

**ISSUE BRIEF**  
**Affordable Housing and the Hudson Yards Rezoning**  
**(December, 2004)**

**Summary**

The Hudson Yards Rezoning proposed by the Bloomberg Administration is projected to generate 13,600 units of housing by 2025. The Administration has indicated that 2,600 of these units will be affordable.

However, this estimate does not withstand scrutiny. Based on a review of financial analyses prepared by the City, we estimate that **only 600 units (5%) are likely to be affordable**.

In addition, we estimate that **real estate owners will receive an increase in land values totaling over \$1.1 billion**, or 1,070%, on projected residential development sites within the rezoning area (even with projected payments to the District Improvement Fund). This substantial increase, generated by the Bloomberg Administration's rezoning, could be tapped to guarantee the community's goal that 30% of the new housing (4,000 units) created be affordable to community residents.

**Clinton/Hell's Kitchen and the Hudson Yards Rezoning**

The Hudson Yards rezoning proposal spans from W. 28<sup>th</sup> Street to W. 43<sup>rd</sup> Street, the Hudson River to Seventh & Eighth Avenue, encompassing the neighborhood of Clinton/Hell's Kitchen. The area, which is part of Manhattan Community Board 4, has historic roots as an immigrant working-class neighborhood tied to an industrial waterfront. The current population of the Community Board area is approximately 100,000. The area today is a mixed-income community, with the majority of residents renting their homes, and a range of local services and resources are available to low-income residents. The diversity of the existing residential population has contributed to the strength of the character of the neighborhood.

Neighborhood shops and restaurants serve area residents and workers, but are also well known for high-quality goods and services, and have become important destinations for art, culture and recreation. The proximity to world-class cultural amenities and the region's core has made the area extremely desirable. Over the past 10 years, the Clinton/Hell's Kitchen neighborhood has steadily gentrified, and this has caused the displacement of many low- and moderate- income residents. The significant rise in property values and high cost of land acquisition in the area has hindered the development of new affordable housing. The existing affordable housing stock is being threatened by rent deregulation and expiring-uses. As programs such as Mitchell-Lama and Section 8 come up for renewal in the near future, there is a strong likelihood that property owners will opt-out of these programs, creating more market-rate units in the district and displacing additional existing low-and moderate-income residents.

The Bloomberg Administration has proposed a major redevelopment plan for the area, including 28 million square feet of commercial development, 13,600 new housing units, the extension of the 7 train, the expansion of the Javits Convention Center, and a new stadium. Community Board 4 has expressed support for balanced growth and development in the Hudson Yards area, yet wants to ensure that the rezoning proposal prevents displacement of existing residents, and maintains neighborhood character, stability, and quality of life. More specifically, the Community Board has indicated that no less than 30% of all housing units constructed in the rezoning area should be permanently affordable to the local residents at low- and middle-income levels.

## The Bloomberg Administration's Affordable Housing Claims for Hudson Yards

On November 8, 2004, the Bloomberg Administration announced revised plans to encourage the creation of affordable housing in the Hudson Yards rezoning area. The Administration declared in a press release that these plans would generate 2,600 units of affordable housing (or 20% of the total of 13,600). They identified these units as coming from two programs:

- **NYC HDC 80/20 program:** 1,800 affordable units created through the NYC Housing Development Corporation's 80/20 rental housing program, in which developers choose to build rental housing, with 80% at market-rate, and 20% affordable to low-income households. This presumes that approximately two-thirds of the developers would build 80/20 rental developments.
- **Expanded Inclusionary Zoning program:** 800 or more affordable units through an expanded version of the City's Inclusionary Zoning program, which offers developers the opportunity to build additional square feet of market rate housing if they provide affordable housing for low-income families (either on our off site). For Hudson Yards, the City expanded the program, making three key changes:
  - Providing a larger incentive for developers to create affordable housing by lowering "as-of-right" density, and increasing the density bonus for affordable housing from 20% to 33% (though only a fraction of this bonus would be for the affordable units).
  - Extending the Inclusionary Zoning Program within the Hudson Yards rezoning area to include the neighboring, lower density Hells Kitchen community.
  - Enhancing the current preservation option to offer developers a more attractive option for preserving existing moderate-income units.

