IBO

New York City Independent Budget Office

Fiscal Brief

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# The Mayor's New Housing Marketplace Plan: Progress to Date And Prospects for Completion

THE NEW HOUSING MARKETPLACE PLAN (NHMP) is Mayor Michael Bloomberg's 10-year plan to create or preserve 165,000 units of affordable housing. The original five-year plan, announced in 2003, called for 65,000 units by 2008, but was expanded in February 2006 to a 10-year plan, ending in 2013, with a goal of 165,000 units.

The plan set specific targets in terms of construction of new units and preservation of existing ones, rental and ownership units, and by level of household income. The plan calls for 55 percent, or nearly 92,000 units, of new construction and for preservation of another 73,000 units—45 percent of the total. Roughly reflecting the current rate of homeownership in the city, the plan envisions that approximately 30 percent of units will be ownership, and 70 percent rental.

In terms of income groups served, the goal of the NHMP over 10 years is to make 68 percent of the units affordable to low-income households (defined as income less than or equal to 80 percent of Area Median Income (AMI)—currently $39,700 for a single person or $56,700 for a family of four). Another 11 percent of the units are to be for moderate-income households, which includes incomes between 80 percent and 120 percent of AMI (up to $85,080 for a family of four), and 21 percent for middle-income households, which includes income greater than 120 percent of AMI up to generally no more than 250 percent of AMI.

The plan projects total spending of $7.5 billion, including $4.5 billion from the capital budget of the Department of Housing Preservation and Development (HPD), $1.3 billion from HPD's expense budget, $548 million from the city's Housing Development Corporation, and $1.1 billion from other sources. Other production will occur "off-budget" through the use of tax incentives and other mechanisms. Conversely, several sources of funding, including much of the expense budget, will contribute to the plan's overall goals indirectly, through pipeline development activities like land acquisition and site development, or through preservation programs such as HPD's anti-abandonment and code enforcement programs. These activities, while not necessarily producing units counted toward the NHMP's targets, contribute to the plan's broad goals of preservation and development.

This report, undertaken at the request of the Women's City Club of New York and Housing First!, analyzes progress on the NHMP through the plan's first four years, from 2004 through the end of fiscal year 2007, and evaluates prospects for completing the plan. After a brief discussion of measurement issues, we review progress on the plan in terms of both housing units financed and resources expended. In the following section we analyze what remains to be accomplished in order to complete the program as originally formulated, and evaluate risks and potential obstacles.

*Summary version Of this report...*

Mayor's Housing Plan: Progress to Date, Prospects for Completion

*... at www.ibo.nyc.ny.us*

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| New Housing Marketplace Ten-Year Plan<br>*Planned unit start; percent of total planned units* | | | | | | |
|---|---|---|---|---|---|---|
| | New Construction | | Preservation | | Total | |
| Homeownership | 18,302 | 11.1% | 29,856 | 18.1% | **48,158** | 29.2% |
| Rental Units | 73,335 | 44.4% | 43,539 | 26.4% | **116,874** | 70.8% |
| **TOTAL** | **91,637** | 55.5% | **73,395** | 44.5% | **165,032** | 100.0% |

SOURCES: IBO; Department of Housing Preservation and Development, *The New Housin Marketplace: Creating Housing for the Next Generation.*

terms. We do not include forgone tax revenues from tax abatements and exemptions, or below market land sales, for example. Conversely, studies have shown the positive impacts of HPD's housing programs on neighboring property values, but this analysis does not factor in increased revenues that might arise from higher property values.[1]

***Scope, Definitions, and Measurement.*** In our analysis we are measuring housing units the production or preservation of which has begun, but not necessarily been completed, based on figures provided by HPD. The units reported are generally *units financed*—that is, the unit is counted in the fiscal year in which funding commitments are put in place. In some instances this may not be the same fiscal year in which construction or rehabilitation work actually begins (a *unit start*). Because our analysis covers a multiyear period over which averaging makes this distinction less important, we will use the terms "units," "units financed," and "unit starts" interchangeably.

For measurement purposes, each unit is attributed to a single program. Many of the units built or preserved are financed using multiple funding sources, however. In order to avoid double-counting of unit starts, HPD credits each unit to the program that provided the largest share of the funding, or the land on which new units are built. Thus, the average cost per unit of a program does not take into account other funding sources, and represents only the average contribution of that particular program, and not necessarily the full subsidy provided to a unit. For this reason as well, cost comparisons across programs should be treated with caution.

Finally, this analysis only includes costs as measured in budgetary

Because of the wide range of activities that are covered under the term preservation, the cost per unit also varies widely, from an average of $3,378 per unit under the Home Improvement Program, to $143,561 per unit for rehab of buildings in the Tenant Interim Lease Program. The average cost per unit of all preservation programs during 2004 to 2007 was $46,642.

## PROGRESS TO DATE

At the end of fiscal year 2007, four years into the 10-year plan, the city has financed 64,408 units of affordable housing under the New Housing Marketplace Plan, or 39 percent of the total goal. Although the plan got off to a slow start in its first year, production has averaged nearly 18,000 units per year in the last three years—a rate which, if sustained over the remaining six years of the plan, would achieve the overall goal of 165,000 units.

***Type of Unit.*** Progress has not been uniform across the different categories for which distinct goals were set. The plan has produced 37 percent of its target for rental units (43,543 units) and 42 percent of its target for homeownership units (20,364 units) through the first four years of the plan. (See Appendix A for a complete list of unit starts by program for 2004 through 2007).

