IX. Housing

New York State faces an acute housing shortage. The resulting high housing costs place a strain on New Yorkers, prompting many to leave to the State in search of opportunity in more affordable states. In a bid to redress this policy failure, Governor Hochul proposed an ambitious suite of proposals designed to boost housing production last year, as part of the fiscal year 2024 executive budget. None of the proposals were enacted, nor were the counterproposals put forward by the State legislature, which expressed support for greater tenant protections. In her fiscal year 2025 executive budget, Governor Hochul has proposed a far narrower set of proposals that would expand housing production in New York State. This section will provide an overview of the problem of the State's housing shortage, the Governor's policy proposals, and an outline of a more holistic approach to housing production and affordability for New York State.

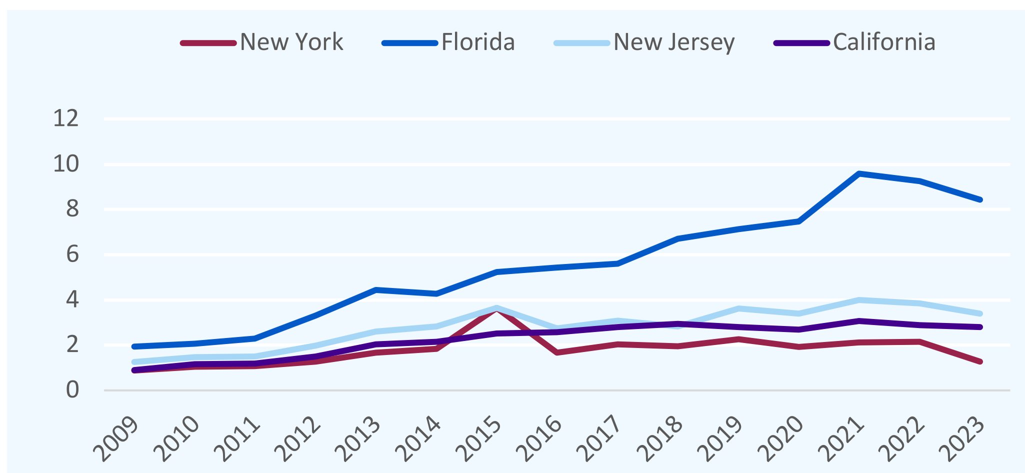
New York's Housing Shortage

A long-term threat to economic and population growth

Over the 2010s, New York City, the epicenter of the housing shortage, added jobs at a far faster rate than housing. Between 2010 and 2020, the City added 993,000 jobs and 206,000 housing units.[34] The resulting pressure on the housing market rapidly drove up the cost of housing. The New York metropolitan area was a national outlier in both building less housing than its peers and experiencing more dramatic home price increases. These high costs caused financial stress across the income distribution, leading to accelerated out-migration and population loss. As such, New York's housing shortage presents both an immediate threat to residents' quality of life and a longer-term economic challenge.

New York lags its neighbors and other large states in adding new housing. Between 2014 and 2023, an average of two (2.1) new housing units were permitted per 1,000 state residents in New York State. By contrast, neighboring New Jersey permitted 3.3 units per 1,000 residents and fast-growing Florida built 6.9. These two states are the top destinations for New Yorkers who leave the state, attracted in part by more affordable housing. Even California permitted one-third more housing per capita (2.7 units per 1,000 residents) than New York over this period.

