

New York's de Blasio bargains with FIRE

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Frantic deal-making over an obscure but costly New York City real-estate tax incentive (421-a) provides a window into the politics of mayor Bill de Blasio's attempt to implement a progressive urban-policy agenda. The mayor hopes to deliver on campaign promises to combat economic inequality while sustaining growth. But his valuable political relationships with real-estate developers pose a challenge to his bid to bring development and redistribution into the same policy universe. Tom Waters shows how the mayor's plan would preserve a rich subsidy for real estate at the expense of the public treasury while only incrementally advancing affordable housing goals.



Members of Make the Road New York, New York Communities for Change, Community Action for Safe Apartments, and Crown Heights Tenant Union, with City Council Member Antonio Reynoso, demonstrating against 421-a at "Colony 1209" on DeKalb Avenue in Bushwick, Brooklyn, New York, on April 21, 2015.

As the New York state legislature nears the end of its scheduled 2015 session, a controversial and costly New York City real-estate development tax incentive has been allowed to lapse. At midnight on June 15, the 421-a tax exemption for new residential development¹ officially expired, but negotiations are undoubtedly going on behind closed doors. Observers expect that the incentive, which developers are desperate to save despite calls by housing and good government advocates to

¹ See : <http://www1.nyc.gov/site/hpd/developers/tax-incentives-421a.page>.

let it expire (Hutchins 2015), will be approved in some form before the end of the legislative session.

The fight over 421-a is connected to conflict over the state's rent-control and rent-stabilization laws and to ongoing political corruption scandals. It also provides an interesting window into the politics surrounding New York City mayor Bill de Blasio's attempt to implement a new progressive urban policy agenda. De Blasio hopes to deliver on campaign promises to combat economic inequality while simultaneously promoting economic growth by supporting real estate and other industries. To do this, his administration must renegotiate its relationship with these industries, continuing to provide development subsidies to them while demanding more redistributive public benefits in return. From an economic point of view, one might expect the development industry to accept any proposal that leaves it with a positive net benefit. But political science has often seen real-estate actors not as passive parties who take or leave offers from city government, but as active co-creators of policy. The administration has presented a 421-a reform proposal (Bagli and Navarro 2015) as a key part of its housing policy, and this proposal is one of many currently in the mix in Albany. De Blasio's proposal would preserve a rich subsidy for real estate, suggesting that the industry's role in the mayor's governing coalition makes it difficult to significantly reduce an existing benefit stream.

De Blasio, the Bloomberg legacy, and urban optimism

In his "Tale of Two Cities" speech at the New School in May 2013 (de Blasio 2013a), candidate de Blasio promised to raise the standard of living for low- and middle-income New Yorkers, framing this as both a departure from Bloomberg's development policy and as a way of building on it. After winning the Democratic primary, he began signaling that he wanted business, and especially the real-estate industry, as a partner. In October, he told the business group Association for a Better New York that in housing policy he would convert "a system based on incentives that have yielded too little to one based on clear requirements for (...) affordability," while stressing that "[t]here will be incentives, there will be opportunities" (de Blasio 2013b; Grynbaum 2013; Katz 2013). After taking office, he became more direct, saying in his first State of the City address that "[w]e want to work with the real-estate industry to build" (de Blasio 2014a) and in an April 2014 speech that his administration had "looked (...) for every chance (...) to say to the real-estate industry: We'll work with you, but the public must get its share" (de Blasio 2014b). Other statements made it clear that the administration intends to upzone neighborhoods for residential construction, a priority for the real-estate industry.²

This nuanced approach makes sense in light of the nuanced state of public opinion in New York City. Although de Blasio's criticisms of Mayor Bloomberg and the city's growing economic inequality distinguished him from other Democratic primary contenders and are often credited with fueling his victory, Bloomberg and his policies were relatively popular. Just before the November 2013 election, 64% of voters said they wanted a mayor who would "move the city in a different direction," rather than "continue Michael Bloomberg's policies," yet Bloomberg's approval rating never fell below 42% in 2013. (Marist 2013a, 2013b) Perhaps de Blasio interprets the public as saying that it wants to continue Bloombergian policies while balancing them with some redistribution.

