

**SUMMARY** *In the context of growing shortages of affordable rental housing in Canadian cities, the policy discourse in the last decade has centered on ways to get the private sector involved through a variety of public-private partnerships, policy incentives and regulatory measures. This research explores the provision of affordable rental housing in New York City (NYC) focusing on major fiscal, financial and planning instruments used to implement local housing policy. Such interventions build upon a strong political commitment to affordable rental housing since the 1980s, supportive policy environment and robust institutional partnerships with non-profits and private sector providers. The city offers important lessons for Canadian municipalities on ways to address affordability problems as well as improve quality of life in inner city neighbourhoods through mixed income housing programs.*

**RÉSUMÉ** *En raison de la pénurie croissante de logements locatifs abordables dans les villes canadiennes, le discours politique de la dernière décennie a porté sur les façons d'accroître la participation du secteur privé en multipliant les partenariats public-privé, politiques incitatives et mesures réglementaires. Ce travail de recherche explore l'accès à des logements locatifs abordables à New York, en mettant l'accent sur les principaux mécanismes fiscaux, financiers et de planification utilisés pour mettre en œuvre une politique locale en matière de logement. Ces mécanismes s'appuient sur un engagement politique ferme à l'égard des logements locatifs abordables depuis les années 1980, ainsi qu'un cadre réglementaire favorable et de solides partenariats institutionnels avec des organismes sans but lucratif et du secteur privé. La ville offre des leçons importantes pour les municipalités canadiennes sur les façons de résoudre les problèmes liés à l'abordabilité du logement et d'améliorer la qualité de vie dans les quartiers centraux déshérités grâce à des programmes de logement qui favorisent la diversité des revenus.*



# INVESTING

# IN NEW

# YOUR CITY'S

# FUTURE

Affordable  
Rental  
Housing  
in Mixed  
Income  
Projects

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## INTRODUCTION

**CITIES, STATES, AND DIFFERENT LEVELS OF GOVERNMENT** in the United States have designed a number of programs to create and maintain place-based affordable rental housing. This article explores the affordable housing strategies of NYC focusing on the planning and implementation of mixed income programs to create socially inclusive neighbourhoods. Such planning interventions build upon a strong legacy of comprehensive housing policy, institutional partnerships with non-profits and private sector providers and sustained political commitment to affordable rental housing since the 1980s. While NYC is famous for its landmark real estate deals, often triggered by disproportionately high earnings of the global financial elite, it is also a city of renters, where public and subsidized housing is 17 percent of the rental stock (see Table 1). The city has a rent stabilization law, which imposes restrictions on rent increases in one million units that represent 47 percent of the rental housing stock. The city government continues to support new types of subsidized housing and is considered a leader in this regard. Its \$8.5 billion Marketplace Plan aims to create and preserve 165,000 affordable homes for city residents by the end of 2014. NYC offers important lessons for Canadian municipalities dealing with affordability problems and alternatives to improve quality of life in inner city neighbourhoods through mixed income housing programs. This research builds on the work of housing policy groups at New York University and The New School University as well as interviews with planners, non-profit housing providers and financial organizations in NYC while Dr. Tsenkova was a visiting professor at The Milano School of International Affairs, Management and Urban Policy in the spring of 2013.

### AFFORDABLE RENTAL HOUSING IN NEW YORK

NYC has retained its public housing created through federal support in 1935 (180,000 units), where tenants pay 30 percent of income on rent. Despite its concentration in several neighbourhoods with some of the highest poverty rates, public housing is in considerable demand as evidenced by its low vacancy rate and long waiting lists. Another federal program, Project-based Section 8, initiated in 1974 provides a direct rental subsidy to private owners who house low-income tenants in newly built or rehabilitated units, reducing rents to 30 percent of income. NYC has the largest share of units under the program (51,235). Such demand-based subsidy avoids the concentration of low-income households and has become an essential housing policy instrument. The low-income housing tax credit program, which began in 1986, has become the primary vehicle for financing new affordable housing in mixed income developments (50,896 units). It provides a dollar-for-dollar reduction in federal income tax liability for investors in rental housing that serve low-income households.<sup>1</sup> New York has been particularly active in using local funds to support subsidized housing through 170 programs, the Mitchell-Lama one being the most prominent one.<sup>2</sup>

### POLITICAL COMMITMENT TO AFFORDABLE HOUSING

No city in the United States can match New York's commitment to affordable housing. In 1976 it started to acquire tax delinquent housing and by 1986 the municipal government became the largest public housing authority owning close to 100,000 *in rem* units

TABLE 1: NYC HOUSING MARKET CHARACTERISTICS

| KEY CHARACTERISTICS                      | 2010      |
|--|-----------|
| Population                               | 8,175,133 |
| Housing Units                            | 3,370,647 |
| Median Household Income                  | \$50,130  |
| Median Sales Price/condominiums          | \$635,586 |
| Median Monthly Rent (all renters)        | \$1,142   |
| Owner-occupied housing (%)               | 32.1%     |
| Public and Subsidized Rental Housing (%) | 8.3%      |
| Rent-Regulated Units (% of rental units) | 47.2%     |

Source: Adapted from FCREUP, 2011.