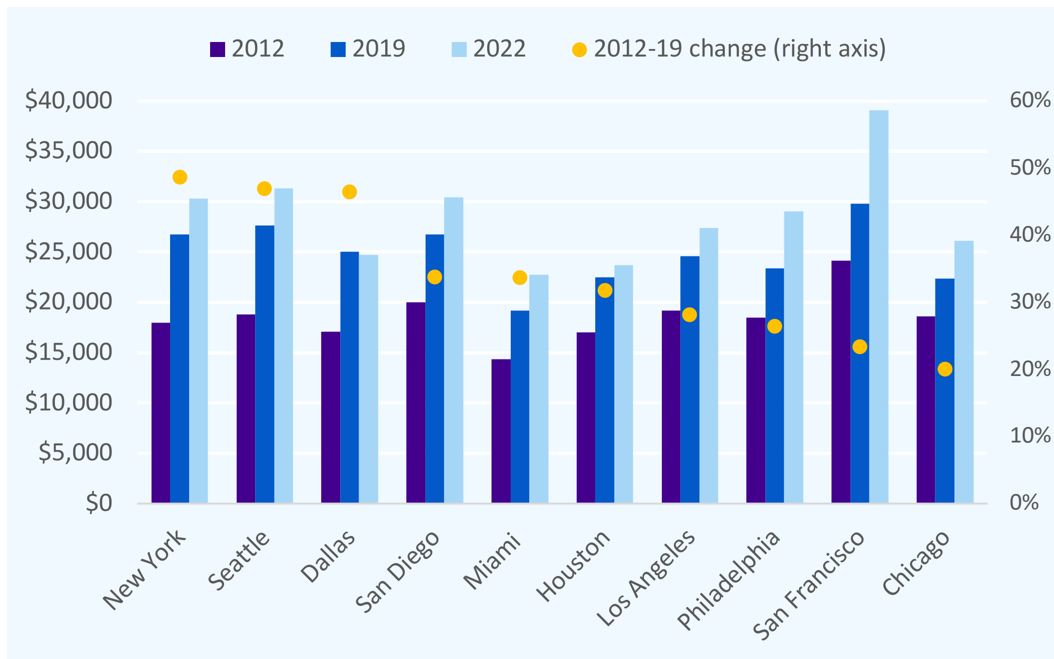
Figure 9.1. New housing units permitted per 1,000 residents by state, 2009 to 2023



While undersupply of new housing is a statewide problem, it is especially acute in the New York metropolitan area, which is home to two-thirds of the State's population. Taken as a whole — including its suburbs in New Jersey and Connecticut – the New York metropolitan area builds less housing than many of its national peers. Within the metro area, however, New York City and northern New Jersey add most of the area's new housing, while Downstate New York suburbs — Long Island and the Lower Hudson Valley — add very little.[35] New housing in the metro area, which has high job growth and high demand for housing, is largely limited by strict land use restrictions. By contrast, Upstate New York's low housing production is caused by relatively low demand.[36]

The New York metropolitan area's low supply of new housing over the last decade, together with strong job growth, increased housing costs. Between 2012 and 2019, average housing costs for New York area households rose 48.7 percent, according to a recent report by the New York State Comptroller. This increase was the largest of the ten major metropolitan areas studied by the report.[37]

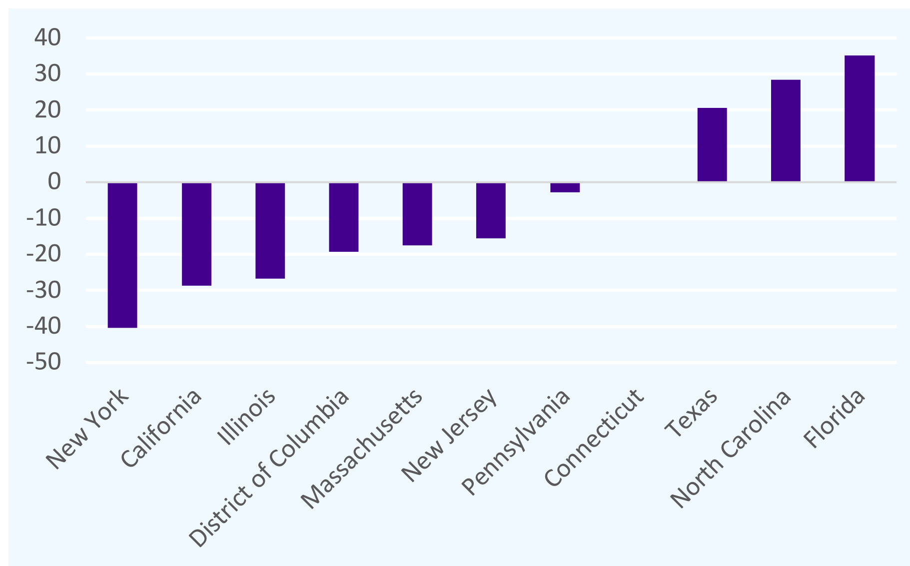
Figure 9.2. Housing costs for major metro areas in 2012, 2019, and 2022



