New York State 2024 Joint Legislative Budget Hearing

Housing | February 14, 2024

Testimony submitted on behalf of The Community Preservation Corporation

Thank you, Committee Chairs Rosenthal and Kavanagh and other distinguished members of the New York State Senate and Assembly for the opportunity to speak today. My name is Erin Burns-Maine and I am the Senior Vice President for Policy and Government Affairs at the Community Preservation Corporation (CPC), a nonprofit affordable housing and community revitalization company that was formed in the early 1970s to help New York City and State restore and rebuild communities which were devastated by deterioration and abandonment.

Today, CPC uses its unique expertise in housing finance and public policy to expand access to quality housing, drive down the costs of affordable housing production, advance diversity and equity within the affordable housing development industry, and address the effects of climate change in our communities through the financing of sustainable housing. Since our founding, CPC has invested over $14 billion to finance the creation and preservation of more than 225,000 units of housing through our lending and investing platforms. CPC is a permanent lending partner to the New York City Retirement Systems (NYCRS) and on behalf of HCR, CPC is also administering the Climate Friendly Homes Program, a $250 million program to electrify 10,000 units of housing across the state in the next four years.

Recently CPC had the chance to answer the call, to support our government partners in reinvesting in communities and stabilizing affordable housing following the collapse of Signature Bank. CPC brought together Neighborhood Restore HDFC and Related Fund Management, to form the Community Stabilization Partners (CSP), a joint venture partnership with the FDIC to service the rent stabilized portion of now defunct Signature Bank's multifamily commercial real estate portfolio. As of February 12th, CPC on behalf of CSP is now the servicer of record for 1,100 buildings encompassing approximately 35,000 units in New York City, the majority of which are rent stabilized. We understand the unique role that rent regulated housing plays in New York City, the distinct financial challenges facing its owners and operators in today's market, and its importance as a haven of affordability to its tenants. As a partner with the FDIC and servicer of the stabilized loan portfolio, CSP is proud to be preserving the long-term affordability as well as the physical quality and financial stability of these buildings.

On behalf of CPC we would like to express gratitude to Governor Hochul's Administration, Commissioner Visnauskas, the Department of Housing and Community Renewal (HCR), and the Senators and Assemblymembers who continue to advance housing solutions in New York State. Today, New York's affordable housing crisis is ongoing, and the impacts are being felt by all New Yorkers. Renters are pinched by high rents and limited supply. The statewide percentage of renters who pay more than 30% of their income in rent reached 51% in 2022 and the state has 74,000 people experiencing homelessness on a given night. For too many New Yorkers, affordable quality housing is either unsustainable or unattainable, leaving our neighbors housing insecure or, worse, on the brink of homelessness.

The situation is bleak for building budgets as well. As expenses have grown considerably while collections remain below pre-pandemic levels all within a high interest rate environment, affordable and rent stabilized buildings have seen intensifying pressure on operations leading to tightening debt service coverage, deferred maintenance, tax and water/sewer arrears, and mortgage delinquency. From CPC's work managing a large mortgage portfolio for affordable housing (including a portfolio of loans on behalf of NYCRS), we have seen delinquencies double over the last several years (from 2% to 4% of our projects), dramatically increasing the amount owed. We have also seen per-unit insurance premiums increase an average of 17% a year since 2020, resulting in an over 50% increase on pre-pandemic rates.

With the regulations put in place by Housing Stability and Tenant Protection Act, the expiration of critical tax incentives for rehab and new construction, and ever-growing costs in a high-interest environment, building owners and developers are extremely limited in the tools they have at their disposal to help operate affordable housing.

Tenants and owners need help navigating these complicated times, and just as no one factor causes the housing crisis, no one solution will fix it. While last year's Housing Compact was perhaps too broad to achieve consensus, we applaud the Governor's more targetted slate of housing legislation and budget items put forward this year and call on the Legislature to pass these common sense housing items expeditiously.

