

A Closer Look at the New Housing Opportunities Program

Also Available ...

[Analysis of the Mayor's Housing Plan](#)

...at www.ibo.nyc.ny.us

SUMMARY

IN RECENT YEARS, the New Housing Opportunities Program, or New HOP, has become one of the city's largest initiatives for building new housing. Since 1998, more than 4,800 apartments in 67 buildings have been completed or are underway, and the Mayor has made New HOP a central component of his \$3 billion, five-year plan to create and preserve 65,000 homes and apartments citywide. But some housing advocates have expressed concerns that the program, which is designed to build and rehabilitate middle-income housing, directs too many city resources to comparatively wealthier households at the expense of low- and moderate-income families.

IBO's review and analysis of the New HOP program finds:

- City taxpayers are not directly subsidizing the financing of New HOP apartments, although in some cases the city has provided land at below-market rates.
- Because the program caps monthly rents, most of the apartments created under the program are affordable to households with incomes well below the maximum allowed.
- Co-ops built under New HOP require more subsidies and higher tenant incomes.

As with any use of public resources, there are tradeoffs associated with the expansion of New HOP. The need for housing assistance is greatest among lower-income households. But construction of middle-income housing requires relatively lower subsidies, so the dollars used for New HOP support more units than if the same funds were used for lower-income housing. These tradeoffs, and the full range of housing programs available, must be considered when debating the merits of New HOP and the Mayor's housing plan as a whole.

**New York City
Independent Budget Office
Ronnie Lowenstein, Director
110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632
Fax (212) 442-0350
e-mail: ibo@ibo.nyc.ny.us
<http://www.ibo.nyc.ny.us>**

PROGRAM STRUCTURE

The New Housing Opportunities Program (New HOP) is one of a number of programs created and administered by the New York City Housing Development Corporation (HDC) to fund the construction and rehabilitation of affordable housing. These programs include New HOP and New HOP Mod, the Low Income Affordable Marketplace Program (LAMP) and the 80/20 program. HDC is a nonprofit, public benefit corporation that finances the development of affordable housing. The Mayor appoints the HDC President and the city's Commissioner of Housing Preservation and Development serves as HDC's Chairperson. HDC issues taxable and tax-exempt bonds, and levies some fees on developers, but does not receive any direct city funding.

HDC has been operating the New HOP program since 1998. A total of 4,848 units in 67 buildings have been built or are in progress in projects financed under the New HOP initiative. This analysis focuses on 3,874 of these units in 58 buildings which had closed before March 2004, and which reflect typical New HOP program guidelines.¹ In comparison, HDC has financed the construction of 8,853 "80/20" units in projects in which 20 percent of the units (1,771) are affordable to low-income families and 80 percent are market rate, and 4,208 LAMP units, which are all affordable to low-income households.

Projects in all boroughs are eligible to participate in the program, with the exception of certain parts of Manhattan. (All rehabilitation projects north of East and West 96th Streets are eligible; new construction projects must be located above East 96th Street and above West 110th Street). The majority of New HOP development has been in Manhattan and Queens.

Under the New Housing Opportunities Program, HDC provides loans to developers building or rehabilitating housing—either rental buildings or cooperatives. In most cases, developers receive two mortgages through HDC, one at market interest rate through the issuance of taxable bonds, and the other in the form of a subsidized second mortgage with an interest rate of 1 percent. In many cases, developers also receive private financing and/or other public funds.

The units built must be affordable to middle-income households. Although middle income is not a formally defined term, it generally refers to households with incomes between 100 and 250 percent of area median income (AMI). For 2004, a middle-income family of four in New York City earns between \$62,800 and \$157,000 annually.

There are three aspects of the New HOP rules that pertain to affordability. First, there are maximum rents, based on unit size—from \$1,045 a month for a studio up to \$2,100 per month for a three-bedroom apartment. Second, there are limits on a household's annual income—up to seven times annual rent for one- and two-person households and eight times annual rent for larger families, with a maximum of 250 percent of area median income adjusted for family size. And third, HDC provides larger per-unit subsidies to encourage developers to build larger size units (e.g., three-bedroom apartments) and/or to market units to lower-income household (e.g., reducing the maximum rent from \$2,110 for a three bedroom to \$1,410).²

All units created under New HOP must remain affordable for 30 years or the term of the bonds used to help finance the project, whichever is longer.

