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J-51: Tax Breaks for the Wealthy

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J-51 is one of New York City's most expensive housing programs, amounting to $256.6 million in tax expenditures for 2011. The purpose of the program is to give owners an incentive to improve the quality of apartments.

This is the way the J-51 program is supposed to work. First, owners who make eligible improvements to existing buildings receive *exemptions*, which are reductions in the amount of assessed value subject to property tax. Second, eligible owners receive *abatements*, which are direct reductions in the amount of property tax owed.

However, a study released this month by the Community Service Society (CSS) has found that over a ten-year span (2001 to 2011) the program grew in cost by nearly 50 percent (18 percent after inflation) while the number of apartments improved under the program increased by only seven percent.

The reason is that the program has changed drastically in form. Most of the benefit used to take the form of tax abatements that repay landlords for their expenses in improving apartments, but now takes the form of a tax exemption on the increased value of apartments after improvement.

While the number of apartments improved has hardly increased and the extent of the improvement per apartment has stagnated, the amount of property value exempt from taxes has gone through the roof. A growing share of the exemptions has gone to Upper Manhattan as the high-end real estate market boomed there. The program may in fact be subsidizing gentrification and displacement.

Those are among the findings of a recent CSS Policy Brief entitled *Upgrading Private Property at Public Expense – The Rising Cost of J-51*. The report, which was undertaken to measure J-51's worth as a catalyst for stimulating improvements to city apartments, argues for either drastically altering or replacing J-51 with a far more targeted incentive that focuses improvements on units that benefit low-income tenants.

As it is now, J-51 is helping to subsidize high-end, luxury apartments in places like Harlem and Bedford Stuyvesant that are unaffordable for the low and moderate-income New Yorkers. Almost a third of J-51 benefits go to condo and coop owners. The J-51 program should be overhauled so that eligible property owners who receive tax exemptions and abatements are actually making improvements to affordable housing stock that otherwise would not occur.

The program is authorized by a state law which expired at the end of last year, and a battle over extending it is now taking shape in the Legislature. This gives us a chance to ensure that more of the benefits reach low-income tenants instead of landlords.

J-51's $257 million price tag is far more than the amount that the city spends from its own funds on Mayor Bloomberg's New Housing Marketplace Plan. In fact, the only more expensive housing programs in New York City are the ones that the federal government pays for – such as public housing and Section 8 vouchers – and the 421a tax expenditure for new housing construction. Today, benefits are flowing to 709,000 apartments – 23 percent of the city's total housing stock.

It is time to direct a far larger share of the expenditure to improvements that benefit low-income tenants and that would not be undertaken without the incentive provided by J-51. Benefits for coops and condos (except those being developed with government assistance) should be eliminated. The out-of-control exemption benefit should be replaced with an enhanced abatement, which would raise the minimum benefit for needed improvements while reducing the benefit for improvements that do the most to raise property values.

David R. Jones is president and CEO of the Community Service Society (CSS), the leading voice on behalf of low-income New Yorkers for over 168 years. For over 10 years he served as a member of the board of directors of the Puerto Rican Legal Defense and Education Fund. The views expressed in this column are solely those of the writer.