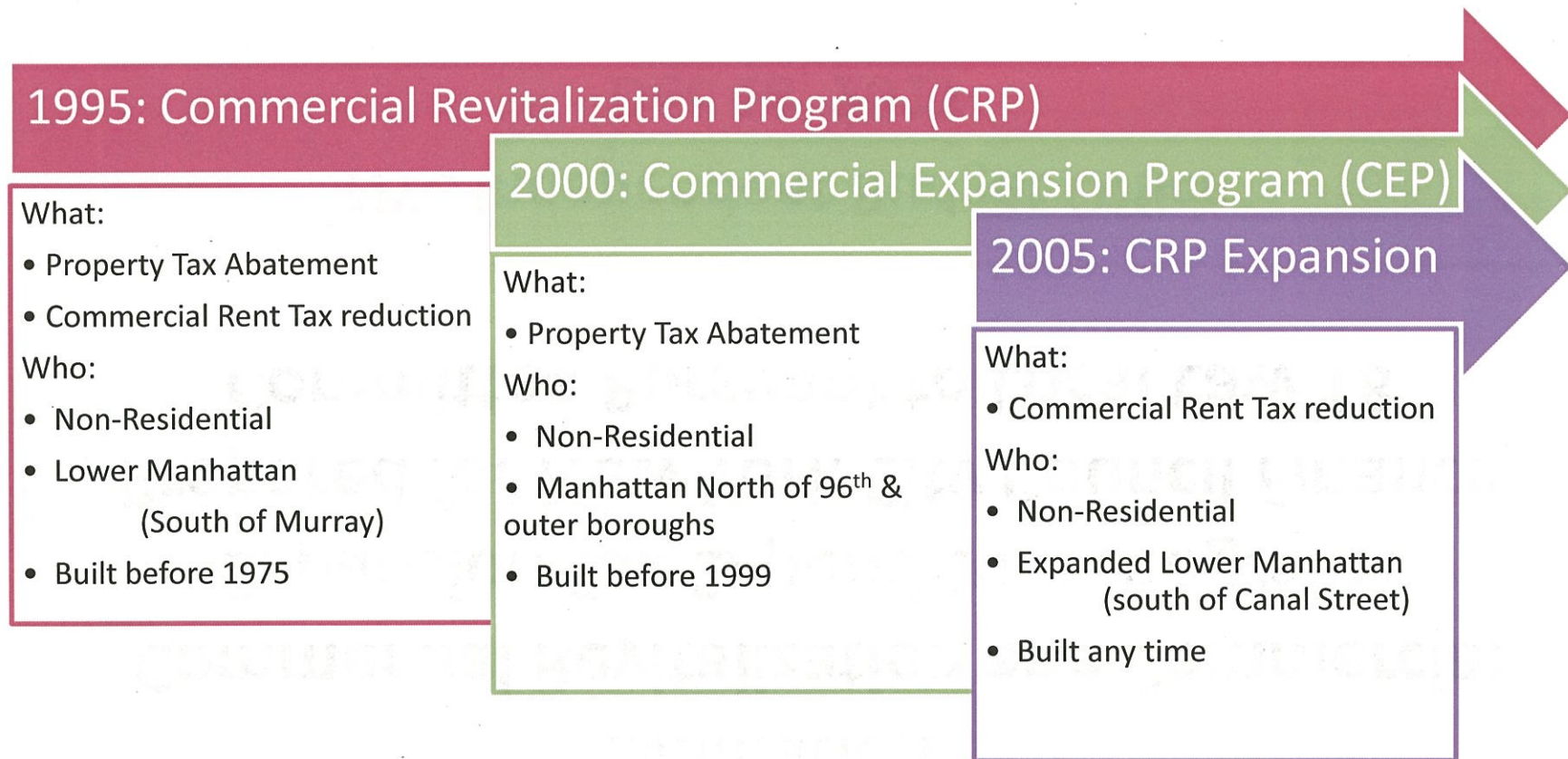


**Evaluation of  
Commercial Revitalization and Commercial  
Expansion Tax Expenditure Programs  
Prepared for New York City Council Finance  
Committee Pursuant to Local Law 18**

**NYC Independent Budget Office**

**Dec 18, 2017**

# Evolution of Commercial Revitalization Program



# Other Programs and Modifications

- 1995:
  - The 421-g program for conversion of commercial buildings into multiple dwellings in the CRP region.
  - 14-year abatement of about 80 percent of the real estate taxes paid on the property before conversion.
- 2005:
  - Commercial Rent Tax (CRT) exemptions for World Trade Center.
  - CRT exemptions for Downtown ground floor retail.



