New York City Independent Budget Office Fiscal Brief

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From Tax Breaks to Affordable Housing:
Examining the 421-a Tax Exemption for One57

Summary

One of the major controversies swirling through Albany this spring centered on whether the 421-a tax exemption program should be extended. Created in 1971 as an incentive to developers to build residential housing in New York City, the 421-a program has since gone through a number of renewals and revisions aimed in part at linking some affordable housing production ito the tax exemption in some parts of the city. Some policymakers argue the tax expenditure program is still essential to foster housing construction in the city while others contend it remains a giveaway to developers.

To bolster their argument about 421-a, many critics pointed to a new building on West 57th Street in Manhattan, commonly known as One57, where apartment sales were setting records and reaching as much as $100 million for a penthouse. The extraordinary sales prices of the building's condo apartments, has led some observers to question whether the project needed a subsidy that IBO estimates will cost the city $65.6 million in forgone property tax revenue over 10 years.

Given the prices of condos at One57, the building is not representative of developments that have received property tax exemptions under 421-a's certificate program. But due to the widespread interest in One57 we have more information about this project than for other 421-a certificate buildings. Taking advantage of this information, IBO has used One57 as a case study of the 421-a property tax exemption and looked at the cost-effectiveness of using 421-a to create affordable housing as compared with some other city programs and examined whether other facets of the property tax system contributed to the tax savings benefitting One57's developers and condo owners. Among our findings:

- The 421-a abatement for One57 is generating 66 units of affordable housing in the Bronx at a cost of $905,000 per apartment. Had the city provided an affordable housing developer with a cash grant equal to the amount of One57's 421-a tax expenditure, IBO estimates that nearly 370 affordable apartments at a cost of $179,000 per unit could have been produced.
- Tax savings due to the way New York State property tax law requires the city to value coops and condos provides a greater tax break to One57's condos than the 421-a exemption. In 2014, nearly two-thirds of the tax savings for owners of One57 condos resulted from the requirement that the condo apartments be assessed as if they were rental properties rather than as condos.

Our case study of One57 seeks to contribute to the public dialogue on the 421-a program and, more broadly, the property tax system. The study of just one building is not indicative of the average cost of affordable housing created under the 421-a program nor should this one example be seen as a reflection of how cost-effective 421-a is in general compared with other housing subsidy programs.

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Introduction

The 421-a tax exemption is one of the city's most controversial tax incentive programs, criticized by some for its largesse and lauded by others for its real estate development impact. The 421-a program was established in 1971 as a tool to incentivize the development of multifamily buildings. In light of concern that much of the tax benefit was being used to finance construction of luxury housing in Manhattan's core, in the mid-1980s the program was revised to also encourage development of affordable housing.

In order to receive the tax benefits linked to affordable housing, developers of market-rate housing had two options. They could purchase certificates, which conferred an as-of-right exemption, from affordable housing developers who then used the proceeds to offset the affordable housing construction costs elsewhere in the city. Alternatively, they could include affordable units on-site through so-called 80/20 projects—buildings where at least 20 percent of the apartments were designated for low-income tenants.

As concerns mounted that the program was too expensive a means for producing affordable housing, 421-a was substantially overhauled again through a series of changes adopted in 2006 through 2008. One major change was the elimination of certificates, which the city stopped issuing in 2008. Unused certificates that had previously been issued are still valid and remain in circulation.

New Buildings, Old Rules. Despite these changes, state legislation in January 2013 allowed five specific projects to be grandfathered under pre-2008 rules, thereby allowing their developers to receive 421-a benefits in exchange for subsidizing affordable housing elsewhere in the city rather than on-site. One of those developments, One57, a mixed-use luxury condo high rise, purchased certificates from a Bronx developer of affordable housing, and became the first of the five projects to have completed construction and appear on the tax roll. IBO estimates that in the first two fiscal years of the exemption, 2014 and 2015, One57's tax liability has been reduced by 95.0 percent each year. In years 3 through 10 the exemption is gradually phased out and over the exemption's 10-year life the savings will be 56.5 percent.