### Analysis of the Administration's Claims

The Pratt Center reviewed the Administration's proposal. We relied substantially on a financial feasibility analysis prepared by the NYC Department of Housing Preservation and Development (HPD) in December, 2004. Our conclusion is that even with the changes outlined by the Administration on November 8<sup>th</sup>, **the Hudson Yards Rezoning will likely result in only approximately 616 units of affordable housing (5% of the total of 13,600 units)**. Our analysis is as follows:

#### **1. The evidence suggests that no significant number of 80/20s will be built. Developers are far more likely to build market-rate condos than 80/20 rental developments.**

- The City's estimate that two-thirds of developers will build 80/20 rentals is preposterous, since **HPD's own financial analysis shows that condos are currently more than twice as profitable as rentals.**
  - HPD's analysis concludes that market rate condo development is more than twice as profitable as 80/20 rental development – in every part of the rezoning area, with or without the density bonus, and even projecting a series of changes in land prices, interest rates, construction costs, and rents (see Appendix A).
- The City appears to be using housing construction following the 1990s rezoning of 6<sup>th</sup> Avenue in Chelsea as a basis for comparison. In Chelsea, two-thirds of developers build 80/20 rental developments, yielding 13% affordable units (the same percentage the City is projecting here). **However, Chelsea/6<sup>th</sup> Avenue development in the 1990s is a completely false comparison.**
  - In the 1990s, far more developers were building rental developments. For Manhattan new construction, the trends are dramatically toward condominium development (see table below).<sup>1</sup> As a result, a much higher percentage of developers are now likely to build

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<sup>1</sup> The Corcoran Group (2004), *The Corcoran Report: A Comprehensive Analysis of Residential Real Estate Value in New York City, the East End, and Palm Beach, Mid Year 2004*, New York: NY.

condominiums rather than rentals. The majority of the financial incentives under the 80/20 program apply only to rental development.

Year	% Rental	% Condo
1998	96%	4%
2002	80%	20%
2003	67%	33%
2004 (through June)	52%	48%

- Use of the affordable housing program under the City's 421-a tax exemption program is down dramatically over the past several years. **Housing starts under the 421-a affordable housing program (the program under which the vast majority of the affordable units in Chelsea were built) were down more than 80% from 2002 to 2003.**<sup>2</sup>
  - Chelsea is covered by the "Manhattan Exclusion Zone" of the City's 421-a tax exemption program, but the Hudson Yards area is not (see discussion below). As a result, developers in Chelsea have a greater incentive to include affordable units.
2. The Administration is projecting that 100% of developers will opt for the voluntary inclusionary zoning bonus program. **However, it is extremely unlikely that every developer will choose the inclusionary zoning bonus option.**
- This is especially true for condominium development in the lower density Hell's Kitchen area of the rezoning, where opting for the bonus yields a lower overall rate of return. HPD's financial analysis (Appendix A) shows that the 4-year internal rate of return for condo development in the Hell's Kitchen area goes down from 56.1% (with no bonus) to 48.3% (with bonus). In addition, the developer must take the added burden of identifying, purchasing, and preserving another building as affordable housing. Finally, unlike in the higher-density corridors of the plan where developers must take the inclusionary zoning bonus in order to take other additional bonuses and thus maximize development, developers in this area are not eligible for any additional bonuses. We do not believe that 100% of developers will make this choice.

The following table summarizes our analysis:

**Affordable Housing Units Created Through Hudson Yards Rezoning  
Bloomberg Administration versus Pratt Analysis Estimates**

Program		Administration Estimate	Pratt Analysis Estimate
80/20 program	Developers who will build 80/20 rentals	67%	5%
	Affordable units created	1,800	136
Inclusionary zoning program	Developers who will build 80/20 rentals	100%	60%
	Affordable units created	800	480
<b>TOTAL</b>		<b>2,600</b>	<b>616</b>

<sup>2</sup> NYC Rent Guidelines Board (June, 2004), *2004 NYC Housing Supply Report*, New York, NY [www.housingnyc.com](http://www.housingnyc.com).

**Tax Exemptions for Development, and the City’s 421-a “Manhattan Exclusion Zone”**

The City’s 421-a tax exemption program makes owners exempt for increases in value based on the improvements to their property. Within the “Manhattan Exclusion Zone” – which covers most of Manhattan between 14<sup>th</sup> and 96<sup>th</sup> Streets, but not the Hudson Yards Area – developers must generate affordable housing units in order to receive this tax exemption. Outside this zone, however, developers in Manhattan receive a 10-year exemption without including any affordable units. The estimated cost to the City of these exemptions is \$22,500 per unit.<sup>3</sup>

In other words, residential developers in the Hudson Yards Rezoning area would be eligible to receive a tax subsidy of approximately **\$22,500 per unit (or \$306 million in total, for the 13,600 units) without having to build a single affordable unit.**