# Overview of Findings

- **Cost:** CRP and CEP cost \$27.4 Million in 2017
- **Participation rates:** CRP 22% and CEP 1% max.
- **Effects:**
  - Downtown vacancy rates went down after 1995, but not because of CRP.
  - Employment numbers show a similar result.
- **Design:**
  - Participants already invest much more than the “minimum required physical improvements.”

# Participation Requirements

## Lease Terms & Physical Improvements



### Small firms (# Employees < 125)

- 3 years or longer lease for both programs
- \$5 Minimum Physical Improvement for CRP and \$2.50 for CEP.



### Large firms (# Employees > 125)

- 10 years or longer for both programs
- \$35 Minimum Physical Improvement for CRP and \$25 for CEP
  - (respectively, \$10 and \$5 for renewal leases)

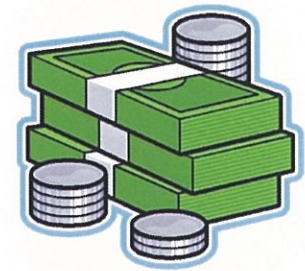
# CRP and CEP Benefits



- Property Tax Abatement
  - Minimum of applicants property tax per sq. ft. and \$2.50
  - For 3 or 5 years with 2-year phase-out schedule
    - 10 years for Manufacturing in CEP



# CRP and CEP Benefits



- Property Tax Abatement
  - Minimum of property tax per sq. ft. and \$2.50
  - For 3 or 5 years with 2-year phase-out schedule
  - For 10 years for Manufacturing in CEP
- Commercial Rent Tax (CRT)
  - Only Part of CRP (Downtown Manhattan)
  - Tax base reduction equal to 100% of gross rent.
    - 1995-2005: 3 or 5 years with a last 2-year phase-out
    - After 2005: no phase-out.

# CRP and CEP Costs in 2017



- Total Cost in 2017:  
\$27.4 Million
  - Equivalent to paying 197 police officers per year
- Property Tax Abatement  
\$18.4 million
- Commercial Rent Tax Reduction  
\$9 million





# EVALUATION



# What were the goals?

- Does the law state the goals of these programs? No!
- Based on the testimonies and the design of the program, assumed CRP-CEP goals are:
  - Reduce vacancy rates
    - Short term: through CRP/CEP benefits
    - Long term: through building improvements
  - Increase employment



# To Evaluate

- Program Participation Rates
- Neighborhood Effects
  - Office Vacancy Rates and Rents
  - Employment Level
- Building/Lease Level Effects
  - Investment or Physical Change
  - Owners' Rental Income



# To Evaluate

- Program
  - Neighbor
    - O
    - E
  - Build
    - Invest
    - Owners' Rental Inc
- Are the programs meeting their goals?
  - Are the goals still relevant?
  - Are the programs efficient?



Haves and Have nots

**DATA**



# Available Data

- **Neighborhood Office Rents and Vacancy Rates**
  - Cushman and Wakefield (1984-2016)
- **ZIP-Code by Industry Employment**
  - Department of Labor ES-202 data (1989-2010)
- **Buildings Sq. Ft., other exemptions, etc.**
  - Property Tax Administrative Data (1984-2017)
- **Owners' Rental Income**
  - Tax Commission Income and Expense (TCIE) (1984-2017)

# CRP-CEP Applications Data

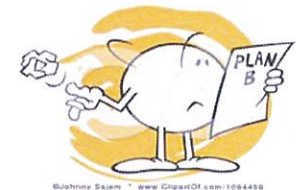
- **CRP/CEP Applications**

- Haves:

- 2010-17: Address, Lease term, Program Type, Expenditures, # Employees, Owner's Name, Tenant's name, Office or Manufacturing
    - 1995-2010: Address, Lease term, Program Type

- Have Nots:

- Detailed records are destroyed for applicants prior to 2005.
    - For 2005-10 there are only hardcopies.



