

# Inclusionary Housing Program

## Proposed Zoning Text Amendment

February 17, 2009



# Inclusionary Housing Update

## Background

**Overview of existing Inclusionary Housing program**

## Proposed Changes

**Add a permanently affordable homeownership option**

**Update the R10 program**

**Make technical and other administrative improvements**

# Existing Inclusionary Housing Program

## Overview

The Inclusionary Housing Program is designed to preserve and promote economic integration in neighborhoods experiencing development:

- Offers a floor area bonus in exchange for the provision of permanently affordable housing
- Units may be located either on-site or off-site – within the same Community District or a ½-mile radius of the bonused site
- Affordable housing may be new construction, substantial rehabilitation, or preservation of existing affordable housing

There are two branches to the program, each of which applies in certain specific districts:

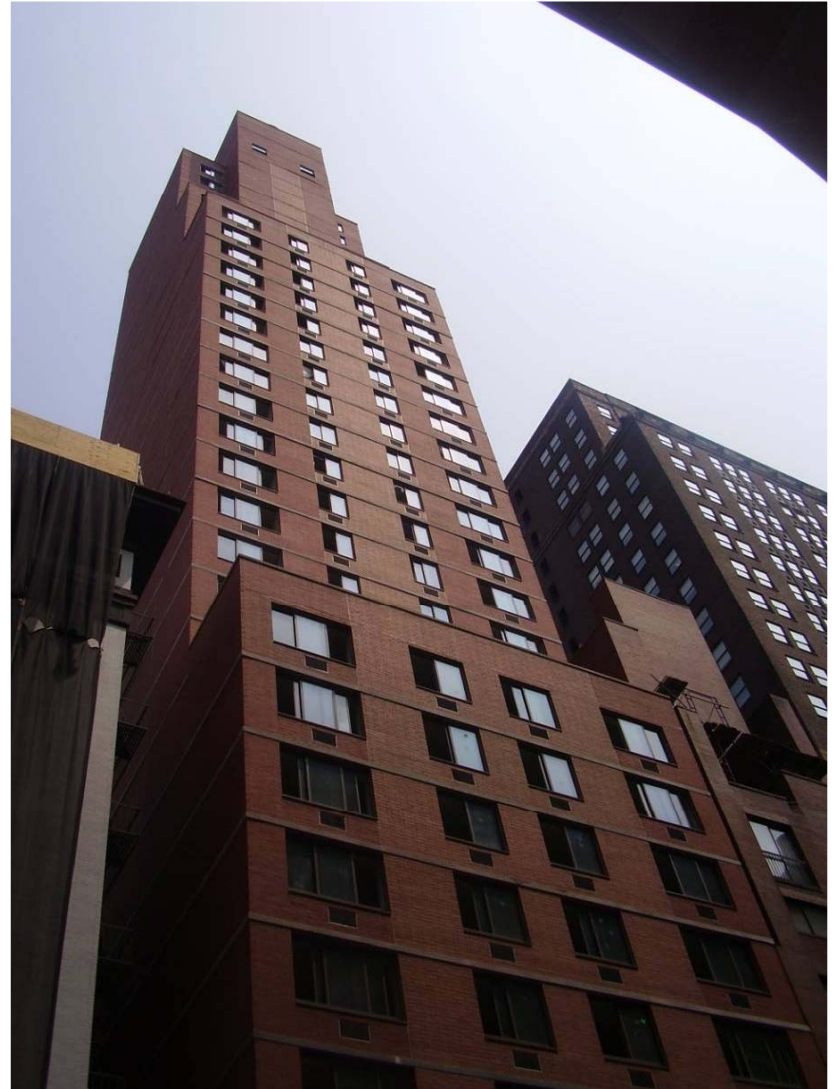
- **R10 program** (created in 1987)
- **Expanded program** (created in 2005)



