Part 1

421-a at 50:

Rising Cost, Diminishing Returns

Samuel Stein, Debipriya Chatterjee

Community Service Society

FEBRUARY 2022

THE AUTHORS

Samuel Stein is a housing policy analyst at the Community Service Society. Prior to joining CSS, he worked for such housing and labor organizations as Tenants & Neighbors and the Service Employees International Union local 32BJ. He holds a Ph.D. in geography from the CUNY Graduate Center and a Master's in Urban Planning from Hunter College.

Debipriya Chatterjee is the Senior Economist at the Community Service Society of New York. She works on issues related to employment, poverty, inequality, and economic mobility. She holds a Ph.D. in Economics from Brown University.

ACKNOWLEDGMENTS

The authors would like to thank the following individuals who contributed invaluable expertise at various points in the research and development of this report: Lucy Block, Sean Campion, Aaron Carr, Brendan Cheney, Robert Galbraith, Celeste Hornbach, Sumathy Kumar, Elise Levy, Natalie Naculich, Yaw Owusu-Ansah, Michael Perles, Geoffrey Propheter, Cea Weaver, and Alex Yong. Nick Berghall deserves special commendation for helping us turn data from thousands of pages of PDF text into a single spreadsheet. We thank Vic Bach, Oksana Mironova, and Emerita Torres for providing helpful feedback on the text, and Jesse Kramer, Opal Lynch and Alia Winters for copy-editing, designing, and distributing the report. We gratefully acknowledge the generous support of the Oak Foundation, which helps support CSS's research of housing instability in New York City.

DEDICATION

This work builds on the research and advocacy of Tom Waters, CSS housing policy analyst from 2005 to 2020, and is dedicated to his memory and legacy.

Cover Photo: WORDSEARCH, A rendering of One Manhattan Square, Extell Development.
Interior Photo: Istock, A picture of the Hudson Yards Vessel and nearby square / buildings.
Pg 19 Photo: Shutterstock, One57
Report Design: Opal Lynch

CONTENTS

Summary of Key Conclusions

- In Fiscal Year 2021, 421-a reached a record cost of $1.7 billion in foregone tax revenue to New York City. Over the past three decades, the price of the program has increased by 402 percent (adjusted for inflation) and has cost the city more than $22.2 billion.
- The 421-a program cost New York City more than any other single housing expenditure, including city or federal spending on public housing, tenant vouchers or new subsidized housing development.
- The increase in the cost of 421-a has both contributed to and resulted from the increased cost of housing in the city.
- Over the last two decades, there has been a shift in the number of units produced with the 421-a exemption from Manhattan to Brooklyn, but units in Manhattan still constitute the bulk of the program's cost because Manhattan developments remain the most expensive.
- The historical conditions that may have justified 421-a in 1971 (stagnating economy, diminishing development) no longer apply today, and several attempts to correct the program and add new requirements to it have failed to either shrink the cost of the program or produce a meaningful amount of truly affordable housing. The program's price has exploded over time despite previous reforms to the program aimed at tightening eligibility.

Policy Recommendations

- **END 421-A:** Allow 421-a to expire on June 15th, 2022 or pass A1931 (Rosenthal)/ S260A (Myrie) to repeal it now.
- **REPLACE:** Future incentive programs should only provide developers benefits in direct proportion to social benefits they provide the city—i.e. the amount and cost of the affordable housing they produce.
- **AUDIT RECIPIENTS:** Pass S6384 (Hoylman)/ A7265 (Gallagher), which mandates that the state conduct an annual audit of previous 421-a exemptions to ensure compliance from past recipients on affordability, rent stabilization, labor law and other provisions of the program.
- **PROTECT TENANTS:** Pass A641 (Rosenthal)/ S76 (Hoylman) to prohibit landlords from sending inaccurate lease riders to tenants in income-targeted 421-a apartments that falsely state their homes will be removed from rent stabilization when the tax break expires. Develop stronger legislation to protect rent stabilized and income-qualifying tenants in expiring 421-a buildings.

Introduction

According to the economist Rudolf Goldscheid, "The budget is the skeleton of the state stripped of all misleading ideologies." It tells us what the government really prioritizes with its public resources, rather than what its representatives say it values in their public rhetoric. What the New York City and State budget tell us about housing, then, is that subsidizing luxury housing is the state's single most important housing priority, and it has been for several years. In 2021, New York's most expensive housing program, 421-a, turned 50 years old. On June 15th, 2022, the program is set to expire. This report argues that the program is an expensive anachronism—a tremendously costly legacy of a very different time for New York City's housing and real estate markets—that the legislature should let lapse.

The 421-a property tax exemption program was signed into law in 1971, a time marked by fears of declining population, decelerating construction, and diminishing real estate values. It was meant to stimulate private-market residential construction when policymakers believed that developers would not choose to do so without substantial support. These are no longer the prevailing conditions in our city and have not been for some time. And yet 421-a persists, growing more expensive nearly every year and thus depriving the city of the tax revenue dollars it needs to support the production of more deeply affordable housing.

This report offers an in-depth look at the program's ballooning costs over the past several decades, using thirty years of data from the New York City Department of Finance's Annual Reports on Tax Expenditures to analyze 421-a's overall price in foregone tax revenue, its per-unit cost, the explosion of "exempt value," and the distribution of projects and costs between the boroughs. (We provide definitions of some of the key terms related to 421-a throughout this report.) We then review the history of the program, including how and why it was developed, how it was reformed over time, and why those reforms failed to rein in the program's costs or produce affordable housing at a rate justified by the expense. We then provide an overview of how the system works today and why the most recent set of reforms produced similar results. We then turn to some of the most common defenses of 421-a in relation to the data we present and make the case against extending the program into the future.

The problem with 421-a is not that it is expensive or that it subsidizes new large-scale construction: New York City should be spending billions of dollars on housing production, and we should be thinking big about new construction. But 421-a is not producing the kinds of housing our city needs—housing for working-class and low-income people, who are being priced out of the housing market and falling into dangerous overcrowding and homelessness or leaving the city altogether. Low-income people comprise the majority of New York City's population and face the most severe housing hardships; our government's housing strategy should center around them. It's time to reawaken our political will to put public resources toward public, social and supportive housing, rather than making our top priority subsidizing the luxury housing market.

Coming Soon:

In our next 421-a report, we will analyze 421-a as an "Affordable New York" program, the issues facing rent stabilized 421-a tenants, and the ways 421-a has contributed to rising land prices.

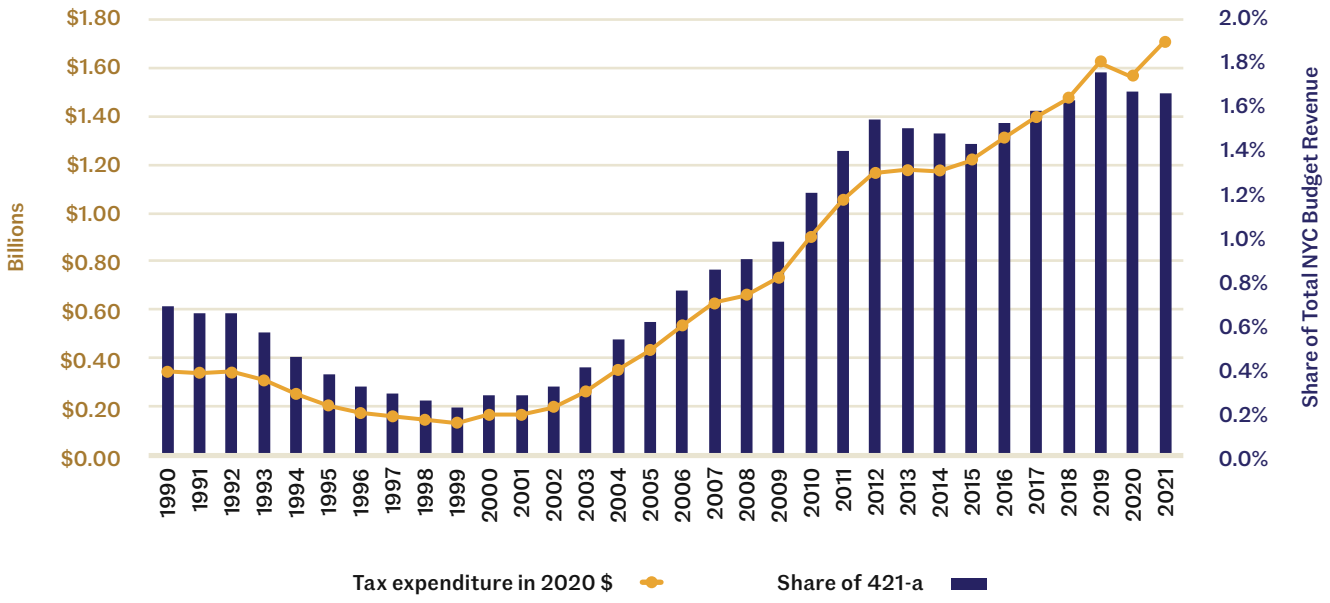
What Has 421-a Cost New York City?

To understand 421-a's changing costs and construction dynamics over time, The Community Service Society of New York (CSS) analyzed 32 years of data from every New York City Department of Finance (DOF) "Annual Report on Tax Expenditures" from Fiscal Year 1990 to Fiscal Year 2021—all of the reports available on the DOF website.[2] These reports detail how much revenue the city forewent on 421-a in a given year, what was built with these tax benefits, where it was built, and how much the assessed value of the properties compared to their exempt values. Studying these reports over a 32-year period, and adjusting all dollar figures to account for inflation, allows us to understand how the program has ballooned over the years into the City and State's single costliest housing expenditure.

Tax Expenditure: sanctioned unpaid taxes. Tax expenditure programs allow a particular kind of person—a housing developer or condo buyer, in the case of 421-a—to skip out on taxes they would otherwise owe the government. On the public balance sheet, uncollected revenue has the same impact as direct spending. But tax expenditure programs get less public scrutiny than government payments, even though tax breaks tend to be less efficient at meeting their stated public purpose (like producing affordable housing) than direct spending.

Figure 1: Cost of 421-a has continued to increase relative to the size of the City's budget.

Annual 421-a Tax Expenditure as a share of Total City Revenue



Source: CSS calculations of Annual Tax Expenditure reports made available by the NYC Department of Finance.

