<u>Overview of 421-a Programs:</u>

New construction housing developments can participate in the 421-a Partial Tax Exemption Program and/or the 421-a Affordable Housing Program.

Definitions

- <u>As of Right Benefit:</u> Developers receive a partial tax exemption for new construction projects that are 100% market rate. [1]
- <u>Extended Benefit:</u> If a developer includes 20% affordable housing, the project can receive an extended tax benefit ranging from 20 to 25 years, depending on geographic location.

421-a Partial Tax Exemption Program

- The 421-a program was created in 1971 to stimulate the new construction[2] of residential property throughout New York City.
- Grants phased-out tax exemptions in 10, 15, 20, and 25-year increments to eligible properties, as per the table below.

Geographic Areas	**Benefit Periods, years**	
	<u>As-of-Right</u>	<u>Extended</u>
Manhattan, in Geographic Exclusion Area (1)	0	10
Manhattan, in Geographic Exclusion Area (2)	0	20
Manhattan, south of 110th St. & NOT in GEA	10	20
Manhattan, north of 110th St. (3)	15	25
Bronx, Brooklyn, Queens (3)	15	25

(1) Assumes market-rate development participates in the 421-a Affordable Housing Program by purchasing certificates to cause the production of housing units affordable to low and moderate income families.
  - In 2003, the City Council extended the effective date of this designation until December 30, 2007.

(2) Assumes development is constructed with substantial governmental assistance or provides 20% of the onsite units as affordable to families of low and moderate income.

(3) NPP / REMIC areas that are above 110th Street in Manhattan or in the Bronx, Brooklyn, Queens or Staten Island automatically receive extended 421-a benefits of 25 years.

421-a Affordable Housing Program (Negotiable Certificates)

- Creates private subsidies for development of affordable housing by generating tax benefits that are sold to the developers of market rate housing in the Geographic Exclusion Area.

- Through the 421-a Affordable Housing Program, HPD authorizes the sale of four to six certificates per affordable housing unit constructed and maintained as affordable through a regulatory period. The affordable housing developer then sells the certificates to market-rate developers seeking tax benefits in the Manhattan GEA. Each certificate offers 10 years of tax benefits per unit up to 1,200 square feet.

- The affordable housing generating certificates must be developed without other government subsidy (with the exception of tax exempt bond financing, low income housing tax credits and real property tax benefits). Private debt allowed provided it is subordinate and subject to the 421-a written agreement.

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[1] Rental projects are subject to the provisions of the Rent Stabilization Act during their exemption period.

[2] In 2003, the State Legislature expanded the program to cover projects that include new residential construction and the concurrent conversion, alteration or improvement of an existing building, provided the floor are of the existing building does not comprise more than 49 percent of the completed structure. In Manhattan between 110th St and Chambers St., such a project could qualify for exemption only if it were aided by a governmental grant, loan, or subsidy.

421-a Affordable Housing Program- Requirements

Income Limits

- o Low-income units, which are rented to households earning 60% of AMI or less, can generate 5 certificates. The unit rents must fall between 25 and 30% of 55% of AMI.
- o Moderate-income units, which are rented to households earning between 60% and 100% of AMI, generate 4 each. The overall average income for the these units must be no higher than 80% of AMI
- o Homeless set-aside units generate 6 certificates.
- o If the number of low- and moderate-income units to be created exceeds 130, two out of every three units in excess of 130 must be rented to moderate-income households.

Location & Distribution of Affordable Units

- o Off-site units must be created, either through new construction or substantial rehabilitation, anywhere within New York City.
- o At least 50% of such units in any development must contain two or more bedrooms.
- o On-site, mixed-income units must be evenly distributed throughout the building and contain the same average unit mix and square footage distribution as the market rate units in the building.

Term of Affordability

- o Units created under this program must remain affordable for twenty years or for the length of the concurrent real property tax benefits, whichever is longer. Thereafter, the rents are subject to a 10-year deregulation schedule as outlined in the 421-a Rules.

Underwriting Criteria

- o The project must fund two reserve funds held at HDC; the first, calculated at $2.25 per square foot of affordable housing, is a Special Reserve Account, which covers unanticipated increases in maintenance and operations. The second, calculated at 1% of total development costs, is a Capital Improvement Escrow Fund, which covers capital improvement costs.
- o Filing fees are $100 per affordable housing unit.