<u>\$35 Per Sq. Ft.</u>	32%

- Their property tax benefits do not exceed \$10 over 5 years.
- They are spending much more than minimum requirements (\$5.00) and their benefits.

Effect of \$2.50 Minimum Expenditure Requirement (CEP Applications 2010-17)

	Percent of Applicants
<u>Expenditures Less than ...</u>	
\$3 Per Sq. Ft.	42%
\$6 Per Sq. Ft.	63%
<u>Expenditures Greater than ...</u>	
\$25 Per Sq. Ft.	11%

- They are mostly manufacturing applicants.
- \$2.50 minimum expenditures are more significant in CEP areas.

Physical Improvements in Tax Assessments vs. CRP-CEP Applications Data

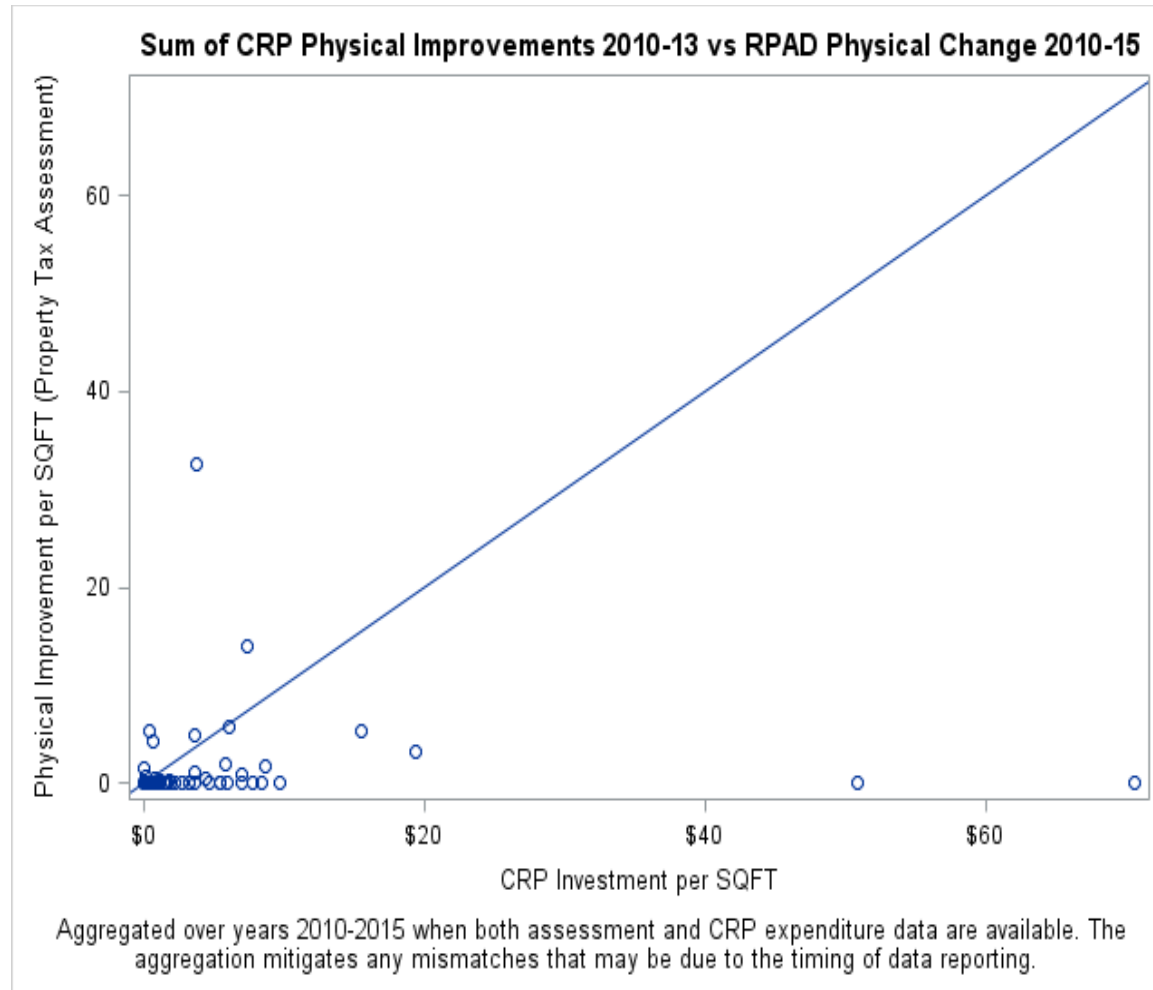


Figure: CRP Investment Data vs. Property Tax Assessment Physical Improvements.

A photograph of a spiral-bound notebook with a silver pen resting on it. The notebook is open to a blank, lined page. The pen is a sleek, silver ballpoint pen. The background is a dark, solid color.

CONCLUSION



Summary of Findings

- Downtown vacancy rates went down after 1995, but not because of CRP.
- Employment numbers show a similar result.
- Participation rate in CRP is 22% max.
- CRP and CEP cost \$27.4 Million in 2017



Summary of Findings (Cont.)

- CRP \$5 Minimum required investments are below the typical for most leases.
 - CEP \$2.50 Minimum required investments are significant.
- The property tax assessments do not measure the CRP-CEP physical improvements.
 - We do not get a “return on investments.”
 - The collection effort varies by time and region
 - This limits further analysis of physical improvements



Further Considerations

- In recent years, Downtown office vacancy rates are very similar to midtown.
 - Downtown office space is newer
 - 421-g : Older buildings to residential
 - Market forces: Newer (post 1975) buildings to residential
 - A different industry mix from 1995
- Participation rates in CRP are NOT countercyclical
 - Doesn't look like a safety net.



Procedural Recommendations

- Include stated goals in the law
- Measurable Goals:
 - Tracking goals in data e.g. vacancy rates
- Retaining data of tax expenditure programs.
- Upgrading data collection procedures for the policy evaluations.