Note

The DOF's Annual Reports on Tax Expenditures provide a rich source of data on the program's costs and construction and appraisal dynamics, but they do not reveal anything about the program's track record on affordable housing, as they do not include data about the amount or level of affordable housing financed through 421-a. In our next report, we will use other methods to comment on 421-a and affordable housing.

In Fiscal Year 2021, New York City lost over $1.7 billion to 421-a through uncollected property tax revenues.[3] In inflation-adjusted dollars, between 1990 and 2021, the city forewent more than $22.2 billion.

The current cost of 421-a, estimated at $1,711,500,000 for FY 2021, represents 1.7 percent of the total revenue collections in the City's budget.[4] By comparison, this sum is

- slightly higher than the entire annual City budget for the City University of New York at $1.6 billion,[5]
- $500 million more than the entire annual city budget for the City's Department of Health and Mental Hygiene,[6] and
- slightly higher than the entire annual City budget for New York City's Economic Development Corporation at $1.6 billion.[7]

The cost of the 421-a program in 1990, the earliest year for which data on the program are available in an electronically accessible format, was approximately $341 million, or 0.67 percent of the City's budget. Over the past three decades, 421-a's cost has increased by 402 percent (adjusted for inflation) and has thus become more expensive to maintain—both in absolute terms (as the tab has grown) and in relative terms (as a share of the budget).

The 421-a program cost New York City more than any other single housing expenditure, including city or federal spending on public housing, tenant vouchers or new subsidized housing development. 421-a took top billing when CSS last compared its cost (in terms of the forgone revenue rather than in direct spending) to that of other housing expenditures in 2015, and that remains the case today, even after the de Blasio administration substantially increased HPD's capital budget from Bloomberg-era levels.[8] (See Table 1 for a comparison of the cost of 421-a against an array of other housing related expenses borne by the City.)

Assessed Value: The amount of money a property is worth for the purposes of determining property tax bills. Assessed value is typically based on a percentage of the property's value as determined by an appraiser, and might be lower than the property's potential sale price. For Class 2 properties (rental, coop and condo buildings with more than 4 units as defined by the City's tax code), the property's assessed value is usually 45 percent of it's market value.

Exempt Value: The amount of assessed value that is untaxed as a result of a tax expenditure program. In the case of 421-a, this generally means the assessed value of a building or an apartment, rather than that of the land on which it has been built.

Housing Units: A "housing unit" is a home—in this case, an apartment. When we talk about how many units were subsidized in a given year, we are counting both apartments in new developments financed in that year and apartments in older projects whose exemption is ongoing. In any given year, old exemptions make up a far larger proportion of the cost of the program than brand new projects.

Inflation Adjustment: Since the value of a dollar changes, researchers adjust for inflation over time by multiplying dollar amounts by a modifier—the price deflator—based on the Consumer Price Index. In this case, since we are looking at the cost of 421-a from Fiscal Year 1990 to Fiscal Year 2021, we adjusted all dollar amounts to their values in 2020 dollars by using a deflator published by the Bureau of Labor Statistics.[1] (Fiscal Year 2021 includes parts of the years 2020 and 2021.) That way, we can make fair comparisons between costs 30 years ago and costs today.

Table 1: Select housing expenditures in New York City, 2015 and 2021 (in millions)

	2015 report	FY 2021
421-a tax benefit[1]	**$1,073**	**$1,712**
City share of HPD capital[2]	$320	$1,486
NYCHA Section 8 vouchers[3]	$934	$1,286
Federal share of NYCHA operating[4]	$830	$1,015
HPD Section 8 vouchers[5]	$317	$588
Federal share of NYCHA capital[6]	$259	$585
CDBG share of HPD expense[7]	$197	$418
City share of NYCHA capital[8]	$69	$387
J-51 improvement tax benefit[9]	$259	$296
City share of HPD expense[10]	$59	$275
Federal share of HPD capital [11]	$44	$43
Total revenues in NYC budget	$78,035	$103,099

Sources: City of New York Budget Function Analysis, FY 2022; City of New York Capital Commitment Plan, FY 2022; NYCHA Adopted Budget for FY 2021; NYCHA Capital Plan, Calendar Years 2021-2025; Waters and Bach, 2015.
Notes: On page 29

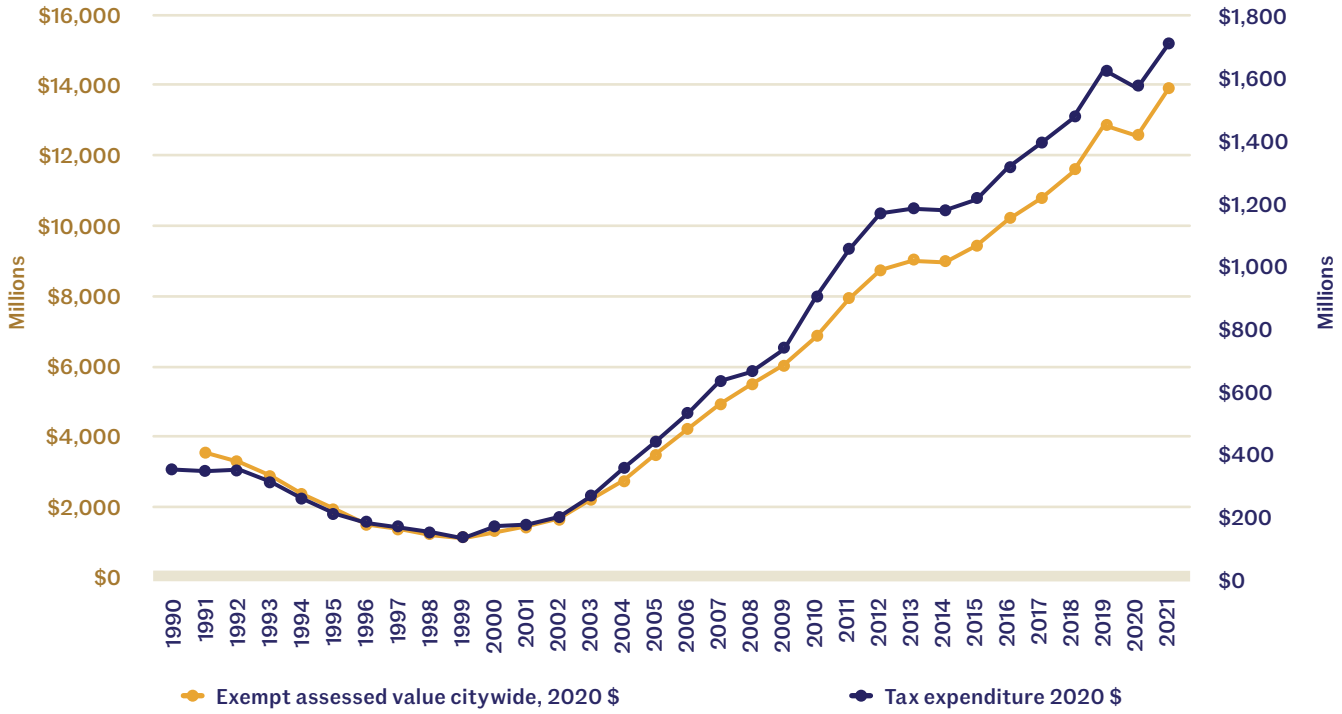
Breaking Down 421-a's Cost Explosion

As Tom Waters and Victor Bach noted in their 2015 report, 421-a has, since 2000, become massively more expensive than in previous years,[9] and, as Tom Waters predicted in 2016 and 2017,[10] that cost trajectory has continued with the program's most recent iteration. Figure 2 plots the cost of the program to New York City and the total exempt value of units receiving the 421-a benefit. During the 1990s, the cost of the program as well as the total exempt and assessed values generally declined on a yearly basis. This was due to changes in the housing market conditions, rather than any intentional intervention on the part of policymakers. But in the 22 years since 1999, both indicators have been on an upward trajectory. Whereas for a decade the cost of 421-a was decreasing by tens of thousands of dollars each year, it is now regularly becoming more expensive by millions. Between 1991 and 2021, the program's cost has increased at the rate of 5.6 percent, compounded annually. During this time, exempted taxable values grew at a slightly slower annual average rates of 4.7 percent.

When comparing time series data over long horizons, it is often useful to calculate the annual average growth rate that smooths out much of the year-to-year fluctuations. This rate is also popularly known as the compound interest rate. In this instance, we can imagine that we froze the cost of the 421-a program from 1991 in a bank account that provided a 5.6 percent annual interest for 30 years. When we finally accessed it, the cost of the program had more than quadrupled.

Figure 2: Cost of 421-a to the City rose faster than the growth in exempt value

Growth in the cost of 421-a program and the total exempt value since 1990
(adjusted for inflation to reflect 2020 dollars)



Source: CSS calculations of Annual Tax Expenditure reports made available by the NYC Department of Finance.

The Number of New Units Grew, But the Program's Cost to the City and Value to Owners Grew Even Faster:

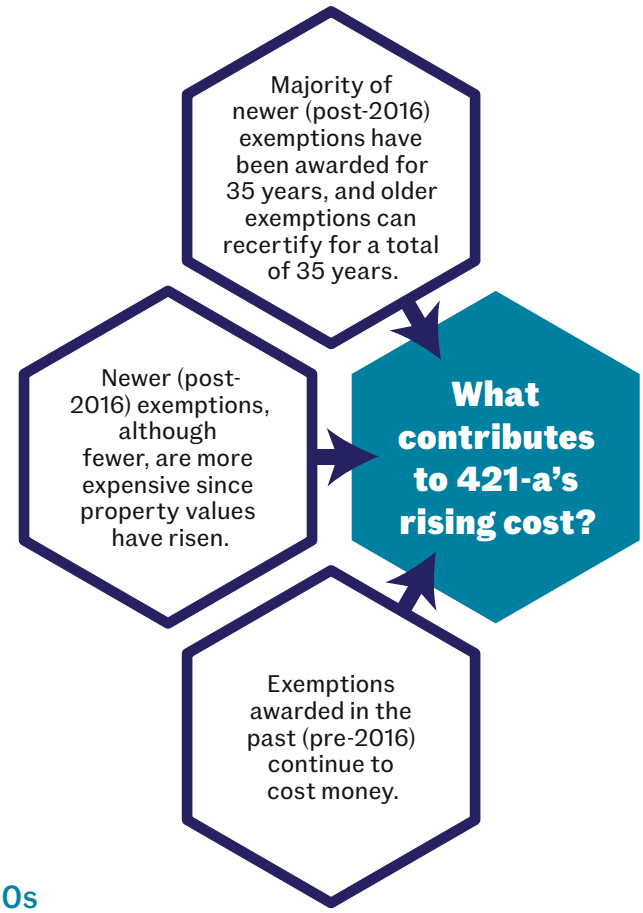
One reason why the cost of the exemption program has been increasing is that the number of units being produced through the program has been growing. Table 2 shows that between Fiscal Years 1999 and 2021, from the program's 32-year nadir to its present, the number of units receiving the 421-a benefit increased over five times. But while the number of apartments subsidized through the program grew by 540 percent, the program's price tag grew by over 1200 percent.