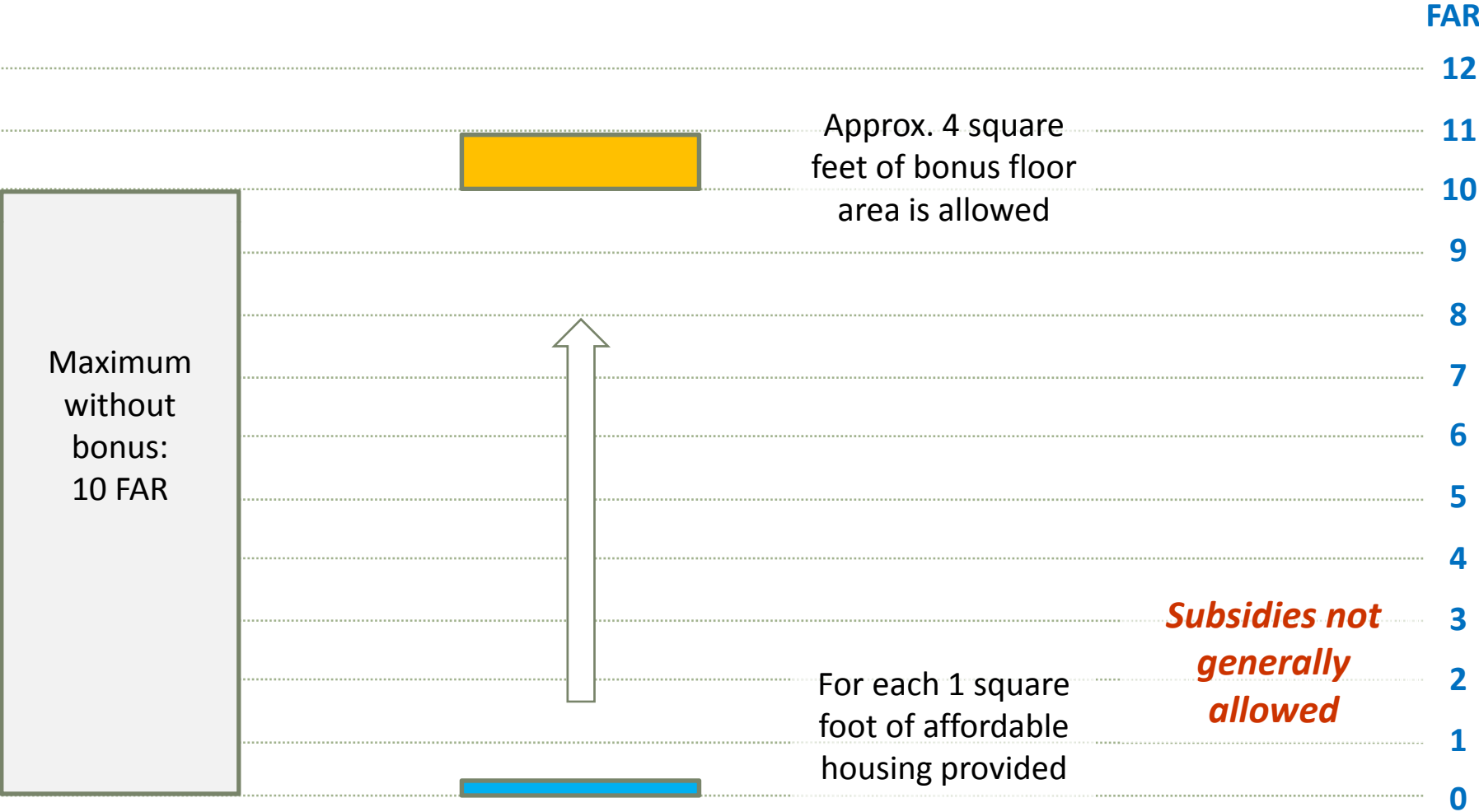
# Existing Inclusionary Housing Program

## R10 program

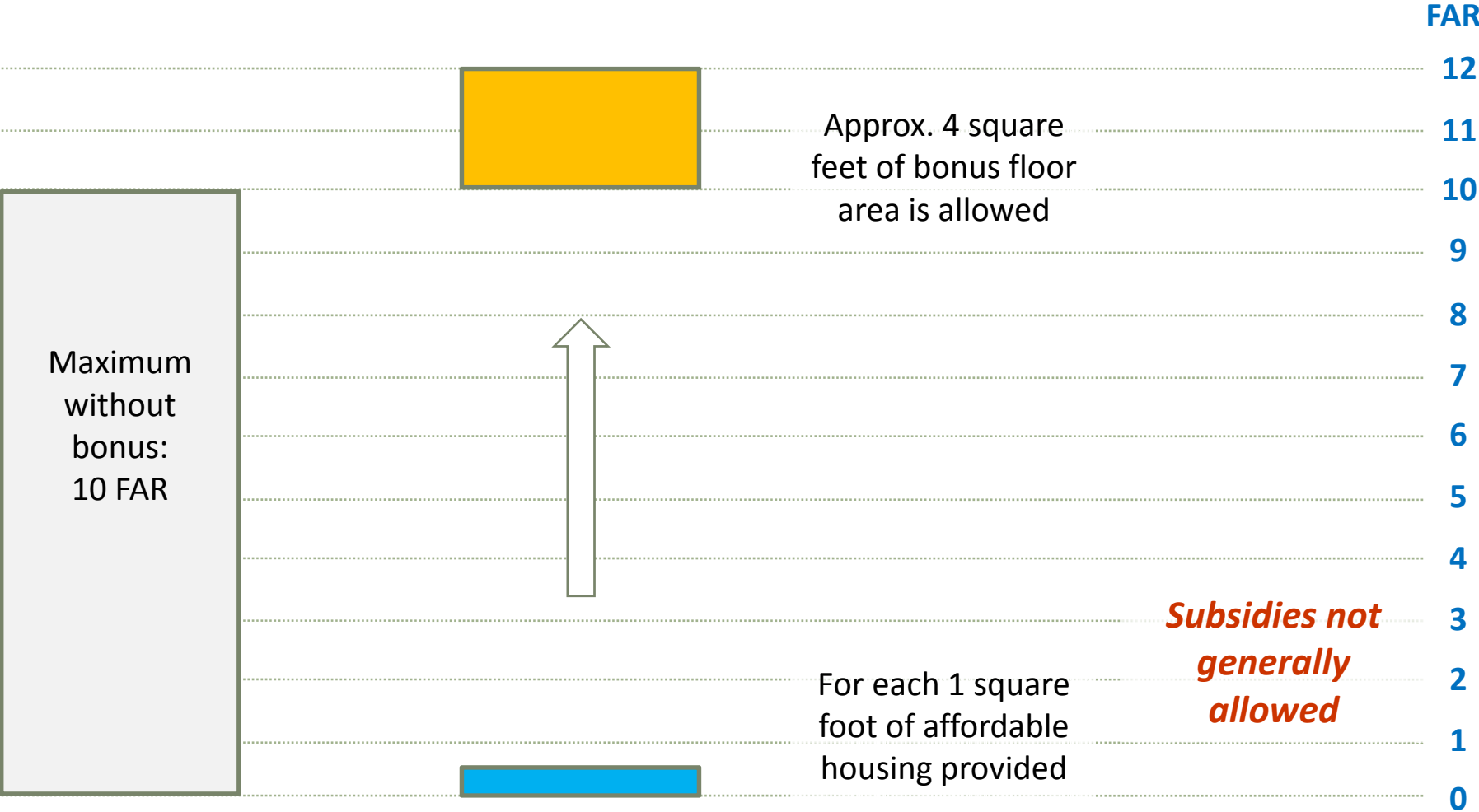
- Established in 1987
- Applies within highest-density districts (R10 and equivalent)
- 20% FAR bonus in exchange for approx. 4-5% affordable housing – bonus ratio of up to 4:1
- Subsidies generally not allowed
- Prohibits affordable units from carrying debt