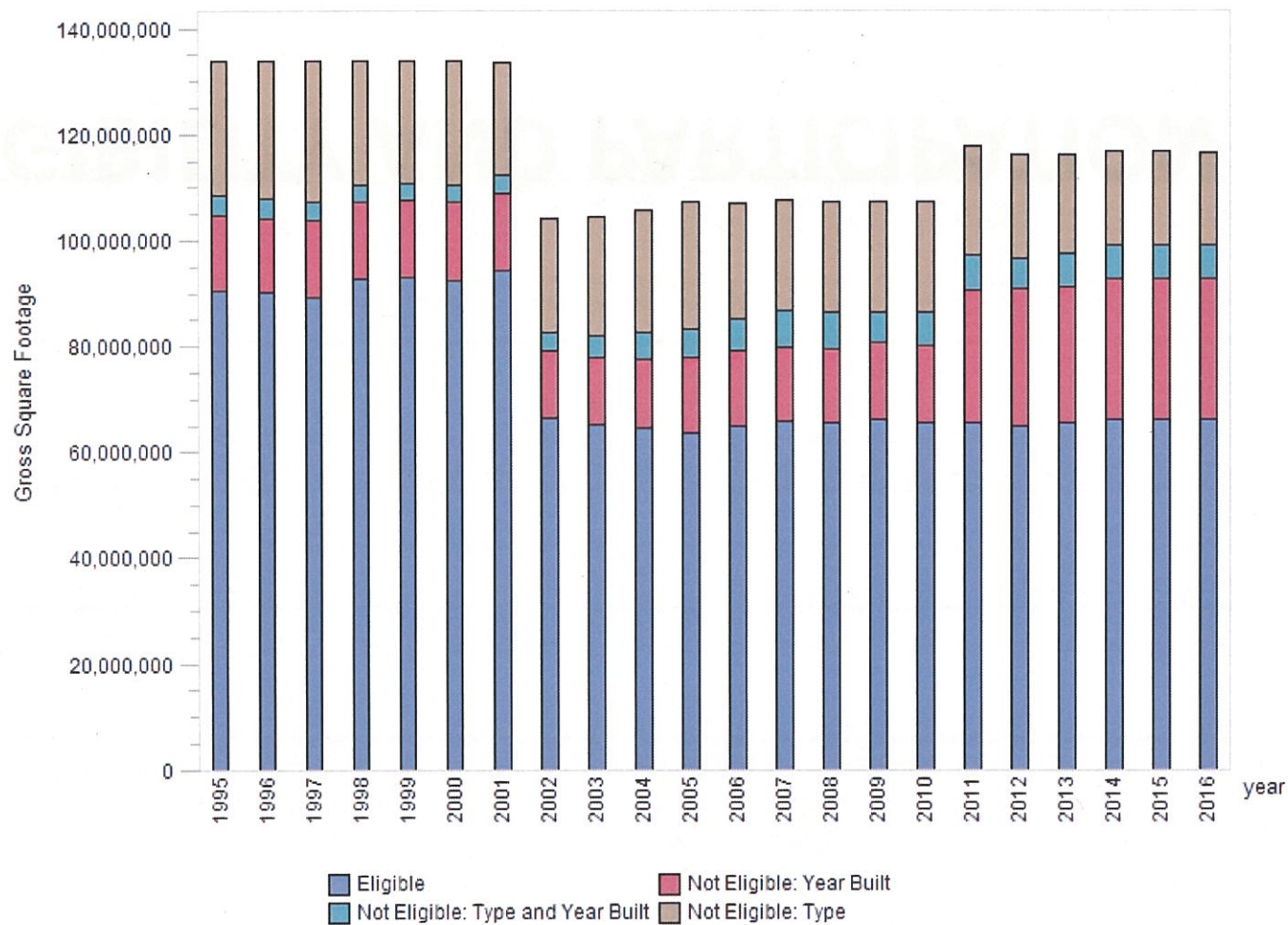
# Data: Have-Notes

- **Building Level Vacancy Rates**
  - Source: Currently collected by DOF
- **Establishment/Address level employment**
  - Source: QCEW matched over time
- **Income and Expense For all owners**
  - Source: Real Property Income and Expense (RPIE)
- **Other Limitations:**
  - Commercial Rent Tax data did not record CRP Special Reduction
    - until 2017
    - No building level data
  - No consistent record of past Property Tax Abatements
    - They are only recorded on a rolling basis