Table 2: Growth in the cost of the 421-a far outpaced the growth in the number of units produced using the exemption.

	Percentage Growth since 1999	Annual Average Rate of growth since 1999
Number of units citywide	539.6%	8.8%
Exempt assessed value citywide, 2020 $	1190.7%	12.3%
Tax expenditure 2020 $	1292.3%	12.7%

Source: CSS calculations of Annual Tax Expenditure reports made available by the NYC Department of Finance.

Figure 3: Prime factors contributing to ballooning cost of the 421-a exemption program



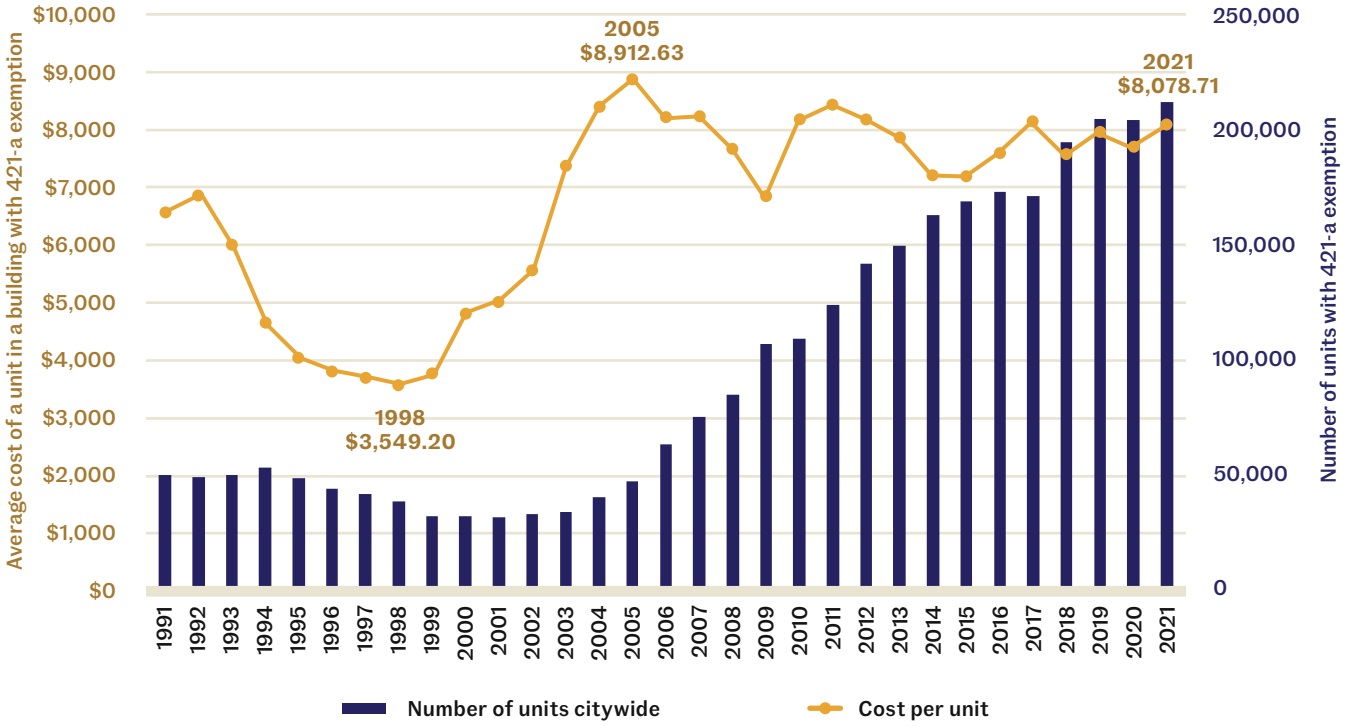
Another way to view this disconnect between the growth in units and the growth in the cost of the exemption is by comparing their annual average growth rates. Since 1999, the number of units with 421-a exemptions has grown at an annual average rate of 8.8 percent, while the exempt assessed value has increased by 12.3 percent, and the tax revenue foregone has increased by 12.7 percent. That the cost of the 421-a program rose faster than the rate at which units were produced is partly due to the continued increase in housing prices in the city over the last two decades. As the schematic in Figure 3 shows, rising housing prices, when combined with long durations of the exemption (35 years for the more recent, post-2016 exemptions), have caused the cost of the program to explode.

421-a's Per-Unit Price Shot Up in the Early 2000s and Stayed High Ever Since

421-a's increasing cost is also captured by looking at the average per-year cost for a single unit of housing with a 421-a benefit, as shown in Figure 4. In 1990, the average unit with 421-a exemption cost the city $6,604, in 2020 dollars. The average cost per unit metric is subject to two moving forces: the yearly fluctuations in housing valuations (and hence the fiscal cost of 421-a); and year-to-year changes in the number of units. Although Figure 2 shows that both parts have generally moved in tandem, there have been differences in the rates of growth that each has experienced. To illustrate, Figure 4 shows that the cost nadir came in 1998, when the inflation adjusted average per-year cost per unit declined to $3,549. In Fiscal Year 2021, the average per-year cost per unit is $8,079—close to approaching its historical peak of $8,913, reached in 2005, when the City forewent $428 million in revenue to fund 48,078 units. Compared with 1991, today's per-unit cost represents an increase of 22.3 percent.

Figure 4: 421-a's price per unit has risen over 22 percent in the last thirty years

Average per-year cost of a unit and citywide number of units with 421-a exemption
(inflation adjusted to reflect 2020 dollars)



Source: CSS calculations of Annual Tax Expenditure reports made available by the NYC Department of Finance.

Extra-Long 421-a Exemptions Make Up an Outsized Portion of Program Costs

The current iteration of the 421-a program—the one that has been in place since 2017—cost the city $151 million in Fiscal Year 2021. Because this version of 421-a includes options that are especially long in duration—up to 35 years—these costs will continue long into the future.

Figure 5, panels (a) and (b), show the number of exemptions and the revenue that the City forewent from the various versions of 421-a in Fiscal Year 2021. There are currently 255 active 421-a exemptions granted since 2017; for 236 (or 93 percent) of them, the exemption lasts for 35 years. These new, post-2017 projects account for less than 1 percent of the total exemptions the City paid for in Fiscal Year 2021, but they were responsible for $151 million—9 percent—of the total tax expenditure from the 421-a program. In other words, a small number of new projects is accounting for a relatively large

proportion of the program's cost, and we will be paying for these exemptions for a very long time.[11] Meanwhile, pre-2016 15-year exemptions make up a relatively large percentage of exemptions (62 percent) compared to their share of the program's cost (31 percent). This outcome is no accidentand merely reflects the design of 421-a: longer exemptions cost the city more over time, and newer exemptions tend to be more expensive as assessed property values rise. It should be reiterated here, then, that the 2017 version of 421-a allows some building owners with expiring 421-a exemptions to "extend" their benefits for up to 35 years, so we could still be paying for these older projects for even more years to come.

Figure 5, panel (a): Old exemptions still make up the bulk of 421-a projects

421-a exemptions by type and length, FY 2021
Total projects = 64,778

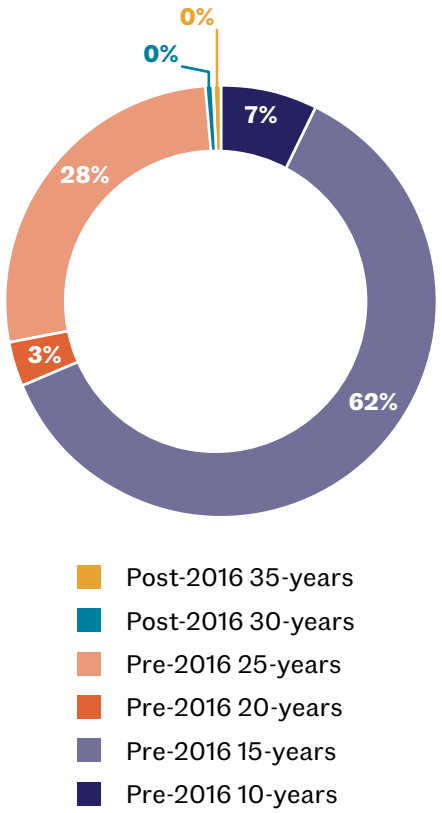
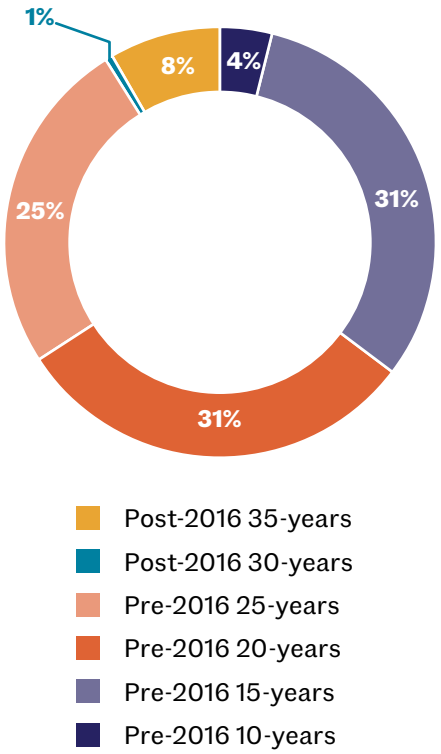


Figure 5, panel (b): But newer exemptions make up an outsized proportion of today's costs

Cost of 421-a exemptions by type and length, FY 2021
Total cost= $1.7 billion



Source: CSS calculations of Annual Tax Expenditure reports made available by the NYC Department of Finance.