More units have been funded, as a percentage of plan targets,

### What is "Preservation?"

The term "preservation" in practice covers a multiplicity of diverse programs. Broadly speaking, however, the term "preservation" is used to mean one of two things: 1) programs that extend the affordability of existing government-assisted affordable housing, such as Project-based Section 8 developments, Mitchell-Lama housing, or housing built with federal low-income housing tax credits, beyond the point at which owners could convert their apartments to market rates; or 2) programs that provide assistance—usually in the form of low-interest and/or forgivable loans—for moderate to gut rehabilitation of housing serving a range of incomes. Examples include HPD's Article 8A loan program, Housing Improvement Program (HIP), and Senior Citizen Home Assistance Program (SCHAP). Also included under the preservation rubric are HPD's programs to privatize formerly city-owned (in rem) buildings and Third Party Transfer, which replaced the in rem program for tax-delinquent distressed buildings.

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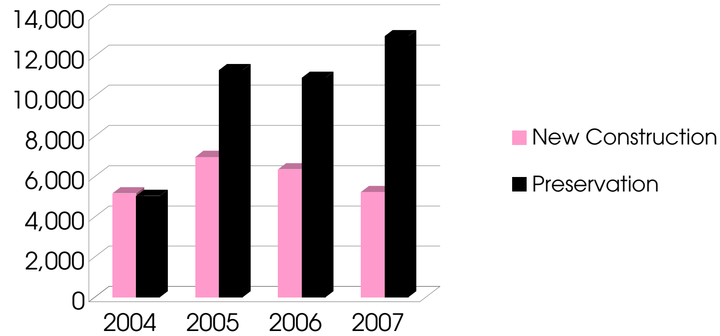
**New Housing Marketplace Plan Unit Starts, 2004-2007**




SOURCES: IBO; Department ofHousing Preservation and Development.
NOTE: Figures do not include Downpayment Assistance Program (501 units).

through preservation programs than through new construction. The plan set a target of 92,000 units of new construction, and preservation of 73,000 units of existing housing. At the end of fiscal year 2007, the city has financed 55 percent of its target for preservation and 26 percent of its target for new construction.

***Preservation Programs***. The principal reason for the relatively fast pace of preservation starts has been the Mitchell-Lama Preservation Program, through which the city's Housing Development Corporation (HDC) has helped keep 13,800 units of city administered Mitchell-Lama housing affordable to current tenants and owners. The program keeps units in the Mitchell-Lama program by providing favorable mortgage refinancing terms and offering grants and low-interest loans for building repairs and upgrades. The units preserved so far under this program were city-supervised with mortgages held principally by HDC.

Another roughly 17,000 units of privately owned housing have been assisted through various HPD loan programs, such as the Article 8A and Participation Loan programs; HDC's Low Income Affordable Marketplace Program (LAMP); extended affordability agreements; and other programs. (The Article 8A loan program has also been used to help preserve Mitchell-Lama projects in addition to those in the HDC program.)

Another reason for the relatively large number of preservation starts during the plan's first four years was the remaining inventory of city-owned *in rem* housing in place at the beginning of the plan. The three main *in rem* privatization programs—Tenant Interim Lease Program (TIL), Neighborhood Redevelopment Program (NRP), and Neighborhood Entrepreneur Program (NEP)—preserved 4,509 units of affordable housing. Another approximately 1,900 units were rehabilitated through other programs, including Neighborhood Homes, Homeworks, and Storeworks. The Third Party Transfer Program preserved 2,891 units during the first four years of NHMP. The program allows the city to initiate an *in rem* procedure against distressed tax-delinquent properties to require the property owner to pay back taxes. If the property owner does not pay taxes, the city can transfer the property to a responsible third party. Properties that are transferred are eligible for rehabilitation loans.

***New Construction***. There were 23,715 units of newly built affordable housing financed in the first four years of the plan. The Cornerstone Program and large-scale developments like Arverne foster new construction of mixed-income housing on city-owned land. These two programs financed 5,492 and 1,099 units, respectively. The 421a program was responsible for 2,287 units through the certificate program (units built through the 421a 80/20 program are not included in NHMP totals). HDC's LAMP program financed 3,616 units, and the New Housing Opportunities Program (New HOP), a middle-income program financed with taxable bonds and HDC corporate reserves, financed 1,605 new units. The Mixed Income Rental Program (MIRP) financed construction of 1,773 units of housing affordable to low-income households. There were 1,324 units of supportive housing financed during the first four years of the program.

***Affordability.*** The NHMP calls for 68 percent of the housing to serve low-income households, 11 percent for moderate-income households, and 21 percent for middle-income households (see page 1 for definitions of income ranges). According to HPD's analysis of tenant incomes in units completed in 2006, an estimated 75 percent of the units completed served low-income households, while 12 percent served moderate-income households and 13 percent served middle-income households.[2]

HPD's 2006 affordability study also included information on program guidelines that stipulate the maximum *allowable* household income to be eligible for a particular program. The study found that actual household incomes are on average lower than the maximum permitted under program eligibility guidelines, with in particular more low-income households

**New Housing Marketplace Units Started, 2004-2007**

*Unit starts and percent of plan goal*

| | New Construction | | Preservation | | Total | |
|---|---|---|---|---|---|---|
| Homeownership | 4,421 | 24.2% | 15,943 | 53.4% | **20,364** | **42.3%** |
| Rental Units | 19,294 | 26.3% | 24,249 | 55.7% | **43,543** | **37.2%** |
| | **23,715** | **25.9%** | **40,192** | **54.8%** | **63,907** | **38.7%** |

SOURCES: IBO; Department of Housing Preservation and Development.
NOTE: Figures do not include Downpayment Assistance (501 units).

