

Steve Cord

New York City Finds that Tax Abatement

on New Construction Benefits Landowners Primarily

"Over the last 16 years, the 421a real-estate tax-abatement program has cost New York City \$551.1 million in tax revenues it agreed to forego.

"Theoretically, this generous subsidy to developers has made it possible to add 21,253 condominiums and 42,389 rental units to the city's housing stock. In fact, however, nobody knows how many of these apartments would have been built without the abatements. Nor is there any proof that the program actually reduced housing costs even for the affluent people who occupy most of the new apartments." This comes from an article in the New York Times, Sunday, March 29, 1987, Section 8, p.1.

But economists feel that in the long run the benefits of tax abatement are reaped by landowners, not renters.

"'New Jersey has roughly the same population as New York City,' said George Sternlieb, director of the Center for Urban Policy Research at Rutgers University, "and New Jersey - which is no great housing state - produced 60,000 housing units last year against New York's 10,000 to 12,000 units. My guess is that the existence of 421a basically raised the land costs. All these deals are penciled backwards, and 421a made it possible for landowners to raise prices.'

"That view is not discredited by city officials. 'I think there is some legitimacy to that theory," said Paul A. Crotty, Commissioner of the city's Department of Housing Preservation and Development. 'People always play off the tax code, but you have to weigh that cost against the benefit of having a streamlined housing program.'" The reader is not informed what a "streamlined housing program" could possibly be.

Other economists support the view that tax abatements for new construction go to landowners, not renters. *The Times article continues:*

"In the real estate marketplace, where economic forces are constantly seeking balance, a tax program that uniformly reduces development costs tends to increase the value of land - by an amount as great as the perceived value of the tax abatement, according to economists and developers. Sellers can do this because the increased land prices will be offset by the abatement, and the development costs will remain the same.

"Land sellers here appear to be the primary beneficiaries of the program in that it appears to us that the benefits are already incorporated in the price of the property being offered," said Winthrop D. Chamberlain, a partner in Orb Management, a Manhattan management and development concern. "These programs usually contain the seeds of their own demise," he added. "They usually provide great stimulus in the beginning, but eventually the market becomes so stimulated that prices are driven up and the program self-destructs." This sounds fine to us. It's what we have observed and what we have been preaching for years. <sup>more for a while</sup> The problem with these economists is that they don't carry their observations into policy-making.

● By all means, grant tax abatements to new construction. Do even better than that and grant tax abatements to ALL improvements. What a short-run spur that would provide to new construction and maintenance! But then, to prevent parasitic landowners from reaping the long-run benefits, tax land values as fully as possible! That would keep land values down, make rent cheaper, boost construction and provide a handsome annual revenue for city government. Economists, remove the scales from your eyes! City fathers (and mothers), reform your property tax so that the annual percentage tax rate on buildings is gradually reduced while the rate on land is increased. Renters, know who your real enemy is!

In Pennsylvania, many cities have adopted LERTA, a tax abatement on new construction. Pennsylvania should benefit from New York City's 421a experience and adopt a Two-Rate Property Tax incentive instead. They should prepare for 1988 now.