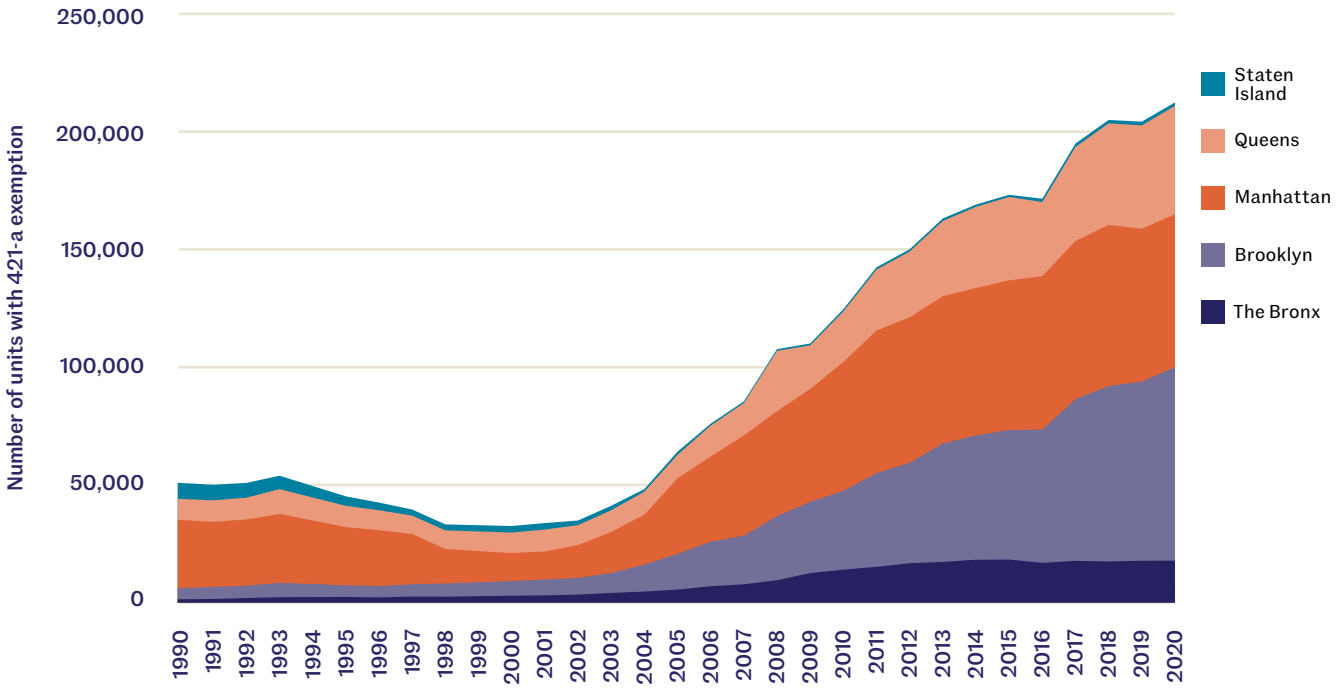
New 421-a Developments Are Shifting to Brooklyn, But the Benefits Still Skew to Manhattan

Various iterations of 421-a have sought to shift development out of the middle of Manhattan and toward upper Manhattan and the rest of the city. To some extent these efforts have proven successful, but the results are lagging, and the "benefits" of increasing 421-a development in low-income areas are debatable, at best.[12] (Our next 421-a report will dive deeper into questions of neighborhood affordability.) Figure 6, panels (a) and (b), show the distribution of units as well as the tax revenue foregone across the boroughs since 1990. As seen in Figure 6, panel (a), historically, most developments with 421-a exemption were built in Manhattan, but since the early 2000s, the share of projects in Brooklyn has increased manifold. From 1991 to 1997, Brooklyn had around 11 percent of units developed with 421-a exemption. Over a span of four years, from 1997 to 2001, the share of units in Brooklyn nearly doubled and the growth of units in Brooklyn has continued steadily since then. In 2021, nearly 40 percent of units were located in Brooklyn. The increase in units in Brooklyn (and to a lesser extent in Queens and The Bronx) was matched by a decline in the number of units being built in Manhattan. Over the last three decades, the share of units in Manhattan was almost halved—from close to 60 percent in 1991 to 30 percent today.

Partially mirroring the trends in the distribution of units, panel (b) of Figure 6 shows that properties in Manhattan continue to be responsible for the largest share of the tax expenditure program, though their prominence has decreased. In 1990, properties in Manhattan were responsible for almost 80 percent of the cost of 421-a exemption. By 2021 Manhattan projects account for 47 percent of the total tax expenditure—a large plurality, but no longer a majority.

Figure 6, panel (a): The proportion of units with 421-a has shifted from Manhattan to other boroughs over time

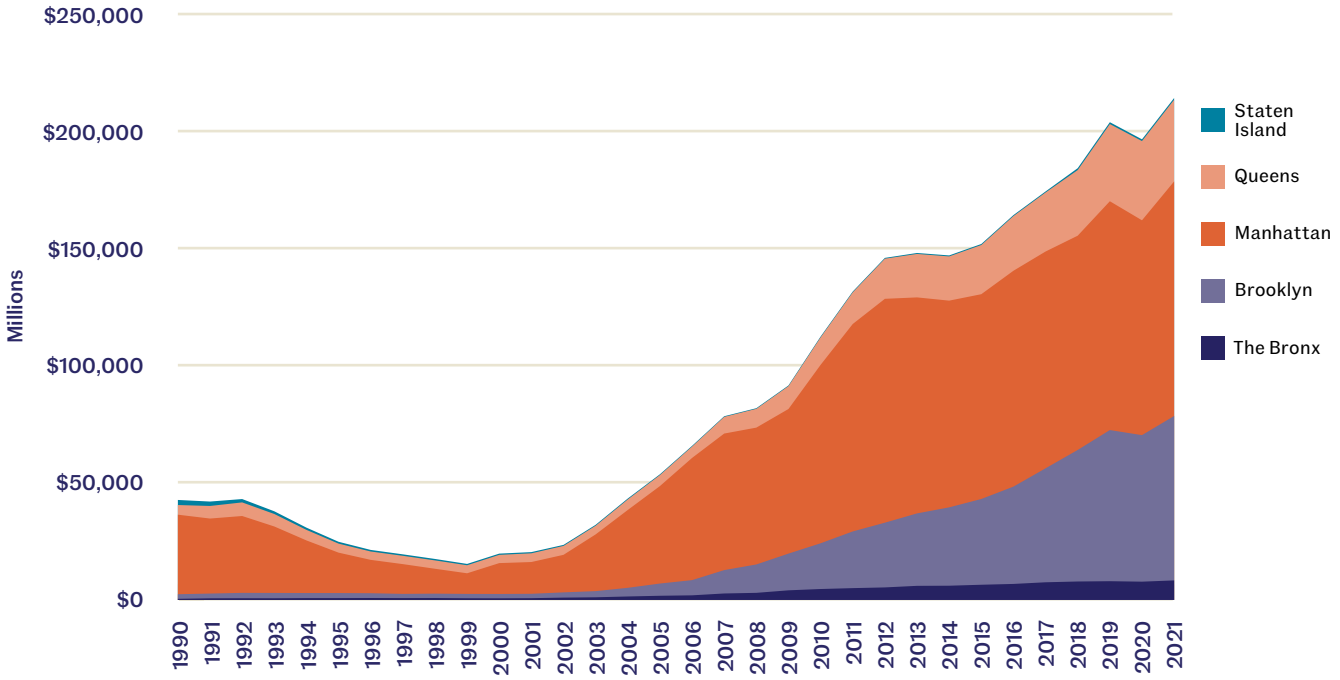
Distribution of units with 421-a exemption across boroughs



Source: CSS calculations of Annual Tax Expenditure reports made available by the NYC Department of Finance.

Figure 6, panel (b): But 421-a's cost still skews toward Manhattan

Tax expenditure from 421-a across boroughs, since 1990
(inflation adjusted to 2020 dollars)

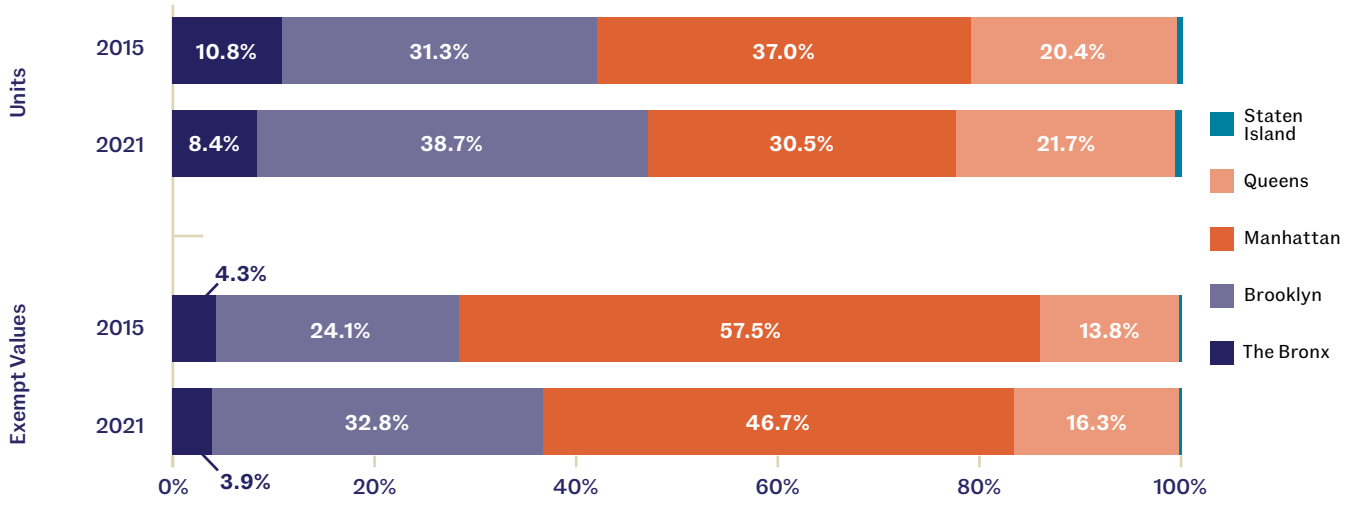


Source: CSS calculations of Annual Tax Expenditure reports made available by the NYC Department of Finance.