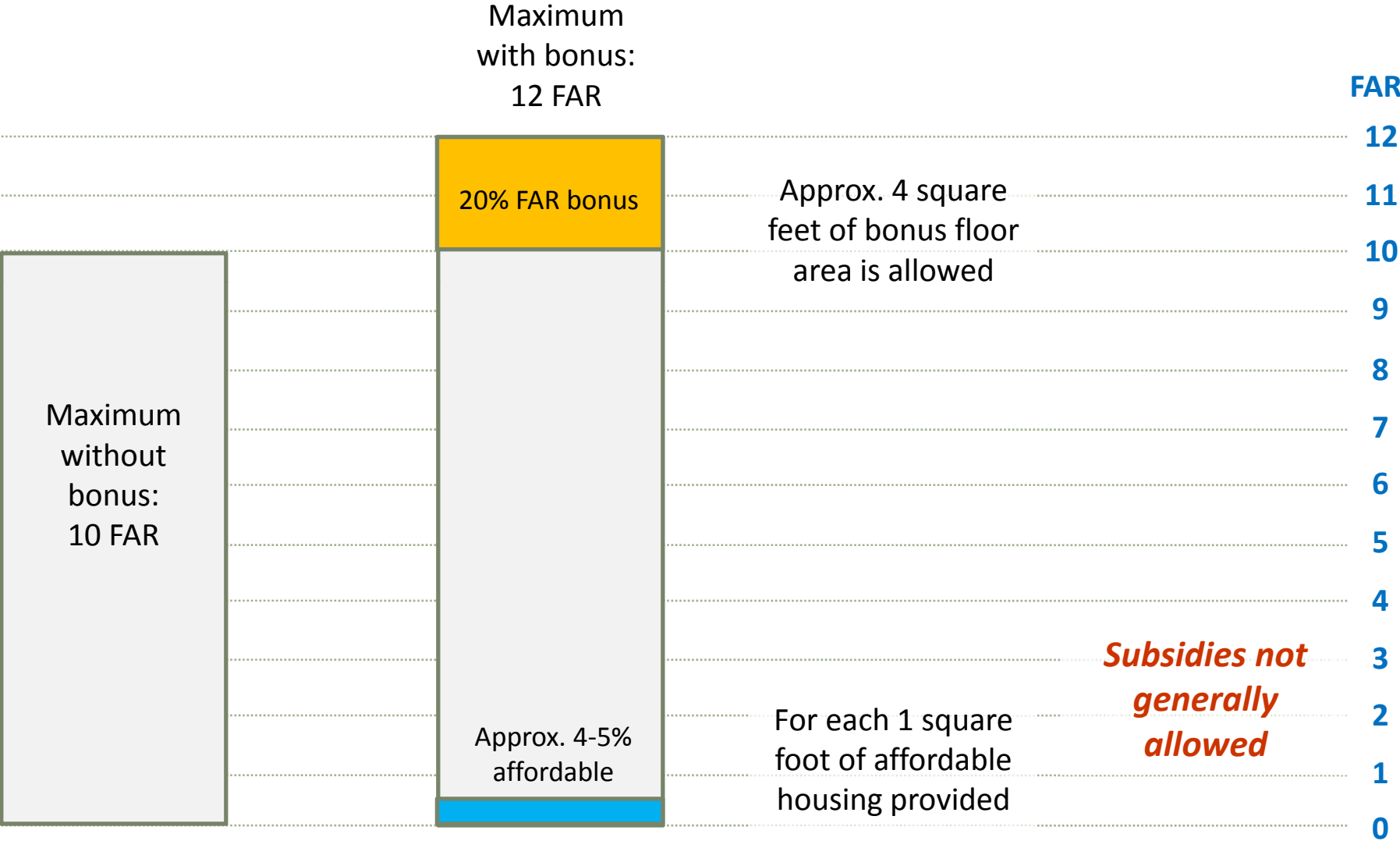
# Existing R10 Program



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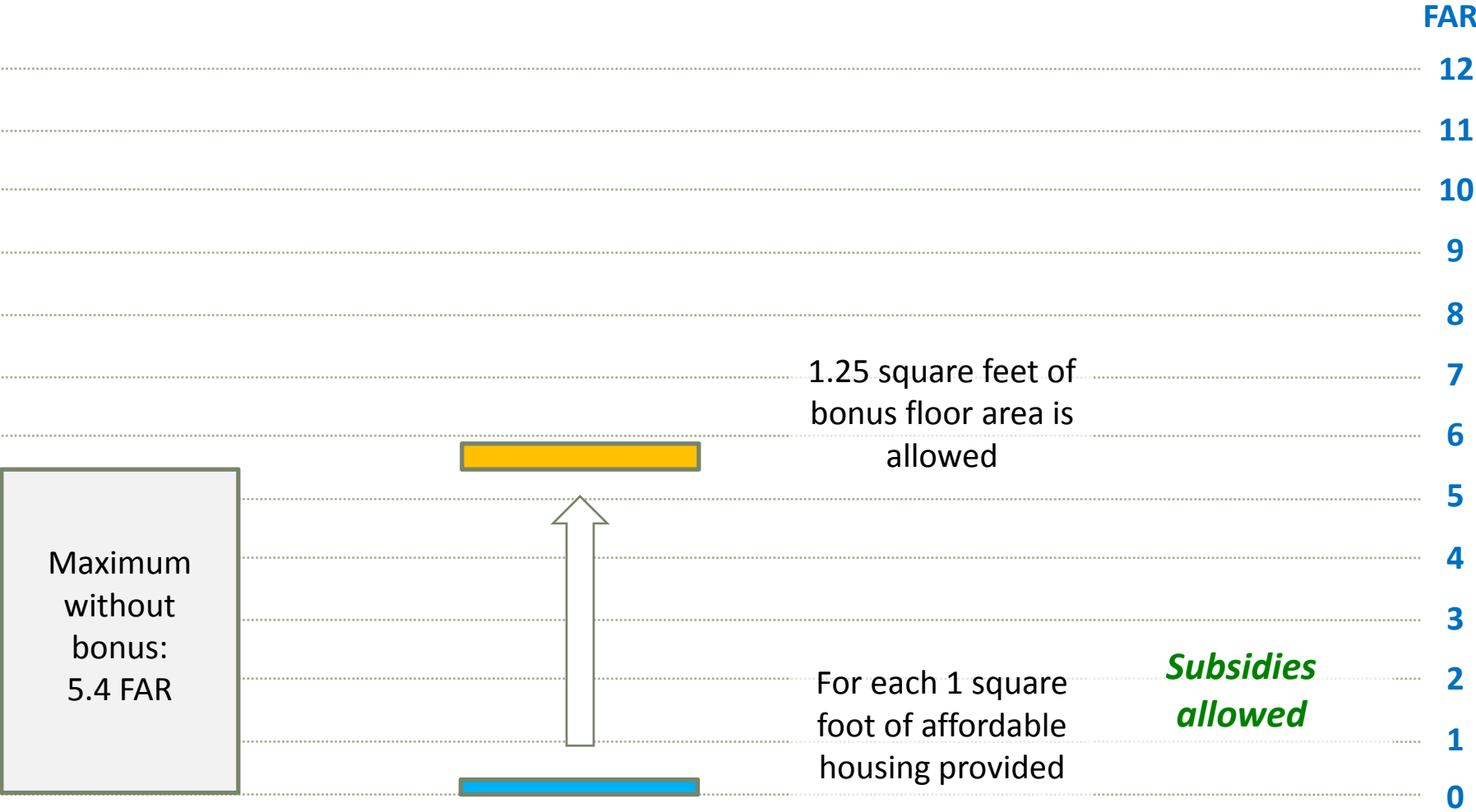
# Existing Inclusionary Housing Program

## Expanded program

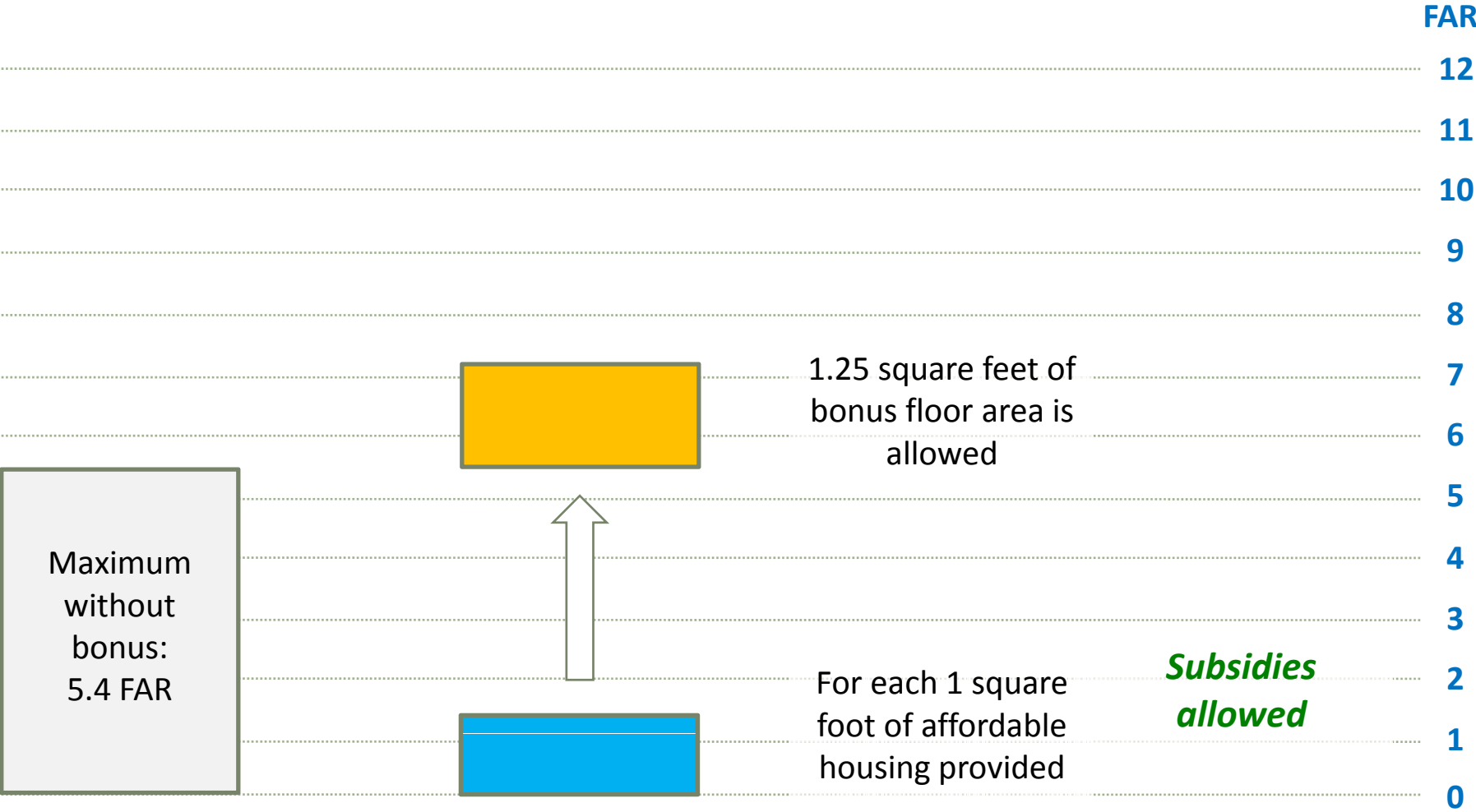
- Applied in recent rezonings that encourage new development, beginning in 2005
- Can be applied in medium- and high-density districts
- 33% FAR bonus in exchange for 20% affordable housing – bonus ratio of 1.25:1
- Floor area bonus can be coupled with a range of housing subsidy programs
- Allows for permanent debt as long as it is subordinate to Inclusionary Housing requirements
- Addressed certain operational issues with R10 program