Source: NYS Comptroller; Bureau of Labor Statistics, Consumer Expenditure Survey

New York's mounting housing pressure has created financial strain across the income distribution. This financial strain contributed to New York's high rate of net domestic out-migration – greater numbers of New Yorkers leaving the State than moving in from elsewhere in the U.S.

Figure 9.3. Cumulate net domestic migration between 2020 and 2023 per 1,000 residents for selected states



Recent FPI research found that out-migration is highest in the middle of the income distribution (households earning between $32,000 and $104,000), with the top one percent of earners — those with the least housing pressure — leaving at the lowest rate.[38] FPI research also found out-migrating New Yorkers tend to leave high-cost New York counties for more affordable counties in other states. These out-migrating New Yorkers stand to benefit from substantial housing cost savings that are, on average 15 times larger than potential tax savings.[39]

While out-migration is not a new phenomenon for New York, elevated out-migration in the aftermath of Covid has led to the steepest population loss of any state in the U.S., as discussed by Chapter II of this briefing. Sustained population loss, concentrated in New York City, poses a long-run economic challenge to New York. Further, high housing costs and population loss are indicative of a policy failure; the State is unable to ensure families can grow and establish financial security while remaining in New York.

Executive Budget Proposals

The fiscal year 2025 executive budget proposes a set of tax incentives, regulatory changes, and executive actions designed to increase the supply of housing in New York. These proposals are considerably narrower in scope than those put forward by last year's fiscal year 2024 executive budget, which made housing a central part of its agenda. Last year, the governor proposed two sweeping measures that would have overridden local land use regulations in a bid to accelerate housing production and proposed a suite of tax incentives that would have made billions of dollars available to housing developers. By contrast, this year's executive budget reintroduces half of last year's proposed tax incentives, and none of its sweeping changes to local land use.

Fiscal year 2024 proposals

Last year, Governor Hochul made housing the centerpiece of her executive budget proposals. An ambitious suite of proposals, dubbed the New York Housing Compact, aimed to spur the construction of 800,000 new housing units statewide over the following decade. Two bills that would substantially alter local land use regulations across the State anchored the Compact. The first, the New Home Targets and Fast-track Approval Act, would have required counties to either meet set housing supply growth targets or adopt a set of prescribed policy measures. Those that failed to meet either standard would be required to approve new housing developments meeting affordability and other requirements set by the law. The second bill, the Transit-oriented Development Act of 2023, would have established residential density requirements in the half-mile radius around New York metropolitan area transit stations.

The New York Housing Compact further proposed five tax incentives designed to spur housing production. FPI estimated at the time that these tax incentives could collectively cost local governments as much as $2.8 billion annually.[40] Finally, the Compact included smaller regulatory changes to facilitate new housing development or the conversion of non-residential buildings, abandoned housing, and non-compliant housing into suitable housing units. None of these housing proposals were ultimately included in the Enacted Budget.

Fiscal year 2025 proposals

The fiscal year 2025 executive budget scales down its ambition. The budget excludes last year's proposals for two structural changes to New York's local land use regulations that would have had enforcement mechanisms to ensure housing goals were met. Instead, the budget reintroduces two of the four tax incentives proposed last year (in addition to a 421-a deadline extension). The budget also partially reintroduces proposed smaller-scale regulatory changes. Finally, it proposes new executive actions that would make modest progress on housing production.