In order to study the effect of the changes to the 421-a program passed in 2017, we focus on two years—2015 and 2021—and display the geographic distribution of units and tax expenditures (see Figure 7).[13] In line with the pre-2016 trends discussed above, in 2015, developments with 421-a exemptions skewed strongly toward Manhattan, with 37 percent of units and 57.5 percent of the total exempt value going to that borough. Manhattan was followed by Brooklyn, which had 31 percent of units and 24 percent of the total exempt value. Post-2016 exemptions, however, are indeed skewing toward Brooklyn over Manhattan. In 2021, Brooklyn had 39 percent of units (an increase of 8 percentage points from 2015) and 33 percent of the total exempt value (an increase of 9 percentage points from 2015). Of the 255 exemptions awarded since 2017, Brooklyn had 148, compared to 56 in Manhattan, 30 in the Bronx, 21 in Queens and none in Staten Island. That said, tax expenditures and exempt values have—and will remain—skewed toward Manhattan, as that is where the most expensive projects have been built. In Fiscal Year 2021, Manhattan 421-a exemptions cost the city nearly $800 million in forgone tax revenue (47 percent of total), compared to $560.6 million in Brooklyn (33 percent of total), $278.6 million in Queens (16 percent of total), $66.6 million in The Bronx (4 percent of total), and $5.9 million in Staten Island (0.3 percent of total).

Figure 7: The 2017 421-a reforms may have pushed more development outside Manhattan, but Manhattan owners still benefit from the program the most

Tax expenditure from 421-a across boroughs, since 1990
(inflation adjusted to 2020 dollars)



Source: CSS calculations of Annual Tax Expenditure reports made available by the NYC Department of Finance.

Projects Shifted from Condos to Rentals, But We're Still Paying for Old Condo Exemptions

One success of the various reforms to 421-a was in shifting the program from condominiums to rentals.[14] During the 1990s, a majority of the units that benefited from 421-a were condominiums (with a high of 66 percent in 1992 and 1993). By 2021, however, that share was down to 20.7 percent—the lowest in the program's history. That said, it takes many years for condominium exemptions to expire, and so we will continue paying for old as well as new condominium exemptions—including those in the Billionaire's Row tower "One57"—for years to come.

Ultimately, the fluctuations to 421-a we observe over the years have more to do with market dynamics than with intentional policy changes, as is evident from three rounds of unsuccessful attempts to reform 421-a into a more targeted and efficient program. The cost of 421-a has risen over the past two decades because of two primary factors: the number of developers using the program to build new housing has grown, and the cost of the housing they are building has also increased. The reforms made to 421-a in 2008, for example, were meant to make the exemption harder to get, and yet use of the program grew thereafter. Growth then slowed in 2012, but that was because of the fallout of the 2008 financial crisis, rather than a legislative change in the program. One programmatic change that will lead to a dramatic increase in cost, however, is the availability of a 35-year exemption since 2017, the consequences of which will impact New York's budgets through at least 2057.

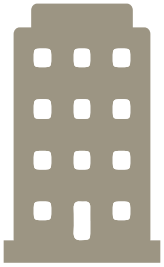
No housing policy should be judged on its cost alone. It is, indeed, wholly appropriate for the City and State to spend billions of dollars on housing programs, as we are in the midst of a long-term—and, by some metrics, worsening—housing affordability crisis. The problem with 421-a's cost is not that it is high per se, but rather that it expends city resources on very expensive housing, much of which would most likely be built without City subsidy. Ultimately, arguing against forgoing $1.7 billion annually (and rising) on 421-a is not an argument for belt-tightening, but rather an argument against austerity: foregoing that much tax revenue to build high-end housing helps create the very dynamic that allows politicians to claim we cannot afford to spend more on public and social housing because we lack the tax revenue to do so.

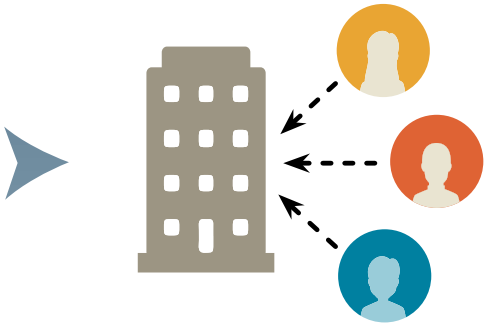
Explaining 421-a Through a Hypothetical Project

Developer buys a plot of land for $10 million and receives approval to build a high-rise with 35 years of 421-a exemption.

Developer builds a building and rents 300 apartments for an average of $3,000 each, including 90 "affordable" units for households making 130% AMI.

Developer collects rents on all units but does not pay taxes on the building for 35 years.





MARKET PRICE OF LAND = $10 MILLION.

MARKET PRICE OF BUILDING = $45 MILLION.

DoF assesses value of the building for tax purposes at $20.25 million. Since the building owner will not be required to pay property taxes on the building due to the 421-a exemption, the assessed value of the building is also its "total exempt value."

Without the 421-a exemption

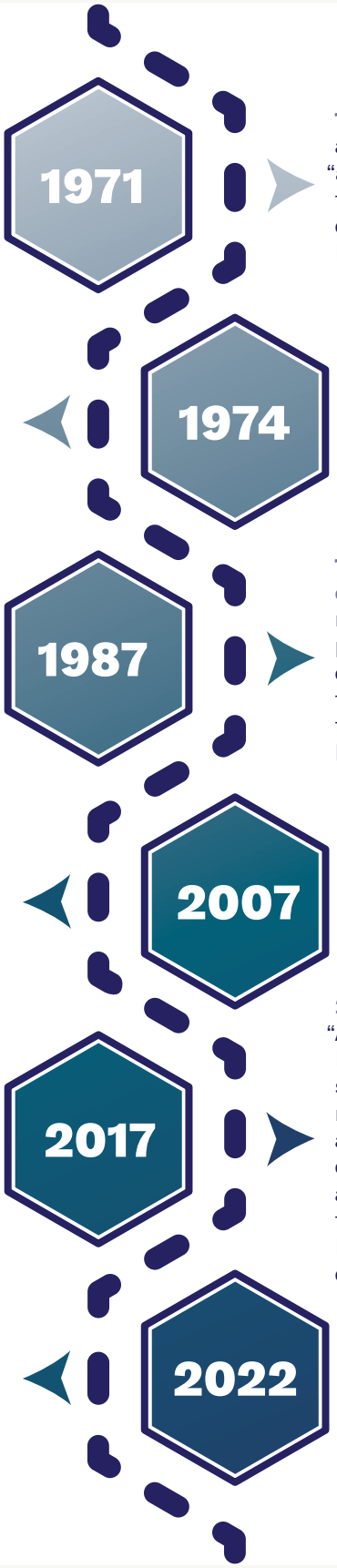
The annual property tax liability to the developer would be 12.267% of the assessed value, or almost $2.5 million.

With the 421-a exemption

The city forgoes this $2.5 million – or more, if future assessors determine the property's value has risen – every year for 35 years.

History of 421-a

Timeline of Major Revisions to 421-a



1971: 421-a is created as, according to Mayor Lindsay, "an added resource to attract the middle class." Critics charge that it will subsidize luxury development.

1974: 421-a is renewed. Critics decry the fact that the legislature stripped the program of any below-market rate rental requirements.

1987: revised 421-a goes into effect, with developments in mid-Manhattan required to pay for affordable housing elsewhere. Critics charge that developers will pay too little compared to the benefits they're getting.

2007: 421-a is revised again to expand the area in which developers must pay for affordable housing, and offering new, longer tax break options. Critics argue the program still produces too little affordable housing at too high a price.

2017: 421-a is rebranded as "Affordable New York," with longer-lasting tax breaks, construction wage standards, and more affordability requirements—though they can allow units aimed at households earning 130% of AMI. Critics argue these changes only make the program more expensive and long-lasting, while producing very expensive "affordable housing."

2022: Governor Hochul proposes rebranding 421-a as "Affordable Neighborhoods for New Yorkers" program, keeping the structure of the tax exemption in place but altering the affordability levels and durations.[15]

In 2021, 421-a turned 50 years old. Understanding its history helps explain why it should have no future. In short, the program was created under conditions that have nothing to do with the city's current housing needs or real estate market. Even though the 421-a program has been rewritten several times over the last five decades, those changes failed to either rein in the program's costs or make housing in the city more affordable to working people. The 421-a program was created in 1971—a dramatically different time in New York's history in general, and in the dynamics of real estate development in particular. Mayor John Lindsay, Governor Nelson Rockefeller and legislators were concerned about diminishing private investment in New York City housing, a hallowing out of the city's working class jobs base due to deindustrialization, and white flight to nearby suburban areas and farther flung areas of urban growth in the south and west. As a result of these dynamics, the rate of housing production was slowing dramatically. Whereas the years 1961 to 1962 saw 45,000 housing starts per year (including new social housing construction via NYCHA and Mitchell-Lama), the years 1968 to 1970 saw 10,000 or less per year.

The original 421-a program was a 10-year as-of-right tax break (plus three years during construction) for new multi-family residential construction. The lawmakers' goal was to create a simple, easy to use tax exemption that would apply to all new development in order to incentivize private residential investment and compete with growth in the suburbs and the sunbelt. It was intended to bring down the cost of development, correcting for the relatively low rent levels and sales prices a developers could expect to command in a depressed property market. Though initial rents were supposed to be set at 85 percent of market rents in comparable apartments, 421-a was designed to be a general supply booster, not an affordable housing program.

This, in fact, was a point of contention from the program's beginnings. Lindsay remarked that the purpose of the program was to serve as "an added resource to attract the middle class." Meanwhile, groups like the New York Urban Coalition protested that "tax breaks to wealthy landlords or tenants" have "no valid or recognized public policy or necessity," and pointed to the program's support of projects like the high-end Olympic Tower in midtown. Three years later, Mayor Abe Beam, who followed Lindsay, pushed to renew the policy without the

below-market provision, arguing that 421-a was useful specifically because it subsidized "homes that attract middle and upper middle-income taxpayers." Indeed, a contemporaneous study found that "the residents of section 421 buildings are young, well-educated and are employed in high-paying jobs. These characteristics distinguish them from all other renters in New York City pronouncedly."[16]

By the 1980s, development had made a comeback in New York City, particularly in Manhattan. Nevertheless, the tax break was available to anyone building any kind of multi-family housing anywhere in the city. In one famous instance in 1984, Mayor Koch tried to block Donald Trump from accessing a 421-a tax break for his 5th Avenue Trump Tower ultra-luxury condominium project, given that Trump did not need the tax abatement for the project to succeed, and it would do nothing to provide affordable housing. Koch was unable to stop the abatement, though, and Trump Tower owners were able to save $20 million in property taxes ($55.5 million today, accounting for inflation).[17] A 1987 New York Times article reported that "spokesmen for the real-estate industry admit that the 421a program primarily produced luxury apartments."[18]

At the same time, housing analysts warned that 421-a was inflating land prices, thus undermining the intent of the program and becoming a public benefit for landowners rather than an incentive to developers. Housing analyst George Sternlieb was quoted in the New York Times commenting, "The existence of 421-a basically raised the land costs. All these deals are penciled backwards, and 421-a made it possible for landowners to raise prices."[19]

In response to some of these criticisms, 421-a was revised in 1984 (though the changes took effect in 1987). The new version of 421-a would require developers building between 14th and 96th street in Manhattan—the so-called Geographic Exclusion Area (GEA)—to either include affordable units on-site, or, more commonly, purchase "certificates" to finance their construction elsewhere. The value of the affordable housing being produced, however, never matched the value of the tax break given to the developer. In that case, the developer—or the landowner they bought from—makes a great deal of money at the public's expense.