# **ELIGIBILITY AND PARTICIPATION**

# Eligibility

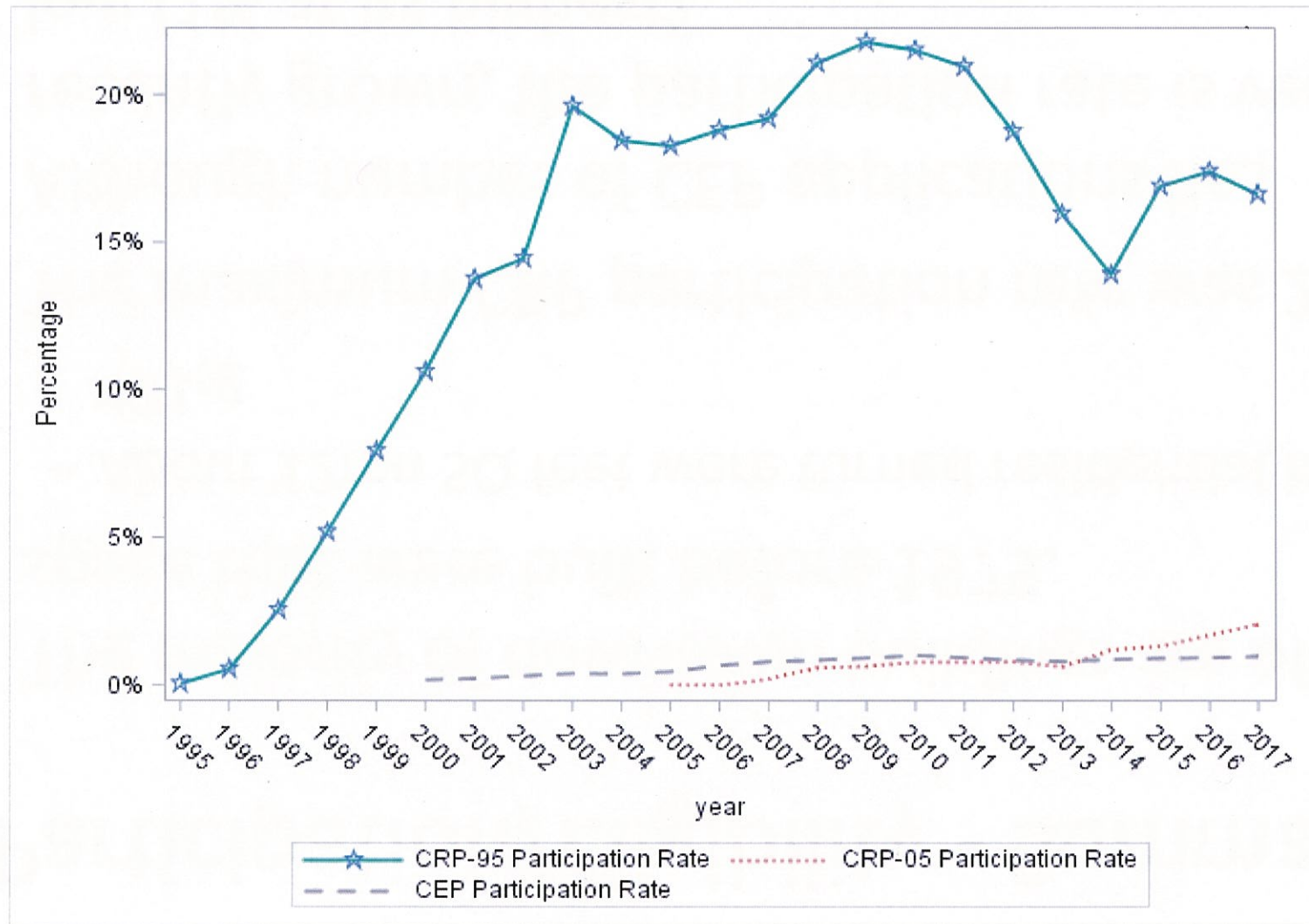


Gross Sq. Ft. of Downtown Commercial and Mixed-Use Buildings by CRP Eligibility

Independent Budget Office of NYC



# Participation Rates



# Participation/Eligibility - Summary

- The majority of downtown buildings are office space that were built before 1975.
  - About 12mn SQ feet were turned residential by 421-g
- The maximum CRP participation rate was 22%.
- Although number of CEP applications has recently grown, the participation rate is very low (1% at its highest).