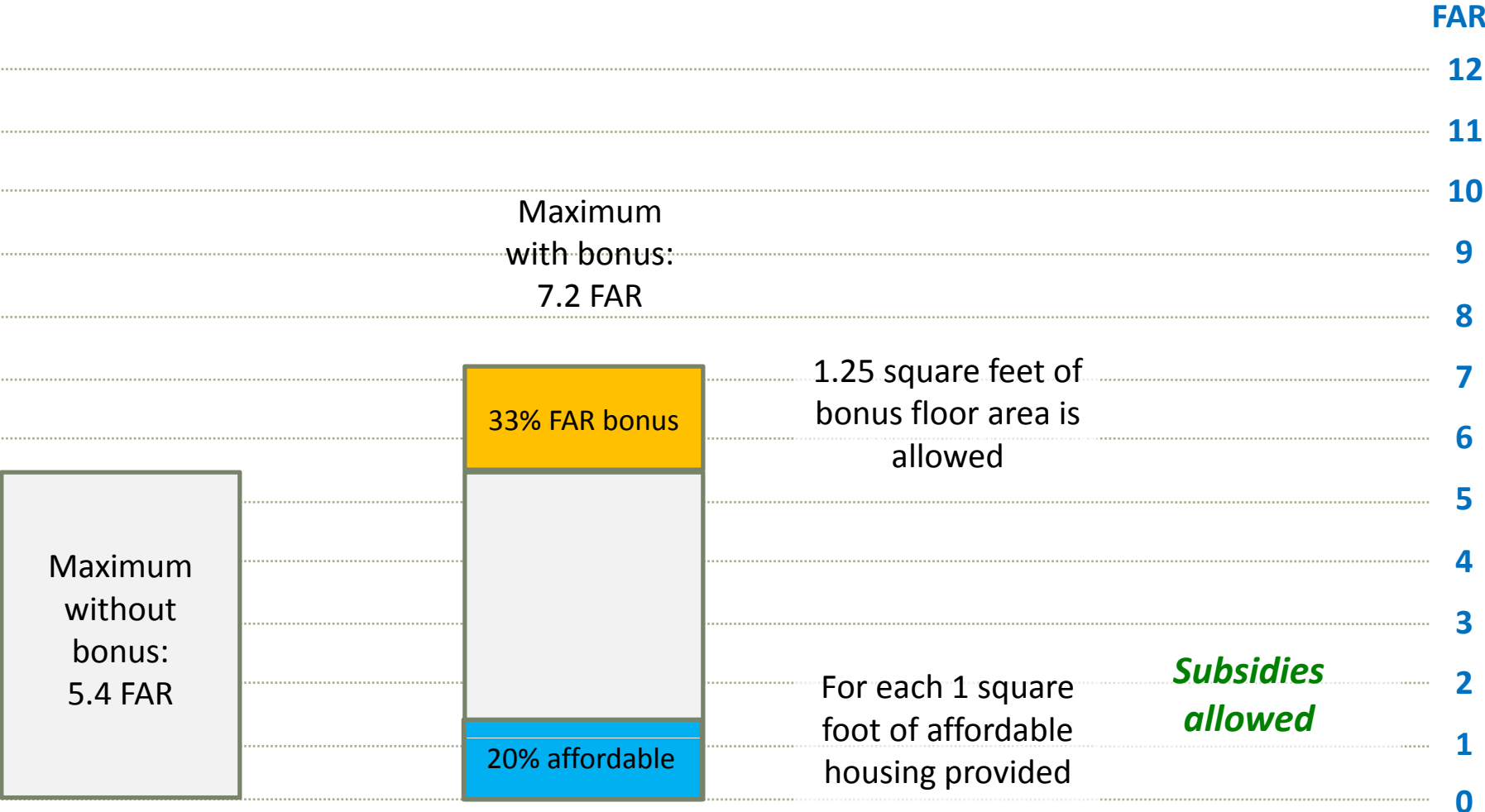
# Expanded Program - Example: R8A



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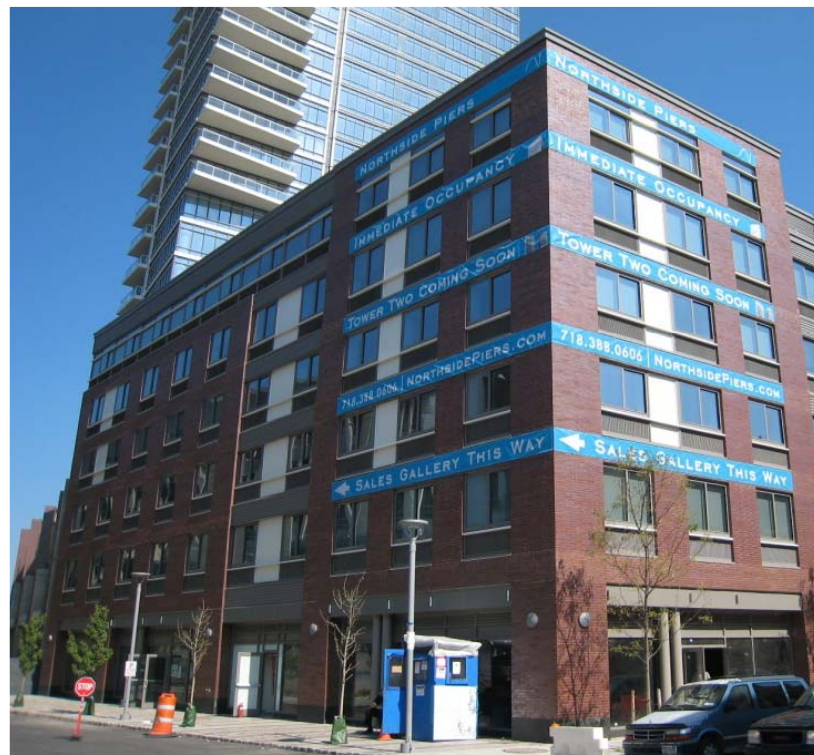
# Existing Inclusionary Housing Program

	<b>R10 Program</b>	<b>Expanded Program</b>
How Much is Affordable?	Approx. 4-5% of floor area in the building using the bonus.	20% of floor area of the building using the bonus. (In some special districts, where higher incomes may be targeted, the minimum is 20%-30%.)
Units Generated?	~1,450 units since 1987	~1,770 units since 2005
Who Pays?	Proceeds from additional floor area cover costs of the affordable housing. Only minimal sources of public subsidy permitted.	Affordable units can be created using any City, State or Federal subsidy programs.
How Affordable?	To households earning less than 80% of AMI.	To households earning less than 80% of AMI. (In some special districts, option for a portion of units to go up to 125% or 175% of AMI.)