Area Median Income (AMI): This figure, calculated by the federal Housing and Urban Development agency for metropolitan areas around the country, is a standard benchmark for setting income targets and rent in affordable housing. Housing is often offered to tenants based on their income as a percentage of AMI – i.e. 30 percent of AMI for extremely low-income households, or 130 percent AMI for the primary beneficiaries of new 421-a income targeted housing. As Waters and Bach noted in their 2015 Community Service Society report on 421-a, AMI "is not actually a median but rather a construct based on a combination of city incomes, suburban incomes, and housing construction costs."

Geographic Exclusion Area (GEA): From 1987 to 2016, the 421-a program divided the city into two parts: a "Geographic Exclusion Area" between 14th street and 96th street in Manhattan, and later parts of western Brooklyn and Queens, where developers had to either build affordable housing on-site or purchase "certificates" to have them built elsewhere; and the rest of the city, where 421-a carried no affordability mandates whatsoever.

The 1984 iteration of 421-a also assumed that the city's housing market would remain geographically stable—in other words, that rents and sales prices would remain low enough outside of "core Manhattan" that developers would need a subsidy to make their projects economically feasible. This, however, was not the case. From 1985 to 2007, when the GEA was redrawn, the city forwent hundreds of millions of dollars in tax revenue to incentivize development in areas of the city with similar or even higher profit margins than central Manhattan.[20]

In 2006, 421-a once again came under criticism for subsidizing already profitable market-rate development in gentrifying areas. As the Pratt Center for Community Development and Habitat for Humanity pointed out in a 2006 report, the program encouraged purely market-rate development in areas the law called "neighborhood preservation zones," resulting in unaffordable tax-subsidized housing in gentrifying areas of the city. Their review concluded that 421-a remained "a massive misuse of the tax dollars of New York City residents" that "continues to subsidize luxury homes in expensive neighborhoods."[21]

A new iteration of the program, passed in 2007, expanded the Geographic Exclusion Area to all of Manhattan, parts of Brooklyn and select small pockets in other parts of the city. The program contained five different options, with exemptions ranging from 10 to 20 years, and affordable housing required only in the GEA. The new geographic targeting eventually came under widespread criticism as being politically determined, and still failing to align the value of the tax exemption with the value of the affordable housing it might produce.[22] The 2007 reforms ultimately produced little affordable housing, largely because developers were still able to build highly profitable, purely market rate developments outside the Geographic Exclusion Area.[23]

One high-profile example of the mismatch between the value of affordable housing certificates and the value of 421-a tax breaks in One57, the original super-thin high-rise condominium on "Billionaires Row" in midtown Manhattan. According to an Independent Budget Office (IBO) analysis, the 421-a tax break given to One57 was worth $65.6 million over 10 years. In exchange for this tremendous public support, the developers paid for 66 units of affordable housing to be built in the Bronx. The average cost to the city per affordable unit, then, was a walloping $905,000. Meanwhile, the IBO estimates that when the tax break was given, the average per-unit cost of affordable housing production was $179,000. For that price, the city could have spent the same amount of money it forwent for One57's 421-a subsidy and directly financed the production of 370 affordable apartments, nearly six times the amount financed through 421-a.

In the 46 years between when the program was first passed and when the most recent iteration went into effect, 421-a proved to be a woefully weak affordable housing program. As this history shows, however, this result is no coincidence. 421-a's geographic idiosyncrasies and inefficiency as an affordable housing program is a direct result of the fact that its affordability criteria were afterthoughts. Rather than producing much genuinely affordable housing, the real utility of appending affordability restrictions to 421-a was to give the program a new political justification when its original purpose—boosting a sagging property market and competing with suburban growth—no longer matched the city's economic condition.[24]

The Current (Expiring) 421-a Program

When 421-a came up for renewal in 2015, New York's building trades unions (whose members construct much of the city's large-scale housing projects) and the Real Estate Board of New York (REBNY, the city's chief real estate lobby) could not reach an agreement over language on wage standards. (Wages for permanent building staff—i.e., superintendents, door people, etc.—were already pegged to the prevailing wage.) Meanwhile, groups representing tenants and working-class New Yorkers, including the Community Service Society, called for the program to be ended and for new tax revenue to be put toward more effective affordable housing program.[25] With no agreement in sight, the program expired for a year.

In 2017, REBNY and the Building Trades reached an agreement, and the legislature passed a new version of 421-a that was backed by Governor Andrew Cuomo and based to some extent on legislative language offered by Mayor Bill de Blasio. This iteration of 421-a, ironically renamed "The Affordable New York Program," is the version of the program currently in place until its expiration on June of 2022. This version of 421-a allows developers to choose from the following seven versions of the program, depending on the project's size, location, tenure type, and financing model:

Table 3: The 7 options that comprise 421-a today

OPTION	A	B	C	D	E	F	G
RENTAL OR OWNERSHIP?	RENTAL	RENTAL	RENTAL	OWNERSHIP	RENTAL	RENTAL	RENTAL
GEOGRAPHY	Citywide	Citywide	Citywide except Manhattan below 96th street	Citywide except Manhattan	"Enhanced Affordability Area" (Manhattan south of 96th street, Brooklyn CD 1 & 2, Queens CD1 and 2); or elsewhere if they pay BK/QN wages	"Enhanced Affordability Area" (Manhattan south of 96th street, Brooklyn CD 1 & 2, Queens CD1 and 2); or elsewhere if they pay BK/QN wages	"Enhanced Affordability Area" (Manhattan south of 96th street, Brooklyn CD 1 & 2, Queens CD1 and 2); or elsewhere if they pay BK/QN wages
# UNITS	6 to 300	6 to 300	6 to 300	6 to 35	300+	300+	300+
% INCOME-TARGETED	25%	30%	30%	Covers the first $65,000 of assessed value on each unit. Note: the assessed value of a condo is usually 45% of its market value, so the first $65,000 in assessed value corresponds to the first $144,444 of sale value.[27]	25%	30%	30%
AMI RANGES	10% at 40% AMI; 10% at 60% AMI; 5% at 130% AMI	10% at 70% AMI; 20% at 130% AMI	130% AMI	N/A	10% at 40% AMI; 10% at 60% AMI; 5% at 120% AMI	10% at 70% AMI; 20% at 130% AMI	130% AMI
COMBINABLE WITH OTHER SUBSIDIES?	Combinable with tax-exempt bonds and Low Income Housing Tax Credits	Combinable with all city subsidies	No	Unspecified	Combinable with tax-exempt bonds and Low Income Housing Tax Credits	Combinable with all city subsidies	no
LENGTH	3 years construction + 25 year exemption + 10-year phase out	3 years construction + 25 year exemption + 10-year phase out	3 years construction + 25 year exemption + 10-year phase out	3 years construction + 14 year exemption + 6-year phase out	3 years construction + 35-year full exemption	3 years construction + 35-year full exemption	3 years construction + 35-year full exemption
CONSTRUCTION WAGE STANDARDS	None	None	None	None	Average construction wages must be at least $60 an hour in Manhattan and $45 an hour in Brooklyn and Queens.	Average construction wages must be at least $60 an hour in Manhattan and $45 an hour in Brooklyn and Queens.	Average construction wages must be at least $60 an hour in Manhattan and $45 an hour in Brooklyn and Queens.

Supporters of this package touted the fact that this new 421-a package would cover far fewer condominiums than rental projects, would require on-site affordable housing (except in condominiums) and bar the use of "poor doors," or separate entrances for lower-income tenants, and would impose wage standards for workers in large projects in so-called "Enhanced Affordability Areas."

But in exchange for these changes, the new 421-a program would allow for much longer (and therefore more costly) tax exemptions lasting up to 35 years. In fact, the bill even allows some developers to extend old and expiring 421-a exemptions for an additional 10 to 15 years.[28] At the time, HPD estimated that changes along these lines would increase the program's cost by 22%—the exact change we have seen in the cost of the program between Fiscal Years 2017 and 2021 (see analysis above).[29] The legislature also added an additional $850 million in subsidies to cover projects from the previous year and a half.[30] In terms of affordability, the new version of 421-a also took several steps backward. Five of the program's seven options allow for "affordable housing" targeted to the richest quarter of New Yorkers[31]—those making 130% of the Area Median Income. Such households are far less likely to be rent burdened than lower-income New Yorkers (see Table 4 below). As a result, CSS took the position that, overall, the Governor, the Legislature and the Mayor made the wrong decision by digging a deeper hole into the city's budget with little gain in terms of increasing genuinely affordable housing production.[32]

Enhanced Affordability Area: The latest version of 421-a, passed in 2017, scrapped the GEA and replaced it with an "Enhanced Affordability Area." Developments in Manhattan south of 96th street or in Community Districts 1 and 2 in Brooklyn and Queens, developers have access to a 35-year 421-a benefit. Developers must pay construction workers a certain base level and provide varying degrees of affordability depending on which version of the 421-a program they select.

Table 4: Share of households by severity of rent burden

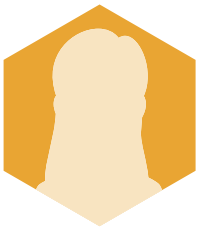
Income levels	Share of Income spent on Rent: Not rent burdened (< 30%)	Moderately rent-burdened (30-50%)	Severely rent-burdened (>50%)
<=30% AMI	9.0	10.7	80.2
30-50% AMI	16.6	38.9	44.5
50-80% AMI	38.8	47.6	13.6
80-130% AMI	71.9	23.1	5.0

Source: New York City Housing and Vacancy Survey, 2017.