# **THE EFFECTS**

# Treatment and Control

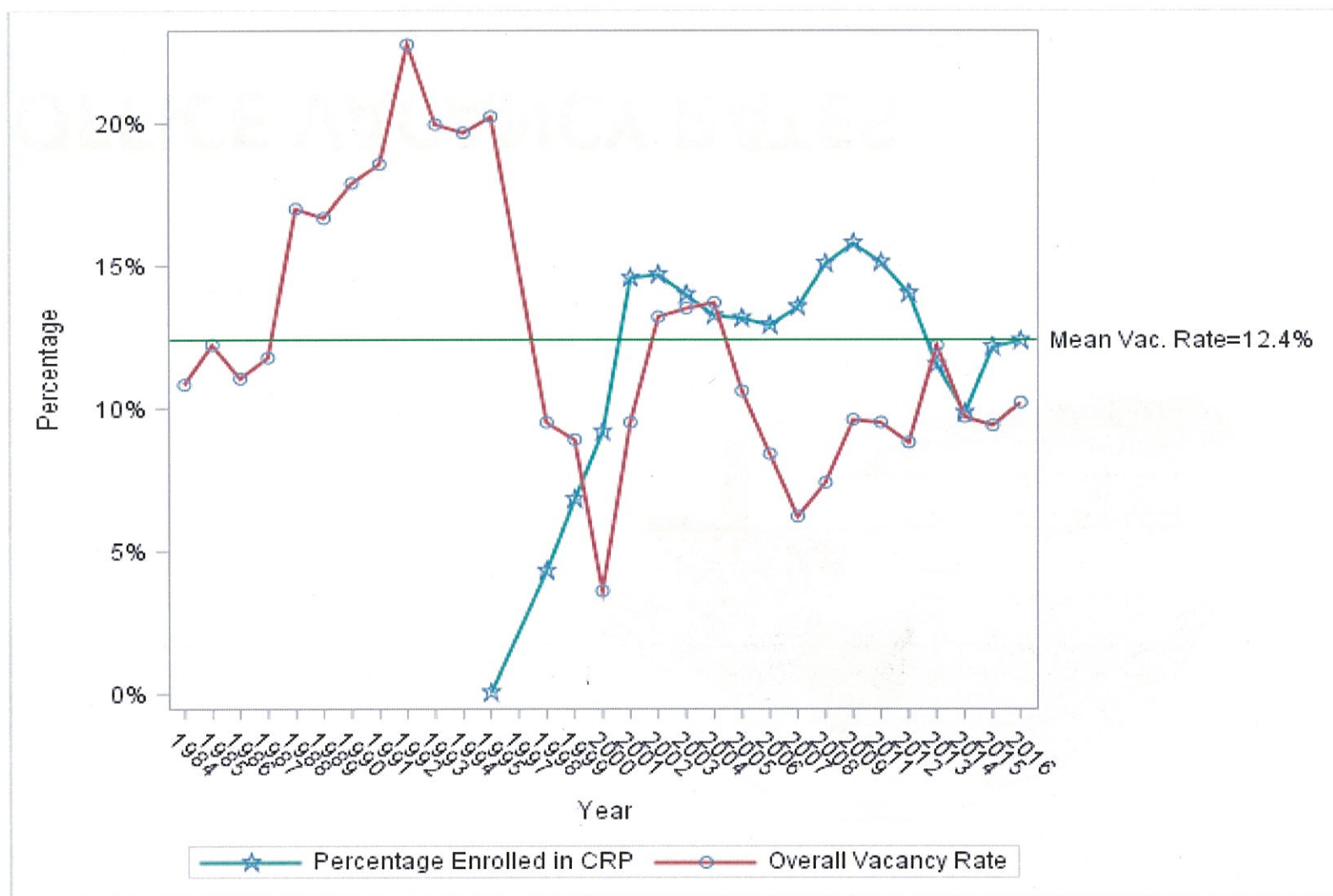
- Basic Question:
  - what would have happened without these programs?
- Solution Concept:
  - Consider an experiment with “treatment” and “control” groups.
  - Compare the outcomes of the two groups.