The administration's approach also makes sense in light of an emerging optimistic trend in urban policy scholarship. A wide range of writers see cities as distinctly productive places either because spatial concentration makes people productive or because urban amenities attract productive people. (Florida 2003; Glaeser 2011) Enhanced productivity potentially makes cities or metros politically powerful (despite the formal weakness of cities in the United States' federal order), because other places depend on their productivity. (Barber 2013; Katz and Bradley 2013). Mayors, these scholars

² See: www.jacobinmag.com/2014/10/de-blasios-doomed-housing-plan.

argue, can devote some of this productivity surplus to policy innovation. Urban optimists like Glaeser and Katz de-emphasize redistributive policy, but their approach is compatible with social-justice goals, so long as enhancing social mobility is seen as a route to justice. From the point of view of a mayor in search of political “wins,” it may not matter much whether the optimism narrative offers an adequate account of cities’ needs and opportunities. What it does offer is a set of recipes for policies that are likely to be seen as successful. It stands to reason that de Blasio wants to take advantage of this cookbook, even while acting out of a greater concern for economic inequality. The question is to what extent he can go beyond social mobility within this framework and combat inequality more directly through redistribution. Political relationships pose a challenge to de Blasio’s bid to bring economic development and redistribution into the same policy universe (Wolf-Powers 2013).

The most dramatic example of the administration’s efforts to combine development with redistribution is its housing plan. De Blasio has pledged to create and preserve even more affordable apartments than Bloomberg did;³ to make a larger share of the apartments affordable to people with truly low incomes; and to do so at a time when affordable housing development is getting much more challenging as the city has run out of surplus land, and market prices for buildable land are rising rapidly. The de Blasio plan does include a significant increase in the amount of city capital funds committed for affordable housing, but the two primary means for passing Bloomberg’s mark are policies tying development to redistributive requirements. One is mandatory inclusionary zoning, which would require developers to build affordable housing in any development built in the sections of the city that the administration plans to upzone. The other is the reform of the 421-a program.

421-a reform as policy

421-a is an exemption from New York City property tax, authorized by state law, that applies to all new residential construction in most of New York City and to projects that provide affordable housing in a specified area of the city’s core, where property values are highest and where most new residential construction takes place. The exemption lasts for terms of 10 to 25 years, depending on location, the affordability provided, and the use of additional subsidies. The benefit is sometimes worth hundreds of thousands of dollars per apartment, and accounted for \$1.1 billion in tax expenditures in 2014.⁴ This highly inefficient subsidy was originally conceived as a pure development incentive in 1971, but was given an affordable-housing rationale in the 1980s after politicians began calling for an end to the benefit. A round of reforms in 2006 and 2007 were intended to improve its efficiency in promoting affordability, but have so far been ineffective. Perhaps only about 10% of the tax expenditure ends up benefiting low-income tenants in the form of reduced rents. (Waters and Bach 2015; ANHD 2015). In many respects, 421-a is a classic example of the power of a concentrated interest group to preserve policies that benefit it.

Looked at purely from the point of view of policy analysis, 421-a is a golden opportunity. By making its affordability requirements more restrictive, the city could tap hundreds of millions to benefit low- and middle-income tenants without increasing the tax expenditure and while leaving enough subsidy on the table to motivate industry participation. Unfortunately, the design of 421-a as an as-of-right tax exemption makes it technically difficult to build in efficiency by matching the value of the reduced taxes to the value of the affordable housing produced. While many advocates have called for an outright end to 421-a, (Waters and Bach 2015, Hutchins 2015) the de Blasio administration entered negotiations with the Real-Estate Board of New York (REBNY) to develop a plan that would be supported by that organization (Bagli and Navarro 2015). This strategy makes

³ See: www.nyc.gov/html/housing/pages/home/index.shtml.

⁴ See: <http://www1.nyc.gov/site/finance/taxes/annual-report-on-tax-expenditures.page>.

sense as a way of dealing with the city's dependency on state government in creating tax policy, but it also reflects the durable strength of the real-estate industry in city politics.

The politics of real-estate development

The real-estate industry is not just another interest group in New York City politics. Mollenkopf (1992) has interpreted it as a key component of the “dominant political coalition” that has largely held sway in the city from the 1970s onward (see also Bellush 1990; Fainstein 2001). As a coalition partner, it does not exchange benefits with City Hall *ad hoc* but shares in an arrangement that “can be stable, operate across issues, and create persistent winners and losers,” enabling the coalition members to jointly exercise power to “produce a steady flow of benefits.” (Mollenkopf 1992, p. 38) The \$1.1 billion a year delivered to developers and property owners by the 421-a exemption would seem to be classic example of such a flow, and one the industry will not sacrifice unless forced.