The 421-a program was scheduled to expire June 15, 2015, but state lawmakers voted to extend the current rules through December 31, 2015. If an agreement between representatives of developers and construction unions regarding wage levels on 421-a projects is reached by the deadline then new rules spelled out in last month's legislation will take effect on January 1, 2016. If an agreement cannot be reached the program is set to expire. The revised program would closely resemble Mayor de Blasio's proposal for extending the program in return for requiring construction of more units of affordable housing. IBO estimates the reform would create about 13,000 more affordable apartments at a cost of $3.3 billion more compared with current 421-a policy. This cost is $569.6 greater than our initial estimates because the adopted state legislation only eliminates 421-a for certain condos and coops whereas the Mayor originally proposed eliminating it for all such residences.[1]

Two Objectives. Opponents and proponents of 421-a both acknowledge more affordable housing is one of the city's most pressing needs, yet there is disagreement as to whether 421-a is a cost-effective vehicle for encouraging affordable residential development. Opponents argue that 421-a is a particularly expensive way to build affordable housing and many have called for the program to be eliminated. Proponents agree that the program is expensive but instead focus on the affordable housing created by 421-a that they maintain would not have been created without the exemption. The 421-a debate thus pits two policy objectives New Yorkers value against each other: more affordable housing and greater program cost-effectiveness.

Many of the arguments for and against 421-a overlook important elements of the city's property tax system that if acknowledged could inform public debate. For instance, the argument that 421-a should be abolished or reformed because it is not a cost-effective means of producing affordable housing often fails to consider whether there are alternative policies that are more cost-effective than 421-a in its current form. Moreover, much of the criticism leveled at One57 and its 421-a benefit—that the building's wealthy condo owners enjoy lower taxes than property owners who are less well off—has in fact less to do with 421-a than with how the city is required to value condos and coops for tax purposes.

In order to provide an additional perspective on the 421-a program, IBO conducted a case study of One57.[2] We sought to answer two related questions:

1. How much did subsidizing affordable housing through One57 cost relative to other public programs designed to produce affordable housing?

2. To what extent did One57 also benefit from other property tax breaks and how do these benefits compare with its 421-a subsidy?

The first question is motivated by the common observation that the certificate program was a more expensive means of subsidizing affordable housing than the alternatives. Had One57 not been grandfathered under old rules, in theory the city could have collected the building's full tax liability and dedicated the revenue for affordable housing production in a variety of other ways. Thus, we estimated the cost of One57's subsidized housing compared with the average cost of affordable apartments under other programs, including the current version of 421-a, which requires that 20 percent of apartments be reserved for low-income residents. We also consider what the city could have received in terms of affordable housing had One57 not been grandfathered and its full tax liability was allocated to these other programs.

The second question is motivated by the reality that One57's condo units, like other condos and coops in New York City, receive a substantial de facto subsidy—independent of 421-a—under state law that requires the city to assess all such properties as though they are rental properties for tax purposes. Much attention is directed at 421-a's cost, yet this state-mandated preferential assessment results in a large reduction in assessed value for condos and coops relative to what their taxes would be if they were assessed like other residential properties that do not produce income.

The extraordinary prices of condos at One57 sets it apart from other developments using the 421-a certificate program. But because of all the attention One57 has received, we know more about the development than we do any other 421-a certificate building and have all the information needed to analyze the cost-effectiveness of using tax breaks for One57 to subsidize affordable housing.

In addition, the public attention provides an opportunity to once again highlight the effect of the state-required preferential assessment practice. If the building's tax savings from its preferential assessment is greater than its tax savings from its 421-a exemption, then those dismayed by the extremely low tax burdens enjoyed by One57's owners may want to focus more on the former than the latter. While the case study approach limits our ability to extend the conclusions to other instances, the case of One57 is nevertheless instructive for learning more about 421-a's certificate program as well as the distortions in coop and condo assessments.

Tax Burdens and Property Valuations: Some Background

Before considering One57 and 421-a, we first provide background on important elements of the city's property tax system that are discussed explicitly and implicitly throughout the analysis.

The most basic measure of property tax equity is the effective tax rate (ETR), which is simply a property's tax liability net of credits, abatements, and refunds divided by the property's market value. By convention ETR's are expressed in terms of taxes per $100 of property value. An ETR equal to 1 thus indicates that for every $100 dollars of property value the property owner pays $1 in property taxes.

In general, the "market value" of nonrental residential property is defined as the value a property would sell for in an open market between a willing seller and a willing buyer in an arm's length transaction. Since not every such residential property is placed on the market in a given year, assessors typically use sales prices of comparable properties to generate a market value for unsold properties.