Table 9.1. Comparison of fiscal year 2024 and 2025 executive budget housing proposals

Type	Proposal	FY24	FY25
Local land use	Local housing targets	Included	Excluded
	Transit-oriented development	Included	Excluded
Tax incentives	Non-NYC multifamily housing	Included	Excluded
	Accessory dwelling units	Included	Excluded
	NYC multifamily rehabilitation (J-51) renewal	Included	Excluded
	Office-to-residential conversions	Included	Included (modified)
	421-a deadline extension	Included	Included
	421-a replacement	Excluded	Included
Regulation	Smaller-scale regulatory changes	Included	Parts included
Executive actions	Redevelop state-owned land; pro-housing requirement for certain grants	Excluded	Included

Tax incentives

The budget reintroduces two tax incentives made last year, as well as a reworked attempt to revive a major tax incentive program for New York City.

- **Residential Conversion Tax Break:** The executive budget proposes the affordable housing commercial conversions (AHCC) program. Under the program, non-residential buildings in New York City can qualify for tax credits if they convert to primarily residential use. Twenty percent of units in converted buildings must be income restricted, including five percent income restricted to low-income households earning less than 40 percent of the area median income (AMI). The proposal allows the State's housing agency, the Division of Housing and Community Renewal (HCR) to set the level of taxes abated by the program and its duration. As such, the potential costs of AHCC tax breaks to New York City cannot be calculated and the executive budget does contain a cost estimate.

- **Extend Affordable Housing Tax Break:** The executive budget proposes giving projects that qualify for New York City's expired 421-a tax incentive more time to complete construction. The 421-a program, which provides tax breaks for housing projects that meet its affordability requirements, expired in 2022. The proposal would extend the completion deadline for projects that started construction before expiration from June 15, 2026 to June 15, 2031.

- **New Affordable Housing Tax Break (ANNY):** The executive budget proposes a new tax incentive for New York City to replace the expired 421-a program. The new program, Affordable Neighborhoods for New Yorkers (ANNY, or 485-x, the proposed section of law), would offer tax benefits to three types of residential buildings that include affordable units: (i) large rental buildings, (ii) small rental buildings, and (iii) homeownership buildings (see table below for more detail).

  Crucially, the ANNY proposal assigns responsibility for two central elements of program design to other non-State entities. First, the program does not establish affordability thresholds. Instead, ANNY directs New York City's housing agency, the Department of the Housing Preservation and Development (HPD) to set affordability requirements for each type of building. Second, rather than prescribing prevailing wages required for the construction of eligible buildings, the proposal directs the largest trade association of developers, the Real Estate Board of New York (REBNY) and the largest labor association of building and construction workers, the Building and Construction Trades Council (BCTC) to reach a memorandum of understanding outlining wage standards. Buildings in which at least half of units are income restricted to 90 percent of AMI or less would be exempt from these wage standards.

Table 9.2. ANNY proposed benefits by building type

Type of building	Benefit duration	Benefit level	Affordability duration
Homeownership	40 years	100%	Duration of benefit
Large rentals (30 or more units)	35 years	100% for 25 years; in proportion to share of affordable units for remaining 10 years	Perpetuity
Small rentals (fewer than 30 units)			Duration of benefit

Regulatory changes

The executive budget's housing platform also reintroduces two regulatory changes that would increase housing supply in New York City.

- **Allow Denser Residential Development in NYC**: The budget would allow New York City and the State's Empire State Development Corporation to use local law to override the State-imposed cap on the floor area ratio (FAR) – the ratio of a building's total floor area to its lot size. Currently, residential buildings in the City cannot exceed a FAR of 12, meaning a building that occupies 100 percent of its lot could not exceed 12 stories.