# Proposed Changes

While the program has been successful and is achieving its goals, HPD and DCP see areas of opportunity to improve on the program while maintaining its basic structure:

- Add a **permanently affordable homeownership** option
- Apply elements of the expanded (2005) program to the **R10 program**, to
  - increase the number of permanently affordable units created, and
  - encourage permanent preservation of existing affordable housing
- Make **technical and other administrative improvements** based on the experience of agencies, developers and affordable housing groups



# Inclusionary Housing Update

## Background

**Overview of existing Inclusionary Housing program**

## Proposed Changes

**Add a permanently affordable homeownership option**

**Update the R10 program**

**Make technical and other administrative improvements**

# Proposed Inclusionary Homeownership Option

**This enhancement would make it possible to create affordable homeownership units in exchange for the same floor area bonus allowed under the Inclusionary Housing program today.**

- Today, affordable units created through the Inclusionary Housing program are all rental units.
- Many communities have expressed an interest in expanded affordable homeownership opportunities for their residents.
- The proposed Inclusionary Homeownership option would increase program flexibility, allowing for the creation and preservation of permanently affordable homeownership units.
- The existing option of creating or preserving affordable rental units would remain.

# Proposed Inclusionary Homeownership Option

## How does it work?

- Similar to the Mitchell-Lama model of limited equity co-ops, the Inclusionary homeownership program would offer homeownership at a restricted initial sales price, with a cap on price appreciation over time to preserve affordability.
- However, affordability restrictions would be permanent, not subject to a sunset clause, thereby protecting this affordable housing stock over the long term.
- Inclusionary homeowners could take advantage of the established annual appreciation rate to realize reasonable returns on their investment.

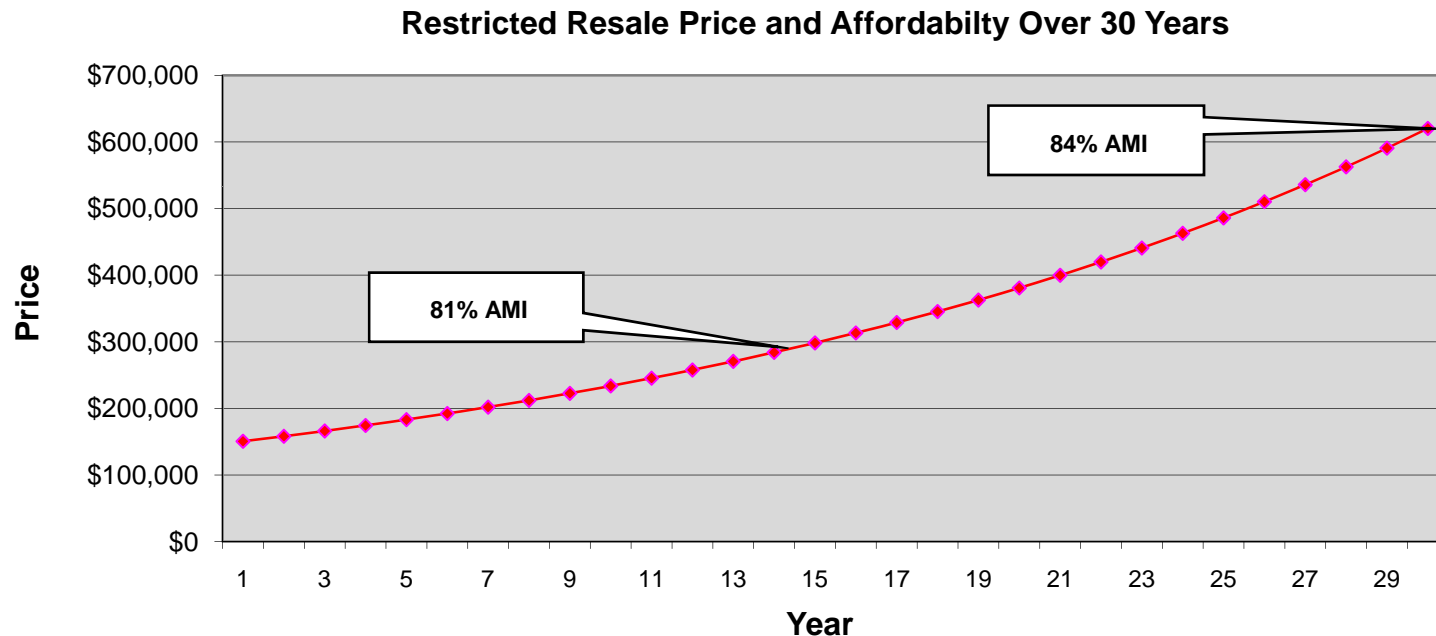
## Affordability levels

- At initial sale, Inclusionary Homeownership units would be sold at prices affordable to families at or below the income levels targeted by the existing Inclusionary Housing provisions – **80% of the Area Median Income (AMI)**.
- The restricted resale price of the unit could appreciate by a maximum **fixed rate** per year, as long as the home remains affordable to families earning **125%** of the AMI.

# Proposed Inclusionary Homeownership Option

## Maintaining Long-Term Affordability

- A fixed rate of appreciation gives the homeowner a reliable return on investment while maintaining long-term affordability.



- Assumptions: AMI increases 4.25% per year (based on avg. increase from 1990-2006); home price appreciates at a maximum of 5% per year. This assumed appreciation rate is slightly less than the historic New York City average (~7%) for homeownership units.
- Based on these assumptions, a home sold to a family at 80% AMI today could be sold to a family at 81% AMI after 15 years, 84% AMI after 30 years, 88% AMI after 50 years, and 112% AMI after 100 years.

# Proposed Inclusionary Homeownership Option

## For example:

- Consider the Jones Family, a double-income NYC household with two dependent children.
- The mother, a teacher's aide, earns \$35,429 annually. The father, a hospitality worker, earns \$18,137. They have two young daughters.
- The family's combined annual income of **\$53,566** and their family composition qualifies them for a two-bedroom Inclusionary unit affordable to households at 80% of AMI.



**The Jones  
Family**

$$\begin{array}{r} \text{+} \\ \text{Annual} \\ \text{Income} \end{array} \quad \begin{array}{r} \text{\$53,566} \\ \\ \text{=} \end{array} \quad \begin{array}{r} \text{\$1,308 available for total} \\ \text{monthly housing costs} \end{array}$$

In 2009, the Jones family is eligible to purchase an apartment for **\$150,712**.

# Proposed Inclusionary Homeownership Option

## Benefits of Inclusionary Homeownership

Inclusionary homeowners make an up-front investment in the form of a down payment.

The value of this investment will grow over time.

The homeowner benefits from the increase in the sale price, as may also benefit from mortgage interest tax deductions.