FINANCING

There are four components to the financing of New HOP units: the first mortgage, the second mortgage, land subsidies, and tax benefits. In sum, city taxpayers do not directly subsidize New HOP apartments. The city may forego revenue, however, through below-market land deals. The property tax benefits are another potential source of subsidy, but because they are "as-of-right" benefits, they are not a cost specifically related to New HOP.

First Mortgage. The first mortgage, made using the proceeds from the sale of taxable bonds issued by HDC, averages \$90,000 per unit. The interest rates on these loans reflect the conditions of the taxable bond market at the time of issuance. Since the program's inception, the average interest rate on these loans has been 7.7 percent. Because the bonds are taxable, there is no cost to the city associated with these first mortgages. By the same token, because the interest rates paid by developers are essentially market rate, there is no subsidy for builders built into the first mortgage.

Second Mortgage. Second mortgages for New HOP buildings have averaged \$28,000 per unit. In all but one instance the loans have been made at a 1 percent interest rate. The subsidy for developers is the difference between what they would have had to pay in interest if the loans had been made at market rates, and interest payments on the loans at 1 percent interest.

New HOP second mortgages are made from HDC reserve funds. In general terms, HDC sells bonds in the capital markets, and makes mortgage loans to developers. Developers

pay back the loans with interest, and HDC uses these funds to pay back its investors, also with interest. The interest rates paid by developers are typically higher than the interest rates paid to investors, so over time, HDC has accumulated surpluses. These surplus funds, which are the major source of subsidy for New HOP projects, are not city money. Therefore there is effectively no cost to the taxpayer associated with these second mortgages.

Land. Eighteen of the 58 New HOP buildings included in this analysis were built on city-owned land. The land was generally transferred to the developer at little or no cost. The land represents both a subsidy to the developer, and a cost to the city. The developer gains by not having to pay full cost for the land. The city could presumably have sold the land at market rates, thereby generating more revenue—this foregone revenue is the cost to the city. It is difficult to estimate the value of this foregone revenue, since in order to do so one would have to know what the property would have been worth at the time of the transfer. This information is generally not available.

Decreased land costs allow the subsidy provided through the second mortgage to be lower. Offsetting the subsidy allows HDC to stretch its resources further, thereby funding the creation of a greater number of affordable units overall.

Tax Benefits. There are no special tax breaks under the program. New HOP buildings, like most other rehabilitation and new construction developments, are automatically eligible for New York City's tax incentive programs, including 421-a property tax exemptions for new construction, or J-51 exemptions and abatements for rehabilitation. These tax exemptions and abatements are not specific to New HOP: most new construction is eligible for 421-a and most rehabilitation can qualify for J-51. These are as-of-right programs and developers would generally be eligible for these benefits even if they were building housing with more limited or no affordability restrictions. Therefore, no incremental or additional subsidy is available to New HOP properties compared to other developments.

To date, 42 New HOP buildings have 421-a exemptions, and 17 are receiving J-51 benefits (one building has both, according to HDC, because it involved both rehabilitation and new construction). In 2004, IBO estimates the city will forgo about \$7.6 million in property tax revenue as a result of as-of-right tax benefits granted to New HOP properties, assuming that the buildings would have been built in the absence of the New HOP subsidy.

IBO estimates that 421-a exemptions for New HOP units cost the city an average of \$5,200 per unit annually. J-51 exemptions and abatements for New HOP properties cost an average of \$2,500 per unit.³ These are one-year costs, although the exemptions and abatements are all ongoing for different time periods, depending on location, affordability, and value of the work done, among other things.

AFFORDABILITY

Some housing advocates and elected officials have questioned the need for New HOP housing, arguing that the program serves families that do not need assistance. This argument usually hinges upon the fact that tenants can earn up to 250 percent of area median income. To the extent that units are actually occupied by families earning the maximum allowable annual income, the effect of the rent ceilings is to lower the rent burden on these relatively well-off households to levels that are half of what most low-income families in subsidized units—such as those receiving federal Section 8 vouchers—are required to pay.

Because the program also caps how much rent can be charged each month, the apartments are affordable to families well below the program's income limits. While program rules allow households earning up to 250 percent of AMI, the effect of the maximum monthly rent caps is that New HOP units are affordable to households earning between 95 percent and 134 percent of area median income (depending on family size). For example, the most that a developer can charge for a two-bedroom New HOP apartment is \$1,810 per month. A commonly used measure of housing affordability is rent equal to no more than 30 percent of income. A two-bedroom New HOP apartment is therefore affordable to a family with an income of \$72,400, which is 128 percent of area median income for a family of three. However, the developer is allowed to rent that apartment to a household earning up to \$141,250, or 250 percent of area median income for a family of three. This family would be paying 15 percent—rather than 30 percent—of its income in rent.

