

'We're Ready To Go': Stalled Projects Get New Life With 421-a Extension

April 25, 2024 | Sasha Jones, New York City (<https://www.bisnow.com/author/sasha-jones-763656>) (<mailto:sasha.jones@t>)

Lightstone filed permits nearly four years ago to build a 43-story mixed-use (<https://newyorkyimby.com/2020/10/permits-filed-for-a-43-story-tower-at-355-exterior-street-in-mott-haven-the-bronx.html>) tower on the Bronx waterfront, but the project stalled when the 421-a tax abatement for rental housing in New York City expired.

But when state lawmakers passed the annual budget (<https://www.bisnow.com/new-york/news/multifamily/new-york-state-passes-budget-with-421-a-replacement-good-cause-and-more-123892>) over the weekend, extending the deadline for projects that qualified for 421-a, the apartment building at 355 Exterior St. got new life.

“Now that the projects that have completed footings and vested are grandfathered, we're going to be one of the first to start, because we already have a building permit and we're ready to go,” Lightstone President Mitchell Hochberg said in an interview this week.



Hochberg is one of several developers *Bisnow* spoke to this week who were breathing sighs of relief after the budget passed Saturday, even though most admitted they still need time to fully come to grips with what it means.

The housing deal in the budget includes the extension of 421-a (<https://www.bisnow.com/tags/421-a>) and introduces a new successor program dubbed 485-x. This week, developers have been discussing with legal counsel and digesting the new rules — at least those who aren't offline celebrating Passover or on family vacations during spring break.

“From the industry standpoint, it's always better to know things,” Slate Property Group (<https://www.bisnow.com/tags/slate-property-group>) principal David Schwartz said. “I think the unknown was just really scary to people who want to make investments.”

The extension of 421-a has been the easiest to act on immediately. Previously, vested projects had to be completed by 2026, but now that deadline has been pushed to 2031. Developers who failed to secure construction financing in time or whose projects were stalled due to uncertainty are rushing to get shovels in the ground.

Monadnock Development, like Lightstone, is looking to spring into action. In Gowanus (<https://www.bisnow.com/tags/gowanus>), the affordable housing-focused developer is moving forward on plans for a 22-story residential building (<https://newyorkyimby.com/2023/09/new-rendering-revealed-for-155-3rd-street-in-gowanus-brooklyn.html>).

“The complexities of developing in Gowanus made it just infeasible to meet that deadline,” Monadnock Chief Operating Officer Frank Dubinsky said. “We're just really happy that we can continue our project the way we had originally planned and get moving again on that.”

New York Building Congress (<https://www.bisnow.com/tags/new-york-building-congress>) President Carlo Scissura (<https://www.bisnow.com/tags/carlo-scissura>) said the extension could spur the construction of about 33,000 housing units already in the pipeline.

“That's a big deal,” Scissura said.

Developers rushed to file permits in the months leading up to the expiration of 421-a. In the first quarter of 2022, 689 new building permits were filed, the most since 2014, according to a report (<https://www.rebny.com/reports/q1-2022-new-building-construction-pipeline-report/>) by the Real Estate Board of New York.

