



Testimony of Habitat for Humanity – New York City

To the:

New York State Assembly Standing Committee on Housing

Regarding:

**Public Hearing on the Cost of Housing Construction and the Availability of
Affordable Housing**

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Testimony respectfully submitted by:

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Introduction

Thank you for the opportunity to testify today. My name is Josh Lockwood, and I am the Executive Director of Habitat for Humanity - New York City. The topic today is particularly timely for our organization. By a factor of four, we are currently building more homes than ever before. Yet, the spike in construction costs is a trend that is stifling our efforts to continue this upward trajectory.

I would like to thank all of you, especially Assemblyman Lopez, for calling on the affordable housing community to provide testimony regarding the sharp escalation in construction costs statewide. These skyrocketing prices have greatly hindered the ability of developers, particularly nonprofit developers, to serve our state's low-income families. Today, I will highlight a number of ways in which the state can partner with developers to meet the great demand for affordable housing in New York:

- Through substantial enhancement of existing housing programs, especially Affordable Housing Corporation (AHC) funding, which is the only state funding available for affordable homeownership;
- Through support of the Governor's proposed Housing Opportunity Fund – with the \$100 million SONYMA excess reserves set aside as dedicated revenue;
- Through the simplification of the AHC application and the provision of technical assistance, and;
- Through an innovative new partnership with SONYMA to enhance available construction dollars to the 54 Habitat affiliates statewide. Replicating successful partnerships between Habitat affiliates and state housing finance agencies in Colorado, Michigan, Mississippi, and Minnesota, this partnership would help affiliates to capture sales proceeds at closing, so they can be used to finance new Habitat projects.

Habitat for Humanity – New York City

Habitat-NYC was founded in 1984 as an affiliate of Habitat for Humanity International, and we build affordable housing in every borough of New York City. Our homes are built

with the “sweat equity” of our family partner homeowners, who work side-by-side with volunteers. Our homes are built by New Yorkers for New Yorkers. These homebuyers are home health care workers, secretaries, janitors, bus drivers and other low-wage workers earning between 50 to 80 percent AMI. To date, Habitat-NYC has built more than 180 homes and has made a significant contribution to the revitalization of the city. Currently, Habitat-NYC has an additional 85 units in our pipeline, including the largest multifamily project in the history of Habitat for Humanity - 41 units currently under construction in Ocean Hill-Brownsville, Brooklyn. This project is involving 10,000 NYC volunteers in our construction efforts.

Of the 54 Habitat for Humanity affiliates across the State of New York, collectively we have built or rehabilitated close to 1,400 total units of affordable homes. With an infusion of new homeowners and thousands of volunteers, the construction of these homes transforms the lives of not only our family partners, but the communities in which we build.

The Impact of Rising Construction Costs on Affordable Housing Developers

Despite the success of the Habitat model, our work is severely hindered by the escalating costs associated with affordable housing construction. Currently, Habitat-NYC bears a construction cost of approximately \$300,000 per unit to provide the opportunity of homeownership to our buyers. Hard costs are reaching \$187 per square foot, and total development costs are approaching \$250 per square foot. 75% of these funds come from private resources, with the remaining 25% coming from government resources, including the state’s Affordable Housing Corporation, capital allocations from the city budget and federal HUD funding.

Over a five-year period, from 2002 – 2007, construction costs for Habitat-NYC have almost tripled. In 2002, our costs per square foot were \$75, and by 2007, that price tag shot up to \$187. The cost of concrete rose from \$17,000 per DU to over \$44,000 per DU, the cost of masonry rose from close to \$14,000 to \$56,000, the cost of metals rose from

over \$3,000 to over \$14,000 and plumbing and mechanical rose from \$13,000 to nearly \$39,000.

Cost Comparison Between Two Habitat–NYC Developments

Willoughby Avenue and Halsey Street Comparisons (Willoughby 22 DU, Halsey 9DU)

	Willoughby Avenue 2002	Per DU	Halsey Street 2007	Per DU
Site Work	179,884	\$8,177	\$88,000	\$11,000
Concrete	377,961	\$17,180	\$355,000	\$44,375
Masonry	298,930	\$13,588	\$449,000	\$56,125
Metals	73,190	\$3,327	\$115,000	\$14,375
Plumbing & Mech.	294,200	\$13,373	\$308,000	\$38,500
Electrical	286,000	\$13,000	\$159,000	\$19,875
General Contract price	\$75 per square foot		\$187 per foot	
Cost per DU (hard and soft)	\$110 per square foot		\$247 per square foot	
Cost per DU (hard and soft)	\$165,000.00		\$295,000.00	

This astronomical increase in hard costs, including an equally expensive spike in soft costs such as labor, insurance and design, has forced most affordable housing developers to substantially decrease production and to focus new resources on capital campaigns and fundraising.

Exacerbating the crushing rise in construction costs is the reality that the city’s portfolio of in-rem property will soon be depleted. With no city land available, nonprofit developers—which serve income bands not served by the market—will be forced to compete with private developers for land.

Although the boom in construction costs has hit the State of New York as a whole, it has impacted New York City especially hard. Even in Long Island, the 2007 cost for a completed Habitat home is only \$95,000 per DU.