In practice, rents are often set substantially lower than the allowable maximum. The average rent for a two bedroom New HOP apartment is \$1,367. This is affordable to a family with an income of about \$55,000, or 95 percent of area median income for a three-person household. More than half the buildings have rents affordable to households earning 100 percent of area median income or less.

According to an analysis by the city's Department of Housing

New HOP Affordability Regulations

Apartment Size	New HOP Maximum Monthly Rent	Annual Income Needed to Support Maximum Rent ¹	Necessary Income as Percent of AMI ²	New HOP Maximum Allowable Income Level
Studio	\$1,045	\$41,800	95%	\$87,780
1 Bedroom	1,395	55,800	111%	117,180
2 Bedroom	1,810	72,400	128%	141,250
3 Bedroom	2,110	84,400	134%	157,000

SOURCES: IBO, Housing Development Corporation.

NOTES: ¹Based on annual rent equal to 30 percent of annual household income. ²Adjusted for family size.

Preservation and Development of 32 fully occupied rental buildings that are entirely New HOP, comprising 1,657 units, only 28 apartments, or less than 2 percent, are occupied by families earning more than 200 percent of AMI. The average income for the families living in these 32 buildings is 106 percent of AMI.

Six of the 58 New HOP buildings also include some units specifically targeted to low-income households. The average two-bedroom rent for a low-income unit is \$650, which is affordable to a three-person family earning 46 percent of area median income. Five of these six buildings are in Manhattan, and were built on city-owned land. However, the other units in these buildings tend to be somewhat more expensive than the average in pure New HOP projects—the average two-bedroom rent is \$1,600. As with other HDC and city programs, mixed-income developments—with higher-income tenants subsidizing lower-income households—are important tools to make the construction of low-income housing financially feasible, particularly in Manhattan.

Co-op Projects Less Affordable, More Heavily Subsidized. The New HOP cooperative developments are generally somewhat less affordable than the rental buildings. Even so, in order to make purchase prices affordable to the target population, the average per-unit subsidy is greater than in rental projects.

There are nine New HOP cooperative developments, seven of them standard co-ops and two structured as limited-equity buildings (in which tenants' purchase prices are lower but the return on their investment is capped). All of these sites were developed on city-owned land in communities with very low homeownership rates. The average maintenance charge for a two-bedroom New HOP standard co-op is \$731.⁴ Tenants must also obtain personal mortgages (distinct from the developer mortgages through HDC). IBO estimates that the average mortgage payment for a two-bedroom apartment is about \$1,110.⁵ The total monthly cost is therefore about

\$1,840, which requires an annual income of about \$74,000, or 130 percent of area median income for a family of three, based on the affordability benchmark of 30 percent of income. Residents' mortgage interest and property tax is tax-deductible, however, reducing the effective cost of homeownership.

The seven standard cooperative developments built through New HOP have received, on average, smaller first mortgages (which are unsubsidized) and larger second mortgages (at below-market interest rates), resulting in much larger per-unit subsidies for co-ops than for rental buildings. The second mortgages on these units average almost \$37,000 per unit, the same amount as the first mortgages for these properties, and 32 percent higher than the overall average second mortgage. The deeper subsidy is needed in order to help make purchase prices affordable to a wider range of incomes under the New HOP program terms.

NEW HOP AND THE MAYOR'S HOUSING PLAN

The Mayor's \$3 billion, five-year housing plan calls for the construction or repair of more than 65,000 units of housing through 2008. About 27,000 of these will be newly occupied apartments, a significant share to be created through New HOP or a new variant called New HOP Mod. Under this modified version of New HOP, 20 percent of the units in a building must be affordable to low-income households, 30 percent must rent at New HOP rates, and 50 percent at market rate.⁶ The budget for New HOP and for New HOP Mod is \$350 million and together the programs are expected to create 8,700 apartments. But the Department of Housing Preservation and Development has been clear that dollar allocations and unit targets are subject to change over the life of the Mayor's housing plan.