**Affordability of New Housing Marketplace Plan Units Funded, 2004-2007**

*Percent of total units funded*

| | Low | Moderate | Middle |
|---|---|---|---|
| New Housing Marketplace Plan Goals | 68% | 11% | 21% |
| HPD Affordability Studies | 75% | 12% | 13% |
| 2006 Program Guidelines | 47% | 39% | 14% |

SOURCES: IBO; Department of Housing Preservation and Development.
NOTE: See text for definition of household income groups.

and fewer moderate-income households. While 47 percent of the units completed in 2006 are restricted to low-income households, 75 percent were actually occupied by low-income households. In contrast, just 12 percent of 2006 completions were occupied by moderate-income households, although program guidelines would have allowed up to 39 percent.

HDC's Mitchell-Lama Preservation Program accounts for most of the difference between permissible household incomes under program guidelines and actual incomes found in HPD's survey. The Mitchell-Lama preservation program guidelines allow moderate-income households in 100 percent of its units. HPD's Affordability Study found that 69 percent of Mitchell-Lama households in fact met the definition of low income. In fact, 27 percent of residents had incomes below 30 percent of AMI and 45 percent had incomes below 50 percent of AMI. Since the Mitchell-Lama Preservation Program is expected to be a much smaller percentage of total units going forward, the city expects that the difference between program guidelines and actual household incomes will narrow.

Since the program guidelines indicate the maximum income allowed in each program, they may give an indication of long-term affordability. Where there are low-income households living in units that allow moderate-income households, moderate-income households could eventually replace low-income households as the latter move out, thereby changing the population served over time. On the other hand, the experience with Mitchell-Lama indicates that the reverse may also happen: to the extent that residents remain in place after retirement, for example, incomes may actually decline over time.

*Future Affordability of Plan Units.* As far as remaining plan production goes, the income mix is likely to shift more toward moderate and—especially—middle-income households in the remaining years of the New Housing Marketplace. Major programs that have served low-income populations in the program's first four years—such as Mitchell-Lama Preservation and *in rem* privatization—will be less important sources of units in the remaining years of the program. Other programs that will provide middle-income housing have yet to begin production in any significant way.

***Spending to Date.*** The New Housing Marketplace Plan projects total spending over 10 years of $7.5 billion. City spending, including the capital and expense budgets (and the Citywide Affordable Housing Fund, which will be financed with revenue from the sale of the Studio City site agreed to as part of the Hudson Yards rezoning) are projected at $5.8 billion, or over three-quarters of the total. (Note that these sums include federal HOME and Community Development Block Grant [CDBG] funds that flows through the expense and capital budgets.) Additional funding sources for the plan include corporate reserves of the Housing Development Corporation, federal low-income housing tax credits, and other sources discussed in more detail below.

To date, about $2.5 billion, or one-third of total planned funds, have been spent. City capital and expense budget spending for the New Housing Marketplace Plan has totaled $1.8 billion from 2004 through 2007. This is 31 percent of total projected spending from these sources for the duration of the plan. (See the sidebar for details on HPD expense budget spending.)

In contrast, the Housing Development Corporation has spent the bulk of its planned funding—$493 million of the projected $548 million. HDC has recently recapitalized $75 million of this total to partially replenish corporate reserves. Other, non-city sources of funds, however, have been tapped less, in particular low-income housing tax credits and the NYC Acquisition Fund.

***Non-City Sources*.** The plan projected $1.1 billion from non-city sources—fifteen percent of total funding.

The largest source was a projected $596 million of Low Income Housing Tax Credits. This projection is based on the estimated leveraged value, which represents the equity that is generated through the sale of the tax credits. HPD estimates, using the average yield per year to date, that so far they have generated $112.3 million of tax-credit equity.

The $130 million NYC Housing Trust Fund represents surplus revenues from the Battery Park City Authority, to be used for three broad purposes: (1) to deepen subsidies to help target hard to reach (principally very low income) income ranges (either incomes below 30 percent of AMI or between 60 percent and 80 percent of AMI); (2) funding to acquire or renovate large-scale properties or to purchase loans on large-scale properties at risk of converting to market rate; (3) land acquisition and predevelopment costs for affordable housing. The funds are

**Funding the Plan**

*Dollars in millions*

| | Plan 2004-13 | Spending, 2004-07 |
|---|---|---|
| **City Budget** | | |
| Capital Budget | $4,523 | $1,297 |
| Expense Budget | 1,264 | 521 |
| Citywide Affordable Housing Fund | 50 | 0 |
| **Subtotal, City Budget** | **$5,837** | **$1,818** |
| **Housing Development Corporation** | **$548** | **$493** |
| **Non-City Sources** | | |
| LIHTC | $596 | $112 |
| NYC Housing Trust Fund | 130 | 44 |
| NYC Acquisition Fund | 360 | 26 |
| LMDC | 50 | 31 |
| **Subtotal, Non-City Sources** | **$1,136** | **$213** |
| **TOTAL** | **$7,521** | **$2,524** |

SOURCES: IBO; Department of Housing Preservation and Development; Housing Development Corporation.

budgeted in HPD's expense budget. To date, HPD has budgeted $43 million to contribute to 1,275 units; 792 units in hard-to-serve affordability groups and 483 units through preservation. (As noted earlier, many units are funded through multiple sources. Units funded through the Housing Trust Fund have also received funding from, and been counted under, Cornerstone or the Mixed-Income Rental Program.)

The NYC Acquisition Fund provides short-term early-stage capital for acquisition of privately owned land and buildings for affordable housing projects. The fund is supported by city, private and nonprofit institutions. The face value of the loans is $230 million, but since the loans are short term, it is expected that $360 million will ultimately be loaned out for NHMP. The acquisition fund so far has loaned $25.8 million, which will contribute to development of 381 units.

The Lower Manhattan Development Corporation (LMDC) was established after the events on September 11, 2001 to promote the recovery and development of lower Manhattan. The program is funded through a special allocation of federal Community Development Block Grants, including $50 million to be used for affordable housing. So far, the city has allocated $31 million for projects in Chinatown and Tribeca that are expected to generate a total of over 300 units.