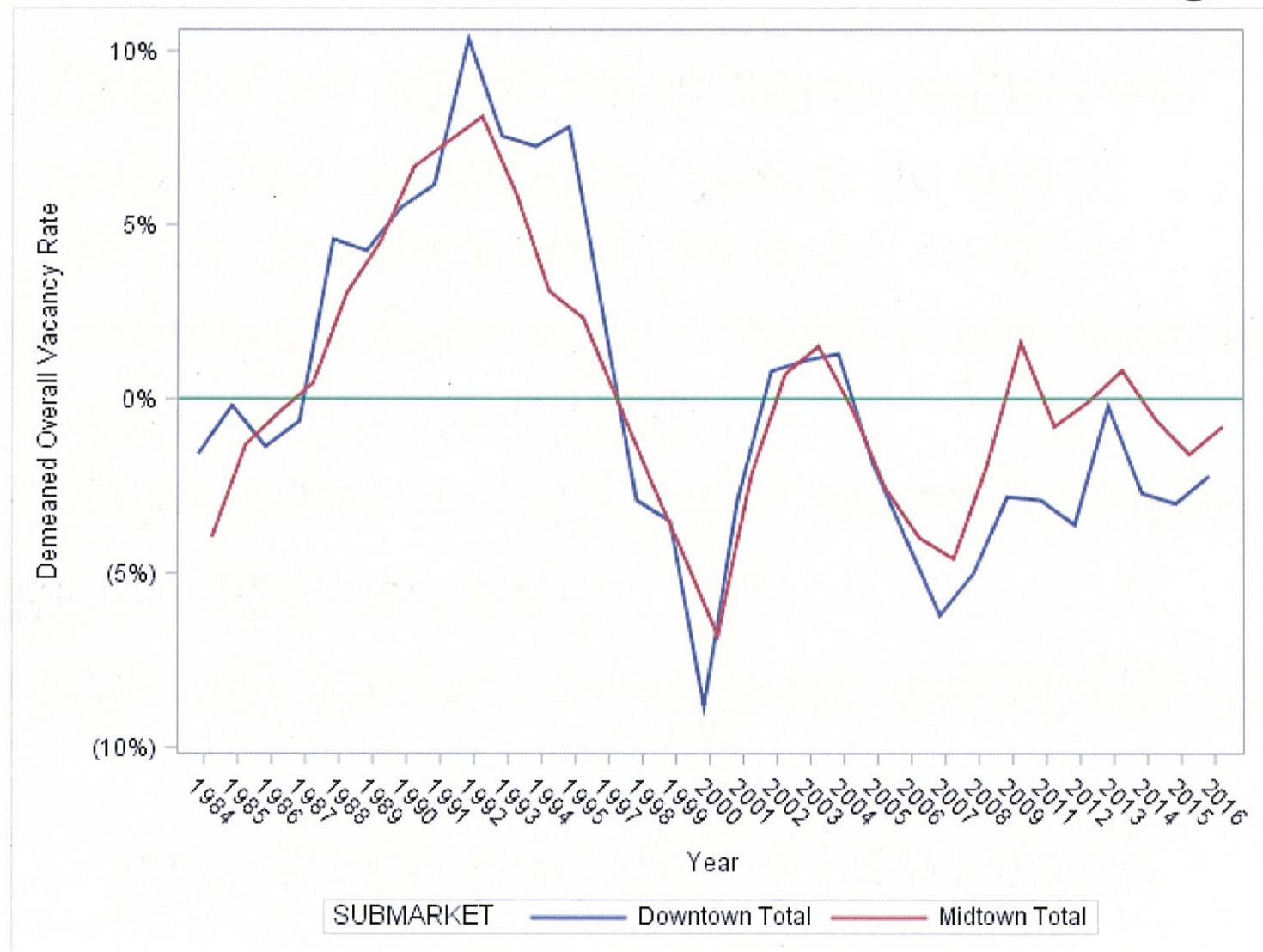
# OFFICE VACANCY RATES



# Vacancy Rates vs. CRP Enrollment Rates in Downtown Manhattan



# Deviations from Historical Averages



# Vacancy Rates - Summary

- We do not observe any off-the-trend effects of CRP on vacancy rates.
  - Similar trends in other areas, including Hudson Waterfront in New Jersey.
  - Considering 1984-2001, our regression estimates show a very small negative effect which is statistically insignificant. That is no effect.
  - Similarly, no effects are found for office rents.



# EMPLOYMENT

# Employment: Downtown

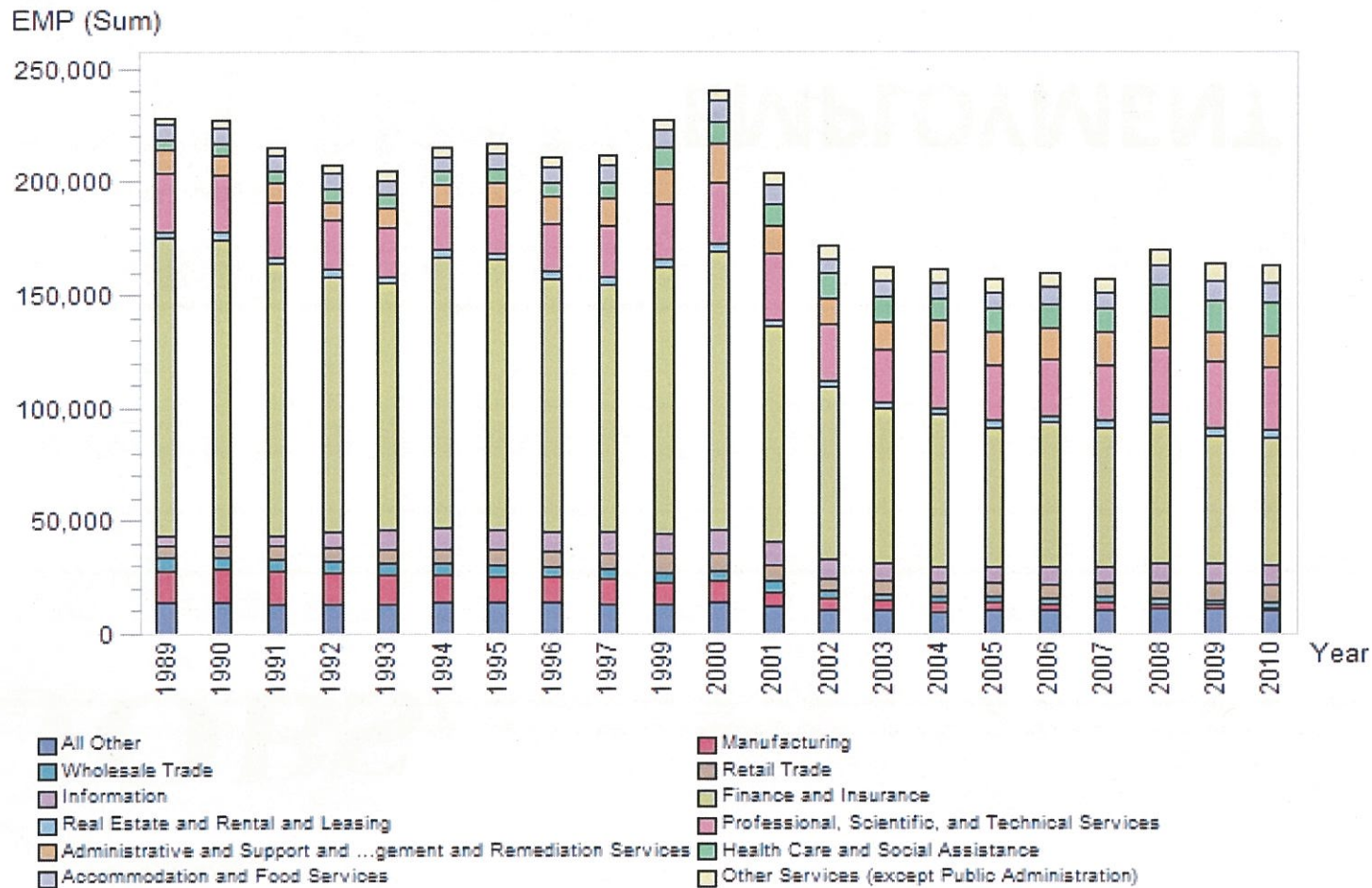
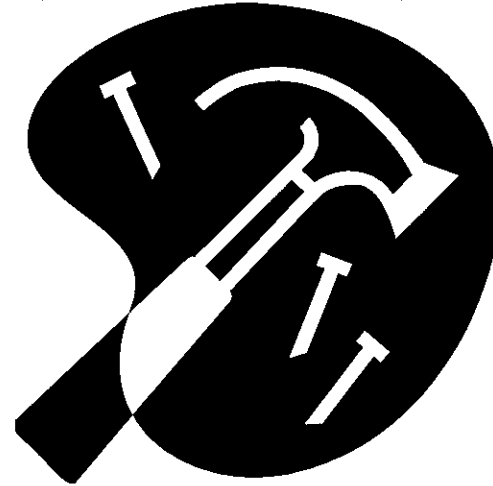