Larger Second Mortgages Under Mayor's Plan. The Mayor's plan allows for a substantial increase in the per-unit subsidy for New HOP developers. It also increases the project maximum to nearly double its previous level, allowing larger projects. The New HOP units in progress under the plan are receiving an average of about \$45,000 per unit for the second mortgage. The plan allocates \$290 million for New HOP, which is consistent with \$45,000 per unit for 6,500 units. This per unit second mortgage amount is 61 percent larger than the average second mortgage to date. It appears that HDC is increasing the subsidies to raise developer interest in the program, thereby increasing capacity to meet the Mayor's goals.

TRADEOFFS

While there is no direct taxpayer support of New HOP, HDC reserves are a public resource, and there is room for debate about the most appropriate mix of housing to be developed using these funds. While the need for affordable housing is more acute at the lower end of the income scale, there are also arguments in favor of helping to keep middle-income households in the city.

According to the 2002 Housing and Vacancy Survey, there are roughly 1.9 million renter households in New York City. One quarter (about 466,000) have incomes between 100 percent and 250 percent of area median income, and can therefore be considered middle income. Seven percent of these households pay more than 30 percent of their income in rent. On the other hand, more than 1.3 million households have incomes less than 100 percent of the area median for their family size, and 57 percent of these families pay more than 30 percent of income in rent.

Clearly, the need for housing assistance is greater among lower-income households. However, there are arguments on both social and economic grounds in favor of subsidizing housing for moderate- and middle-income families. These are households who generate tax revenue and other financial and social benefits for the city. If they cannot find acceptable housing, they can potentially leave the city, taking their economic activity and tax revenues with them.

Because a lower subsidy is needed for middle-income housing, a given amount of funds can create more middle-income apartments than when used for low-income housing. For example, new construction of housing that is affordable to extremely low-income families could require \$150,000 per unit.⁷ The \$290 million HDC is using for New HOP would support 1,900 units at this subsidy level, as opposed to 6,500 units at the New HOP subsidy level. Furthermore, the New HOP loans will eventually be paid back, and can be used to pay for more units, while funding for extremely low-income households is typically given as a grant or forgivable loan. Using the HDC reserve funds for middle-income rather than for extremely low-income households effectively allows the subsidy of at least an additional 4,600 units, more than tripling the number of apartments that can be built.

Thus, when allocating funds to housing programs, the city faces a series of tradeoffs. It can serve smaller numbers of low-income households with very high rent burdens, or larger numbers of middle-income families whose housing needs are

generally less severe, thereby increasing total supply by a greater amount. The city can target more households most at risk of homelessness, or more of the teachers, police officers, and other middle-income professionals whose presence in the neighborhoods in which they work arguably conveys broad social benefits to the community as a whole.

This is not an easy set of choices to resolve. Both HDC and the city's Department of Housing Preservation and Development have programs targeted to families across a wide range of incomes in order to meet as many of these goals as possible. It is important to consider both the full range of available programs as well as the tradeoffs that are involved when allocating resources to them.

Written by Molly Wasow Park

ENDNOTES

¹ HDC can use the New HOP funding stream to finance program models that vary from classic middle-income rental or cooperative buildings. For example, New HOP has been used to support senior housing in which rent includes meals and supportive services. New HOP condominiums—which are done in conjunction with Department of Housing Preservation and Development programs—are financed differently and priced higher than New HOP cooperatives. And some New HOP buildings include low-income and/or market-rate units which receive different types of financing and have different rent structures than the middle income New HOP units.

² All the rent data in this analysis are the rents first established when a developer enters into a contract with HDC. HDC may approve rent increases, but developers must then pay back their second mortgages more quickly.

³ Because IBO was not able to get data on every project, average tax benefits are based on a subset of roughly half all New HOP buildings. Projects that are under construction or newly completed are not yet listed in Department of Finance records. In addition, IBO was not able to identify block and lot identifiers for all New HOP projects, so could not locate the necessary exemption information to estimate the value of the tax benefit for some buildings.

⁴ Because of the structure of the financing on the limited equity buildings, they are more comparable to rental developments than to the standard cooperatives.

⁵ This is based on estimated sales prices and an assumed 30-year, fixed rate mortgage at 6.38 percent interest with 5 percent down.

⁶ HDC also refers to New HOP Mod as "New HOP 80/20."

⁷ This is the subsidy level for family supportive housing in the Mayor's plan.

You can receive IBO reports electronically—and for free. Just go to www.ibo.nyc.ny.us and click on subscriptions.