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MORE HOUSING FOR BETTER PUBLIC TRANSIT

A GRAND BARGAIN FOR NEW YORK CITY

Alex Armlovich
Adjunct Fellow

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Executive Summary

New York City needs lots of additional private housing, but restrictive regulations make building it difficult. The city also requires better subways and buses, but the Metropolitan Transportation Authority (MTA), America's largest public transit agency, is hampered by funding shortages as well as by poor management.

This paper suggests a housing–public transit "grand bargain"—used successfully, on a smaller scale, for Manhattan's Hudson Yards development and elsewhere[1]—that would help tackle both problems: it would allow larger residential buildings near public transit hubs across New York City in exchange for more money for the MTA. Specifically, it would relax zoning rules in return for one-time fees ("incentive zoning") *and* the continuous higher property-tax revenue generated by larger buildings ("tax-increment financing").

I estimate that a grand bargain would allow the building of roughly 411,000 new private housing units over 10 years, as well as generate some $54 billion in extra revenue for the MTA during the same period. About three-quarters of the city would retain current restrictive regulations on new developments, while New Yorkers of modest means—those who are increasingly pinched by high rents and low vacancy rates, and who depend on subways and buses to get to work—would especially benefit from the deal.

A Grand Bargain for New York City

Living in New York City offers many advantages, but affordable housing and high-quality subways and buses are not among them. The city's strict zoning laws discourage the construction of new developments, keeping the supply of housing artificially low.[2] Public transportation, often bad, is getting worse.[3]

This paper proposes a grand bargain that would make housing more plentiful near public transportation hubs—call them "transit growth zones" (TGZs)—and channel the fees and extra tax money from the new homes to the MTA, while still keeping about three-quarters of the city off limits to larger residential buildings. The table below summarizes what such a plan might look like.

A Grand Bargain*

	TGZs Inside the GEA	TGZs Outside the GEA	Non-TGZs
Development Fee	For buildings of FAR 0 to FAR 10, a fee of $150 per square foot in excess of neighborhood zoning rules	For buildings of FAR 0 to FAR 10, no fee	No change to zoning rules
	For buildings up to FAR 12, a fee of $400 per square foot in excess of FAR 10	For buildings up to FAR 12, a fee of $150 per square foot in excess of FAR 10	
Property Tax	15-year full-tax PILOT to MTA	15-year full-tax PILOT to MTA	No change to zoning rules

*See Appendix for a list of key terms, including GEA and FAR. See endnote 4 for the rationale behind choosing fees of $150 and $400 per square foot. This grand bargain does not propose adding new transit mandates onto existing housing mandates—after all, new housing can absorb only so many extra costs before developers think twice about building. New York City's Mandatory Inclusionary Housing (MIH) program, which relaxes zoning laws for developers in exchange for including below-market-price units in new housing, might serve as a model (though MIH would have to be reformulated to allow the MTA, not subsidized housing, to capture the extra fees and taxes from the new housing). See, e.g., "Mandatory Inclusionary Housing," New York City Council.

Allow housing developers to build up to FAR 10 (see **Appendix** for a list of key terms) in TGZs—specifically, the roughly 25% of the city that is within close walking distance (a quarter-mile or less) of a subway stop, commuter rail station, or Select Bus Service (express bus) stop; for a $150 fee per square foot in excess of FAR 10, allow housing developers to build up to FAR

12 (the maximum residential density allowed in New York State) in TGZs.

Where TGZs overlap with what was formerly known as the "geographic exclusion area" (the GEA included all of Manhattan, as well as parts of northern Brooklyn, western Queens, northern Staten Island, and the central Bronx), the grand bargain would allow residential buildings up to FAR 10 (the standard city maximum in residential neighborhoods) in exchange for a fee of $150 per square foot in excess of preexisting neighborhood zoning rules; and allow residential buildings up to FAR 12 (the state maximum typically available only through incentive zoning) in exchange for a fee of $400 per square foot in excess of FAR 10.[4]

Further, new housing development in TGZs would be eligible for 15-year full-tax-equivalent PILOTs[5]—similar to those used to great effect for Manhattan's Hudson Yards[6]—during which a payment equal to all property taxes resulting from the new development will be directed to the MTA.

How Much Revenue Might a Grand Bargain Raise?