421-a Points and Counterpoints

421-a still has its defenders, though they are perhaps fewer and farther between than at any other time in the program's history. Here we present some of the most common justifications for preserving the state's most expensive and anachronistic housing program, alongside rebuttals arguing for the state to end 421-a.

In this report we focus on the history and cost of the program, and thus the arguments below fall under those categories. Our next 421-a report will focus on affordability and market dynamics and will include a rebuttal of affordability-related arguments in favor of the program.



"In the 1970s, we needed 421-a because the real estate market was stalling, and land and property values were low. Now that the real estate market is booming and land and property values are high, we need 421-a to lower the cost of construction so that new development costs can pencil out."

Under this logic, every year New York City must forgo billions in tax dollars for mostly market-rate development, no matter how weak or strong the market for such housing may be. 421-a has thus become a self-justifying policy, unmoored from its original logic and grasping for a new reason to exist. 2021—a year marked by pandemic and high unemployment in New York City—was a record year for luxury real estate sales, with 1,877 units in Manhattan selling for $4 million or more, for a total of $16 billion—three times the amount in luxury sales from 2020, and twice the sales of 2019.[33] Meanwhile, New York City rents rose substantially in 2021, with median asking rents in rising by over 24 percent in Manhattan and by 8 to 9 percent in Brooklyn and Queens.[34] 2020's rent concessions for new leaseholders quickly disappeared, with and tenants seeing rent increases as high as 70 percent.[35] At a time when developers are making extremely high profits from residential development, there is no need to shower them with the single most generous tax subsidy on the books.

If the tax laws in general make new rental construction harder than condominium construction, then that is a problem that should be fixed by revising the property tax code as a whole—something advocates having been demanding for years in light of the system's well documented racial and economic inequities.[36]

"Sure, 421-a is expensive, but ending 421-a won't put $1.7 billion back into next year's budget."

That's true! Even if we ended 421-a today, we'd still be paying for it in lost tax revenue through the year 2057, when 2022's last exemptions would expire. But that's exactly why we should end it today—so that we can stop delivering perpetual and rising hand-outs to corporate developers at a moment when affordable housing programs and city revenues are crucial for recovery. As Community Service Society housing policy analyst Tom Waters wrote in a 2016 op ed, "we certainly can't assume that in 2051, we'll be able to afford to still be spending the equivalent of billions of dollars a year to pay for the wasteful housing policies of 2016."[37] Five years later, the only thing that has changed is that the annual cost of 421-a has risen to $1.7 billion, which only further underscores Waters' point.

"The critics have it backward: 421-a doesn't cost the city anything because it only exempts taxes on new value. If nothing were built, the city wouldn't get any of the revenue it forgoes with 421-a."

This is only true if we assume a null counterfactual—i.e., that none of the projects receiving 421-a would be built without it. This, however, is quite a stretch. In our next report we will take on the larger implications of the idea that no development can be done in New York City without 421-a, but for now we can simply point out the fact that New York City's real estate climate is today characterized more by the challenges of hyper-investment and gentrification than the threat of disinvestment and urban flight, which prompted the legislature to create 421-a in the first place. Perhaps such an overbroad program could be justified in the 1970s and early 1980s when the city's population was in a rapid decline, but that has not been the case for a long time. There are some places where the 421-a benefit may make the difference in a developer's project to build new housing, but this mostly applies to the prospect of adding new and expensive housing in neighborhoods where local incomes cannot support high-rent units. In such neighborhoods, a program that produces housing which would be affordable to local residents would be more appropriate than 421-a.

Meanwhile, whenever projects get built with 421-a that would otherwise be built without it, developers create demand for city services then evade their responsibility to pay for it. In effect, the rest of the taxpaying public pays for the services their generally high-income, non-tax paying residents demand and consume, from schools and transit to sanitation and healthcare. Much of this property tax burden is borne by non-421-a landlords (typical owners of rent stabilized and moderately priced housing), who in turn aim to pass those costs along to their tenants in the form of rising rents – either directly, through new market-rate lease terms, or indirectly, through arguments to the Rent Guidelines Board for higher rent increases for rent stabilized tenants. This is not a dynamic New York should seek to perpetuate.[38]

"Don't throw out the baby with the bathwater. Can't we just make 421-a better?"

Sure, there are ways the legislature could make 421-a less wasteful. We could deepen the affordability requirements and require a higher percentage of new buildings to be affordable. We could also tighten the eligibility criteria for who can access 421-a. But we would still be tacking these components onto a program whose primary goals are and have always been 1) supporting market-rate construction and 2) being extremely easy for developers to access. In that case, we will always be spending more on 421-a than we get back in public benefits. If we wanted some of the things that 421-a does without spending billions to subsidize luxury housing for the next 35 years, we should allow the program to expire, revise the tax code more broadly, and design a new program that ties the value of the tax exemption to the value of the affordable housing being produced. We could also design a new subsidy that allows the state to subsidize projects that couldn't be built without the program, as long as the developers prove their case that 1) they really can't complete the project without the subsidy, and 2) their project has genuine social utility. The 50-year history of 421-a reforms suggests that it cannot be reformed into a program that works on those basic principles. To get a program like that, we would have to end 421-a and design something different.

CSS on 421-a, 2015 and today

In CSS's 2015 report on 421-a, *New York's Unaffordable Housing Program: Time to End 421-A*, Tom Waters and Victor Bach argued that the program was expensive, ineffective, resistant to reform, and ultimately not worth renewing. Here we look back at that report's Key Conclusions and Policy Recommendations and show how little has changed.


WHY WE NEED TO END NEW YORK CITY'S MOST EXPENSIVE HOUSING PROGRAM.

POLICY BRIEF

Policy Recommendations

2015: "Allow 421-a to expire when it sunsets on June 15, 2015."

> Same today: Allow 421-a to expire when it sunsets on June 15, 2022.

2015: "Replace it with a targeted tax credit or other new incentive that is structured to provide benefits only in proportion with a building's contribution to the affordable housing supply."

> Still the best course of action.

Key Conclusions

2015: "At $1.07 billion a year, 421-a is the largest single housing expenditure that the city undertakes, larger than the city's annual contribution of funds for Mayor de Blasio's Housing New York plan."

> 421-a is still most the city's single largest housing tax expenditure, at $1.7 billion in FY 2021.

2015: "The annual cost of 421-a to the city exploded during the recent housing boom as a result of market changes, not because of any intentional policy decision to increase the amount of tax incentives for housing construction."

> Still true.

2015: "Half of the total 421-a expenditure is devoted to Manhattan."

> Almost still true. There has been some shift to other boroughs, but 421-A is designed to have a long tail, since exemptions often last for decades. Today 47% of expenditure is Manhattan.

2015: "The 421-a tax exemption is a general investment subsidy that has been only superficially modified to contribute to affordability goals."

> Still true.

2015: "The 421-a tax exemption is extremely inefficient as an affordable housing program, costing the city well over a million dollars per affordable housing unit created."

> Still true.

50 Years is Enough

For the past half-century, New York City has been forgoing tremendous amounts of property taxes through 421-a. The program has survived through 8 mayors and 9 governors, several recessions, and a wholesale transformation of the city's housing market from deep disinvestment and abandonment in the 1970s to hyper-investment and gentrification in the present day (and some periods featuring all of the above simultaneously[39]). 421-a has been substantially revised three times—in 1984, 2008, and 2017—and yet these changes have failed to either bring down the cost of the program for more than a few years at a time or to prevent the city's affordable housing crisis from deepening. Over the last 32 years, it has cost New York city over $22 billion in uncollected tax revenue. In the years since 2017, when the program was last reformed, its cost has increased by 23 percent.

Because 421-a is so expensive and ill-targeted, and because several previous efforts to reign in and refocus the program have failed, the most productive thing for the legislature to do would be to allow the program to expire in June of 2022. Rather than wrangle over a new manifestation of 421-a, the legislature would better serve the public by revising the property tax system as a whole (so that expensive condominiums are not grievously undertaxed compared to rental buildings) and by designing new tools to provide public support for public, social and supportive housing. Any new incentive programs the state might consider in the future should be designed to provide developers benefits in direct proportion to social benefits—i.e., to the amount and cost of the affordable housing they produce. The legislature could also allow exemptions on a project-by-project basis if the developer can prove that their project could not be completed without the exemption and can demonstrate that the project would serve the public interest.

Meanwhile, the state should pass legislation protecting rent stabilized and income-qualifying tenants in buildings with expiring 421-a tax benefits. A641 (Rosenthal)/ S76 (Hoylman) would bar landlords from sending inaccurate lease riders to tenants in income-targeted 421-a apartments falsely stating that their homes will be removed from rent stabilization when the tax break expires. S6384 (Hoylman)/ A7265 (Gallagher) would mandate annual compliance audits on past 421-a grantees to ensure they are complying with the legislation's affordability, rent stabilization and wage components. In short, the state's best course of action would be to allow the expensive, anachronistic 421-a program to expire, to protect tenants in outstanding 421-a building, to revise the city's property tax system overall, and to consider new programs to stimulate the kinds of development our city really needs.

Coming Soon:

In our next report on 421-a, we will continue to make this case by examining:

- The 421-a program's current affordability requirements, including both income targeting and rent stabilization;
- Why these measures are insufficient and ineffective.
- How 421-a affects the overall land and housing markets.

485-a: Real Estate Tax Breaks Beyond NYC

421-a is New York State law, but it only operates in New York City. Outside of New York City, one of the primary real estate tax breaks for developers is 485-a, which, since 2002, has provided developers with a 12-year tax break to build "mixed-use" projects. In theory, 485-a was supposed to be an incentive to convert underused commercial and industrial buildings into mixed-residential and commercial spaces. In practice, it has often subsidized the demolition of such buildings and their replacement with only nominally mixed-use projects. Most often, the result is high-end housing pitched to students, often with just one commercial tenant. In one notorious case, a Syracuse developer received millions of dollars in tax benefits through 485-a to build high-cost housing for students, and justified the project as "mixed use" by placing three vending machines in the lobby.[40] In 2020, the legislature tightened some of the programs regulations, requiring that 75 percent of the old building site be preserved, projects contain at least 15 percent commercial space and at least 50 percent residential space, and be recertified each year to ensure compliance.