***Summary.*** Through the end of the New Housing Marketplace Plan's fourth year, over 64,000 units have been financed, and annual production levels are such that, if they are sustained, could achieve the overall goal of 165,000 units. Considerable progress has been made on preserving affordable housing for low- and moderate-income tenants. Progress on the plan's goals for construction of new units for low-, moderate-, and middle-income households is less advanced, however, and will require substantial effort and funding to complete. What remains to be accomplished, and the prospects for achieving the plan's goals, are discussed in the next section.

## COMPLETING THE PLAN

In this section, we consider the prospects for completing the New Housing Marketplace Plan. To meet the targets of the original ten year plan, the City needs to fund another 101,000 units of affordable housing by 2013. Of this housing, over 67,000 will need to be new construction to meet the plan's goals, including over 34,000 for low-income households, 7,100 for moderate-income households, and 26,000 for middle-income households. The city will also need to fund another 34,000 units through its preservation programs, most of which will serve low- and moderate-income households.

Briefly stated, we find that the city's ability to accomplish the remaining plan goals for preservation appears fairly solid. Funding the remaining units to meet the plan's new construction goals, however, may pose more of a challenge.

We look in turn at the three main sources of funding for completing the plan: the HPD capital budget, the Housing Development Corporation, and non-city and off-budget programs. In each area, we identify any risks or challenges over the remainder of the plan. It is important to recall that many projects draw on multiple financing sources; therefore, risks in one funding area can spill over into other areas as well. We link the funding risks back to the remaining production goals, in terms both of the types of units funded and income levels served.

### Low Income Housing Tax Credits

Federal low-income housing tax credits provide a source of equity for low-income housing by offering federal income tax breaks to the holder of the tax credit. The leveraged value of the tax credit is the amount of equity raised from the sale of the tax credit. Currently, tax credits are generating equity of around 90 percent, or $0.90 on the dollar. There are two types of tax credits, a 9 percent credit and a 4 percent credit. The 9 percent credit is available to projects that are not federally subsidized (for example, a project not receiving tax-exempt bonds). The 4 percent tax credit is available to projects that are federally subsidized.

## HPD Expense Budget Spending

Expense budget spending on NHMP was $521 million from 2004 through 2007. This spending contributed to 501 units counted towards the plan, through $20.9 million of down payment assistance for first-time homebuyers. The majority of HPD's expense budget spending provided anti-abandonment, code enforcement, emergency repairs and administration of in rem and housing finance programs. Although it does not directly contribute many units counted towards the plan, the city includes this spending because it serves to preserve the overall housing stock of the city. Seventy percent of expense budget spending during the first four years of the plan was funded by federal Community Development Block Grant funds.

**Housing Preservation and Development Expense Spending on New Housing Marketplace, 2004-2007**

*Dollars in millions*

| Program Area | Spending | Performance Measures | |
|---|---|---|---|
| Housing Finance | $69.4 | | |
| Homeownership | 20.9 | Units: 501, 2004-2007; 3,200 2008-2013 | |
| In-Rem Privatization | 104.2 | In-Rem Units Sold | 5,944 |
| Anti-Abandonment | 36.5 | Properties with Completed Treatment | 5,496 |
| Code Enforcement | 86.9 | Violations Removed | 2,217,300 |
| Emergency Repair / Lead Paint / 7A | 180.9 | Emergency Repair Orders Completed | 91,117 |
| Housing Litigation | 22.6 | Compliance Cases Closed | 53,126 |
| | $521.4 | | |

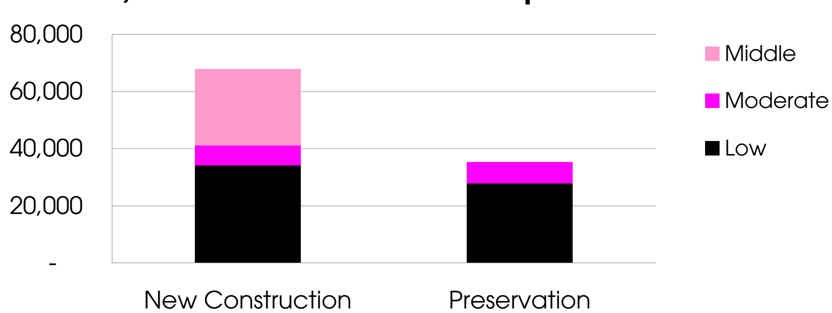
SOURCES: IBO; Office of Management and Budget; Department of Housing Preservation and Development; Mayor's Management Report.

***HPD Capital Budget.*** Based on the Adopted Fiscal Year 2008 Capital Commitment Plan, HPD capital funding for the remainder of NHMP will total $3.0 billion, including both city and non-city (primarily federal HOME Program) funds. We consider the capital budget to be the least risky funding source for NHMP, although it is not immune from budget reductions driven by either economic considerations or political priorities, nor from construction cost increases that could limit the number of units that could be realized within the available funds.

IBO estimates that, with this level of funding, as currently allocated, HPD will be able to preserve or construct almost 66,000 affordable units through 2013—almost two-thirds of the remaining units required to meet the NHMP target of 165,000 units (see Appendix B for additional detail on our projections). Our projections are based on average per unit costs at the program level for 2004 through 2007, and assume that construction costs are relatively flat.

Based upon this projection, HPD would be able to fund through its capital budget 92 percent of the remaining planned preservation units, principally through the Article 8A and Participation Loan Programs, Third Party Transfer, and rehabilitation of the remaining *in rem* units through the Tenant Interim Lease program.