In particular, we support the Governor's proposal to prioritize competitive programming funds for communities that can demonstrate their commitment to identifying and removing impediments to housing growth, thereby driving investment in communities that welcome new construction. The Pro-Housing Community Program would reward communities helping to grow the State's housing supply and hopefully encourage more cities and towns to join in. Additionally, we also would support a solution for communities that actively oppose growth.

We are also encouraged by the Governor's proposal to prohibit insurance carriers from raising premiums on property owners based on tenant source of income, the existence of affordable housing units, or the receipt of government assistance – and we encourage the Legislature to pass this legislation to ensure that the criteria informing insurance underwriting decisions do not discriminate against affordable properties and their tenants. We are also looking to the legislature to convene stakeholders and experts from across the housing field to work together on creative solutions to address the rising cost of insurance across the state.

But the single most important tool needed to facilitate the type of development needed to meaningful increase supply is the restoration of an as-of-right tax incentive for multifamily housing development with financially feasible affordability options – and call on the Legislature to enact 485-X. 421-a was not perfect– however, 421-a was responsible for the creation of 117,000 units of housing from 2012-2022, 25-30% of which were income-restricted. In 2023, 421-a helped to finance 51% of the over 14,000 affordable units closed by HPD and HDC. And while the public narrative around 421-a was that it only helped built large multifamily buildings in Manhattan, a 2021 analysis of five years of CPC's 421-a financed deals shows that our 24 421-a financed projects (encompassing 461 units) were exclusively located in the outer boroughs and built by emerging developers, with an average building size of 19 units. By reducing the tax burden, the tax incentive boosted a building's net operating income, meaning developers could put less up-front equity into projects – on average 31% of the total development costs as compared to the 44% that would be needed without 421-a. The lower equity made the project feasible, especially for smaller developers without access to deep pools of capital – simply put, these projects would not have happened without 421-a. Furthermore, a third of our 421-a financed projects were able to charge lower rents across both the affordable and market rate units than would have been feasible without the tax break. 421-a has been a critical tool for the development of new housing in New York City, and we urgently need its replacement.

With the opportunity for replacement comes the chance to improve on previous shortcomings – and we encourage the legislature to take advantage of that opportunity. The affordability requirements under 421-a were set at various area median incomes, and often failed to match market prices while also falling short on delivering deeply affordable units for low-income New Yorkers. Legislators should explore if 485-x could instead set affordability according to Fair Market Rents (FMR), the affordability standard and used by HUD across the Section 8 Housing Choice Voucher program. Affordability requirements set at FMR (or Small-Area FMR where applicable) would allow owners to collect rents that make projects financially feasible and are more in line with market conditions. These affordable units would drastically expand options for working families and decrease housing cost pressures from the middle out.

Relying on FMR for affordability would also make it easier for new construction projects to house tenants using Section 8 vouchers, creating a unique opportunity for a new tax incentive to bolster voucher utilization. We call on the State to work with federal and local partners to increase the effective administration and utilization of Section 8 and CityFHEPS vouchers, in advance of and addition to standing up a statewide rental assistance program to bridge existing gaps.

This two prong approach of reinstating a financially feasible tax incentive and improving the administration of rental assistance vouchers will bring relief to renters across the state and each will be more effective because of the other. Additional reasonable evictions protections could further stabilize the housing crisis but that cause must not be the hold-out that prevents all other action.

Finally, we feel the City of New York would greatly benefit from the proposals to reform the FAR 12 cap, legalize basement apartments, and create a commercial conversion tax incentive for affordable housing. As we consider the future of housing in New York City, these solutions would help to increase density, convert underutilized spaces to produce housing, and address the impacts of climate change.

Despite the challenging circumstances of our current housing crisis, there are innovative solutions that CPC and other housing partners stand ready and eager to partner with the State to implement and usher in a new era of housing production and preservation in New York. Thank you for your time and consideration. I am happy to answer any questions you may have.