(vacant or occupied). A Ten Year Plan, an assemblage of different programs, supported the construction of new housing (about 7% of capital commitments and 10% of all units) and the rehabilitation of existing *in rem* properties (84% of capital commitments and 90% of all units). It has produced and rehabilitated over 150,000 affordable housing units, transforming and stabilizing communities in Manhattan, Bronx and Brooklyn.<sup>3</sup> New York's Department of Housing Preservation and Development (HPD) worked closely with hundreds of non-profit developers, property managers, private financial institutions, insurance companies and neighbourhood-based organizations to ensure efficient implementation. This was followed by the Bloomberg Administration's New Housing Marketplace Plan (NHMP) in 2002. As the largest municipal affordable housing effort in the history of the United States, the

Plan aims at the financing of 165,000 units of affordable housing for half a million New Yorkers by 2014. To date, it has funded the creation or preservation of more than 143,300 units of affordable housing and has leveraged \$3.43 for every dollar invested by the City for a total commitment of \$21 billion. NHMP calls for rezoning underutilized industrial areas to facilitate residential or mixed-use development and identifies inclusionary zoning as a key tool to produce affordable housing by the private sector.<sup>4</sup> Despite these achievements, critics point to the loss of existing stock from the Mitchell-Lama rental program and the eroding federal support for Project-based Section 8 vouchers. The concern is that the existing programs will not allow the subsidized housing stock to keep pace with the growing demand from the city's 3 million low-income people.

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**PLACE-BASED  
 AFFORDABLE HOUSING  
 IN MIXED INCOME PROJECTS**

The New York City Housing Development Corporation (HDC), in partnership with HPD, plays a critical role in the realization of NHMP. HDC issues bonds and invests its corporate reserves to finance affordable rental housing. It has supported over 67,000 units under the NHMP combining a first mortgage, funded through the sale of tax-exempt bonds, with a second mortgage provided through corporate reserves in accordance with program guidelines.<sup>5</sup> Table 2 presents

the key characteristics of different programs, defining the type of financial support aligned with the target group. Mixed income initiatives complement other major programs: The Low-Income Affordable Housing Program, under which HDC has financed the creation or preservation of over 30,000 units of low-income housing; and, Mitchell Lama Preservation, under which HDC has financed the repair and preservation of 30,000 units of moderate income housing.

NYC has three basic mixed income programs with some slight variations within them. One set of New Housing Opportunity Program (HOP) deals is comprised of units affordable to households between 61- 80 percent of area median income (AMI) and at or below 60 percent of AMI; another set of New HOPs are affordable to households with 80 percent of AMI and higher (financed using taxable bonds); and the final set of deals are “50-30-20s” (50% market; 30% moderate income; and 20% low income at or below 50% of AMI) financed using tax-exempt bonds with as-of-right 4 percent federal tax credits. The 50-30-20s are located in stronger real estate markets, at the edges of historically low-income and working class communities and more moderate or middle income

areas (e.g., Southern Harlem; Greenpoint/Williamsburg). The New HOPs at or above 80 percent of AMI have been financed in moderate/middle income areas (e.g., the borough of Queens).<sup>6</sup> The New HOPs at or below 80 percent of AMI have been undertaken in low income communities (e.g., South Bronx, sections of Harlem) where the market can be “stretched” to provide housing that accommodates both low-income families as well as more moderate-income households (see Figure 1 for the location of these projects).

Affordable housing developments using these public funding sources can benefit from the city's 421-a tax incentive program, which provides partial real estate tax exemption for new multi-family rental housing. This integration of affordable units into market-rate projects creates opportunities for households with diverse socioeconomic backgrounds to live in the same developments and have access to the same types of community services and amenities. It leverages private-sector investment, requires fewer direct public subsidies, mitigates the displacement of existing low-income households and allows essential public-sector employees such as police officers, teachers, and firefighters to live in the communities they serve.