- **Legalize Pre-Existing Basement Dwellings:** The budget would authorize New York City to legalize basement dwelling units that are already inhabited.

Executive action

Finally, the executive budget proposes plans for executive action to boost housing supply that would be accomplished primarily through executive action:

- **Redevelopment of State-owned land:** The budget proposes to redevelop certain properties owned by State authorities as a first step towards building 15,000 housing units on State-owned land. As an initial step, the budget proposes to allow the redevelopment of three specific sites on Long Island. The budget provides $250 million in capital funding to support the redevelopment of these sites and commits to allocating an additional $250 million in fiscal year 2026. The budget does not outline any affordability requirements or targets for the developments. In its legislative testimony, the Empire State Development Corporation stated the funds are to support infrastructure upgrades necessary for the creation of housing by private developers on these sites.

- **Require pro-housing designation for certain grants:** The executive budget also includes a plan to make local progress on housing production a requirement for $650 million of existing discretionary grants the State makes to localities each year. Under the plan, localities would need to be designated as "pro-housing communities." This designation would be made by HCR. To date, neither HCR nor the executive office have issued proposed criteria for the "pro-housing" designation.

  The grants outlined by the executive plan broadly overlap with those bundled into the Regional Economic Development Council (REDC) program, comprising economic development

initiatives, such as the Downtown Revitalization Initiative, as well as transportation and infrastructure grants. This plan can largely be taken through executive action: Governor Hochul issued a directive outlining the initiative in July 2023, and the executive budget's capital plan attaches the pro-housing designation to relevant pre-existing grant programs.[41]

Executive Budget Shortcomings

Over the last two years, Governor Hochul's executive budgets have rightly prioritized housing policy. Last year's proposals to loosen restrictive local land use regulations, would have been major steps forward for the State. Other proposals mistakenly rely on costly tax incentives. The current executive budget leaves out changes to land use while reintroducing several incentives. As such, the executive budget housing plan both fails to make proposals at the scale necessary to address the housing crisis and doubles down on a costly tax incentive-led approach to housing policy.

The executive budget's unsound reliance on tax incentives

The fiscal year 2025 executive budget proposes two tax incentive programs, ANNY (a successor to 421-a) and AHCC, to boost housing production in New York City. These programs have high potential costs, and leave New York City financially liable for a region-wide housing shortfall.

Affordable Neighborhoods for New York

The executive budget proposes the Affordable Neighborhoods for New Yorkers (ANNY, or 485-x) program to succeed the expired 421-a tax incentive for New York City multifamily buildings. The proposed program closely mirrors 421-a. It is therefore likely to suffer from the same shortcomings and should not be adopted.

The level and duration of ANNY's tax incentives broadly align with those of 421-a. How closely the overall program will align with 421-a, however, if unclear, as the proposal directs HPD, the City's housing agency, to set the program's requirement for income-restricted units. Because the legislative proposal lacks set affordability requirements, it is unclear how developers' take-up of ANNY would compare to their use of the popular 421-a program.

If ANNY is as its predecessor, it could ultimately cost the City $1.8 billion, the annual cost of 421-a as of 2023.[42] If HPD sets ANNY's affordability requirements as more stringent than 421-a's, its take-up, and therefore, costs could be lower. Conversely, lower affordability requirements would likely raise the costs. This decision would fall on the New York City Mayor, who appoints the HPD Commissioner.

421-a was the largest housing tax incentive in the State. The 421-a program abated the property taxes of new residential buildings in New York City for up to 35 years, conditioned on the inclusion of affordable units. Due to the long duration of the program's benefits, 421-a's costs will remain elevated long after its expiration in mid-2022. In the City's fiscal year 2023, 421-a cost $1.8 billion in foregone property tax revenue, an all-time high.[43]

While 421-a subsidizes income-restricted housing units, it does so at a high price. A report from the Community Service Society found that the present value of 35-year tax breaks for each income-restricted units supported by the program is $1.6 million. That is, the program is akin to paying developers $1.6

million to build each income-restricted unit – far higher than other programs that subsidize new affordable housing units.[44]

Finally, the costs of 421-a are borne by New York City through forgone property taxes, a fiscally unsound model for incentivizing affordable housing construction. Abating property taxes deprives localities of revenue, while leaving them liable for providing services to a growing population of new residents. Instead, the costs of creating and supporting affordable housing should primarily be assumed by the State.

