

Mandatory Inclusionary Housing Deep Affordability Option Analysis:



The de Blasio Administration’s Mandatory Inclusionary Housing (MIH) proposal is now officially in the hands of City Council, which has until approximately the end of March to vote on the proposal.

The Council has the power to reshape the Mayor’s MIH proposal. Local residents, housing groups, and community boards will be looking to the Council to revise MIH and make it a tool that can actually help meet the needs of all New Yorkers – particularly the lowest-income members of our communities, who are most in need of affordable housing.

One of the greatest concerns expressed in the MIH land use process throughout is the level of affordability of potential MIH affordable units. Communities are continually raising the question of whether units termed “affordable” will truly be affordable to local families or New York City residents more generally.

Though the City’s MIH Market and Financial Feasibility Study analyzed over 1,000 scenarios across a variety of developments and market types, only three different AMI levels were studied, none of which addressed incomes for which the need for housing is the greatest those of very- and extremely-low incomes (<30% - 50% AMI). The City’s MIH policy proposal fails to include any options targeting deep affordability. More than 25% of New York City households make less than \$25,000 annually, or less than 30%AMI.

Any MIH program in our City must include at least one option designed to serve this sizeable part of the City’s population. In order to serve this central and significant post of our City’s population any final MIH policy must add a Deep Affordability option.

METHODOLOGY

The City’s MIH Market & Financial Study (BAE Study) assumes that **80/20 is the baseline for Market rate development in Strong and Very Strong Markets.**

“Each baseline scenario is run both with and without the applicable existing 421-a benefit; note that for the Very Strong and Strong market conditions, this baseline also assumes that 20% of units are provided at an average income level of 60% AMI, and for the Mid-Market, Moderate, and Weak market conditions, the “as-of-right” 15-year 421-a benefit is applied all units are assumed to be market rate.” (BAE, page 53. Footnote (b))

The BAE study defines feasibility as follows:

Two “baseline” development scenarios are tested for each building prototype under each market condition. Both baseline scenario findings represent the feasibility, or lack thereof, of a project that is developed in accordance with the zoning designation applicable to the subject site prior to the proposed re-zoning with MIH. **The baseline should demonstrate the yield and financial feasibility of the site under current conditions as a point of comparison.** (BAE, page 48)

Based on this information provided by the City’s MIH BAE Study, ANHD’s assumes that 80/20, with has 20% of units set aside as affordable at 60% AMI, is the baseline for market-rate development. **Alternative MIH options presented that remain in proximity to 80/20, can be considered financially feasible** both upfront for construction and development costs, as well as operationally feasible long-term for building management and cashflow.

“Rental projects in Moderate and Weak markets do not achieve sufficient returns to achieve feasibility without subsidies, even before incorporating an inclusionary requirement. This reflects the reality that few market-rate rental projects are being built in markets with relatively low rents, as they are unable to support current construction costs and land prices.” (BAE, page 50)

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The BAE Study did not research low AMI inclusionary scenarios that would be necessary to serve over 40 percent of poor and working New Yorkers that fall below 60% AMI. The “BAE and **City Staff** developed a range of potential inclusionary requirements for feasibility testing.” (BAE Study, page 45)

“The analysis tests three average income targets – 60, 75, and 90-percent AMI – at five set aside requirements, ranging from 20 to 50 percent. This results in a grid of 15 potential affordability requirements, which are then tested under various scenarios as described in the following chapter.” (BAE Study, page 26)

However it is clear that serving Low AMI populations is a priority for elected officials, local communities, housing advocates, poverty advocates, and service organizations. In order to evaluate the viability of a Deep Affordability option, **ANHD has analyzed various new deep affordability scenarios in comparison to the BAE Study’s 80/20 baseline.** We analyze the following:

- How much the Administration’s proposed MIH options vary from the 80/20 baseline.
- How much the rumored 20% at 40% Low AMI option.
- How much various new deeper affordability scenarios vary from the 80/20 baseline and from the proposed MIH options.

Both the 80/20 baseline, the proposed MIH options, and the new deep affordability scenarios are run assuming a 421a tax break. The City has not rerun its market analysis without 421a, therefore we likewise assumed 421a in these new scenarios.