The mayor, for his part, needs the cooperation of real estate to produce the results expected by voters—a visibly prospering city. Thus the stakes in de Blasio's negotiation were not just whether the real-estate industry would continue to use the 421-a tax exemption and thereby create some affordable apartments. A far more wide-ranging, mutually beneficial relationship was at stake, one in which the city and real-estate industry work together to create new developments of all sorts all over town. Thus it is not surprising that the result of the negotiation protected this relationship while only incrementally advancing affordable housing goals at the expense of the public treasury.

De Blasio's trade-offs on 421-a

The 421-a reform proposal that the administration presented to the public in May adds some new benefits for real estate, takes away old ones, and adds new benefits for the public (Bagli and Navarro 2015; Waters 2015). It eliminates tax exemptions for condominium developments, greatly enriches the benefit for rental developments (by extending the term of exemption to 35 years from the current range of 10 to 25 years), and modestly increases affordability requirements. The proposal appears to be an effort to shift development from condos toward rentals and to create more affordable units, both by inducing developers to use 421-a in the center of New York and by increasing affordability requirements in other parts of the city. It is able to do this partly by establishing a new tier of “affordability,” at which units will rent for about \$2,500 a month. The proposal also creates a new tier with lower rents than current policy—around \$800 rather than \$1,165. Both the administration and the city's Independent Budget Office project that it will increase both the production of affordable housing and the total tax expenditure. (Glen 2015; IBO 2015).

The proposal can be analyzed from many angles, but from an equity/redistribution perspective the key question concerns the new affordability tier. It is naturally cheaper to create apartments that can rent for \$2,500 a month than apartments renting at \$1,165 a month, and far more of these apartments will be created under the proposal than apartments at the new low rent level, so the program will be in this sense less efficient than current policy. The appropriateness of steering so much of the benefit to households who can afford the \$2,500 rents is questionable. Households in this group—those earning about \$100,000 a year—are far less stressed in the housing market than the targets of current policy, who make about \$47,000. The proposal essentially shifts benefits away from working-class and toward upper-middle-income households.

The de Blasio proposal also considerably increases the total amount of taxes foregone per year in order to create affordable apartments. From real estate's point of view, then, a critical aspect of the plan it has negotiated with the mayor is that the large net flow of benefits that the industry receives—the value of the reduction in tax minus the cost of foregoing part of the rent potential in the affordable apartments—is likely to increase. From the city's point of view, more than a billion

dollars that the administration could otherwise devote to providing city services will be claimed by real-estate actors in tax exemptions. But de Blasio has apparently deemed this trade-off worth it.

Conclusion

The de Blasio proposal on 421-a is deeply disappointing to housing advocates (Waters 2015). If the state government approves it, it will help the administration only modestly in its effort to construct 80,000 new affordable apartments, and it will do so at a far higher cost per apartment than could be accomplished using other policy tools. For the real-estate industry, however, the proposal is a clear win, extending an extraordinarily rich flow of benefits into the future. Why did a mayor who has broken with his predecessor on other redistributive issues, including public assistance,⁵ homelessness policy,⁶ and mandated employment benefits,⁷ settle for so little? From a classic policy-analytic perspective, the gross inefficiency of the current 421-a development tax exemption would seem to present a highly attractive opportunity to fund de Blasio's housing policy goals through the elimination of waste. From a political-science perspective, however, that same inefficiency can be seen as a benefit flow that helps to solidify a political relationship that is also very important to the administration. The outcome of the administration's negotiations with real-estate industry representatives suggests that the political aspect of the situation was at least as important as the policy one. Optimism about policy innovation supported by urban productivity ought to be tempered by the more pessimistic mood of classic urban political science. Meanwhile, multiple proposals to eliminate, reform and extend the 421-a exemption hang in the balance in Albany.

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⁵ See: www.clasp.org/issues/work-supports/in-focus/tanf-snap-improvements-come-to-new-york-city.

⁶ See: <http://citylimits.org/2015/03/04/de-blasio-policies-chip-away-at-homeless-count>.

⁷ See: www.nydailynews.com/news/politics/nyc-paid-sick-leave-bill-passes-worries-article-1.1703440.

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