

**NYS**  **FAH**

NEW YORK STATE ASSOCIATION FOR AFFORDABLE HOUSING

# **Tipping the Balance**

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

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## **TIPPING THE BALANCE**

### **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.

The Bloomberg administration responded 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.

Building affordable housing is already tough enough -- developers must first locate sites and then piece together private equity dollars and mortgage financing with limited government subsidies to make a project work. And the process has only become more challenging because of the:

- Building boom in all boroughs making land scarcer and much more expensive.
- Increase in the price of construction materials.
- Turmoil in the financial markets, which has made both mortgage financing and equity more expensive and harder to obtain.
- Greater competition for limited government subsidies, which must be made to stretch further in the face of these increased costs.
- Rising cost of fuel and other utilities, which has made buildings more expensive to operate.

Taken together, these factors have created a perfect storm, making affordable housing more difficult than ever to build. 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.**

To make matters worse, the value of tax credit dollars (the money received from the sale of federal low income housing tax credits, a major source of subsidy) declined by 15% in the past year. Some developers with approved projects are already experiencing funding shortfalls. In response, the State Division of Housing and Community Renewal is offering some additional subsidies to eligible developers who meet rigorous criteria.

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. In the first quarter of 2008, construction accident fatalities in New York City were primarily on high rise projects. Further, OSHA data indicates that of the 60 construction fatalities recorded for New York City since 2004, three occurred at affordable housing sites -- none within the past 18 months.

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.