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Overview of NYU Furman Center Research Relevant to Mandatory Inclusionary Housing and Zoning for Quality and Affordability Text Amendment Proposals

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Good morning, Chair Weisbrod and Commissioners. Thank you for the opportunity to testify today. My name is Mark Willis, and I am the Executive Director of the Furman Center for Real Estate and Urban Policy at New York University. The Furman Center is a joint research center of the NYU School of Law and the University's Robert F. Wagner School of Public Service. Our work at the NYU Furman Center is devoted to examining the public policy aspects of land use, real estate development, and housing.

Today I would like to share research findings relevant to the two zoning proposals now under consideration: the Mandatory Inclusionary Housing program (MIH) and Zoning for Quality and Affordability (ZQA). I have attached to my testimony two policy briefs that contain the relevant findings: *Creating Affordable Housing Out of Thin Air: the Economics of Mandatory Inclusionary Zoning in New York City*, which was released earlier this year; and *Minimum Parking Requirements and Housing Affordability in New York City*, which was released in 2011.

These policy briefs consider how mandatory inclusionary zoning and parking requirements might affect the production of housing—and affordable housing more specifically—in New York City. The demand to live in the City has never been stronger from households at all income levels, but the supply of new housing is not keeping up. The resulting shortage is contributing to the upward pressure on rents and home prices. In 2013, for example, 54 percent of renter households in New York City paid 30 percent or more of their income on rent, and a full 30 percent of renters in the City paid more than 50 percent of their income towards rent.¹

Mandatory Inclusionary Zoning

Let me first share our learning regarding inclusionary zoning. We hope that our analysis provides a financial context to understand how mandatory inclusionary can create affordable units by harnessing market-rate development without dampening the rate of investment in new residential buildings. We appreciate that the Commission must also consider legal parameters, planning principles, and community input.

The goal of inclusionary zoning is to have market-rate units “cross-subsidize” the development of affordable units.² With such a program, affordable units are automatically created—as long as market-rate development continues—without the need for any direct expenditure of City subsidy dollars.

With its proposal, the City seeks to create a template for implementing mandatory inclusionary zoning where rezonings create substantial additional residential zoning capacity. Because the City contains a range of market types, designing such a program that can work city-wide is

¹ NYU Furman Center, U.S. Census Bureau 2013 American Community Survey.

² NYU Furman Center (March 2015). *Creating Affordable Housing Out of Thin Air: the Economics of Mandatory Inclusionary Zoning in New York City*. New York, NY. Retrieved from http://furmancenter.org/files/NYUFurmanCenter_CreatingAffHousing_March2015.pdf.

admittedly complex. If the City wants to encourage continued development of both market-rate and affordable units, it must consider how its policy may influence the choices that developers and landowners make. For our analysis, we looked to see how increased density could be used to subsidize affordable units without dampening supply. Based on assumptions of construction and operating costs and the existence of property tax exemption under 421-a, we found that:

- In neighborhoods where rents are high enough to support new mid- or high-rise development, additional density alone can create a cross-subsidy that both supports the creation of some affordable units while still allowing developers to earn what we understand to be a commonly expected return. The higher the rents, the higher the percentage of the added units that can be required to be affordable without diminishing the developer's overall return.
- In much of the City, however, rents are not high enough to spur mid- or high-rise development in the first place even if land were free. Adding additional density alone will not spur development in these neighborhoods and so development in these areas will need to be subsidized.

In summary, combining increased density with mandatory inclusionary zoning can work to support the building of both market-rate development and affordable housing without the need for any additional government subsidy. The challenge is to do it so as not to suppress development.

Parking Requirements and Housing Affordability

The second area of research I want to share is our work on the effects of parking requirements on the affordable housing that the City can develop. As I am sure you understand, providing parking facilities increases overall construction costs and so, in effect, increases the cost of each unit built. Our research found that the City's parking requirements can cause developers to build more parking spaces than if they were simply meeting demand.³ Reducing parking requirements for affordable units near transit, as ZQA proposes, could better align the number of spaces provided with the need for parking. The resulting reduction in the cost of building affordable units would allow the City to stretch its subsidy dollars further and support the production of more affordable housing or target lower income households.

Thank you for the opportunity to testify.

³ New York University, Furman Center for Real Estate and Urban Policy (2011). *Minimum Parking Requirements and Housing Affordability in New York City* (p. 11). New York, NY. Retrieved from http://furmancenter.org/files/publications/furman_parking_requirements_policy_brief_3_21_12_final_2.pdf.