421A/Affordable New York | *CPC Data Brief*

The 421-a Tax Incentive program is a partial real estate tax incentive for the construction of new multifamily rental housing. It has been through many iterations since its inception in 1971, most recently reimagined as the Affordable New York Housing Program. Under Affordable New York, properties receive a 100% tax exemption in years 1-25, only paying the land tax as assessed prior to project completion; years 26-35 would include a partial exemption depending on the percentage and price of affordable units.

CPC Data Summary

In the past 5 years, CPC has financed 24 properties including 461 units that have utilized the 421a tax incentive. The properties in this portfolio are small; the average size of a property developed with this program is 19 units. They are exclusively located in the outer boroughs and are built by emerging developers. The map shows property locations.

As all of these properties are located in outer boroughs, they are often in areas where market-rate rent is naturally affordable to those earning less than 130% of AMI. Almost all of the 461 units are affordable for moderate-income households not because of 421-a restrictions, but because of the area in which they are located. In these neighborhoods, 421-a serves two purposes: it incentivizes the creation of much needed housing supply, and the restricted units help preserve natural affordability by protecting against future market changes.

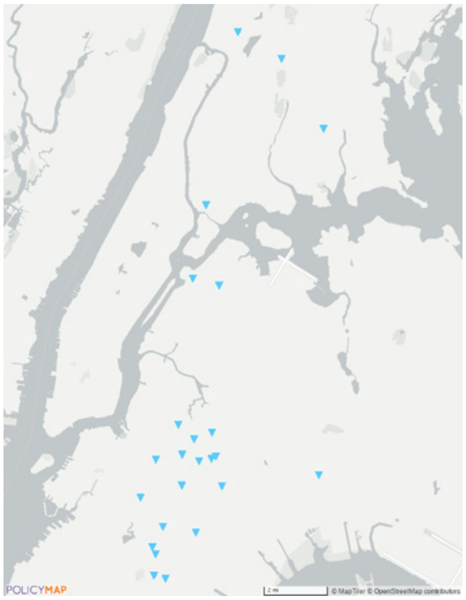

Image 1: CPC 421-a Property Locations, 2016-2021

Impact Snapshot: What has a 7-unit Building in Astoria, Queens Accomplished for CPC Properties?

All Properties	Actual (with 421-a)	Without 421-a
Net Operating Income	$444,757	$356,756
Construction Loan Size	$5,034,355	$4,090,828
Loan-to-Cost Ratio (LTC)	69%	56%

(numbers are averaged across 24 CPC properties that utilized 421-a)

In CPC's 421-a projects, the incentive makes projects more profitable only to the point that they are financially feasible.

The 421a tax incentive is a tool to boost net operating income for multifamily developments by reducing their tax burden, meaning developers can put less up-front equity into projects. On average, CPC developers opting into 421-a funded 31% of the associated costs with equity, while CPC financing covered the rest. Without a 421a incentive boosting net operating income, developers would need to fund 44% of all costs

Community Preservation Corporation

ERIN BURNS-MAINE
VP, Director of Policy and Advocacy
eburnsmaine@communityp.com

to make their projects work. This is often a deal killer for projects, as borrowers look for a return on their equity in order to move forward on a development, and small developers do not always have the capital to cover the higher costs. The higher LTC enabled over a third of CPC's developers to charge lower rents (including in market rate units) than would have been feasible without the tax break.

CPC Example: 7-unit Building in Astoria, Queens

CPC worked with an emerging developer on a 7-unit infill development in Astoria in 2018 that utilized 421-a; this was the developer's second project. In the area at that time, rent for a one-bedroom unit averaged $2,168 and a two-bedroom unit averaged $2,650. The below tables show the impact of the tax break on this development:

Rent Changes with 421-a for a 7-unit Building in Astoria, Queens

	Actual (with 421-a)	Without 421-a	Required rent increase to achieve same economics without 421a
Average Rent	$2,253 (130% of 2018 AMI)	$2,286 (132% of 2018 AMI)	$2,621 (151% of 2018 of AMI)
Effective Annual Revenue	$179,778	$182,400	$210,610
Expenses (including taxes)	$44,141	$74,973	$74,973
Net Operating Income	$135,637	$107,427	$135,637

Cost Changes with 421-a for a 7-unit Building in Astoria, Queens

	Actual (with 421-a)	Without 421-a
Total Cost to Build Project	$2,703,186	$2,703,186
Loan Amount sized on NOI	$1,637,530	$1,297,000
LTC	61%	48%
Cash Difference Needed from Borrower	$1,065,656	$1,406,237

With 421-a, the developer was able to receive a larger loan (sized on NOI), lowering the amount of out of pocket cash needed by over $300,000. The lower expenses and higher loan amount led to an increased NOI. To achieve the same NOI without 421-a, (making the project financially feasible) the developer would have to increase rent by almost $400, making it unaffordable to people earning less than 151% of AMI ($155,000 annual income for a 3-person household). Although the project generates less in annual revenue with the lower rents, 421-a lowered its expenses enough to make the project feasible.

Glossary

Net Operating Income is the income of a project after all other expenses have been deducted; it is higher with 421-a projects because the tax incentive decreases the ongoing expenses of the project.

Construction Loans are short-term loans taken out by the developer at the beginning of a project to cover the initial cost of building or renovating; at the end of the loan term, construction loans are refinanced in favor of longer-term agreements. Without 421-a, financers offer smaller loans because the projects are less profitable with higher risk.

Loan-to-Cost Ratio refers to the construction loan amount versus the amount of equity the developer needs to put into the project; the ratio is higher with 421-a because the loan covers a higher percentage of the project, meaning the developer needs less upfront equity. Developers look to maximize LTC when deciding if they should build.