Affordable Housing Commercial Conversions

The other new tax incentive proposed by the executive budget, AHCC, would provide a credit for commercial-to-residential conversions in New York City that include income-restricted housing units. This proposal excludes the promising complementary regulatory changes proposed last year. Relying exclusively on tax incentives, without deeper regulatory changes to facilitate conversions, is a costly approach housing that is unlikely to generate sufficient units.

Last year's executive budget proposed a version of AHCC alongside a series of regulatory changes that would have expanded the number of offices and industrial buildings that would be permitted to undergo residential conversions without time-consuming City-level zoning changes. This year's budget excludes those promising regulatory changes, proposing only the AHCC.

The proposal does not specify the level or duration of the program's tax incentives and therefore cannot be costed. FPI estimated that the version of AHCC proposed last year, which did specify benefit levels and duration, could have cost the City up to $110 million per year. Costs could escalate quickly if HCR sets more generous benefits. As such, the proposed would impose unknown, potentially significant annual costs on New York City, without input from the City.

Converting aging, underutilized New York City commercial buildings to residential is an important goal and should be part of a broad housing supply plan. However, tax incentives may prove to be an expensive strategy that leaves New York City liable for the costs. A better approach would begin with regulatory changes to facilitate conversions, avoid layering on a potentially costly subsidy that would negate the benefit of these conversions for New York City.

Proposed executive and regulatory actions fall short of necessary scale

The executive budget proposes two executive actions: tying State grants to local action to boost housing production; and redeveloping State-owned land. While these initiatives have promising elements, they fall short of a comprehensive approach to the housing crisis. Finally, minor proposed regulatory changes are more modest than those proposed last year.

First, an executive plan will require a "pro-housing community" designation to receive certain State grants. These grants broadly align with those disbursed under the REDC program. As such, they are likely to be apportioned evenly among the State's ten economic developments, with each region receiving $65 million in designation-attached grants.

Downstate economic development regions are more populous than Upstate regions, making REDC awards to Downstate regions are vanishingly small on a per capita basis. For Long Island, average REDC grants totaled $225 per resident over an eight-year period, 2011 to 2018 – one-third of the statewide average.[45] For this reason, using these awards as an incentive is unlikely to influence many Downstate localities, where housing is need most urgently. The Governor herself has noted that positive incentives alone, without State mandates or penalties have a poor track record of changing local land use policy in other states.

Second, the State commits $500 million in capital funding to develop housing on State-owned land. This concept is could provide an opportunity to for the State to pilot innovative models of social housing, rather than recycling inefficient developer-led models. However, the State's proposed program lacks affordability targets, and the State has not released any information on the program's operating model.

Finally, the executive budget's two proposed regulatory changes affecting New York City's housing stock – repealing the FAR cap and authorizing basement apartments – are practical, but relatively modest steps that do not comprise a response to the State's housing crisis at the necessary scale.

FPI Recommendations

Social housing policy for New York

Many other countries, and a growing number of states and localities in the U.S., have embraced "social housing" policies to ensure that low- and middle-income households are able to afford their rent. Social housing is umbrella term that refers to a wide range of policy mechanisms that provide below-market rental housing to low- and middle-income households.[46] Social housing often entails the construction of new housing that will be rented out at below-market rates, typically by public, nonprofit, or limited-profit developers. Central to social housing policy is the attempt to insulate much of the housing stock from market forces. In this respect it differs from affordable housing policies that subsidize market-rate rentals or otherwise incentivize for-profit developers without affecting the overall housing market.