Coop and Condo Assesments. In New York City, however, this is not true for condos and coops. State law requires that the city's Department of Finance (DOF) value condos and coops as though they were rental properties that generate a stream of income (the standard technique for valuing income-producing properties) rather than basing assessments on sales prices of comparable properties (the standard technique for valuing nonincome producing residential properties).

In practice, the effect of requiring the city to use the income approach rather than a comparable sales approach is to under-assess condos and coops relative to the prices they would bring if sold in an arm's length transaction. IBO calls this preferential tax treatment the "581 discount" in reference to Section 581 of the Real Property Tax Law that requires the special valuation method. The 581 discount is calculated as the percentage difference in assessed value between being assessed on the comparable-sales approach and being assessed on the income approach. Citywide, the 581 discount in 2015 for condos is 82.9 percent, which means that the assessed value of condos is nearly 83 percent below what it would have been if they were assessed on the basis of comparable sales. Apartments in Brooklyn (84.9 percent) receive the largest discount and apartments in the Bronx (68.4 percent) receive the smallest.[3]

Although Section 581 yields savings to many owners of condos and coops (and larger profits for developers of such properties), it primarily affects the *distribution* of the tax burden across the city's four property classes (Class 1/one- to three-family homes, Class 2/multifamily buildings, Class 3/utility properties, and Class 4/commercial buildings).

Condo and Coop Tax Burdens Are Lower When Assessed On Their Sale Value Than on Their Income Value		
Residential Property Type	**Median IBO ETR**	**Median DOF ETR**
Condo Buildings With More Than 10 Units	$0.662	$3.901
Coop Buildings With More Than 10 Units	0.930	4.134
Condos and Coop Buildings With 10 or Fewer Units	0.374	1.087

SOURCE: Department of Finance
NOTES: IBO's measure of effective tax rates is based on sales, while the Department of Finance's measure is based on income of comparable rental buildings. Effective tax rates for condos and coops are only based on Class 2 properties.

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Depending on the behavior of city lawmakers, eliminating Section 581 could have no impact on the city's property tax revenue, instead only affecting which property classes pay what share of the citywide revenue.

Comparing Effective Tax Rates. We can see the effect of the 581 discount by comparing ETRs estimated by IBO, which use comparable sales, with the ETRs resulting from the Department of Finance's official income-based market values.[4] IBO calls its market values "true market value" to distinguish them from DOF's market values. As measured by IBO's comparable sales-based values, condos in buildings with more than 10 units had an effective tax rate of $0.662 per $100 of true market value in 2015. In contrast, the effective tax rate on these same condos calculated using DOF's market values was $3.901 per $100. Similarly, coops in buildings with 10 or more units have an official ETR as measured by the Department of Finance that is more than four times higher than the effective tax rate calculated by IBO.[5]

The 581 discount and the 421-a exemption work in concert to provide compounded tax breaks to condos and coops relative to other nonrental residential property. However, the 421-a benefit is temporary and phases out over time, and as such it would be misleading to single out any particular year during the exemption's lifetime to analyze a property's tax burden. In the case of One57, for example, the median effective tax rate based on true market value for apartments in the building was 0.021 in the first two years of its 421-a exemption. As the exemption phases out, the median ETR will increase, and in 2024—the first year the apartments are fully taxable—IBO expects the median ETR in the building to be 0.314.

Property tax exemptions for development are intended to spur construction of a particular type of property. If an exemption changes development plans in a way that affects property taxes, the common practice of multiplying the exemption value by the tax rate to yield a tax expenditure will over-estimate the revenue the city would have received in the absence of the exemption. In general, this method of calculating property tax expenditures is only reasonable when it can be demonstrated that a building with an exemption is identical to the building that would have been built *without* the exemption. Public debates on the city's property tax exemption programs usually gloss over this subtle but important point, which can contribute to the belief that eliminating a program such as 421-a will increase city revenue by an amount equal to the tax expenditure. Instead, property tax expenditures should be seen as useful, albeit imperfect, measures for comparing city programs financed through the tax code.