What New York State Can Do

The triggers for the rapid escalation of construction costs are complex and macroeconomic in nature: as has been widely reported, the U.S. real estate market boom, which has hit New York City more than any other place in the nation; the Iraq war, which soaked up a lot of plywood for constructing U.S. bases overseas; rising fuel costs; taxes climbing due of escalating assessment value; and September 11th, which precipitated a significant increase in insurance on jobs. While controlling construction costs is largely beyond the powers of government, there are a number of ways that New York State can ameliorate the situation by strengthening its support for affordable housing developers that are poised to increase productions and bring a strong track record of success.

Increase AHC Funding

Over the past two years, Habitat-NYC has been impressed and heartened by the new energy and innovation the State Housing Finance Agency has brought to identifying additional resources for affordable housing development. However, AHC funding from the State Housing Finance Agency has remained flat for the past seven years, despite these tripling construction costs. As mentioned previously, AHC funding is the ONLY state funding stream available for homeownership units. Currently, Habitat-NYC's 41-unit development in Ocean Hill-Brownsville carries a \$13 million price tag. This development would not be possible if it were not for the \$1.6 million contribution from AHC, which translates to \$40,000 for a unit that costs \$300,000 to construct. Although available AHC funding helps, a significant enhancement is needed to help bridge the growing gap.

Simplification of the AHC Application Process

In past years, state funds set aside for the creation of affordable housing has gone unspent because of cumbersome application requirements. Unfortunately, many Habitat affiliates across the state are among the groups eligible for these unspent state funds but are unable to access them.

Of the 54 New York affiliates, only two currently receive state housing aid from the Housing Finance Agency and the Affordable Housing Corporation. This is due to a daunting application process that is too time consuming and complicated for the large majority of Habitat affiliates. **Broader access to funding assistance from New York State would increase the capacity of Habitat affiliates to provide housing for state families in need by an estimated 50%.**

Habitat-NYC and Habitat-Suffolk County are the only two affiliates that receive state housing funding—and they can accomplish this only by hiring a full-time staff member trained in government grant applications or a paid outside consultant. In 2006, Habitat-NYC spent \$26,600 dollars on outside consultants for New York State proposal submissions and grants management. Habitat-Suffolk County recently hired a full-time staff member to handle state grant proposals. Such costs may be possible for larger nonprofits—but for the rest of the smaller, volunteer-based groups, this level of expenditure is not an option.

- **Simplify and streamline the state affordable-housing funding application process.** The current application is highly technical, and even expert grant consultants sometimes require assistance in understanding the information needed to submit a grant.
- **Decrease pre-development requirements or provide more easily accessible bridge loans for pre-development work.** Many of the pre-development requirements, including signing a conditional contract with an architect and hiring an architect to engage in a feasibility analysis and complete item-cost breakdowns, are prohibitive burdens for smaller non-profits. Bridge loans that would make these requirements doable for smaller groups are available, but they are difficult to access and often require a consultant.
- **Provide more technical assistance to smaller nonprofits, including:** Staff who can clearly articulate the application process and answer all questions that may arise while applying for state housing funding should be available to small nonprofit builders.

- **Hold more public information sessions to make non-profit groups aware of the funding sources available to them.** An information session of this type was the impetus for Habitat for Humanity - Suffolk County to explore and obtain funds from the Affordable Housing Corporation.

The Governor's Housing Opportunity Fund

We urge the State Legislature to support the Governor's \$400 million Housing Opportunity Fund, which targets the affordable housing needs of lower-income New Yorkers. Such a Fund would provide additional funding to low-income developers to fill the funding gaps. At least \$100 million of this Fund must be dedicated revenue. These funds should be distributed equitably across the state in a flexible way that meets local needs, and community representatives should be included on the Housing Opportunity Fund Advisory Panel to monitor and oversee the Fund.

A Potential New Habitat for Humanity-SONYMA Partnership

We know from surveying our families and tracking their progress that Habitat homeownership strengthens our families' financial circumstances, enhances their safety and physical health and improves their children's school performance. Further, since Habitat for Humanity affiliates offer a 0% mortgage and service our mortgages, we have avoided the foreclosure crisis that has embroiled millions of subprime borrowers. Lastly, our work connects thousands of volunteers statewide to the issue of affordable housing. Because of these benefits, a number of state housing finance agencies across the country are tailoring programs for Habitat for Humanity affiliates to spur increased housing production.

In New York State, Habitat for Humanity affiliates are pursuing an innovative new partnership with SONYMA to enhance available construction dollars to the 54 Habitat affiliates statewide. Habitat-NYC seeks to replicate successful partnerships between Habitat affiliates and state housing finance agencies in Colorado, Michigan, Mississippi, and Minnesota. These partnerships infuse local Habitat affiliates with capital dollars by helping affiliates to capture sales proceeds at closing, rather than receiving a stream of

fixed payments over 30 years. These sales proceeds can then be used to finance new Habitat for Humanity development projects throughout the state.

Conclusion

In conclusion, I would like to thank you again for the opportunity to testify today. In the face of a dramatic hike in construction costs and its disastrous impact on affordable housing development, there are many steps that the state can take to improve the situation. Enhanced AHC funding, a simplified application process, support for the Housing Opportunity Fund with dedicated revenue and changes to SONYMA statutes would increase the amount of affordable housing built by Habitats across the state, as well as other affordable housing developers.

I look forward to the opportunity to support you all in making these changes. I would also like to invite Assemblyman Lopez and others to tour our Habitat for Humanity developments and to experience our distinct model. I will now take questions.