

## **Increasing Housing Opportunity in New York** The Case for Inclusionary Zoning

A Report by PolicyLink and the Pratt Institute Center for Community and Environmental Development (September, 2004)

### **Financial and Architectural Feasibility Analyses (summary)**

As part of a policy report prepared jointly with PolicyLink, the Pratt Institute Center for Community and Environmental Development conducted financial and architectural feasibility analyses for three model sites in New York City.<sup>1</sup> The goal of the analyses was to evaluate the potential impact of a requirement in upzoned areas and an incentive in other areas that new developments include affordable units, by using a representative development scenario for for-sale and rental developments. Our goal was not a comprehensive analysis in order to set precise income targeting and set-aside requirements in all neighborhoods, but instead to assess basic feasibility. The analysis revealed the following:

- A mandatory requirement of 20% affordable units is feasible on the condominium and apartments sites evaluated.
- A voluntary incentive of 20% affordable units would increase the viability of small apartment sites.
- Developers would still be able to achieve their targeted rate of return.
- Land prices would be moderated by a mandatory program, as developers negotiated lower acquisition prices due to factoring in the affordability requirement. However, current owners would still receive a substantial windfall. The value of their land would still be greater after the rezoning than it was before.

The full financial pro-formas for these development scenarios are available at [www.picced.org](http://www.picced.org).

#### **Site 1. Waterfront Condominium Site in Greenpoint-Williamsburg, Brooklyn**

We considered a waterfront site in Greenpoint-Williamsburg, Brooklyn, which is being rezoned from manufacturing to residential use. We utilized site-specific zoning and financial data provided by the NYC Departments of City Planning and Housing Preservation and Development (HPD).<sup>2</sup> However, we assumed that the developer would build condos (as nearly all developers in Greenpoint-Williamsburg have over the past several years), rather than rental apartments, as assumed by HPD. Conclusions of the analysis reveal:

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<sup>1</sup> The analysis was performed by Jaye Fox, a consultant to for-profit and not-for-profit housing developers, and reviewed by several other housing developers.

<sup>2</sup> Developers we consulted expressed some concern about the validity of other City Planning and HPD assumptions for this site. We will address those concerns in future analysis specific to Greenpoint-Williamsburg. For this report, however, we are using the City's architectural and financial assumptions to facilitate comparison with their analysis.

- 20% of the total new units created could be made affordable (to a mix of families earning from \$25,000 to \$55,000), with no public subsidy, through mandatory IZ.
- The developer would still be able to receive the targeted financial return – 18% annual return – that market-rate condo developers are currently seeking by leveraging the higher cost of development with the IZ density bonus and other cost offsets.
- The requirement would lead developers to offer lower acquisition prices for the land than they would without a requirement. However, average existing landowners would still receive a windfall of approximately 800% as a result of the rezoning, based on the average prices those owners have paid for their land.
- Deeper affordability, or additional affordable units, would be possible through the use of public subsidies, including Section 8, tax incentives, or city capital programs.

### Summary Financials

	Without IZ Requirement	With IZ Requirements	Assumptions
Market rate units	530	428	
Affordable units	0	102	
Total units	532	532	2 units for supers
Construction costs	\$103,127,140	\$103,127,140	\$185 per sf (HPD)
Infrastructure/parking	\$14,069,200	\$14,069,200	\$40/sf + \$25K/space
Contingency	\$5,859,806	\$5,849,806	
Soft costs	\$42,682,017	\$37,610,551	30% of hard costs, adjusted for brokers fees, construction interest, etc.
Site acquisition offer	\$69,346,034	\$39,021,080	Maximum offer given profit target
Total development cost	\$235,084,196	\$199,687,777	
Gross sales	\$261,340,564	\$221,780,554	Avg. of \$550/sf for market units
Net profit	\$26,256,367	\$22,092,777	Pre-tax, upon sale
Developer equity	\$48,984,196	\$40,287,777	
Annualized return	18%	18%	3 year investment
Acquisition cost	\$585/s.f.	\$329/s.f.	Per s.f. of land
	\$124/b.s.f.	\$70/b.s.f.	Per buildable s.f.