The Cost-Effectiveness of One57's 421-a Exemption

The 421-a tax exemption is an expensive city program, but it is important to place the exemption's cost in the appropriate context in order to evaluate its policy merits more fully. Tax exemptions are a form of tax expenditure whereby the government attempts to encourage private behavior that the public sector would otherwise carry out directly. In the case of 421-a, the purpose of the incentive programs is to encourage the construction of market-rate and affordable housing, which presumably is a policy goal the state and city would pursue in some other way if 421-a did not exist. Thus, tax expenditures are really government spending in disguise. However, the expenditures do not flow through the budget as appropriations but rather through the tax code as forgone revenue.

Under the affordable housing part of the 421-a program, the city agrees to forgo some of the tax revenue from certain new developments in exchange for a developer making a financial contribution to the construction of affordable housing. IBO calculated the present value of One57's 10-year tax expenditure and estimated it will reduce the building's residential property tax liability by 56.5 percent during the exemption period. Said differently, had the building been fully taxable, the city could have used 56.5 percent of One57's liability during its exemption period to finance affordable housing directly through the budget or indirectly through a different tax incentive program.

In order to evaluate the relative cost-effectiveness of One57's 421-a exemption, IBO weighed the cost of the exemption against the number of affordable apartments it created. The cost analysis focuses exclusively on property tax expenditures and excludes all other public costs or government aid given to the project. Our approach also differs from a previous IBO report that calculated costs relative to all properties produced—market-rate and affordable. Here we limit the analysis to affordable housing in order to make the discussion consistent with Mayor de Blasio's goal of improving the cost-effectiveness of 421-a affordable housing production.

Cost Per Affordable Apartment. In the case of One57, the building's developer purchased 421-a exemption certificates for $5.9 million from a developer of affordable housing who used the proceeds to finance construction of 66 affordable apartments in the Bronx.[6] The certificates confer an as-of-right property tax exemption for 10 years that was applied to One57. IBO estimates that in present value terms (discounted at 4.0 percent) One57's exemption is worth $65.6 million over 10 years. In terms of affordable housing, the Bronx developer received a direct subsidy of $89,400 per apartment ($5.9 million divided by 66 units), while the city provided an indirect subsidy through the 421-a program of $905,000 per apartment ($65.6 million minus $5.9 million, divided by 66) to the developer of One57.[7]

IBO compared the cost-effectiveness of One57's 421-a tax exemption with that of two other programs designed to encourage the creation or preservation of affordable housing. The first is the 421-a program currently in effect in the outer boroughs and north of 110th Street in Manhattan, often referred to as the 80/20 program, which requires that 20 percent of a development's apartments be set aside as affordable in exchange for 25-year tax benefits. The second is the 420-c program, which provides a full tax exemption for up to 60 years for low-income housing operated by a charitable organization. The 420-c program began in 1993 with properties first appearing on the tax roll in 1996. Because we cannot observe how many properties will remain eligible during the maximum allowed benefit period of 60 years, our cost estimates assume a 35-year exemption life, which is equal to the exemption period Mayor de Blasio is proposing for future affordable housing projects under 421-a.

For each year from 2013 through 2015, we identified the total number of new apartments appearing on the tax roll in buildings receiving property tax exemptions under each of these two programs. We then calculated the present value of the annual tax expenditure over the exemption period for each program and report the three-year average. Because One57's developer subsidized affordable housing in the Bronx, we limited our analysis to tax expenditures in that borough. In addition, we analyzed budget documents provided to the Department of Housing Preservation and Development for seven recent 421-a projects in the Bronx in order to estimate the average cost of developing an affordable apartment, since in theory the city could have also provided a direct subsidy to an affordable housing developer through a cash grant rather than through the certificate program or the tax code. Construction costs are deflated to current dollars using Rider-Levett-Bucknall's low-end multifamily construction cost index for the city.