+

**\$1,308 in monthly  
housing costs**

=



**For the Jones family, who sell their home after 15 years:**

**Initial Investment:** \$15,071 down payment in order to purchase their home;

**Monthly Housing Costs:** \$1,308 per month, roughly the same as an Inclusionary renter (~\$269,195 over 15 years, adjusted for inflation);

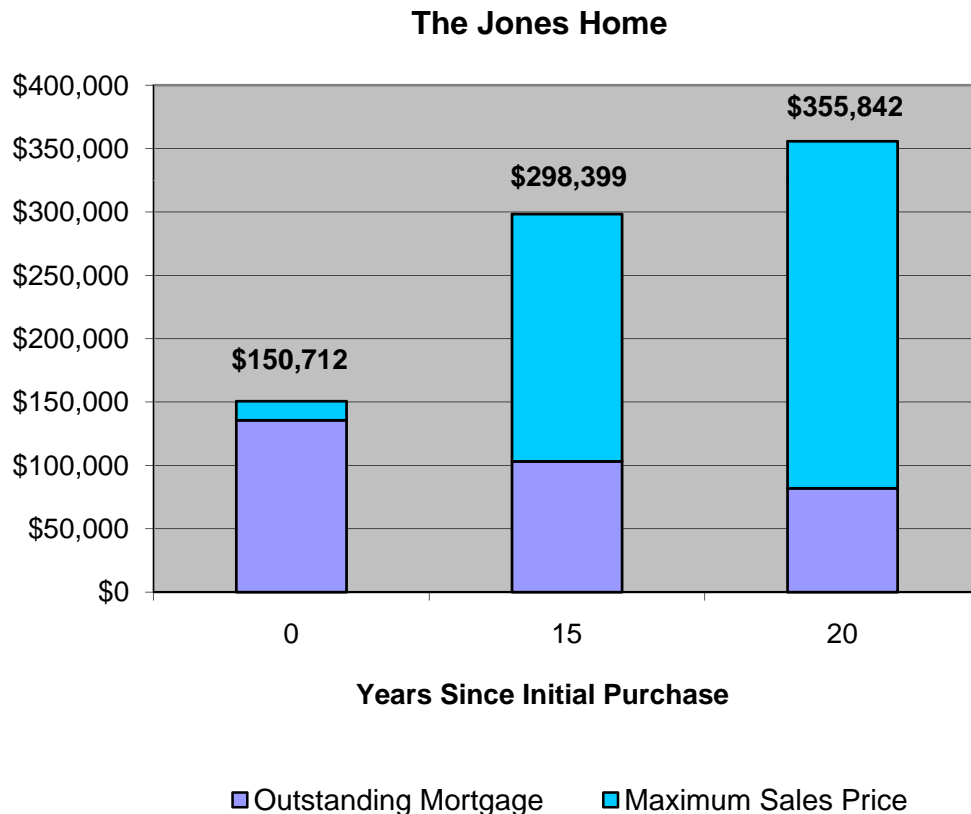
**Tax Benefit:** as much as \$33,712 in mortgage interest tax deductions (over 15 years)

**Sale:** After 15 years, unit can be sold for \$298,399

**Other costs:** At sale, closing costs and remaining mortgage (~\$103,000) must be paid.

# Proposed Inclusionary Homeownership Option

**Even with the cap, the Jones home appreciates significantly over time:**



- In Y1, the value of the home is made up almost entirely of mortgage debt, while the balance is the required down payment.
- In Y15, the mortgage has been paid down, but the value of the home, even with a capped appreciation rate, has increased significantly.
- In Y20 the value of the home, and potential profit, has increased further still.

# Proposed Inclusionary Homeownership Option

## Summary of Benefits

- Presents opportunities for a reliable return on investment for qualified low-income homeowners
- Establishes a new housing option that complements a variety of existing financing and subsidy programs
- Creates a permanently affordable housing resource for communities where the Inclusionary Housing Program applies, responding to the housing needs of different communities
- Provides an additional means of preserving New York City's affordable housing stock over the long term
- Offers an additional option that will make the Inclusionary Housing program more attractive to condominium and cooperative developers

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**Update the R10 program**

**Make technical and other administrative improvements**

# Update the R10 Program

## Offer privately-financed and government-subsidized options

### **Privately-financed Inclusionary Housing**

(similar to existing R10 program)

- FAR bonuses range from 2.0-3.5 square feet per square foot of affordable housing preserved or created
- No form of public financing allowed, including tax credits and tax exempt bond financing
- Permanent private debt is allowed