**TABLE 2: MAIN CHARACTERISTICS OF NYC AFFORDABLE HOUSING PROGRAMS FINANCED BY HDC**

| PROGRAM TYPE                               | NUMBER OF UNITS (2012) | TARGET GROUP  | FINANCIAL SUPPORT  |
|--|------------------------|---|--|
| Low-Income Affordable Marketplace Program  | 29,629                 | <ul style="list-style-type: none"> <li>&gt; AMI: &lt;60%</li> <li>&gt; Family of 4—\$49,000</li> <li>&gt; Multi-family rental housing affordable to low-income households</li> </ul>  | <ul style="list-style-type: none"> <li>&gt; Tax exempt bonds</li> <li>&gt; 4% Federal Low Income Housing Tax Credit</li> <li>&gt; HDC Subordinate Loans</li> <li>&gt; Corporate reserves of 55,000/unit</li> </ul>   |
| Mitchell-Lama and Preservation Programs    | 30,288                 | <ul style="list-style-type: none"> <li>&gt; AMI: 100%</li> <li>&gt; Family of 4—\$83,000</li> <li>&gt; Multi-family rental or cooperative housing affordable to middle income households</li> </ul>                                       | <ul style="list-style-type: none"> <li>&gt; Taxable or tax exempt bonds</li> <li>&gt; Senior debt restructured at a lower rate; Subordinate debt at 0%</li> <li>&gt; Repair loans at low interest</li> <li>&gt; Commitment to stay in the program for 10-15 years</li> </ul> |
| New Housing Opportunities Program (NEWHOP) | 5,325                  | <ul style="list-style-type: none"> <li>&gt; AMI: &lt;130%</li> <li>&gt; Family of 4—\$107,900</li> <li>&gt; Multi-family rental housing affordable to moderate and middle income households</li> </ul>                                    | <ul style="list-style-type: none"> <li>&gt; Taxable bonds</li> <li>&gt; HDC Subordinate Loans of 65,000-\$85,000/unit</li> </ul>   |
| Mixed Income Program 50/30/20              | 1,980                  | <ul style="list-style-type: none"> <li>&gt; AMI: &lt;130% as well as non-restricted market units</li> <li>&gt; Multi-family rental housing: 50% at market rents; 30% affordable to middle income and 20% low income households</li> </ul> | <ul style="list-style-type: none"> <li>&gt; Tax exempt bonds</li> <li>&gt; 4% Federal Low Income Housing Tax Credit on low income units</li> <li>&gt; HDC Subordinate Loans of 65,000-\$85,000/unit for low and middle income housing</li> </ul>                             |

Source: HDC unpublished data, interviews May 2013.



units must be distributed throughout a building in such a way that no more than a third of the units on each floor are inclusionary zoning units.

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## SUSTAINABILITY AND DESIGN INNOVATION

Newly built mixed income affordable housing sets an example for sustainability, design innovation and institutional partnerships. The Hunter's Point South development on the Queens waterfront is the largest new affordable housing complex built in New York City since the 1970s. Envisioned as the City's 2012 Olympic bid, the first phase includes 925 permanently affordable apartments and 17,000 square feet of new retail space, key infrastructure installations, a new five-acre waterfront park, and a new 1,100-seat school. The City collaborated with New York State to help finance the residential buildings, allocating \$185 million of tax-exempt bonds for the project. HDC issued \$236 million in tax exempt bonds, HPD provided \$68 million in subsidy, the developer contributed over \$27 million of equity, and New York State Energy Research and Development Authority provided \$1.2 million in grants for green elements. The waterfront development incorporates resiliency features to mitigate the impact of severe storms and is designed to meet Enterprise Green Communities Criteria (national green building criteria).

Via Verde is a new affordable, sustainable residential development providing mixed income housing opportunities in the South Bronx. The project has 222 apart-

ments and received HUD's Award for Excellence in Affordable Housing Design in 2013. The ground floor features 11,000 sq feet of retail, a community health centre, and live-work units. With a 66 kW building-integrated photovoltaic system, onsite cogeneration, green roof, community vegetable gardens, green interior finishes, rainwater harvesting and drought tolerant vegetation, the complex is LEED NC Gold certified.

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## LESSONS FOR CANADIAN CITIES

The experience of NYC with affordable rental housing provision offers important lessons for Canadian municipalities. A strong political commitment to affordable rental housing, significant financial and planning support and robust institutional partnerships with non-profits and private sector providers play an important role in neighbourhood transformation through sustainable mixed use projects. Its experience shows that investing municipal resources in the

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## INCLUSIONARY ZONING

New York's inclusionary zoning program offers developers density bonuses in exchange for providing permanently affordable housing for low- and moderate-income families. Known as the R10 program, it dates back to 1987 and has produced more than 2,700 affordable units, mostly in Manhattan.<sup>7</sup> Established in response to rising housing costs and the resulting displacement of working-class families in high-density, high-demand areas, the program offers floor area increases of up to 20 percent to developers in exchange for providing permanently affordable housing for families earning no more than 80 percent of AMI. The R10 program does not permit in-lieu cash payments, but requires developers to provide the affordable units on- or offsite through new construction, rehabilitation, or preservation of existing housing. Any offsite units, however, must be located in the same community district or within a half-mile of the site.<sup>8</sup> Housing generated through inclusionary housing programs must be affordable for the life of the development, and the set-aside