The cost of 485-a is somewhat more difficult to discern than of 421-a because 485-a is spread throughout many individual municipalities across the state. Buffalo appears to be the city with the most 485-a projects. Between 2007 and 2019, Buffalo forwent $66.9 million on property exemptions.[41] In 2020, Housing Justice for All—a coalition of 80 organizations (including the Community Service Society) which fights for housing rights for tenants and homeless New Yorkers across the state—counted 98 parcels in 19 municipalities receiving either a full 485-a exemption or a partial abatement (as projects age out of the program).

Whereas 421-a's affordability requirements are insufficient, 485-a's affordability requirements are nonexistent. In fact, projects getting 485-a often rent far above their local area's Fair Market Rents. According to an analysis of 485-a projects in Buffalo by the Public Accountability Initiative, the lowest rent available in a 485-a subsidized building was 45 percent above that city's Fair Market Rent.[42] Meanwhile, they argue, 485-a makes cities like Buffalo less affordable by increasing the number of city service users while diverting the tax burden onto other property owners, who either cannot pay and must move, or pass those rising tax costs on to tenants. "In any given year, millions of dollars that would be collected from developers are instead shifted to other property taxpayers," writes Robert Galbraith of the Public Accountability Initiative. "Higher property taxes for small property owners fuels displacement, forcing low- and fixed-income homeowners to sell their homes and causing landlords to pass along their higher tax bills to tenants by hiking rents."[43]

Notes

1. https://data.bls.gov/cgi-bin/surveymost
2. https://www1.nyc.gov/site/finance/taxes/annual-report-on-tax-expenditures.page
3. The full figure listed in the 2021 DOF Annual Report on Tax Expenditures is $1,711,500,000.
4. City of New York. Five Year Financial Plan, Revenues and Expenditures. June, 2021.
5. https://council.nyc.gov/budget/wp-content/uploads/sites/54/2020/06/CUNY-Budget-Note.pdf
6. https://council.nyc.gov/budget/wp-content/uploads/sites/54/2020/06/DOHMH-Budget-Note.pdf
7. Garelick, Avi and Andrew Schustek. "Abolish the EDC." New York Focus, June 28, 2021.
8. Stein, Samuel. Assessing de Blasio's Housing Legacy: Why Hasn't the 'Most Ambitious Affordable Housing Program' Produced a More Affordable City? Community Service Society, 2021.
9. Waters, Thomas J. and Victor Bach. New York's Unaffordable Housing Program. Community Service Society, 2015.
10. Waters, Tom. 2016. "Governor Cuomo's Flawed 421-a Proposal." City & State's Slant. Waters, Tom. 2017. "421-a Doesn't Pass Cost-Benefit Test." City & State, January 4, 2017.
11. As we will discuss in our next 421-a policy report, these extra-long 421-a exemptions allow developers to build some of the least-needed affordable housing: apartments targeted to households making 130 percent of the Area Median Income.
12. There is data to suggest that 421-a development in lower-income areas has resulted in rising rents nearby. For example, a 2019 paper by economist Divya Singh shows that nearby rents rose 2.3% within a 150-meter radius of a new 421-a developments. Supporters of 421-a argue the opposite, that increasing the supply of high-end housing in gentrifying neighborhoods reduces competition and drives down prices. We do not seek at settle this debate here, but it suffices to say that adding high-cost housing to low-income neighborhoods is not universally recognized as a public good. Singh, Divya. "Do Property Tax Incentives for New Construction Spur Gentrification? Evidence from New York City." January 20, 2020. https://ideas.repec.org/jmp/2020/psi856.pdf. For more on 421-a and gentrification, see: Deutsche, Rosalyn, and Cara Gendel Ryan. "The Fine Art of Gentrification." October 31 (1984): 91-111. Cohen, Seth B. "Teaching an Old Policy New Tricks: The 421-A Tax Program and the Flaws of Trickle-Down Housing." Journal of Law & Policy 16 (2007): 757-822. Lauermann, John. "Luxury housing and gentrification in New York City, 2010-2019." Urban Geography (2021): 1-19.
13. For a summary of the 2017 changes, see: Murphy, Jarret. 2017. "UrbaNerd: Understanding the Latest Changes to 421-a." City Limits, April 10, 2017.
14. During the years studied (Fiscal Years 1990 to 2021), coops never comprised a large percentage of 421-a benefits, ranging from 1.9 percent of 421-a units in FY 2021 to 4.49 percent in FY 2012.
15. Holtzman, Benjamin. The Long Crisis: New York City and the Path to Neoliberalism. Oxford University Press, USA, 2021, pg. 172.
16. Gaiter, Dorothy J. "City Ordered to Give Abatement on Taxes to the Trump Tower." New York Times, June 19, 1983.
17. Hinds, Michael Decourcy. "421a: A Subsidy That Cost $551 Million." New York Times, March 29, 1987.
18. Hinds, 1987. As quoted in Waters and Bach, 2015.
19. Waters and Bach, 2015.
20. "Reforming New York City's 421-a Property Tax Exemption Program: Subsidize Affordable Homes, Not Luxury Development." Pratt Center for Community Development and Habitat for Humanity New York City. 2006.
21. Cheney, Brendan. "City Analyzing 421a Plan While Advocates Call for End." Politico NY, January 30, 2015.
22. Waters and Bach, 2015.
23. Waters and Bach, 2015.
24. Waters, 2016; Waters, 2017.
25. New York City Department of Finance. "NYC Residential Property Taxes: Class Two, Coops, Condos, Rental, 4+ Units." https://www1.nyc.gov/assets/finance/downloads/pdf/brochures/class_2_guide.pdf
26. This extension applies to developers whose buildings started construction before July 1, 2008, who have 20 or 25 year 421-a exemptions, who pay building service workers prevailing wages, and who include abide by the following affordability standards: 20% of units must go to households making up to 100% AMI, with incomes averaging 80% AMI or lower; and another 5% of units must go to households making up to 130% AMI.
27. Dulchin, Benjamin. 2017. Understanding REBNY's New 421-a Tax Exemption Proposal. Association for Neighborhood Housing and Development, February 8, 2017.
28. Dulchin, 2017.
29. Lander, Brad. 2021. "Let's Use, Not Waste, $1.7 Billion for Affordable Housing." New York Daily News, May 5, 2021.
30. Waters, 2017

31. Small, Eddie. "Manhattan Luxury Market Smashed Records This Year, with Nearly $16B in Sales." Crain's New York, December 22, 2021.

32. Chen, Stefanos. "In 2021, New York's Housing Market Made a Stunning Comeback." New York Times, December 31, 2021.

33. Egkolfopoulou, Misyrlena and Claire Ballentine. "New York Renters Fact 70% Increases as Pandemic Discounts Expire." Bloomberg, September 15, 2021.

34. Waters, 2017; Lander, 2021; NYC Advisory Commission on Property Tax Reform. The Road to Reform: A Blueprint for Modernizing and Simplifying New York City's Property Tax System. 2021. Cabello, Maxwell Sr. The High Cost of Low Affordability: The Case to Repeal 421-a. Churches United for Fair Housing, 2021.

35. Waters, 2016.

36. Waters, 2017.

37. Marcuse, Peter. "Gentrification, abandonment, and displacement: Connections, causes, and policy responses in New York City." Washington University Journal of Urban and Contemporary Law 28 (1985): 195-240.

38. Knauss, Tim. "3 Vending Machines Saved a Builder $3 Million in Property Taxes; a NY Law Exploited." Syracuse.com. May 30, 2018.

39. Galbraith, Robert. The Rising Cost of Buffalo's Worst Tax Break. Public Accountability Initiative. November 4, 2019.

40. Galbraith, Robert. Buffalo's Costly Mistake. Public Accountability Initiative. August 22, 2018.

41. Galbraith, 2018.

Table Notes

1. The total amount of foregone tax revenue from new and ongoing 421-a projects in fiscal year 2021.

2. The amount the city spends to directly finance the construction of new affordable housing through its Housing Preservation and Development agency.

3. Section 8 vouchers (also known as "Housing Choice Vouchers") are created by the federal government to pay the difference between what a low-income tenant can afford to pay in rent (i.e. 30 percent of their income) and what a landlord charges. Vouchers are distributed to both NYCHA, New York City's public housing authority, and HPD, the city's housing agency.

4. NYCHA funding comes from federal, state and local sources. Operating funds go to the ongoing maintenance and staffing of the buildings.

5. Federal Section 8 vouchers distributed to HPD, New York City's housing agency.

6. Federal payments for substantial rehabilitation (or, theoretically new construction) of public housing buildings.

7. CDBGs are Community Development Block Grants from the federal government to municipalities, in this case to pay for building inspections and other HPD expenses.

8. New York City's share of payments for capital projects in public housing.

9. Like 421-a, J-51 is a tax expenditure program created through state law but targeted to landlords in New York City. Whereas 421-a subsidizes new development, J-51 subsidizes renovations or industrial/commercial-to-residential conversions. For more on the uses and misuses of J-51, see: Waters, Thomas J. and Victor Bach. Upgrading Private Property at Public Expense: The Rising Cost of J-51. Community Service Society, June 2012.

10. The city's contribution to the daily operations of its housing agency and its operations.

Executive Officers

President and CEO
David R. Jones, Esq.

Executive Vice President and COO
Steven L. Krause

2021-2022 Board of Trustees

Nicholas A. Gravante, Jr., Esq.
Chairperson

Ralph da Costa Nunez, Ph.D.
Treasurer

Magda Jimenez Train, Esq.
Secretary

Terry Agriss
Alexander N. Barrett
Karen Y. Bitar, Esq.
Judy Chambers
Michael A. Correra
Angela Dorn, J.D.
Sylvia E. DiPietro, Esq.
Melinda Dutton
Richard W. Eaddy
Florence Frucher
Patricia Glazer
Hon. Betsy Gotbaum
Khaled Haram
Joseph J. Haslip
Michael Horodniceanu, Ph.D.
Gayle Horwitz
Khary Lazarre-White, Esq.
Rosalie Margolis, Esq.
Robert O. McCabe
Geoffrey Newman
Regan Kelley Orillac
David J. Pollak
Margarita Rosa, Esq.
Michal Rosenn
Donald W. Savelson, Esq.
Aimee Scillieri
Marla Eisland Sprie, Esq.
Ken Sunshine
Phyllis Taylor
Jeffery J. Weaver
Jerry Webman
Mark A. Willis

HONORARY LIFE TRUSTEES
Stephen R. Aiello, Ph.D.

CSS Community Service Society