However, it should be noted that **even if the Manhattan Exclusion Zone were extended to cover the Hudson Yards Rezoning area, it would still constitute a relatively weak incentive.**

- As noted above, housing starts under the 421-a affordable housing program (within the Manhattan Exclusion Zone) were down over 80% from 2002 to 2003.
- When the incentive to build condos rather than rentals is large, the effect of the tax incentive is diminished. With condos more than twice as profitable as rentals, even taking away the tax incentive from market-rate condo development would do little to narrow the gap. It is likely that market-rate condo development would remain far more profitable than 80/20 rental development.

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**Alternatives to Guarantee a Meaningful Amount of Affordable Housing**

We then considered other alternatives for insuring that 30% of the housing units (4,000 units) generated through the Hudson Yards Rezoning would be affordable to low and moderate income households.

**Hudson Yard Rezoning Area Land Value Analysis**

To begin with, we analyzed the increase in land values that will result from the rezoning. The Pratt Center considered seventeen sites that are being rezoned to allow for significant residential development through the Hudson Yards rezoning proposal. Historical land sales data was collected for these sites, and then compared to recent land sales data for residential projects in Midtown Manhattan (see Appendix B). Existing landowners paid very little for their sites, and speculation began to occur in the mid 1980’s in anticipation of a rezoning to increase residential development in the area.

With the Hudson Yards rezoning proposal, we estimate that land values will increase by over 1,000%.<sup>4</sup> This is direct windfall to the landowner as a result of the rezoning, based on the average prices those owners have paid for their land. Overall, with the density increases provided by the rezoning, the value of the buildable residential area in Hudson Yards is estimated to increase by more than \$1.1 billion.

This analysis is summarized in the following table:

<sup>3</sup> NYC Independent Budget Office (January, 2003), *Worth the Cost? Evaluating the 421-a Property Tax Exemption*, New York, NY, available at [www.ibo.nyc.ny.us](http://www.ibo.nyc.ny.us).

<sup>4</sup> All figures account for the reduction in land values from payments into the District Improvement Fund, and for the inclusionary housing requirements, for developers who opt for the various bonuses which are available.

Sites Projected for Residential Redevelopment	17
Land Area of Seventeen Sites (S.F.)	676,659
Total Sales for Land (1944-2004)	\$108,468,703
Time Period for Land Assembly	1984-2004
Sales Price per S.F. of Developable Land	\$160
Buildable Area with proposed zoning changes (S.F.)	8,694,669
Average Sales Price per Buildable S.F. (1944-2004)	\$12.48
Median Sales Price per Buildable S.F. for Residential Units in Midtown (2004)	\$195
<b>Projected Increase in Land Value With Proposed Zoning Changes</b> (per Buildable S. F.)	<b>\$182.50</b>
<b>Total Value Increase for Buildable Area With Proposed Zoning Changes</b>	<b>\$1.16 billion</b>
<b>Projected Windfall for Landowners</b>	<b>1074%</b>

#### **Alternative 1: Combining Mandatory Inclusionary Zoning (IZ) with Other Strategies**

The Hells Kitchen/Hudson Yards Alliance has developed an alternative plan for generating affordable housing through the Hudson Yards Rezoning. Key elements of this plan include:

- Requiring all developers to include 20% affordable housing (mandatory IZ).
- Deepening the density bonus for additional units, by further lowering the as-of-right density, thus providing an incentive to developers to create 25 – 30% affordable units.
- Making the inclusionary zoning bonus the first of the available bonuses.
- Extending the Manhattan Exclusion Zone to cover the Hudson Yards area.
- Applying the inclusionary housing bonus program to developments with only commercial use.
- Using publicly-owned sites to create a significant number of affordable units.
- Providing protections to tenant's facing harassment and displacement.

While we did not analyze the full impacts of each of these options, the land value increase conducted for this report suggests that **requiring all developers to include a base of 20% affordable units would be financially feasible**. In a recent report, we conducted a financial analysis which showed that a 20% mandatory inclusionary zoning requirement would dampen the increase in land values (leading to a reduction of approximately 40%, off of the new and higher values).<sup>5</sup> However, even with this reduction due to an affordable housing requirement, landowners in Hudson Yards would still receive a value increase of more than 650%, or more than \$700 million in total.

We project that a combination of these elements would result in over 4,000 affordable housing units.