Subsidizing Affordable Housing in the Bronx Through 421-a Is Less Cost-Effective than Alternatives

Subsidization Method	Subsidy per Affordable Aptartment	Affordable Apartments if One57 Fully Taxed
One57's 421-a	$905,000	–
80/20 421-a	247,000	266
420-c	191,000	320
Cash grant	179,000	367

SOURCES: Department of Finance; Department of Housing Preservation and Development
NOTE: For 80/20 and 420-c, the number of affordable apartments is IBO's estimate.
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Providing tax incentives to the developer of One57 in exchange for subsidizing affordable housing in the Bronx is a more expensive means of producing affordable housing in that borough than under the 80/20 421-a program. Buildings added to the tax roll since 2013 under the 25-year program will cost the city $247,000 for each affordable apartment created. Thus, the Bronx affordable housing created through One57's development will cost on average 3.7 times more than the affordable apartments created there under the 25-year program. In other words, if One57 did not receive 421-a benefits, 56.5 percent of its tax liability could have subsidized 266 affordable apartments in an 80/20 building in the Bronx rather than the 66 that were produced with 421-a certificates.[8]

Moreover, our analysis shows that 421-a is generally a more expensive means of subsidizing affordable housing compared with 420-c. For housing developed in the Bronx, it costs the city 29.3 percent more to create one on-site affordable unit under the 80/20 421-a program than it does under the city's 420-c program. Through 420-c, the city could have earmarked One57's full tax liability to subsidize the development of 320 affordable apartments instead of 66.

Additionally, IBO's review of a sample of 421-a project budgets found that it cost about $179,000 (in 2015 dollars) to develop one affordable apartment. Thus, a cash grant directly to affordable developers would have been cheaper on average than subsidizing affordable housing construction through any of the other three subsidization approaches. Had One57 not received 421-a benefits, its full tax liability could have spurred the construction of 367 affordable apartments in the Bronx instead of the 66 it received through the certificate program. However, the option to construct housing through city grants is hampered by the reality that such funds would require budgetary appropriations, perhaps over multiple years, and the uncertainty of annual appropriations could dissuade private developers from undertaking projects.

Relative Size & Implications of One57's 581 Discount

One57's condo owners also benefit from the 581 discount. Although 421-a and the 581 discount both offer substantial tax breaks, 421-a has recently received more public scrutiny than any other tax benefit. To some extent, this is not surprising. Unlike the 581 discount, the revenue impacts of 421-a for any particular property can be readily calculated with a reasonable degree of accuracy, which makes it easier to debate the program's merits. It is also easier to identify and characterize luxury developments or wealthy condo owners that benefit from 421-a whereas all condo and coops owners benefit from Section 581.

The evidence IBO presented earlier in this study and elsewhere, however, shows that the 581 discount is a major factor in the relatively low tax burdens condo and coops enjoy. IBO's case study of One57 provides an opportunity to explore which of the two sources of tax savings—421-a and Section 581—provide the building's condo owners the greatest benefit.

Comparing Property Tax Savings. In order to estimate the relative sizes of the 581 and 421-a tax breaks, IBO compared the value of the respective tax benefits to the levy One57's condo owners would face in a baseline scenario. In the baseline, One57 receives neither the 581 discount nor the 421-a exemption. The baseline scenario assumes no change in 421-a or 581 for all other properties.[9] While 421-a reduces the present value of One57's tax liability by 56.5 percent over the life of the exemption, that savings estimate assumes the city would continue to value condos and coops by the income approach. However, the 581 discount and the 421-a program are political decisions, which implies that state lawmakers could choose to do away with both. Against the baseline that neither tax benefit is allowed for One57, we can identify which tax break provides the greater benefit for the building's condo owners.

In constructing the baseline scenario, IBO considered that the 581 discount has the effect of bringing coop and condo sales-based ETRs closer to those enjoyed by one- to three-family homes despite a difference in the assessment rate between both property classes. IBO assumed that if Section 581 were eliminated, it would be done in a way that preserved the low ETRs condos and coops currently enjoy, most likely by moving them to Class 1.[10] Doing so would (1) eliminate the rationale for the 581 discount, (2) result in condos and coops being valued on a comparable-sales approach, and (3) limit their assessments to 6.0 percent of market value.[11]

IBO's analysis focuses on One57's tax savings in 2014, the first year of the building's benefit period. Because 421-a phases out, the percentage of the building's total tax savings due to 421-a trends to zero, so that by the time the exemption expires in 2024, the building's tax savings is due entirely to the 581 discount.