**101,000 Units Needed to Complete Goal**




SOURCES: IBO; Department of Housing Preservation and Development.

In contrast, IBO projects that HPD's capital budget is sufficient to fund slightly less than half—49 percent—of the units needed to meet new construction targets. As currently allocated, the capital budget could fund nearly 19,000 units of low- and moderate-income new construction and over 14,000 new middle-income units.

The HPD capital programs that fund low- to moderate-income new construction include the Mixed Income Rental Program (MIRP), New Foundations, Multifamily New Construction, and

**New Housing Marketplace Plan, Department of Preservation and Development Projected Capital Budget and Unit Starts, 2008-2013**

| | Units Financed 2004-07 | Estimated Funding, 2008-13 (millions) | Estimated Starts 2008-2013 | Percent of Plan* |
|---|---|---|---|---|
| Preservation | 20,949 | $1,296.7 | 32,563 | 92.2% |
| New Construction | 12,501 | $1,698.2 | 33,287 | 49.0% |
| **TOTAL** | **33,450** | **$2,994.9** | **65,850** | **65.1%** |

SOURCES: IBO; Office of Management and Budget; Dept. of Housing Preservation and Development.
NOTE: *Percent of total planned units 2008-2013.

the Supportive Housing Loan Program. Some of these programs, such as MIRP, which is almost always blended with LAMP, also rely on HDC for funding.

Of the 14,300 units projected by IBO for middle income new construction out of the HPD capital budget, 11,500 are from middle-income programs including Queens West. These programs are new and the financing model is not yet settled. One of the challenges facing the middle-income programs is that they are not normally eligible to use tax-exempt private-activity bonds or low-income housing tax credits since the developments do not include low income units. While the city is exploring ways to finance these key programs, the fact that the financing model is not yet in place presents a risk to achieving the goals the plan laid out for new construction of middle-income units.

***Housing Development Corporation.*** The Housing Development Corporation—the city's municipal housing finance agency—is a key source of funding for reaching the NHMP new construction goals.  But HDC may face challenges to producing the remaining 11,000 units to meet its target of 42,000 units as part of the New Housing Marketplace Plan, including the availability of corporate reserve funds and the allocation of private activity bond issuance authority.

According to the NHMP, HDC was to use $548 million from its corporate reserves for low-interest second mortgages to help finance 42,000 units. As of the end of fiscal year 2007, HDC had used $493 million from its reserves to fund 30,838 units, leaving approximately $55 million remaining of the originally planned amount. Recently, HDC issued debt to recapitalize $75 million of its Mitchell-Lama Preservation program loans. This funding replenishes corporate reserves and is likely to be used to finance additional secondary mortgages, according to HDC.

This amount is likely to be insufficient, however. According to our estimates, using the average second mortgage per unit in the LAMP and New HOP programs for 2004 through 2007, HDC will need up to $260 million in corporate reserves to complete the remaining 11,000 units for NHMP. Even assuming the extra $75 million will be used entirely for second mortgages, and with the remaining $55 million in planned funding, this would leave a shortfall of $130 million.

The second challenge is the available private-activity bond volume cap available to HDC, which is the primary source of first-mortgage funding for its production programs.  HDC issued $2.1 billion of tax-exempt private-activity bonds and $642 million of taxable bonds for primary mortgages for NHMP programs during the first four years of the plan. This is well above HDC's usual allocation, and included significant prior-year carryover and additional allocations from the city and state at the end of each calendar year. Demand for volume cap has grown at both the state and city levels, however, while supply has grown less quickly. HDC can expect its normal annual allocation of around $190 million from the city, but it is uncertain whether it will continue to receive additional allocations as it has the past four years. If HDC is allocated less volume cap going forward, it will have a limiting effect on its production. Federal legislation is being sought next year to alleviate shortages in volume cap and /or to allow recycling of unused volume cap in subsequent years. Since corporate reserve funds supplement bond funds, without the necessary level of private-activity bond authority, corporate reserves will be insufficient by themselves to support production of the remaining 11,000 units.

At this date, therefore, there remains some uncertainty about the ability of HDC to finance another 11,000 units. Since HDC programs are often blended with HPD capital program funds, HDC funding risk carries over to HPD production programs as well. Since the HPD capital budget can only fund half of the remaining goal for new construction, HDC will be particularly important in reaching that target.

Although the program mix going forward cannot be known with certainty, we project that roughly three-quarters of the HDC units will be new construction. HDC's programs produce units for low-, moderate-, and middle-income families to varying amounts depending, again, on the program mix. Therefore, the risk to HDC achieving its goals appears to affect NHMP's overall new construction targets.

***Off-Budget Sources.*** The city has also generated units toward the housing plan goals through mechanisms that do not use city budget or HDC funding. These mechanisms include federal grants, state funds, and off-budget programs. For the remainder of the plan, the city expects to continue using these programs to generate affordable housing. During the first four years of the plan, the city has started 8,322 units under these programs. The city projects that it will be able to generate 20,149 units (20 percent of the remaining goal) through these programs during the remaining six years of the plan. However, many of these programs depend on favorable market conditions and/or voluntary participation. They will also require far higher production during the remainder of the plan than they have seen so far.

We organize our discussion of these programs in three broad categories: federal and state-funded production; market-driven production; and voluntary participation programs.

***Federal and State-Aided Production***. The city counts units that were generated through the New York State Housing Trust Fund if they were built on city-owned land. There were 1,485 units during 2004 through 2007 and the city projects that 271 units will be created in this way through the remainder of the plan.

The federal Department of Housing and Urban Development's (HUD) Section 202 program finances supportive housing for the elderly. The Section 811 program finances supportive housing for low-income people with disabilities. HPD projects that 1,222 units will be funded through these two programs over the remainder of the 10-year plan.