Ultimately, the amount of revenue available will be proportional to the extent and intensity of pent-up demand to live in New York City. I estimate that property taxes and one-time development fees from the creation of roughly 411,000 new private housing units over 10 years would generate about $54 billion for the MTA during the same period.[7]

To arrive at this number, I start with a static estimate of how much new rental housing would be built before the city's rental vacancy rate rose from its current 3.45% level (taken from the 2014 New York City Housing and Vacancy Survey's estimate)[8] to the U.S. average of 6.9%.[9] I then assume an ongoing 1% rate of new permitting for rental and owner-occupied housing, all within TGZs, to accommodate population growth as well as the replacing of buildings in bad condition. At the end of 10 years, I find that PILOTs on 411,000 new housing units would equal about $4 billion annually, while one-time annual fees would average roughly $3 billion during the same period.[10]

How Might a Grand Bargain Transform New York?

If you live at the intersection of a TGZ and the GEA, soaring land prices in recent decades signal pent-up housing demand.[11] Under a housing–public transit grand bargain, expect a Long Island City–like transition period[12] of intense residential development along the walk to your subway stop, as housing supply catches up to demand, followed by a ripple effect of more affordable market-rate rents throughout the city.

In the process, the housing shortages that pushed New Yorkers ever farther away from the city's economic center will start to ease: Williamsburgers, say, will move into new Manhattan towers; Bushwickers and Bed-Stuyers will move to Williamsburg; East New Yorkers will move to Bushwick, and so on.

Subway and bus lines will run more often and be more on time, as the MTA modernizes its antiquated control systems.[13] Other big projects, such as the Second Avenue Subway, East Side Access, and the Hudson tunnel, may finish faster, too.[14] (Crucially, the MTA will have to implement procurement reform to bring its capital costs—more than twice as high as those for such global cities as London, Paris, and Los Angeles—down substantially.)[15]

In short, getting around New York City cheaply will become much easier, and more people will be able to afford to live there.

Conclusion

The type of grand bargain proposed in this paper would relax current restrictions on building larger residential buildings near public transit hubs. It would not use eminent domain to seize land or force construction. Meanwhile, the roughly three-quarters of New York City that is *not* within a short walk of public transit would retain current regulations on new developments.

A grand bargain might earn significant political support, too. In his fiscal year 2019 budget, New York governor Andrew Cuomo proposed allowing the MTA to keep increases in property taxes that occur near new MTA capital projects. (Cuomo's plan does not, however, include zoning reform.)[16]

New York City needs a lot more affordable market housing. It also needs a big upgrade of its public transportation system. A housing–public transit grand bargain would help fix both problems, improving New Yorkers' quality of life, especially those of modest means.

Appendix: Key Terms

Floor Area Ratio (FAR): FAR is determined by dividing the total floor area of a building by the total area of the lot (i.e., the physical land). Buildings with different numbers of stories can have the same FAR. The FAR of a 10,000 square-foot building with 10 stories—covering 100% of a 1,000 square-foot lot—would be 10. Likewise, the FAR of a 10,000 square-foot building with 20 stories—covering 50% of a 1,000 square-foot lot—would also be 10.

Geographic Exclusion Area (GEA): Parts of New York City previously known as the GEA include Manhattan as well as sections of northern Brooklyn, western Queens, northern Staten Island, and the central Bronx. New residential developments in these higher-demand areas were not eligible for the state's 421-a property-tax exemption for new housing unless they included a certain percentage of below-market-rate units. Likewise, the grand bargain proposed in this paper requires higher fees (see table on page 3) for new developments in TGZs that fall in the GEA.

Incentive Zoning: Incentive zoning offers inducements to developers for projects that provide specified benefits, such as parks and subsidized housing. Incentive zoning often takes the form of a density bonus—i.e., in exchange for including the given benefit, the developer receives permission to place more floor area in a given area than would otherwise be permitted.

Payment in Lieu of Taxes (PILOT): PILOTs take many forms. The most common involve voluntary payments to local governments, often by nonprofit organizations, that help offset losses due to forgone property-tax revenue or other tax-exempt ownership. The PILOTs proposed in this paper would provide a predictable alternative-tax payment schedule, and they would earmark the tax revenue for a specific public purpose (funding the MTA).