As Class 2 property without 421-a, One57's residential condos had an aggregate assessed value of $75.7 million in 2014, or 45 percent of its income-based market value of $168.2 million. Based on sales records and asking prices, One57's sale value was $2.2 billion that year, implying that as Class 1 property, which is assessed at 6.0 percent, the taxable assessed value would have been no more than

One57's 581 Discount Provides Greater Tax Savings Than its 421-a Exemption
Dollars in millions

Scenarios	2014 Taxable Value	2014 Tax Liability
(1) As Class 1, no 421-a (Baseline)	$134.4	$25.9
(2) As Class 2, no 421-a	75.7	9.9
(3) As Class 2, With 421-a	3.5	0.5
(4) Section 581 Savings [(1)–(2)]		16.0
(5) 421-a Savings [(2)–(3)]		9.4
(6) Total Savings [(1)–(3)]		25.4
(7) Percentage of Savings Due to 581 [(4)/(6)]		62.8%
(8) Percentage of Savings Due to 421-a [(5)/(6)]		37.2%

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$134.4 million. Based on our tax rate simulations, One57 would have faced a liability of $25.9 million as Class 1 and $9.9 million as Class 2 in 2014.[12] The difference, $16.0 million, is the aggregate savings to the condo owners due to Section 581 in the building's first year on the tax roll. By comparison, the 421-a exemption in the first year would have saved the condo owners an additional $9.4 million. Therefore, relative to the baseline, the 581 discount provided 62.8 percent of the total tax savings while 421-a provided 37.2 percent. As 421-a phases out over time, the share of the tax savings due to Section 581 will increase. In 2023, the final year of its 421-a exemption, IBO expects Section 581 savings to account for 88.9 percent of One57's tax savings.

Tax Share Shifts. IBO's simulations involved moving taxable assessed value within property classes and between property classes. Due to the mechanics of the city's property tax system, eliminating either or both of One57's tax benefits would affect other taxpayers, not just the building's condo owners. Indeed, to one degree or another all taxpayers' tax liabilities are interconnected and dependent on the tax treatment of other properties. It is instructive to consider how eliminating One57's tax benefits would affect other property classes. (For a full explanation of the class share component of the city's property tax system, see this IBO report).

Because the City Council has kept the citywide levy at 12.283 percent of the aggregate assessed value subject to tax, eliminating One57's property tax exemption or valuing One57 as Class 1 rather than as Class 2 would increase the citywide levy if the overall rate remained unchanged. Similarly, the mechanics of the city's property tax implies that if the size of the levy were held constant, an increase in taxable assessed value will result in lower tax rates, so that while One57 condo owners would have more assessed value subject to the tax, they would also face a tax rate that is lower than what they face right now. Indeed, if the building's 421-a exemption were eliminated, all other Class 2 property would face a tax rate slightly less than they see currently. In addition, the city's property tax system ensures other classes would benefit as well, though not every class benefits to the same extent. Our simulations showed that if One57's 421-a benefits were eliminated, the city levy would have been $8.9 million greater than it was in 2014. With a larger tax base and a slightly lower rate, the Class 2 levy would have increased $9.3 million with the other three property classes enjoying an aggregate levy reduction of about $400,000.

In our baseline scenario, however, the city adds $58.7 million in taxable assessed value to Class 1, or the difference between One57's taxable assessed value as Class 1 ($134.4 million) and its taxable assessed value as Class 2 without 421-a ($75.7 million). In this case, we would expect the citywide levy to increase $7.2 million. Class 1 would shoulder the burden of the levy change. The $7.2 million increase in the citywide levy would be "paid for" by increasing the Class 1 levy $24.5 million while the Class 2, Class 3, and Class 4 levies would decline by $12.9 million, $600,000, and $3.7 million, respectively. The $24.5 million increase in the Class 1 levy would be apportioned between One57 and all other Class 1 properties: One57's aggregate tax liability would increase $25.9 million and the aggregate tax liability of all other Class 1 properties would decrease $1.4 million, or roughly $2 per taxpayer.

The Share of the Citywide Levy Borne by All Property Classes Other Than Class 1 Would Decrease Had One57 Been Treated as Class 1 in 2014
Dollars in millions

	Change in Levy if One57's...	
Property Tax Class	581 Discount Is Eliminated	421-a Is Eliminated
Class 1	$24.5	$(0.1)
Class 2	(12.9)	9.3
Class 3	(0.6)	(0.01)
Class 4	(3.7)	(0.3)

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These simulations illustrate how eliminating either One57's 581 discount or 421-a exemption would affect different property classes differently. In all instances, though, assuming the city lawmakers did not increase the overall rate of 12.283, the individual class tax rates would fall relative to the rates they would face if One57 continued to receive either tax benefit. Generally speaking, as long as the citywide tax rate is fixed, property tax benefits for one property are paid for by other properties through a higher class tax rate.