The Lower Manhattan Development Corporation (LMDC) has dedicated $50 million in special federal CDBG funding for affordable housing production as part of the recovery and rebuilding of lower Manhattan. (Although LMDC has contributed $31 million towards over 300 units so far, the units are counted under the Cornerstone Program or as Extended Affordability Agreements.)

***Market-Driven Production***. The success of two programs that are together projected to provide about 7,000 units of new construction through the remaining years of the plan will depend largely on the robustness of the residential construction market.

*The 421a Program*. The 421a tax exemption program generated 2,287 affordable units in fiscal years 2004 through 2007. The city projects that the program will create another 4,500 units

### HDC Programs

Nearly half of HDC unit starts during the first four years of the New Housing Marketplace Plan—over 14,000 units—were financed through the Mitchell-Lama Preservation Program. Most of the Mitchell-Lama developments that have participated in this program were in HDC's portfolio (that is, HDC held the mortgages) and HDC projects preserving only a small number of units from this source going forward. HDC expects, however, to preserve additional city-supervised or state-supervised Mitchell-Lama units through this program. Their ability to do this will depend on the availability of corporate reserves for secondary loans and their ability to restructure prior debt held by the city or state. Since this is a preservation program it will not help them contribute to the overall new construction goals.

Another nearly 17,000 units have been financed through HDC's two major production programs, LAMP and New HOP, with an average second mortgage amount of $23,656.

LAMP uses tax-exempt bond proceeds for primary mortgages and offers loans from HDC's corporate reserves for second mortgages at one percent interest to finance rental units for low income households. The 12,642 units financed through 2007 were split 55 percent new construction and 45 percent preservation. The average second mortgage amount for LAMP projects, which are often financed using low income tax credits, HPD capital funds, and other sources of financing, was $18,564 per unit.

New HOP is a new construction program that uses taxable bond proceeds for primary mortgages and loans from HDC's corporate reserves for second mortgages to fund mostly middle income housing: HPD's 2006 affordability study found that New HOP units were 16 percent low income, 35 percent moderate income, and 49 percent middle income. New HOP funded 4,072 units during the plan's first four years. The average second mortgage amount was $39,466 per unit.

LAMP and New HOP are expected to be the two main HDC programs contributing to New Housing Marketplace Plan starts during the remaining years of the plan. To the extent that New HOP is more expensive per unit than LAMP, maximizing overall production would appear to favor the latter, further jeopardizing the goal of 26,000 units of middle-income new construction.

**Off-Budget New Housing Marketplace Plan Units**
*Unit starts*

| | Unit Starts 2004-07 | Projected Units 2008-13 |
|---|---|---|
| **Federal / State** | | |
| NYS Housing Trust Fund | 1,485 | 271 |
| Section 202/811 | 1,125 | 1,222 |
| Lower Manhattan Development Corporation | 0 | 160 |
| Stand Alone 9% Tax Credits | 122 | ? |
| **Market Driven** | | |
| 421a | 2,287 | 4,500 |
| Inclusionary Housing | 892 | 2,550 |
| **Expiring Affordability** | | |
| Extended Affordability Agreements | 2,411 | 4,900 |
| Expiring Tax Credit Portfolio | 0 | 6,546 |
| **TOTAL** | **8,322** | **20,149** |

SOURCES: IBO; Department of Housing Preservation and Development.

through 421a. Revisions to the 421a program recently passed into law by the state Legislature eliminate the Certificate Program, which allowed developers in the so-called Exclusion Zone to meet their affordable units requirement off-site in return for a reduced property-tax exemption (compared to on-site production). In exchange for eliminating the Certificate Program, the Bloomberg Administration agreed instead to creation of an affordable housing trust fund, to be funded at $400 million provided that targeted savings were achieved through other changes in the 421a program. The city's projection of 4,500 units for the remainder of the plan includes units already in the certificate program pipeline as well as expectations based on the housing trust fund. However, whether the anticipated savings from other reforms to the 421a program will be realized is unclear, given that the legislation enacted by the state differed significantly from the plan originally proposed by the Bloomberg Administration. If projected savings fall short of what was anticipated at the time of the Bloomberg Administration's original agreement with the City Council, the amount available to the trust fund would be lower.

In contrast, HPD's projection does not include expected units produced under the 20 percent affordable requirement in the recently-expanded Exclusion Zone, where units receive property tax exemptions if at least 20 percent of the units are affordable to low-income households.

*Inclusionary Zoning*. The city also generates affordable housing through inclusionary housing requirements in the city's zoning regulations. In exchange for allowing greater building densities than would normally be allowed, developers agree to make a share of newly built units affordable to low-income households. So far, the city has created 892 units of affordable housing this way and projects creating another 2,550 units, primarily in recently rezoned areas of West Chelsea, Greenpoint-Williamsburg and Hudson Yards. As with 421a, the level of production will largely be a function of the robustness of market-rate production. Any shortfall in the projected production levels would affect the goal of building 34,000 new units of low-income housing.

***Voluntary Participation Programs***. Finally, the city is counting on building owners entering into voluntary agreements to preserve the affordability of over 11,000 primarily rental units. Most of these agreements will not require significant financial commitments on the part of the city.

The city's Extended Affordability program uses a case-by-case approach to extend the affordability of government-subsidized projects reaching the end of their contract periods. Strategies include extending mortgage terms, tax abatements and exemptions, and debt forgiveness. These methods have preserved 2,411 units through 2007 and HPD projects preserving 4,900 units through the remainder of the plan. Achieving the projected numbers will depend on conditions outside HPD's control, including the number of such projects reaching the end of their subsidy agreements and the willingness of owners to remain subject to rent restrictions in return for other inducements.