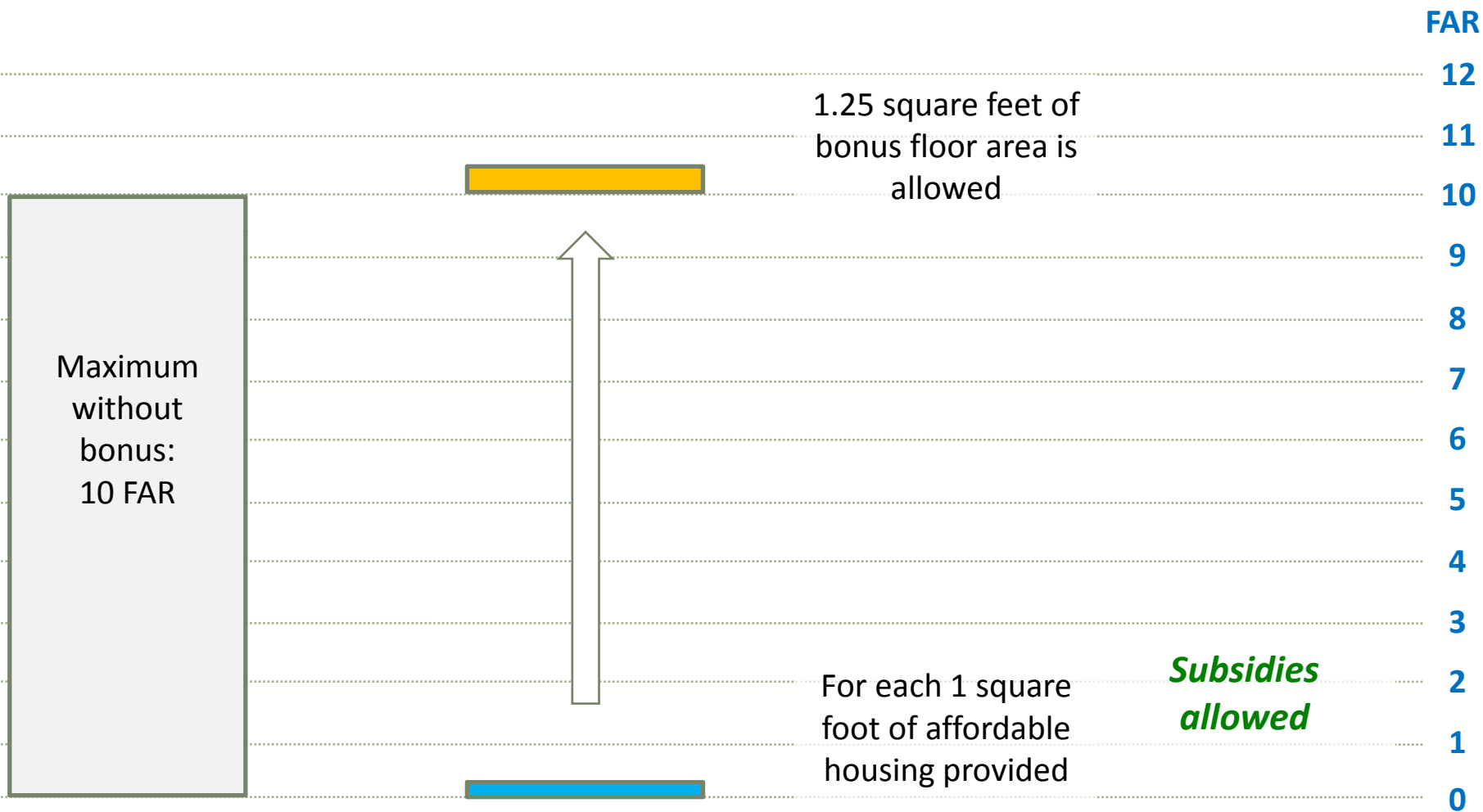
**- OR -**

### **Government-subsidized Inclusionary Housing**

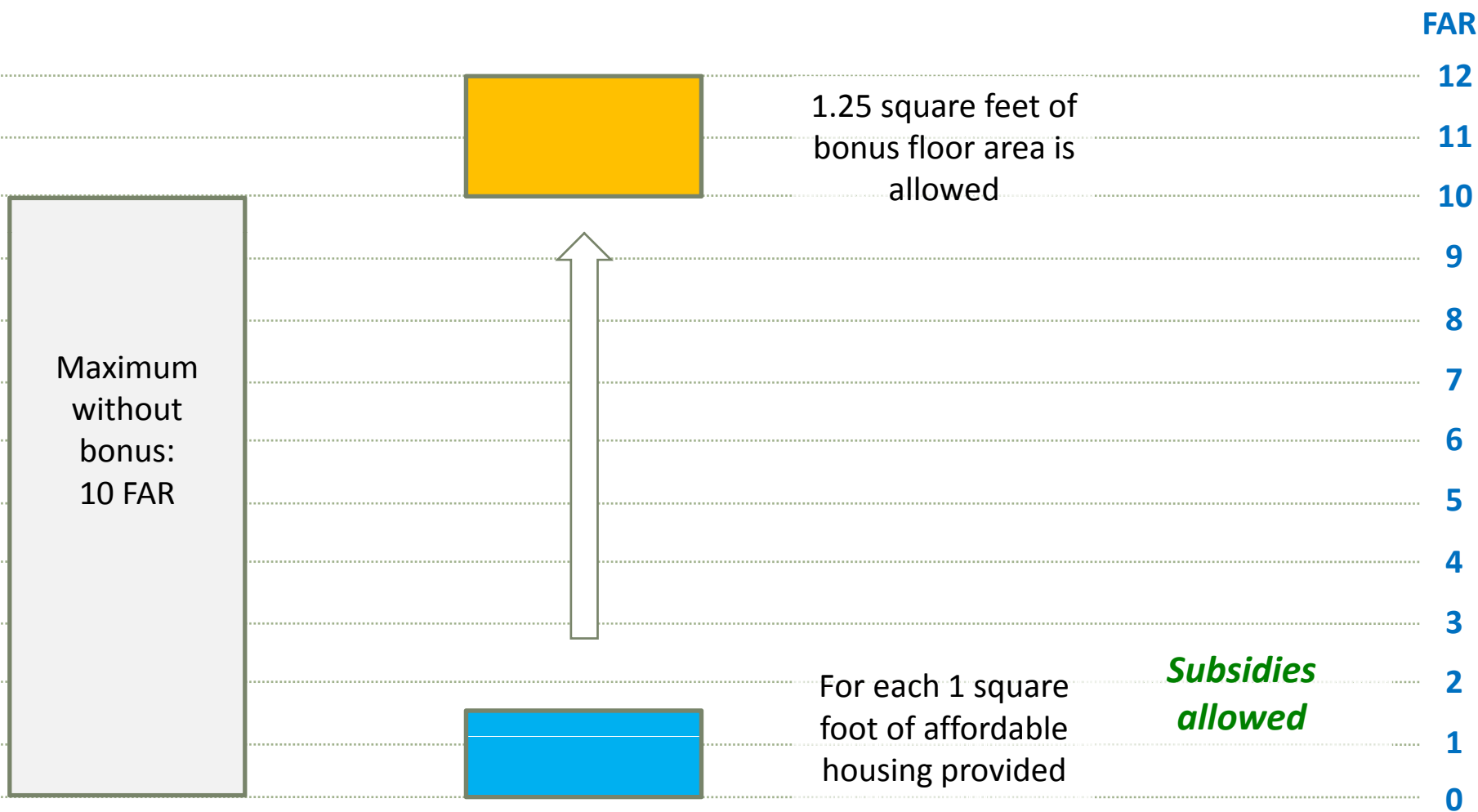
(similar to new, expanded program)

- FAR bonuses are set at 1.25 square feet per square foot of affordable housing
- Government subsidies and permanent private debt are allowed

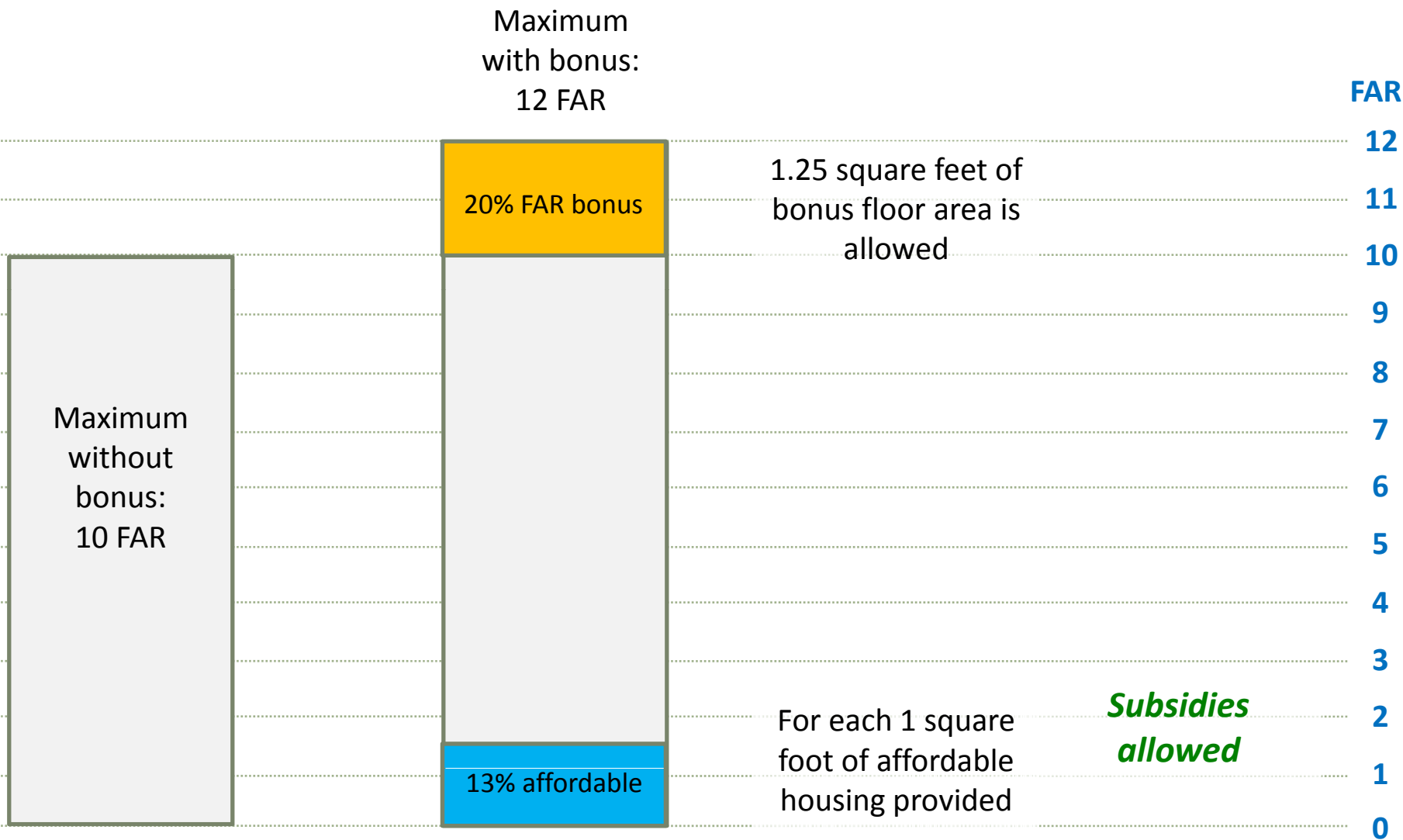
# Proposal: Create R10 Government-Subsidized Option