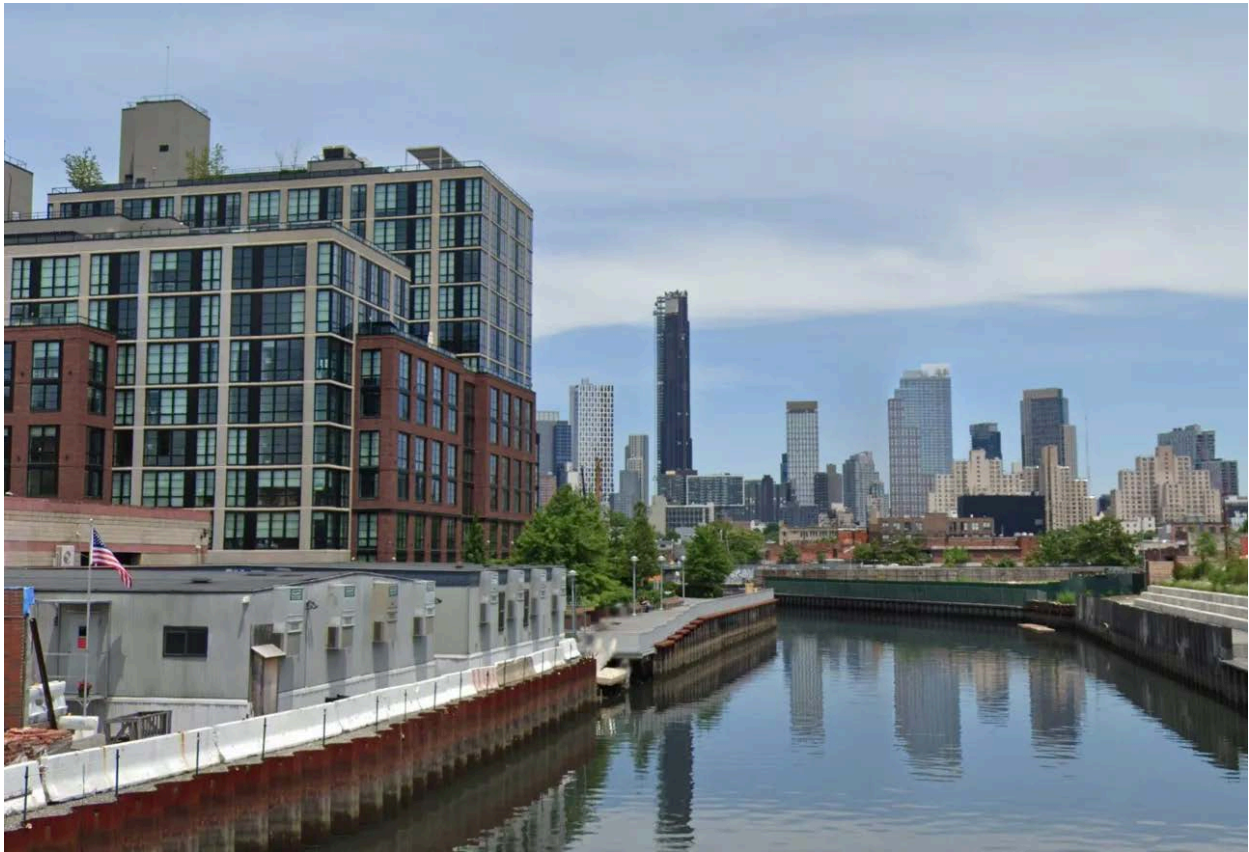
Permits then immediately plummeted. Developers sought approvals for fewer than 10,000 units in the entirety of 2023, just 20% of the 50,000-unit-per-year target set by state and city officials to address New York City's housing crisis, according to REBNY (<https://www.rebny.com/press-release/new-report-nyc-builders-sought-initial-building-approvals-for-under-10-000/>).

Some developers have continued snatching up parcels with the expectation that a 421-a successor would eventually come. But the expiration of 421-a, coupled with the pandemic-fueled migration of New Yorkers out of the city, has caused developers to look to friendlier states.

Those builders are just getting back into the swing of eyeing development sites, so it could take time for the city's development pipeline to return to pre-pandemic levels.

Thorobird Cos. is working on closing a financing deal at 2064 Grand Concourse (<https://newyorkyimby.com/2019/07/permits-filed-for-2064-grand-concourse-in-tremont-the-bronx.html>) in the Bronx (<https://www.bisnow.com/tags/the-bronx>), Managing Member Thomas Campbell (<https://www.bisnow.com/tags/thomas-campbell>) said. But the Manhattan-based development firm is also expanding its portfolio elsewhere, acquiring a portfolio of market-rate assets upstate and exploring office-to-residential conversions in Milwaukee and Florida, Campbell said.

“We have an active land market here in the city. I think that there's a lot of sites that have been sitting on the sidelines, so you will see an immediate uptick,” he said. “But after the initial spark, there's going to be a lull again. That's just going to be getting the rest of the developers back to New York, back to acquiring new sites.”



Regardless of where developers are in the building process, many said conversations with lenders, who have become more cautious in the past couple of years, have been friendly so far.

“It eliminates an underwriting risk, which was missing the deadline,” Dubinsky said. “It’s very hard to get a lender to feel comfortable if you’re going to finish a project within six months of a tax abatement deadline.”

Meanwhile, developers are still sifting through the new 485-x program. Among the changes are minimum wage requirements for buildings with 100 or more units, a requirement for developers to make “all reasonable efforts” to spend at least 25% of costs on contracts with minority and women-owned business enterprises, and changes to income restrictions. The budget also adds protections for tenants and lifts the city’s floor-area ratio cap for residential development.

Developers say they aren’t yet sure what 485-x could unlock in terms of new projects. Beyond that, they still face high interest rates and expensive building costs, which will also impact their ability to start new projects.

But the new budget is seen across the industry as a shot in the arm, something that will help close the expected gap of new housing coming to the market.

“At least developers now can underwrite what a 485-x project is going to look like,” said YuhTyng Patka, chair of Adler & Stachenfeld’s New York City real estate tax and incentives practice. “I don't know if this is going to be an immediate jump-start, because it's going to take a little while for everybody to pick up their pencils again.”

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