The Community Preservation Corporation
220 East 42nd St, 16th Floor
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New York City Council Executive Budget Hearing
Committee on Housing and Buildings Oversight Hearing on J-51 Tax Abatement
May 30, 2024

Testimony on behalf of The Community Preservation Corporation

Thank you, Chair Sanchez and City Councilmembers of the Committee on Housing and Buildings. My name is Emily Klein and I am the Senior Policy Associate at the Community Preservation Corporation (CPC), a nonprofit community development finance institution (CDFI) formed in the early 1970s to help New York City and State restore and rebuild communities that had been devastated by deterioration and abandonment. As a fifty-year-old affordable housing lender with a significant footprint in New York City, CPC is honored to provide testimony today in support of Intro No. 654.

New York City has one of the oldest housing stocks in the county, with 56% of all rental units built pre-1960 (more than 60 years old) and about 40% built in pre-1940, leading to a median residential building age of 90 years. These pre-war, often rent stabilized, buildings are one of the largest remaining sources of the City's affordable multifamily rental housing stock. To maintain habitability, many of these buildings need major capital investment to address essential repairs and renovations, including systems replacement, new roofs, and new windows. This need is especially acute for aging multifamily buildings with less than 50 units since they tend to operate on thin capital margins and are often occupied by low-income tenants living in rent stabilized units.

For much of the second half of the 20th century, the J-51 tax abatement served as an essential tool, supporting the renovation of this sector of New York City's housing. In 1955, the City Council created the J-51 tax abatement to offset up to 75% of rehabilitation and modernization costs through a 14- or 34-year tax exemption, in exchange for rent stabilization for the duration of the exemption period. By 1977, over 675,000 rental units were upgraded using the abatement, and as of 2011, nearly 600,000 units were still receiving J-51 benefits. As of its expiration in 2022, there were 94,185 units still receiving J-51 exemptions.

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The expiration of J51 in 2022 has left New York City building owners without the necessary financial tools to offset the costs of major capital investments, and its replacement is desperately needed. While tax incentives are typically framed as giveaways for owners, the ability to finance the renovation and rehabilitation of rent stabilized housing and ensure quality affordable housing is as much, if not more, of a benefit to the tenants who call those buildings home. Without this incentive, New York City's rent stabilized housing has suffered, and necessary building maintenance has been deferred. Even worse, there have been instances over the past two years where rent stabilized property owners have chosen to keep units in need of renovation vacant because they've determined that it is less costly to forego the rental income than it is to finance the necessary renovations on their own. Additionally, building owners will soon need to invest in sustainability measures to comply with Local Law 97, adding on more unsupported expenses. These compounding challenges require new and innovative solutions to support property owners in maintaining quality affordable housing.

The new J51 incentive, authorized by Governor Hochul in 2022 under the Affordable Housing Rehabilitation Program, is structured not as a tax exemption (as was the old J51) but rather as a tax abatement of up to 70% of the certified reasonable cost of the construction, capped at 8.3% each year for up to 20 years. Building eligibility depends on ownership structure, the percentage of affordable units, and if the building receives governmental assistance; in exchange, owners will need to keep the units rent stabilized for 15 years. The incentive will also be available to homeownership units with an assessed value under $45,000 per dwelling unit. The proposed incentive includes an updated certified reasonable cost (CRC) schedule that accounts for the current costs of materials and labor, in addition to modernized scopes of work which include building electrification and decarbonization items – both of which will help buildings comply with Local Law 97. While Intro 654 currently states that the certified reasonable cost schedule shall be "updated as necessary," we urge the Council to amend this language to require the relevant city agencies review and adjust the CRC schedule annually or index rates to keep pace with inflation and price changes. After successful passage by the City Council, we stand ready to support the Department of Housing Preservation and Development in crafting program guidelines concerning eligibility and proof of completed work. To maximize impact, these program parameters must be thorough enough to discourage abuse but not so burdensome as to discourage adoption.

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The compounding challenges of aging infrastructure, tightened rent regulation laws, tumultuous market conditions, and the need for decarbonization and energy efficiency upgrades require financing solutions to ensure the quality of New York's affordable housing stock. Intro 654 meets the needs of our current market and moment, and we urge the Council to pass with the minor edits incorporated so that building owners can finance the necessary work to maintain quality and affordable homes for New Yorkers.

Thank you for the opportunity to testify and I'm happy to answer any questions.