We then use the BAE study’s financial feasibility output metric, Yield-On-Cost (YOC)

“[Yield-on-Cost (YOC) is one of the most] commonly used metrics to determine the feasibility of a potential development, without consideration of financing costs. This simple measure eliminates the complexity of various equity/debt combinations that vary by developer. Yield-on-cost (YOC), the measure used for rental projects, is calculated as the net operating income (NOI) for a rental project at the year of stabilization divided by the total development cost.” (BAE, page 48)

The Baseline Yield on Costs were taken from the BAE Study’s Appendix F: Financial Feasibility Analysis Results – Rental, for each of the 5 Market types corresponding 80/20 with 421a benefits. **Deep affordability scenarios that result in a Yield on Cost close to the City’s proposed MIH options should be considered on-par or neutral to the City’s current options.** It should be noted, that this analysis is only necessary because the City failed to study the financial feasibility of low AMI options in its own BAE commissioned analysis.

The key measure of feasibility for rental projects is Yield on Cost (YOC). **As per the BAE study ANHD indicated that the feasible YOC is 6.0 percent or above.** In the tables below, is the YOC for the baseline scenarios, the Administration’s proposed MIH option, or the Deep Affordability alternatives are below 6.0, the YOC is displayed in red.

“Numerous developers and industry experts agree that a feasible YOC, at a minimum, is approximately 6.0 percent for rental projects.” (BAE, Page 44)

ANHD’s analysis methodology mirrors the framework, baselines, thresholds, and process done in the City’s BAE Study.

Mandatory Inclusionary Housing Deep Affordability Option Analysis:



Possible Deep Affordability Options In Comparison To The Administration's Proposed Options

■ = Yield on Cost Above 6.0 ■ = Yield on Cost Below 6.0

VERY STRONG MARKET

Neighborhoods: Most of Manhattan below 96th Street

	Affordability Requirement		Est. HHld Income	Total Operating Gross Income (Rental Income)	Diff. from Status Quo	Yield on Cost
Status Quo	20% of units at	60% AMI	\$51,780	100%		9.3%
Admin Option 1	25% of units at	60% AMI	\$51,780	94.84%	-5.16%	8.8%
Admin Option 2	30% of units at	80% AMI	\$69,050	91.61%	-8.39%	8.5%
Admin Option 3	30% of units at	120% AMI	\$103,560	98.47%	-1.53%	9.2%
Rumored Low AMI Option	20% of units at	40% AMI	\$34,525	98.71%	-1.29%	9.2%
Deep Affordability Alternatives	25% of units at	40% AMI	\$34,525	93.23%	-6.77%	8.7%
	25% of units at	30% AMI	\$25,900	92.43%	-7.57%	8.6%
	25% of units at	35% AMI	\$30,213	92.83%	-7.17%	8.6%
	20% of units at	30% AMI	\$25,900	98.07%	-1.93%	9.1%
	30% of units at	30% AMI	\$25,900	86.78%	-13.22%	8.1%

STRONG MARKET

Neighborhoods: Manhattan from 96th – 155th, LES, Chinatown, Williamsburg, Downtown Brooklyn, and Long Island City.

	Affordability Requirement		Est. HHld Income	Total Operating Gross Income (Rental Income)	Diff. from Status Quo	Yield on Cost
Status Quo	20% of units at	60% AMI	\$51,780	100%		6.9%
Admin Option 1	25% of units at	60% AMI	\$51,780	95.59%	-4.41%	6.6%
Admin Option 2	30% of units at	80% AMI	\$69,050	94.83%	-5.17%	6.5%
Admin Option 3	30% of units at	120% AMI	\$103,560	100.57%	0.57%	6.9%
Rumored Low AMI Option	20% of units at	40% AMI	\$34,525	97.91%	-2.09%	6.8%
Deep Affordability Alternatives	25% of units at	40% AMI	\$34,525	92.98%	-7.02%	6.4%
	25% of units at	30% AMI	\$25,900	91.68%	-8.32%	6.3%
	25% of units at	35% AMI	\$30,213	92.33%	-7.67%	6.4%
	20% of units at	30% AMI	\$25,900	96.87%	-3.13%	6.7%
	30% of units at	30% AMI	\$25,900	86.49%	-13.51%	6.0%

Mandatory Inclusionary Housing Deep Affordability Option Analysis:



■ = Yield on Cost Above 6.0 ■ = Yield on Cost Below 6.0

MIDDLE MARKET

Neighborhoods: Manhattan above 155th, Kingsbridge, Bay Ridge, Windsor Terrace, Clinton Hill, Greenpoint, Bushwick, Woodhaven, Kew Gardens, Jamaica Hills, Jamaica Estates, Forest Hills, Jackson Heights, Corona, Astoria;

	Affordability Requirement		Est. HHld Income	Total Operating Gross Income (Rental Income)	Diff. from Status Quo	Yield on Cost
Status Quo	20% of units at	60% AMI	\$51,780	100%		4.7%
Admin Option 1	25% of units at	60% AMI	\$51,780	96.43%	-3.57%	4.5%
Admin Option 2	30% of units at	80% AMI	\$69,050	97.29%	-2.71%	4.6%
Admin Option 3	30% of units at	120% AMI	\$103,560	106.14%	6.14%	5.0%
Rumored Low AMI Option	20% of units at	40% AMI	\$34,525	97.05%	-2.95%	4.6%
Deep Affordability Alternatives	25% of units at	40% AMI	\$34,525	92.75%	-7.25%	4.4%
	25% of units at	30% AMI	\$25,900	90.90%	-9.10%	4.3%
	25% of units at	35% AMI	\$30,213	91.82%	-8.18%	4.3%
	20% of units at	30% AMI	\$25,900	95.57%	-4.43%	4.5%
	30% of units at	30% AMI	\$25,900	86.23%	-13.77%	4.1%

*Note: In Moderate Markets some subsidy is required for market rate development, regardless of affordability levels or set asides.

MODERATE MARKET

Neighborhoods: Washington Heights, Inwood, East Harlem, Grand Concourse, Highbridge, Fordham, Soundview, Parkchester, Crown Heights, East New York, Lefferts Gardens, Flatbush, Sunset Park, Borough Park, Jamaica;

	Affordability Requirement		Est. HHld Income	Total Operating Gross Income (Rental Income)	Diff. from Status Quo	Yield on Cost
Status Quo	20% of units at	60% AMI	\$51,780	100%		3.9%
Admin Option 1	25% of units at	60% AMI	\$51,780	97.15%	-2.85%	3.8%
Admin Option 2	30% of units at	80% AMI	\$69,050	99.91%	-0.09%	3.9%
Admin Option 3	30% of units at	120% AMI	\$103,560	111.13%	11.13%	4.3%
Rumored Low AMI Option	20% of units at	40% AMI	\$34,525	96.26%	-3.74%	3.8%
Deep Affordability Alternatives	25% of units at	40% AMI	\$34,525	92.48%	-7.52%	3.6%
	25% of units at	30% AMI	\$25,900	90.14%	-9.86%	3.5%
	25% of units at	35% AMI	\$30,213	91.31%	-8.69%	3.6%
	20% of units at	30% AMI	\$25,900	94.39%	-5.61%	3.7%
	30% of units at	30% AMI	\$25,900	85.89%	-14.11%	3.3%

Mandatory Inclusionary Housing Deep Affordability Option Analysis:



*Note: In Weak Markets some subsidy is required for market rate development, regardless of affordability levels or set asides.

WEAK MARKET

Neighborhoods: Eastchester, Baychester, Melrose, Tremont, Belmont, Brownsville;

	Affordability Requirement		Est. HHld Income	Total Operating Gross Income (Rental Income)	Diff. from Status Quo	Yield on Cost
Status Quo	20% of units at	60% AMI	\$51,780	100%		3.1%
Admin Option 1	25% of units at	60% AMI	\$51,780	97.89%	-2.11%	3.0%
Admin Option 2	30% of units at	80% AMI	\$69,050	102.61%	2.61%	3.2%
Admin Option 3	30% of units at	120% AMI	\$103,560	116.26%	16.26%	3.6%
Rumored Low AMI Option	20% of units at	40% AMI	\$34,525	95.45%	-4.55%	3.0%
Deep Affordabilty Alternatives	25% of units at	40% AMI	\$34,525	92.20%	-7.80%	2.9%
	25% of units at	30% AMI	\$25,900	89.36%	-10.64%	2.8%
	25% of units at	35% AMI	\$30,213	90.78%	-9.22%	2.8%
	20% of units at	30% AMI	\$25,900	93.17%	-6.83%	2.9%
	30% of units at	30% AMI	\$25,900	85.54%	-14.46%	2.7%

■ = Yield on Cost Above 6.0 ■ = Yield on Cost Below 6.0