The city also preserves affordability in projects originally created using Low Income Housing Tax Credits but nearing the expiration of their 15-year affordability requirement. The city projects extending affordability of 6,546 tax-credit units through 2013, which HPD currently estimates is roughly half the number of tax-credit units that will reach the 15-year mark by 2013.

The extended affordability programs and expiring tax-credit programs all contribute to the low income preservation goals of the plan. Since the HPD capital budget can fund 90 percent of the preservation goal, risks associated with these programs are less likely to affect whether the city achieves its preservation target.

**CONCLUSION**

Through the first four years of the New Housing Marketplace Plan, the city has financed 39 percent of the overall goal of 165,000 new or preserved units of affordable housing. Of the over 64,400 units funded to date, over 40,000 are units that have been preserved, and nearly 24,000 are new.

In the remaining six years of the plan, the city must begin construction of nearly 67,000 new units and preserve over 34,000 units of low- and moderate-income housing, if it is to meet the goals laid out in the New Housing Marketplace Plan.

Our analysis indicates that most of the preservation units can be financed from the HPD capital budget based on current program allocations. The programs include the traditional loan programs like Article 8A, Participation Loan Program, and Third Party Transfer as well as *in rem* privatization through Tenant Interim Lease. Off-budget programs like extended affordability agreements and preservation of the tax credit portfolio will also add preservation units.

The bigger challenge lies in the new construction of 68,000 new units to expand the total supply of affordable housing—including roughly 41,000 new units for low- and moderate-income households and 26,000 for middle-income households. Financing mechanisms for middle income new construction are still being worked out. HDC's ability to fund all of the expected units remains uncertain at this date, potentially affecting new construction of both low- and middle-income units. And production through some of the off-budget programs will depend on conditions outside of the city's control, including overall residential real estate market conditions and decisions by private owners, also affecting low income new construction units.

As with any long-term plan, changing circumstances and priorities will require adaptation. As the mid-way point approaches for the New Housing Marketplace Plan, a reassessment of its goals and assumptions may be necessary to help ensure that the plan carefully balances its ambitions with the means available to achieve them.

*This report prepared by Brendan Cheney*

**END NOTES**

[1]See Schwartz, Amy Ellen, Ingrid Gould Ellen, Michael H. Schill, and Ioan Voicu. 2005. *The External Effects of Place-Based Subsidized Housing*. New York: Furman Center for Real Estate and Urban Policy.
[2]City of New York, Department of Housing Preservation and Development: *Fiscal Year 2006 Affordability Study*.

# *Appendixes*

# Appendix A

| New Housing Marketplace Plan Units Funded, 2004-2007, by Program | | | | |
|---|---|---|---|---|
| | Household Income (Est.)* | | | |
| | Low | Moderate | Middle | Total |
| **NEW CONSTRUCTION** | | | | |
| **Ownership** | | | | |
| Arverne | 0 | 85 | 1,014 | 1,099 |
| Cornerstone - Owner | 130 | 130 | 1,366 | 1,626 |
| Habitat for Humanity | 47 | 0 | 0 | 47 |
| Misc. Negotiated Sales | 9 | 0 | 0 | 9 |
| Nehemiah | 6 | 196 | 0 | 202 |
| New Foundations | 293 | 251 | 146 | 690 |
| New Housing Opportunity Program | 11 | 24 | 34 | 69 |
| New Neighbors | 0 | 28 | 0 | 28 |
| New York City Housing Authority | 67 | 0 | 0 | 67 |
| Partnership | 178 | 285 | 121 | 584 |
| **Subtotal, Ownership** | **741** | **999** | **2,681** | **4,421** |
| **Rental** | | | | |
| 421a Affordable | 2,287 | 0 | 0 | 2,287 |
| City Coucil Mixed Income | 133 | 0 | 0 | 133 |
| Cornerstone - Rental | 765 | 1,168 | 1,933 | 3,866 |
| Homeless Housing Assistance Program | 133 | 0 | 1 | 134 |
| Housing Trust Fund (State) | 1,485 | 0 | 0 | 1,485 |
| Inclusionary Housing | 841 | 0 | 0 | 841 |
| Low-income Affordable Marketplace Program | 3,616 | 0 | 0 | 3,616 |
| Misc. Senior Housing | 184 | 0 | 0 | 184 |
| Mixed Income Rental | 1,773 | 0 | 0 | 1,773 |
| New Housing Opportunity Program | 249 | 538 | 750 | 1,536 |
| Office of Mental Health | 94 | 0 | 0 | 94 |
| Permamnet Housing for Homeless Families Program | 42 | 0 | 0 | 42 |
| Preservation Participation Loan Program | 114 | 0 | 0 | 114 |
| Participation Loan Program / Small Building Loans | 549 | 0 | 0 | 549 |
| Section 202/811 | 1,125 | 0 | 0 | 1,125 |
| Small Buildings | 33 | 0 | 0 | 33 |
| Stand Alone 9% Tax Credits | 122 | 0 | 0 | 122 |
| Supportive Housing | 1,324 | 0 | 0 | 1,324 |
| TPT Privately Funded Sites | 9 | 0 | 0 | 9 |
| Vacant Buildings 2000 | 0 | 10 | 17 | 27 |
| **Subtotal, Rental** | **14,878** | **1,715** | **2,701** | **19,294** |
| **TOTAL, NEW CONSTRUCTION** | **15,619** | **2,713** | **5,383** | **23,715** |