Mixed income development (New HOP) in Chelsea, a few blocks away from the High Line Park. Photo credit: Sasha Tsenkova

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above left: Hunter Point: the largest new affordable housing in New York City. Photo credit: New York City Housing Development Corporation

below left: Via Verde—sustainable and affordable rental housing. Photo credit: New York City Housing Development Corporation

development and preservation of affordable housing is a long-term strategy, which may be costly and not necessarily popular under different economic and political conditions.<sup>9</sup> The sustained fiscal and financial support from the federal government, through direct investment in public housing, HOPE VI mixed income developments, demand-based subsidies (Section 8 and Section 22) and tax credits for private investors makes a critical difference. In Canada, the level of federal support is more limited, although

Canada's Economic Action Plan since 2011 has marked a dramatic change in this regard, providing \$850 million over two years for the renovation and retrofit of existing social housing, plus a further \$475 million to build new rental housing for low-income seniors. Economic Action Plan 2013 proposes \$1.25 billion in the next five years to renew the investment in affordable housing. In the context of fiscal support from senior governments and improved access to long-term finance for affordable rental housing, Canadian municipalities can play a significant role in facilitating private sector involvement by creating a positive planning and policy environment. Key recommendations in that regard focus on density bonusing (permitting higher development densities in return for provision of public amenities), streamlined development approval and acquisition of vacant land and tax delinquent properties.

Inclusionary zoning could allow for new affordable housing in mixed income developments, although various factors, including income and tenure mix, design, location, amenities, the strength of the local housing market are critical to building successful mixed income developments. Increasing capital funding for a continuum of affordable housing options by senior governments—federal and provincial—is essential to bridge the gap between the cost of

development and potential revenue generation. The programs need to have transparent and well defined rules, standards and target groups. As different forms of collaboration between private, public and non-profit institutions continue to evolve, the fiscal framework, including tax incentives, needs to be adjusted to encourage more private sector engagement. Specific instruments might be used to target low-income, vulnerable and special needs households, while others might be appropriate for medium income groups that can be accommodated in near market rental and affordable homeownership housing.<sup>10</sup> Capitalizing on the competitive advantages of the private sector (promote/finance, design/build) to reduce development costs through innovative construction and/or management efficiencies should be promoted as a viable, market-based strategy for increasing affordable housing and creating mixed income communities. ■

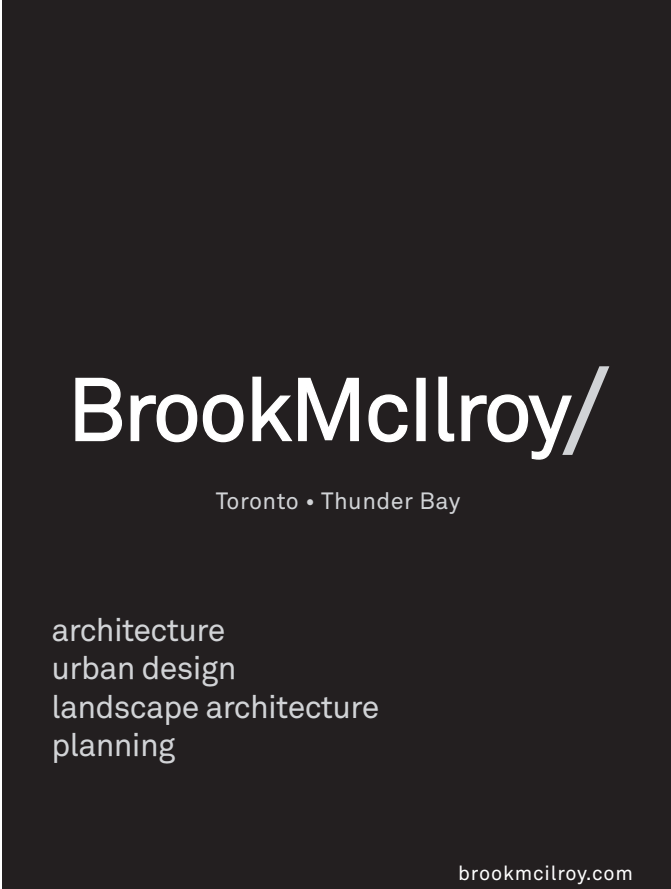
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