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# Proposed R10 Options

## Privately financed option

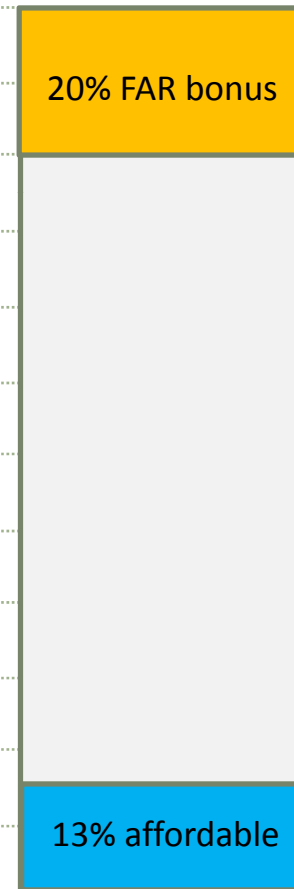
## Government-subsidized option



Bonus ratio up to **3.5:1**

*No subsidies allowed*

**- OR -**



Bonus ratio **1.25:1**

*Subsidies allowed*

FAR  
12  
11  
10  
9  
8  
7  
6  
5  
4  
3  
2  
1  
0

# Update the R10 Program

## Simplify and adjust the bonus ratios:

- Eliminate on-site/off-site and private site/public site distinctions
- Refine definitions of substantial rehabilitation and preservation
- Modify the bonus ratio for privately financed R10 projects to better reflect the economics of affordable housing developments while providing an appropriate incentive for developers.

### Existing

<u>Option</u>	<u>SF of Low Income Housing</u>	<u>SF of Bonus Floor Area</u>
Offsite New Construction	1	4
Onsite new Construction	1	3.7
Preservation	1	2.0
Offsite Substantial Rehabilitation	1	3.7

### Proposed

<u>Option</u>	<u>SF of Low Income Housing</u>	<u>SF of Bonus Floor Area</u>
New Construction or Substantial Rehabilitation	1	3.5
Preservation	1	2.0
Government Subsidized	1	1.25

# Update the R10 Program

## **Extend preservation eligibility provisions from the expanded program to the R10 program:**

- In R10 districts, every household must income qualify in order for a building to be eligible for Inclusionary preservation
- This severely limits the number of buildings that can enter the program – option has rarely been used
- When the program was expanded in 2005, eligibility requirements where changed to require the average of the rent roll to income qualify, with new tenants required to income qualify at vacancy
- A significant number of existing units have already been permanently preserved through this option under the expanded program, where this provision is in effect

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## **Amend unit size requirements**

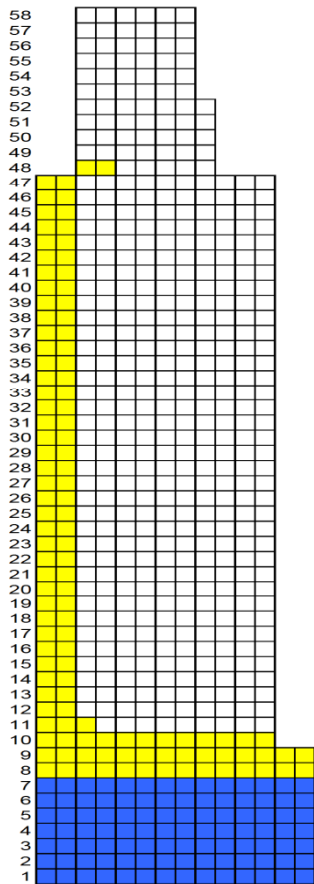
- Update existing requirements to be consistent with HDC minimum unit size requirements:
  - Studio: 400 nsf
  - 1 BR: 575 nsf
  - 2 BR: 775 nsf
  - 3 BR: 950 nsf
- Require that the affordable units either
  - have the same bedroom mix as the other residential units, or
  - include at least 50% units with two or more bedrooms (consistent with 421-a requirement)
- Apply size requirements to mixed-income buildings regardless of whether affordable units generate on-site or off-site bonus

# Technical and Other Modifications

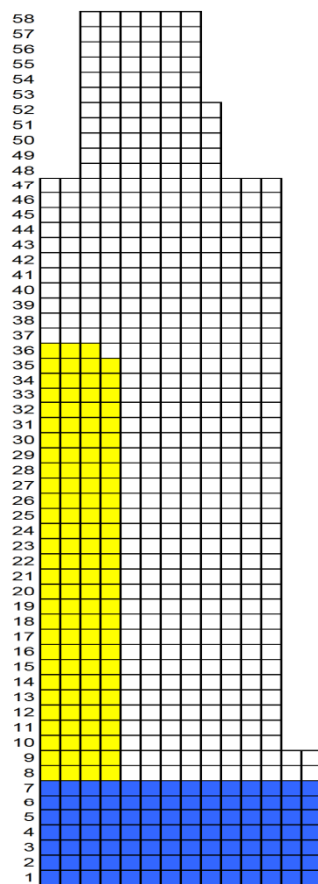
## Amend unit distribution requirements

- Requirements established in 1987 did not anticipate the higher levels of affordability achieved through modified program
- Require **65%** of the residential stories to have at least one unit of affordable housing, while **capping** the maximum percentage of lower income units on any given floor at **33%**
- Apply these distribution requirements to mixed-income buildings regardless of whether affordable units generate on-site or off-site bonus

# Technical and Other Modifications



Existing requirement:  
at least two affordable  
units on 80% of  
residential stories

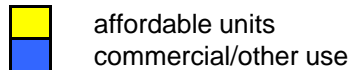


Proposed: affordable  
units on 65% of  
residential stories;  
no more than 33%  
affordable units on  
any story

## Example: 58-story mixed-income building

Total Units: 553

Affordable Units: 115



- Ensures distribution of units within mixed-income buildings
- Distribution requirements apply regardless of whether building contains rentals, condominiums, co-op apartments, or a mix

# Technical and Other Modifications

## **Additional Technical Modifications**

- Simplify formula for setting rents – at 30% of eligible income
- Broaden allowable tenant income to match wider HPD program standards – to expand range of eligible low-income households
- Clarify allowable rent increases
- Clarify role of not-for-profit administering agent: responsible for rent-up of affordable units and annual income compliance, but not building management, which is the owner's responsibility



# Technical and Other Modifications

## **Additional Technical Modifications**

- Modify language on timing of Certificate of Occupancy issuance to improve and streamline protocols, allow C of Os to be issued on a floor-by-floor basis in mixed-income buildings
- Include symbols on the zoning maps to indicate areas where the Inclusionary Housing program is applicable, to improve transparency and facilitate implementation of the program



# Inclusionary Housing Program

## Proposed Zoning Text Amendment