<sup>5</sup> PolicyLink and Pratt Center (2004), *Expanding Housing Opportunity in NYC: The Case for Inclusionary Zoning*, available at [www.picced.org](http://www.picced.org).

**Alternative 2: A Stronger Voluntary Inclusionary Zoning Program with Other Strategies**

We have concluded in other analysis that thoughtfully structured mandatory inclusionary zoning programs are financially feasible, legally viable, and a superior way of creating more affordable housing units.<sup>6</sup> However, for this report we also explored other alternatives, which would not require as substantial a change to the proposed rezoning as a mandatory program would. In considering other options, we also reviewed the new, voluntary inclusionary zoning proposal which HPD has put forward for Greenpoint-Williamsburg.

We considered the following combination of potential elements:

- Offer developers the 33% density bonus in the higher-density district if they include 15% - 25% affordable units, at a range of incomes.
- Allow developers to access various public subsidy programs, but require additional affordability if they choose to do so, resulting in 25 – 30% affordable units.
- Deepen the density bonus for additional units, by further lowering the as-of-right density in the lower density Hell’s Kitchen section of the rezoning area.
- Combine the District Improvement Fund and inclusionary zoning bonuses, to increase the likelihood that developers will opt for the IZ bonus.
- Extend the Manhattan Exclusion Zone to cover the Hudson Yards area.
- Apply the inclusionary housing bonus program to developments with only commercial use.
- Utilize publicly-owned sites to create a significant number of affordable units.
- Provide protections to tenant’s facing harassment and displacement.

We project that a combination of these elements would result in over 4,000 affordable housing units.

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*This Issue Brief was written by Brad Lander and Marnie McGregor.  
The land value analysis was conducted by Justin Kray.*

*Information on the Pratt Institute Center for Community  
and Environmental Development is available at [www.picced.org](http://www.picced.org).*

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<sup>6</sup> *Ibid.*

**Appendix A: NYC Department of Housing Preservation and Development  
Hudson Yards Inclusionary Housing Bonus Feasibility Analysis**

<b>Proxy Corridor Program Description</b>				
-- 33% zoning bonus for providing incl. housing				
-- Onsite inclusionary option requires 1 sf of affordable housing for every 4 sf of zoning bonus				
-- Preservation option requires 1 sf of affordable housing for every 1.5 sf of zoning bonus				
-- Preservation option assumes that compensated developer acquires and transfers property, debt free to HDFC				
<b>Proxy Corridor (10th Avenue East)</b>				
<b>Rental, 30 year IRR</b>				
	<b>Projected Market Conditions, 2006</b>	<b>10% increase in land price</b>	<b>5% decrease in rental income</b>	<b>10% rise in construction costs</b>
<b>Base Case 80/20</b>	21.6%	18.2%	16.7%	16.4%
<b>Onsite, 33% Inclusionary Bonus</b>	23.7%	21.2%	17.8%	16.9%
<b>Condo, 4 year IRR</b>				
	<b>Projected Market Conditions, 2006</b>	<b>10% increase in land price</b>	<b>10% decrease in sales price</b>	<b>10% rise in construction costs</b>
<b>Base Case Market Condo</b>	47.2%	44.1%	38.6%	40.9%
<b>Offsite, preservation option</b>	48.0%	46.7%	38.9%	41.4%
<b>Hell's Kitchen Corridor Program Description</b>				
-- 25% zoning bonus for providing incl. housing				
-- Onsite inclusionary option requires 1 sf of affordable housing for every 4 sf of zoning bonus				
-- Preservation option requires 1 sf of affordable housing for every 1.5 sf of zoning bonus				
-- Preservation option assumes that compensated developer acquires and transfers property, debt free to HDFC				
<b>Hell's Kitchen</b>				
<b>Rental, 30 year IRR</b>				
	<b>Projected Market Conditions, 2006</b>	<b>10% increase in land price</b>	<b>5% decrease in rental income</b>	<b>10% rise in construction costs</b>
<b>Base Case 80/20</b>	16.1%	14.3%	13.0%	12.9%
<b>Onsite, 25% Inclusionary Bonus</b>	17.8%	15.7%	14.0%	13.6%
<b>Condo, 4 year IRR</b>				
	<b>Projected Market Conditions, 2006</b>	<b>10% increase in land price</b>	<b>10% decrease in sales price</b>	<b>10% rise in construction costs</b>
<b>Base Case Market Condo</b>	56.1%	52.1%	46.4%	48.5%
<b>Offsite, preservation option</b>	48.3%	45.8%	39.4%	41.8%