Findings and Limitations

IBO's case study analysis of One57 is an effort to contribute to the public dialogue on the 421-a program. The conclusions of our analysis are threefold: (1) the Bronx affordable housing subsidized through One57 cost the city more than affordable units produced under 80/20 421-a law; (2) cash grants to private affordable housing developers would have been more cost-effective than subsidizing affordable housing through One57's 421-a certificates or the 80/20 421-a program; (3) the 581 discount provides a larger tax break to One57 apartment owners than the 421-a exemption.

By its nature a case study cannot generalize to the broader population of 421-a developments. Thus, while affordable housing created by One57 is more costly than that created by 421-a's on-site housing requirements, for example, we cannot say that the average certificate-created unit is also more costly. Hence, we cannot conclude that the certificate program as a whole was more or less cost-effective than the alternatives. A more systematic analysis of affordable housing created under the certificate program, the current 421-a program, and alternative development programs is needed. Nor can we conclude the program benefits outweigh the program costs. Finally, decisions about the 421-a program have to be considered in the broader context of how best to allocate the city's limited resources, including tradeoffs between affordable housing and other public investments.

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Endnotes

[1]Expiration of the law would eliminate the authority to grant new exemptions, although exemptions that have already been granted would continue.
[2]The analysis focused on the residential portion of the building because it is the only component receiving 421-a benefits.
[3]The citywide discount for coops in 2015 is 77.9 percent. The boroughs with the largest to smallest discounts are Brooklyn (81.3 percent), Manhattan (78.3 percent), Staten Island (75.8 percent), the Bronx (73.9 percent), and Queens (73.2 percent).
[4]IBO uses a nearest neighbor matching program to generate sales-based valuations. The matching strategy performs nearly as well as the Department of Finance's computer assisted mass appraisal techniques.
[5]Besides the 581 discount, apartments in coop and condo buildings with fewer than 10 apartments also benefit from limits on annual assessment increases which further lower their ETRs. These apartments are Class 2 properties whose assessed value cannot increase more than 6.0 percent a year and no more than 20.0 percent over five years.
[6]See Salinger, Tobias. (2014). Three of five developers have not cashed in controversial tax exemption. Commercial Observer. Retrieved April 3, 2014. Available at http://commercialobserver.com/2014/08/three-of-five-developers-havent-cashed-in-controversial-tax-exemption/
[7]Developers can receive 421-a benefits while simultaneously receiving benefits through other programs on the same project. This implies that the city spends property tax revenue through the tax code on activities that are not spurred by the 421-a program alone. In the case of the certificate program, not only do market-rate developments enjoy 421-a benefits but the affordable housing developments subsidized by certificate sales may also be eligible for 421-a benefits if they participate in certain state and federal housing programs. This was true in the case of the Bronx projects that were subsidized by One57. Since our case study only involves affordable housing created through One57, we limit our analysis to the housing produced by the certificates; these additional 421-a tax expenditures are not attributable to One57 and therefore were ignored in our analysis.
[8]This comparison makes no presumption about the the quality of the new affordable units under any of the programs. However, if the quality of the apartments subsidized by One57 is 3.7 times better than the quality of the average unit created under the 80/20 program, then both subsidies would be equally cost-effective. IBO has no data on the relative quality of the housing produced, and thus cannot speak to this possibility.
[9]Because our baseline scenario would discriminate against One57, it could never be implemented in practice.
[10]It is possible that a new class, Class 5, could be created. We did not pursue this possibility because it would have required too many assumptions—not least of which is determining how the current base proportions used in allocating each tax class's share of the levy would be reset after such a shift.
[11]Merging condos and coops into Class 1 would also eliminate the rationale for the condo/coop abatement.
[12]For our analysis, we treat One57's addition to the roll as a physical and quantity increase, and therefore only the 2014 adjusted base proportions are affected. An alternative approach would be to reset the current base proportions to 2014 fair market values, in which case One57's addition to Class 1 would not affect adjusted base proportions. We did not pursue this approach so that our analysis would remain faithful to the current practice of distributing the citywide tax levy according to each class's share of fair market value in 1989 with only adjustments for physical additions and reductions.