Solving New York's housing crisis will require an ambitious policy response modeled on the social housing initiatives in other states and countries. The primary goals of state housing policy must include: (i) lowering the cost of housing for middle-income households, (ii) providing affordable housing for the lowest-income households, and (iii) strengthening tenant protections for current renters.

In particular, the State should especially focus on creating a social housing authority, a public entity that finances and develops below-market housing for both low- and middle-income households. The development of publicly financed social housing should be complemented by policies that increase the supply of housing while safeguarding tenants

This section considers the three pillars of a comprehensive housing policy strategy for New York:

- (i) increasing housing production;
- (ii) safeguarding tenants; and
- (iii) creating a social housing authority.

Increasing housing production

The State has a chronic undersupply of housing that affects New Yorkers across the income distribution. Even households who are not rent burdened feel the strain of high housing costs, prompting New Yorkers to leave the State at higher rates than any other state. A recent comprehensive review of academic studies found consistent evidence that new housing reduces rents outright, or the rate of rent increases, at the regional level. That is, a metropolitan area that adds housing at a robust pace would have lower rent growth than one with the same level of demand but lower housing production.[47]

A plan to increase the supply of housing, focused on the New York metropolitan area, that also aligns with the State's climate goals would take an approach like that of the transit-oriented development act proposed as part of the New York Housing Compact. The act would have established residential density requirements for the half-mile radius around transit stations served by the MTA. Developers would have the right to build housing in non-compliant localities even if local zoning would otherwise prohibit such projects.

A truly comprehensive approach to housing production would require long-term planning along two dimensions. First, the State needs a detailed assessment of local housing shortfalls across the state. California, for instance, has a process to assess the need for new housing at a regional level and apportion that down to cities and counties.[48] This provides local officials with concrete housing targets. Second, long-term housing planning should be done in coordination with long-term transit planning. Expanding the commuter rail network and decreasing travel times would expand the radius around City's core business districts that would be suitable for dense, transit-oriented development. As such, local housing targets should take into consideration expansion and upgrades to regional transit systems.

Protect tenants from displacement

New York's high housing cost increases and low growth have led to displacement across the City. Neighborhoods with especially fast cost growth, like those in Upper Manhattan and Central Brooklyn, saw considerable demographic change over the last decade.[49] Higher-income households tend to have fewer people in each housing unit.[50] For this reason, if a neighborhood becomes higher income and the number of housing units remains constant, its population will fall. This creates the conditions for displacement.

Tenant protections capping allowable annual rent increases and guaranteeing tenants the right to renew leases would help safeguard them from displacement. The Good Cause Eviction bill would provide such a safeguard for incumbent renters.

While some studies have found that new housing construction does not displace incumbent residents, others have found no clear effect, or even displacement of existing, lower-income residents. The inconclusiveness of this research points to the heterogeneity of the housing markets studied; a concentrated spate of development in a high-pressure market would have a different effect on its neighborhood than development that is more dispersed or in a low-pressure housing market.[51]

Because the increased production of new housing has clearly beneficial effects on regional housing markets but heterogeneous effects at the neighborhood level, policies to abruptly accelerate housing production are well-complemented by policies that protect incumbent renters from any market fluctuations. A proposal to accomplish this is Good Cause Eviction, which would guarantee tenants the right to renew their leases and cap annual rent increases at three percent or one-and-a-half times the rate

of annual inflation, whichever is higher. Good Cause Eviction was supported in principle, but not introduced as legislation, by both legislative houses last year.

Create a social housing authority

Increasing the supply of housing and safeguarding tenants, while important steps, are insufficient on their own to provide below-market housing to a wide range of low- and middle-income households. For this reason, the creation of a social housing authority is a crucial complement to housing supply and tenant protection policies.