*Continued on next page*

| | Household Income (Est.)* | | | Total |
|---|---|---|---|---|
| | Low | Moderate | Middle | |
| **PRESERVATION** | | | | |
| **Owner** | | | | |
| Asset Control Area | 28 | 0 | 0 | 28 |
| Article 8A Loan | 3,324 | 119 | 63 | 3,506 |
| Habitat for Humanity | 6 | 0 | 0 | 6 |
| Home Improvement Program | 63 | 32 | 17 | 112 |
| Homeworks | 67 | 93 | 155 | 315 |
| Misc. Negotiated Sales | 13 | 0 | 0 | 13 |
| Mitchell-Lama Preservation | 5,912 | 1,476 | 1,193 | 8,580 |
| Neighborhood Homes | 516 | 424 | 517 | 1,457 |
| Neighborhood Housing Services | 151 | 99 | 53 | 302 |
| New York City Housing Authority | 301 | 0 | 0 | 301 |
| Partnership | 5 | 8 | 3 | 16 |
| Senior Citizen Home Assistance Program | 246 | 15 | 0 | 261 |
| Storeworks | 0 | 121 | 0 | 121 |
| Tenant Interim Lease Program | 780 | 0 | 0 | 780 |
| TIL2 | 145 | 0 | 0 | 145 |
| **Subtotal, Owner** | **11,556** | **2,386** | **2,001** | **15,943** |
| **Rental** | | | | |
| Article 8A Loan | 4,556 | 163 | 87 | 4,806 |
| Article 7A Finc'l. Assistance | 449 | 0 | 0 | 449 |
| DAMP Special Projects | 84 | 1 | 1 | 87 |
| HUD Multi-Family | 936 | 0 | 0 | 936 |
| Inclusionary Housing | 51 | 0 | 0 | 51 |
| Low-income Affordable Marketplace Program | 2,971 | 0 | 0 | 2,971 |
| Mitchell-Lama Preservation | 3,603 | 900 | 727 | 5,230 |
| Neighborhood Entrepreneurs Program | 2,079 | 89 | 0 | 2,168 |
| Neighborhood Redevelopment Program | 1,391 | 0 | 25 | 1,416 |
| Participation Loan Program | 2,143 | 0 | 0 | 2,143 |
| PLP/SB | 748 | 0 | 0 | 748 |
| Small Buildings/New Partners | 239 | 0 | 0 | 239 |
| Supportive Housing | 550 | 0 | 0 | 550 |
| TPT Privately Financed Sites | 12 | 0 | 0 | 12 |
| Vacant Buildings 2000 | 0 | 11 | 21 | 32 |
| Extended Affordability | 2,411 | 0 | 0 | 2,411 |
| **Subtotal, Rental** | **22,223** | **1,165** | **861** | **24,249** |
| **TOTAL, PRESERVATION** | **33,779** | **3,551** | **2,862** | **40,192** |
| **TOTAL** | **49,398** | **6,264** | **8,245** | **63,907** |
| Down Payment Assistance | n.a. | n.a. | n.a. | 501 |
| **GRAND TOTAL** | **49,398** | **6,264** | **8,245** | **64,408** |

SOURCES: IBO;Department of Housing Preservation and Development.

NOTES: Figures for units by Household Income are estimates based on extrapolation of program-level findings of HPD 2006 Affordability Study, which examined household incomes of residents of NHMP units completed in 2006, to all starts for 2004-2007. Numbers may not add due to rounding and the estimation process.

# Appendix B

| IBO Projections of Housing Preservation and Development Capital Budget Units Funded, 2008-2013, by Program | Household Income | | | |
|---|---|---|---|---|
| **New Construction** | Low | Moderate | Middle | Total |
| **Ownership** | | | | |
| Large Scale (Arverne/Edgemere) | | 57 | 679 | 736 |
| Nehemiah | | 15 | 496 | 511 |
| New Foundations | 1,217 | 1,042 | 611 | 2,870 |
| Partnership New Homes | 313 | 503 | 214 | 1,031 |
| **Subtotal, Ownership** | **1,530** | **1,617** | **2,001** | **5,148** |
| **Rental** | | | | |
| Multifamily New Construction | 4,074 | 543 | 815 | 5,432 |
| Middle Income | | | 11,500 | 11,500 |
| Mixed-Income Rental (MIRP) | 7,178 | | | 7,178 |
| Supportive Housing Loan Program | 4,029 | | | 4,029 |
| **Subtotal, Rental** | 15,281 | 543 | 12,315 | 28,139 |
| **Total, New Construction** | **16,811** | **2,160** | **14,316** | **33,287** |
| **Preservation** | | | | |
| **Ownership** | | | | |
| Home Improvement Program (HIP) | 1,170 | 585 | 319 | 2,074 |
| Senior Citizen Home Assistance Program (SCHAP) | 571 | 34 | | 605 |
| HUD Asset Control Area | 1,433 | | | 1,433 |
| Tenant Interim Lease Program | 2,443 | | | 2,443 |
| Article 8A Loan - Owner | 5,525 | 198 | 105 | 5,828 |
| **Subtotal, Ownership** | **11,141** | **818** | **424** | **12,383** |
| **Rental** | | | | |
| Participation Loan Program / Small Building Loans | 2,293 | | | 2,293 |
| Article 8A Loan - Rental | 7,630 | 274 | 145 | 8,048 |
| HUD Multifamily | 3,621 | | | 3,621 |
| PLP / Third Party Transfer | 3,968 | | | 3,968 |
| 7A Financial Assistance | 1,106 | | | 1,106 |
| Neighborhood Redevelopment Program | 1,123 | | 21 | 1,144 |
| **Subtotal, Rental** | **19,741** | **274** | **165** | **20,180** |
| **Total, Preservation** | **30,882** | **1,091** | **590** | **32,563** |
| **GRAND TOTAL** | **47,693** | **3,251** | **14,905** | **65,850** |

SOURCES: IBO; Department of Housing Preservation and Development.

NOTE: Numbers may not add due to rounding and the estimation process.