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NEW YORK STATE ASSOCIATION FOR AFFORDABLE HOUSING

Tipping the Balance

**How Prevailing Wages Can
Imperil the Development of Affordable Housing**

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How Paying Prevailing Wages Can Imperil the Development of Affordable Housing

Introduction

The need for affordable housing in New York City has never been greater. The supply, limited to begin with, has dropped precipitously. NYU's Furman Center found that the number of units affordable to middle income New Yorkers plunged 17% between 2002 and 2005. A recent poll by the Citizens Committee for New York stresses that the lack of affordable housing affects practically every neighborhood in the city. This shortage will only grow worse as more New Yorkers lose their jobs in the current recession.

In 2002, in the midst of a previous economic downturn, the Bloomberg administration responded to this need by committing to a 10 year plan to preserve and create 165,000 units by 2013. However, the need has far outstripped the supply: applications for new affordable housing typically outnumber available units by more than 20 to 1. One project completed this year received 200 applications—for only seven apartments. Another, with 27 affordable units, received 1,000 applications. This will only get worse, as layoffs and foreclosures will send even more people in search of housing they can afford.

Building affordable housing has always been tough—developers must first locate sites and then piece together private equity dollars and mortgage financing with limited government subsidies to make a project work. The current economic crisis has made the process much more challenging in a number of ways:

- The price investors are willing to pay for federal low income housing tax credits, a major source of funding for affordable housing, has dropped as much as 30% as the largest investors—Freddie Mac, Fannie Mae, and commercial banks—have run out of money and left the market.
- Mortgage financing and credit enhancements from private lenders have become substantially more expensive and harder to obtain.
- With less private investment available, limited government subsidies must stretch further to make projects viable.
- Land and construction costs, while beginning to stabilize as the economy moves into recession, are still at historically high levels.
- Volatile fuel and utility costs make buildings more expensive to operate.
- Tenants and homeowners, already strapped for cash, will have difficulty paying for even subsidized housing.

Taken together, these factors have created a perfect storm, making affordable housing more difficult than ever to build and manage. Unlike market rate housing, these increased costs or unexpected shortfalls cannot be made up by increases in rents or sales prices, which are regulated according to the subsidy involved.

A Proposed Step for the Worse

Legislation recently introduced in the City Council would only make the situation much worse.

City Council Int. No. 733 would impose prevailing wages, those typically paid for certain types of public works construction such as bridges and roadways, on the builders and developers of affordable housing projects.

The arithmetic is simple, the impact devastating. In January 2008, the independent Center for Governmental Research (CGR) reported that the cost of a typical small project in New York City would balloon from \$12.4 million to \$18.4 million if the contractor was required to pay prevailing wages rather than market wages, a total cost increase of 48%. Each dollar in increased cost would require an additional dollar of precious subsidy. Most projects confronting this dilemma simply would not be built.

As CGR data shows, workers paid market wages are well compensated. For example, a carpenter on an affordable housing job will earn approximately \$60,000 in wages and benefits (based on 1,840 annual hours). If prevailing wages are required, compensation rises to approximately \$142,000, a 137% increase. For an electrician, the compensation package would go from approximately \$67,000 to approximately \$131,000, a 96% increase.

Recent Experience Confirms the Math—and Its Impact

Recently, the developer of a proposed 151-unit project in the Ocean Hill-Brownsville section of Brooklyn sought construction bids at both fair market and prevailing wage rates. This project was targeted to families making between \$25,360 and \$40,000 annually, with rents ranging from \$635 for a studio to \$1,002 for a three-bedroom unit.

Construction costs under fair market wages were approximately \$30 million. The prevailing wage bids ranged up to \$43 million, a 42% increase. The project would require \$13 million of additional public subsidy to cover this increased cost.

The Consequences

The equation is unyielding. **A mandatory escalation of wages will result in the inevitable reduction of affordable housing development.**

A recent study by New York City's highly respected and nonpartisan Citizens Housing and Planning Council (CHPC) found that a prevailing wage requirement could increase total development cost by 25%. Even this low estimate of the increased cost has serious implications. To cover this increase, the rent of a typical apartment would need to increase by \$400, which in turn would increase the minimum household income required to afford the apartment by \$16,000. Conversely, to keep the rent at the same level,

government subsidies would have to increase by 50%, since other sources of funds such as mortgage financing would not go up.

This hardly seems the environment in which to mandate wages that will impede the production of one of life's most crucial necessities. Those who claim that the dilemma can be solved by adding more subsidies to the affordable housing pool fail to acknowledge the reality of the city's and state's current fiscal situation. History has shown that such infusions of subsidy are temporary while the wage increases are rarely rolled back.

Builders of Affordable Housing Build Communities

For over 35 years, affordable housing developers have helped to turn the tide in communities throughout New York City. They are consistently the first ones in, willing to take the risk and lead the way for others to follow.

Contractors who build affordable housing projects are often locally based small businesses, many of which are minority-owned. Their dollars circulate within their communities and have a greater positive influence on the local economy. If a prevailing wage requirement were to be passed, it would be virtually impossible for these smaller contractors to compete with larger firms and the overall impact on these communities would be diminished.

Affordable housing projects also offer many entry-level construction jobs to men and women who work in these communities. Training programs, such as those run by NYSFAFH or Harlem Congregations for Community Improvement, give local residents—many of whom would otherwise be shut out of the job market—opportunities to pursue careers in the construction trades.

Job Safety

Affordable housing job sites are subject to the same building, fire and labor safety codes as any other project, yet proponents of prevailing wage suggest affordable housing job sites are inherently less safe. The record shows otherwise. Using OSHA data, the CHPC study examined construction fatalities between October, 2005, and March, 2008, and found no significant difference in the rate of fatalities between union and non-union sites. More significantly, the study suggests that *city subsidized housing projects are significantly safer than other residential developments*, union or non-union: during the period studied, residential developments receiving city subsidies made up 22% of new and gut constructions starts but recorded only 7% of the fatalities.

Affordable housing projects are subject to rigorous oversight. Various agencies perform unscheduled inspections at affordable housing construction sites, monitoring performance standards, site conditions, adherence to fair labor practices and the use of documented laborers. Even a first offense can lead to severe repercussions including permanent ineligibility for future subsidies and a full reimbursement of any subsidy given out for the project—a devastating loss for any developer.

Conclusion

Our common goal should be to spur affordable housing, not to trigger costs that affordable housing developments cannot sustain. If a prevailing wage mandate were imposed, many of the affordable housing projects on the drawing board would never be built, and more working families, the elderly, the homeless, the disabled, and others in need of support would continue to be denied decent affordable housing. **NYSFAFH estimates that half of the 94,000 units affordable units planned over the next five years could not proceed if prevailing wages are made mandatory.** While certainly unintended, the results would be clear: enriching a few at the cost of denying many others, hardly a goal of New York City's affordable housing program.