Figure: CRP Region



# Employment - Summary

- Again, very similar trends are found in Midtown.
- However, Downtown employment grew slower during 1995-2000.
- Industry composition matters a lot:
  - After controlling for industry composition, post-95 Downtown still grew at a slower rate.
- Similar results found for CEP employment.
  - Highly expected given the low participation rates.



# PHYSICAL IMPROVEMENTS

## Effect of \$5 Minimum Expenditure Requirement (CRP Applications 2010-17)

	Percent of Applicants
<b><u>Expenditures Less than ...</u></b>	
\$6 Per Sq. Ft.	20%
\$10 Per Sq. Ft.	38%
<b><u>Expenditures Greater than ...</u></b>	
\$35 Per Sq. Ft.	32%

- Their property tax benefits do not exceed \$10 over 5 years.
- They are spending much more than minimum requirements (\$5.00) and their benefits.

## Effect of \$2.50 Minimum Expenditure Requirement (CEP Applications 2010-17)

	Percent of Applicants
<b><u>Expenditures Less than ...</u></b>	
\$3 Per Sq. Ft.	42%
\$6 Per Sq. Ft.	63%
<b><u>Expenditures Greater than ...</u></b>	
\$25 Per Sq. Ft.	11%

- They are mostly manufacturing applicants.
- \$2.50 minimum expenditures are more significant in CEP areas.

