

New York State Joint Legislative Budget Hearing on Housing

**Testimony of Rafael Cestero
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Thank you, Committee Chairs Rosenthal and Kavanagh and other distinguished members of the New York State Senate and Assembly, for the opportunity to speak today. My name is Rafael Cestero; I am the Chief Executive Officer of The Community Preservation Corporation (CPC), a nonprofit affordable housing and community revitalization company that was formed in the early 1970s to help New York City and State restore and rebuild communities that had been devastated by deterioration and abandonment. Today, CPC uses its unique expertise in housing finance and public policy to expand access to housing and drive down the costs of affordable housing production, advance diversity and equity within the affordable housing development industry, and address the effects of climate change in our communities through the financing of sustainable housing. Since our founding, CPC has invested over \$14 billion to finance the creation and preservation of more than 225,000 units of housing through our lending and investing platforms. We have partnered closely with New York State's Department of Housing and Community Renewal on numerous innovative and impactful projects, including the Legacy Cities Initiative, the Participation Loan Program, and most recently The Climate Friendly Homes Fund, a \$250M fund for the decarbonization of housing which CPC is administering on behalf of the State.

As you all know, New York State is in the midst of an unprecedented housing crisis that has resulted in more than half of renters in New York spending more than 30% of their income on rent, with about one third of households spending more than 50% of their income on rent. This crisis has brought unprecedented increases in rent and home prices, a ballooning number of housing-insecure New Yorkers, and a deep mismatch between housing demand and housing supply. As the Governor said in her State of

the State address, “Over the last ten years, our state has created 1.2 million jobs – but only 400,000 new homes.” The math simply doesn’t add up, and the consequences for New Yorkers are dire.

The core solution to our housing crisis is simple: build and preserve as much quality housing as possible. But the ability to build in the current market is severely constrained by market factors and administrative burdens. While the combined capital budgets of HPD and HCR support numerous innovative programs with favorable terms to support housing development, we cannot rely on public incentives alone to close the housing supply gap. It is imperative that the State incentivize private market production of new rental housing. Previous incentives, while not perfect, have been critical to making rental development financially feasible, creating mixed-income communities, and spurring low- to moderate-income housing production in the outer boroughs of New York City. Notably, the 400,000 new homes created over the last ten years were built while the State had a production tax incentive in place; the Governor’s proposal to double that production number over the next decade *without* this crucial incentive will be nearly impossible. We strongly urge HPD, the legislature, and the Governor to work together to implement a new tax incentive for private market housing production in New York City.

Effective incentives to support the preservation of existing affordable housing units are equally important. A core component of New York City’s affordable housing stock exists in older buildings that need substantial rehabilitation. But with high inflation and rents stabilized at below-market levels, many property owners lack the capital reserves needed to finance renovations and building-wide system replacements. The Governor’s proposed tax abatement for capital improvements to affordable rental and owner-occupied buildings in New York City aims to rebalance that equation and make it feasible for building owners to finance the repairs their buildings need – but it fails to meet this goal. While previous versions of this legislation were structured as both a tax abatement and exemption, the Governor’s proposal has unfortunately removed the exemption benefit completely. This leaves building owners in

murky waters - if completed capital improvements trigger a property value reassessment and subsequent increase in property taxes, the benefits of the abatement will likely be rendered neutral by increased tax liability. At best, the proposed capital improvements abatement without an accompanying tax exemption will complicate the decision-making process for owners and lenders, and at worst it could render the abatement ineffective altogether. We have significant concerns about the proposed abatement as currently written and strongly urge reinstating an accompanying exemption to increase the value of the abatement.

In addition to building and preserving as many units of housing as possible, New York City and State also need to take immediate action to fund and utilize as many housing vouchers as possible to support homeless and rent burdened New Yorkers. The State's \$2.86 billion yearly allocation of Federal Section 8 Vouchers has an annual utilization rate of 86.3% as of November 2022, leaving 40,000 vouchers unused¹; in New York City, \$1.84 billion in Section 8 Vouchers has the combined utilization rate of 88.29%², leaving 17,532 vouchers with the potential to house roughly 40,000³ people unallocated as of November 2022⁴. We all want those unused vouchers to help a low income household, so why do vouchers go unused? Low voucher utilization boils down to two primary factors: 1. A lack of housing units in which to deploy these vouchers; and 2. An overly burdensome and time intensive administrative apparatus to approve a unit, permit a tenant to move in, and process the owner payment. These administrative burdens keep families from getting the vouchers they need and discourage owners from wanting to house voucher holders. It's a cycle we can break.

¹ Data accurate as of November 2022. Office of Indian and Public Housing, [Housing Choice Voucher – Summary Page.](#)

² Data reflects combined allocations of Section 8 Vouchers to NYCHA and NYC HPD.

³ Utilizing HPD's standard which assumed 2.5 people per household.

⁴ Idib.

CPC supports housing vouchers as a tool to help low income tenants find and keep housing, and the ongoing housing and homeless crisis makes it abundantly clear that more support for low-income tenants and homeless individuals is needed. But unless and until city and state agencies increase voucher efficiency by reducing administrative barriers, simplifying the requirements to qualify, and lessening the burdens on owners to get paid, more money will be dumped into a system in disrepair and critical vouchers will continue to go unused.

These incentives and efficiency proposals are critically needed to enable the growth called for by the Governor's bold funding and legislative plan to increase New York State's housing supply by 800,000 units over the next decade. On behalf of CPC, we wholehearted support Governor Hochul's New York Housing Compact. No single municipality bears the brunt of the housing crisis and no single municipality will solve it alone, and the Compact presents an opportunity for municipalities to come together and work towards increasing housing supply across the State. New statewide production targets will require increasing housing production by 1% upstate and 3% downstate every three years, an equitable strategy towards statewide impact. The Compact also promotes transit-oriented development by requiring increased housing density within half a mile of subway, Metro-North, and Long Island Rail Road stops. This will open up new communities in which New York City's workforce can live while staying connected to our world class transit system. And this growth will be captured and distributed publicly thanks to the Compact's call for localities to submit yearly housing production data. Good data informs transparency and accountability, and as the State navigates a new growth and development agenda, data collection and distribution will be critically important. These targets and mandates are backed by strong enforcement mechanisms and we fully support the formation of a Housing Review Board within HCR to hear appeals and fast track approvals for housing development projects rejected by municipalities that fail to meet their growth targets.

We also applaud the Governor's budget items focused specifically on mitigating the housing supply shortage in New York City. New tools like expanded eligibility for office conversions to residential buildings, the legalization of pre-existing basement dwelling units, tax exemptions for accessory dwelling units, extending the deadline for completion of vested 421-a projects, and overriding the floor area ratio cap of 12 will enable New York City to realign housing supply with housing needs.

Despite these challenging circumstances, the Governor has laid out a visionary plan to guide New York State through the affordability crisis. The policies and programs within the Compact and the Governor's budget stand to usher in a new era of housing production and preservation in New York and, if partnered with effective incentives, have the potential to give cities and municipalities the much needed tools to fight back against the affordability crisis. Again, on behalf of CPC, we applaud the Governor's bold vision to confront the State's housing supply crisis and we look forward to partnering with the State to advance the Governor's Compact and executive budget.

Thank you for your time and consideration. I would be happy to answer any questions you may have.