### Estimated Effect on Land Prices in Greenpoint-Williamsburg

	Price Per Sq. Foot of Land	Price Per Buildable Sq. Foot <sup>3</sup>
Average price paid by existing owners <sup>4</sup>	\$33.66	\$7.83
Price developer could offer with no IZ requirement	\$585.00	\$124.00
Price developer could offer with IZ requirement	\$329.00	\$70.00
Average profit per square foot, assuming IZ requirement, based on average price paid	\$295.34 (878%)	\$62.17 (794%)

<sup>3</sup> Assuming the rezoning proposed by City Planning to an FAR of 4.3.

<sup>4</sup> We tabulated all available, publicly recorded sales information for waterfront sites in the rezoning area. Sales prices ranged from \$2.44 to \$46.73 per square foot, from 1985 through 2002. The full list of sites is available at [www.picced.org](http://www.picced.org).

## Site 2. Wide Avenue Apartment Site in Central Harlem, Manhattan

This is a typical site along 8<sup>th</sup> Avenue in Central Harlem, above 125<sup>th</sup> Street. City Planning recently rezoned this avenue from Central Park North to 125<sup>th</sup> Street to allow for more density. An additional upzoning may take place at a later date in the area from 125<sup>th</sup> to 155<sup>th</sup> Street (e.g. from R6 to R7X or R8A). We analyzed the implications of including a 20% mandate in such a rezoning. Conclusions of the analysis reveal:

- The site would be infeasible to develop as a market-rate project under the current zoning, assuming market-rate developer profit expectations.
- The site could be profitably developed after a rezoning, with a mandatory inclusionary requirement, using New York City's "50/30/20," or NewHOP Mod program, to meet the requirements.
- Under this program, half of the units would be at market rate rents (\$1,800 to \$2,300/month), 30% would be rented to middle-income families (\$1,300 - \$2,000/month), and 20% would be rented to low-income families (\$600 - \$800/month).
- The site owner would receive a 34% increase in the value of their property.

### Summary Financials

	Prior to Rezoning	Post-Rezoning With IZ Requirements	Assumptions
Market rate units	24	21	
Middle income units (100% AMI)	0	12	
Low income units (60% AMI)	0	8	
Total units	24	41	
Construction costs	\$3,900,677	\$7,038,360	\$140 per sf
Soft costs	\$767,747	\$1,667,081	Project-specific
Site acquisition offer	\$1,375,900	\$1,915,200	Maximum offer given profit target
Total development cost	\$6,044,324	\$11,498,205	
Annual net cash flow	\$65,187	\$75,048	
Developer fee	unable to support	\$877,564	
Long-term developer equity required	\$1,961,812	\$811,900	
Annualized return	3.3%	9.3%	
Acquisition cost	\$172/s.f.	\$230/s.f.	Per sf of land

### **Site 3. Small Infill Sites in East Tremont, Bronx**

We analyzed the architectural feasibility of building on small sites with a voluntary density bonus. A developer in West Farms, the Bronx, could achieve a 30-unit development on a site of approximately 9,000 square feet if granted a 20 percent density bonus – versus the current developer’s need to assemble a larger site of 11,000 square feet.

Developers generally estimate that a project needs to include at least 30 units to be viable under New York City Housing Development Corporation’s Low-Income Affordable Market Place (LAMP) program.<sup>i</sup> In an R6A zone with a 3.00 floor-area ratio (FAR), a 30 unit building would require at least 10,000 square feet (100’ by 100’) and reach six stories. With an inclusionary bonus of 20% density, the building could have a 3.60 FAR, be built on a smaller lot of 8,500 square feet (85’ by 100’) and reach seven stories.

As a result, sites now vacant and considered too small to develop would become viable for multi-family affordable housing.

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<sup>i</sup> New York City Housing Development Corporation will consider projects of at least 20 units, but developers consulted on this report indicate that 30 units is the minimum necessary to afford the bond and other development-related costs.