A social housing authority is a state entity that directly sponsors the creation of below-market housing. The authority would have the power to issue its own bonds to finance the construction of new buildings or the acquisition and renovation of existing buildings. Newly created units would continue to be owned by the authority, thereby staying insulated from market pressures.

Apartments in social housing buildings would be offered at sub-market rents, based on tenant's income. The State's portfolio of social housing would offer apartments for both low-income households and those with middle or upper-middle incomes. While a core goal of supportive social housing is to provide housing for those with income too low to afford market rate housing, the inclusion of more moderate-income households is essential for the operation of social housing. The rents charged to middle income residents would exceed the per-unit cost of operating of the apartment, allowing the social housing system to offer sub-markets to lower income households, a dynamic known as cross-subsidization.

Across the State's portfolio of social housing — though not necessarily within any given social housing building, which would be too restrictive — cross-subsidization would be calibrated support the greatest number of low-income households while covering the costs of operating the buildings. A social housing authority that relies entirely on cross-subsidization, without any additional public operating subsidy, would be able to support fewer low-income units than an authority with an operating subsidy.

Annual operating subsidies could take multiple forms and operate at different levels of government. Social housing developments may be exempt from local property taxes. However, this raises the same challenge as tax incentives: growing the size of a locality's population, raising demand for public services, including schools, without a commensurate growth in the local tax base. This could cause fiscal strain for some localities, especially smaller or less wealthy localities.

Alternatively, several forms of operating subsidy could be made by the State. First, the State could assume responsibility for all or a portion of the debt issued by the social housing authority. While the State generally covers debt service for State agencies, there are precedents for the State sharing costs with State-chartered authorities. For instance, while most of the MTA's capital program is backed by MTA-issued bonds and dedicated MTA revenue sources, the State covers a small share of the MTA capital costs, shifting debt that would otherwise be taken on by the MTA to the State's debt load. Second, the provision of housing vouchers to low-income social housing tenants would constitute a State transfer to the social housing authority, with the authority charging low-income tenants a higher rent and the voucher making up the difference between the full rent and the tenants' effective rent. The proposed Housing Access Voucher Program (HAVP), which would issue vouchers to households experiencing or at risk of homelessness, is an example of a program that could serve as an operating subsidy from the State to the authority. Third, the State could simply provide a direct annual operating subsidy to the

housing authority. State subsidies, for instance, comprise a small share of the MTA's operating budget, alongside the authority's own revenue and dedicated taxes.

Independent of potential operating subsidies, a social housing authority would be able to provide more sub-market units than the alternative approach of providing tax subsidies to developers. Three sources of efficiencies would allow the authority to support more sub-market units. First, developers charge a fee, assessed as a share of the total development cost, for their services. This fee would be avoided by the authority assuming the role of developer. Second, the social housing authority would be exempt from local land use regulations, affording it more development opportunities, and lower land acquisition costs, than private developers. Finally, the social housing authority would be equipped with the power to issue bonds backed by the credit of the New York State. Because these bonds are exempt from income taxes at the State and federal levels, they carry lower interest rates than private, taxable debt. Because a social housing authority is not a profit-making entity, these savings would be realized as deeper affordability, relative to the level provided by private developers.

Finally, the location of social housing developments matters, as mixed income neighborhoods tend to be more conducive to economic mobility than neighborhoods of concentrated poverty.[52] For this reason, the social housing authority should concentrate on "high opportunity" neighborhoods that research has shown to facilitate above-average economic mobility. Because the social housing authority would complement other policy interventions to increase housing production, the authority should follow contemporary development patterns, ensuring that areas being supplied with an influx of new market-rate units are also supplied with non-market housing.

The State's existing housing policy regime is deeply flawed, relying on expensive tax breaks and producing insufficient housing across the income distribution. The expiration of a major element of this policy regime, 421-a, gives the State an opportunity to rethink this approach. Rather than simply modifying old programs, the State should take a new, comprehensive approach on par with the scale of the crisis.