Tax-Increment Financing (TIF): TIF allows cities and towns to borrow against an area's future tax revenues (typically those of an underdeveloped area) in order to invest in immediate projects or encourage present development.[21]

Endnotes

[1] See, e.g., “Developers Help Fund Transit Through Value-Capture Plans,” University of Illinois at Chicago, Feb. 25, 2015.

[2] See, e.g., Peter Salins, “De Blasio’s Misguided Housing Plan,” *City Journal*, Sept. 1, 2015.

[3] See, e.g., Nicole Gelinas, “Here’s Proof That Your Subway Ride Is Hell,” *New York Post*, Jan. 13, 2018.

[4] The fee of $150 per square foot was chosen as the lower development fee because it is a round number only moderately higher than the price per square foot (about $130) used at the Hudson Yards development. Similarly, $400 per square foot was chosen as the higher development fee because it equals the price per square foot at the One Vanderbilt skyscraper being built next to Manhattan’s Grand Central Terminal.

[5] Why not use New York State’s tax-increment financing law instead? Because PILOTs need not exactly equal what full property taxes would have been in any one year; they can add predictability by fixing an assessment at an estimate of the average assessed value expected for the life of the PILOT; and they may allow hardship discounts from full property tax in weak real-estate markets.

[6] See, e.g., “Innovative Financing at New York’s Hudson Yards,” Lincoln Institute of Land Policy, Mar. 22, 2017.

[7] The $54 billion estimate is in nominal dollars. MTA capital plans are typically discussed in nominal dollars and in five-year increments.

[8] The 2017 New York City Housing and Vacancy Survey was not released in time for use in this paper.

[9] “New York City Housing and Vacancy Survey,” U.S. Census Bureau.

[10] Residential prices would have to fall dramatically before developers lacked an incentive to build. The NYU Furman Center, for example, estimates that high-rise residential construction in Manhattan costs about $450 per square foot. When built at this cost, plus this paper’s $150 per square foot air rights available up to FAR 10 inside the GEA, it would offer developers a 20% gross return at sale prices as low as $720 per gross square foot—or roughly $720,000 for a new 1,000-square-foot apartment. At present, however, the median apartment in Manhattan’s *resale* price is $985,000. This means that developers would have a strong incentive to keep building in Manhattan until the new air rights ran out or the median sales price of a 1,000-square-foot apartment declined to $720,000. See Josiah Madar, “Inclusionary Housing Policy in New York City,” NYU Furman Center, Mar. 26, 2015; and Miriam Hall, “Three Predictions for the 2017 Resi Market,” TheRealDeal.com, Dec. 21, 2016.

[11] See, e.g., Jason Barr, Fred Smith, and Sayali Kulkarni, “What’s Manhattan Worth? A Land Values Index from 1950 to 2013,” Rutgers University, 2015.

[12] See, e.g., Aileen Jacobson, “Long Island City: Fast-Growing, with Great Views,” *New York Times*, Feb. 10, 2016.

[13] See, e.g., Dan Rivoli, “NYC Subway Relies on Decades-Old, Outmoded Signals, Switches and Track Equipment,” *New York Daily News*, May 22, 2017.

[14] Emma G. Fitzsimmons, “After Almost a Century, the 2nd Avenue Subway Is Oh-So-Close to Arriving,” *New York Times*, Oct. 24, 2016.

[15] “RPA Reveals Underlying Reasons MTA Megaprojects Cost More than Twice as Much than Peer Cities and Basic Steps to Save Billions,” Regional Plan Association, Feb. 6, 2018.

[16] See “FY 2019 Executive Budget,” New York State.

[17] See, e.g., “Floor Area Ratio,” Investopedia.

[18] See Jarrett Murphy, “Really, It’s OK if You Don’t Understand 421-A,” CityLimits.org, June 9, 2015.

[19] See, e.g., “Incentive Zoning and Inclusionary Zoning,” Governor’s Smart Growth Cabinet.

[20] See, e.g., Daphne A. Kenyon and Adam H. Langley, “Payments in Lieu of Taxes,” Lincoln Institute of Land Policy, Nov. 2010.

[21] See, e.g., Rob Kerth and Phineas Baxandall, “Tax-Increment Financing,” U.S. PIRG Education Fund, 2011.

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