# Physical Improvements in Tax Assessments vs. CRP-CEP Applications Data

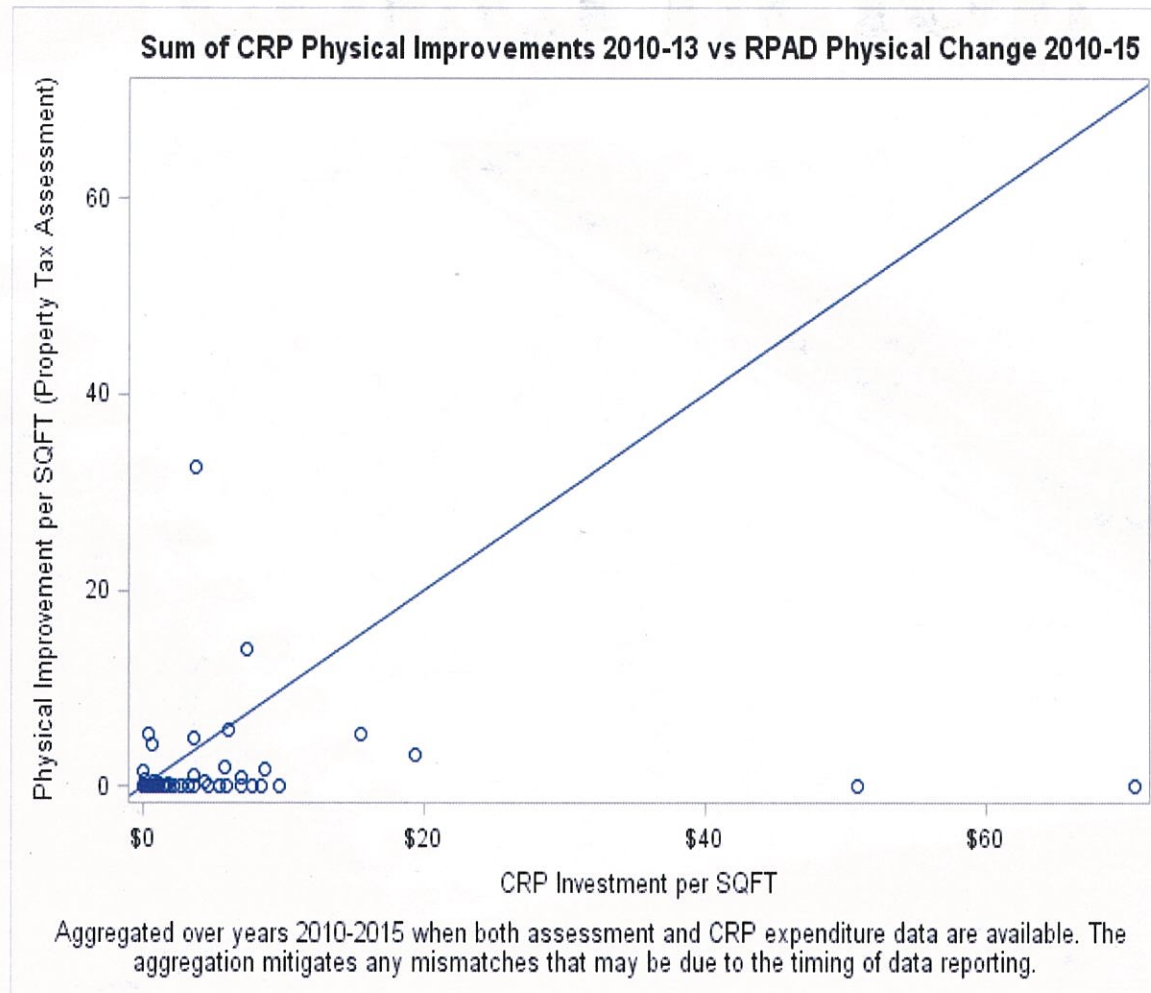


Figure: CRP Investment Data vs. Property Tax Assessment Physical Improvements.

NYC IBO, City Council Finance Committee  
Briefing, 12/18/2017



NYC IBO, City Council Finance Committee Briefing, 12/18/2017





- NYC IBO, City Council Finance Committee Briefing, 12/18/2017



## Summary of Findings (Cont.)

- CRP \$5 Minimum required investments are below the typical for most leases.
  - CEP \$2.50 Minimum required investments are significant.
- The property tax assessments do not measure the CRP-CEP physical improvements.
  - We do not get a “return on investments.”
  - The collection effort varies by time and region
  - This limits further analysis of physical improvements



# Further Considerations

- In recent years, Downtown office vacancy rates are very similar to midtown.
  - Downtown office space is newer
    - 421-g : Older buildings to residential
    - Market forces: Newer (post 1975) buildings to residential
    - A different industry mix from 1995
- Participation rates in CRP are NOT countercyclical
  - Doesn't look like a safety net.



# Procedural Recommendations

- Include stated goals in the law
- Measurable Goals:
  - Tracking goals in data e.g. vacancy rates
- Retaining data of tax expenditure programs.
- Upgrading data collection procedures for the policy evaluations.

**THE COUNCIL  
THE CITY OF NEW YORK**

**Appearance Card**

I intend to appear and speak on Int. No. \_\_\_\_\_ Res. No. \_\_\_\_\_

☐ in favor ☐ in opposition

Date: 12/18/2017

(PLEASE PRINT)

Name: Ronnie Lowenstein

Address: \_\_\_\_\_

I represent: IBO

Address: \_\_\_\_\_

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THE CITY OF NEW YORK**

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Name: George Sweeting

Address: \_\_\_\_\_

I represent: Independent Budget Office

Address: \_\_\_\_\_

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☐ in favor ☐ in opposition

Date: 12/18/17

(PLEASE PRINT)

Name: Arash Mashhadi Farahani

Address: \_\_\_\_\_

I represent: IBO

Address: \_\_\_\_\_