

# The New York City housing crisis and the \$100 million penthouse

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The recent sale of the penthouse apartment at One57, a newly constructed, ultra-luxury residential building located just south of Central Park in Manhattan, for \$100 million, epitomizes the huge and growing gap between the city's super-rich financial elite and its working class.

The case of One57 stands in stark contrast to conditions faced by most New Yorkers, who are finding it increasingly difficult to obtain affordable housing. In 2012, housing costs for more than half of the renters in the city (most New Yorkers rent rather than own their homes) consumed over 30 percent of family income.

One57 is but one example of the recent frenzy of luxury housing construction in New York City that caters to members of the corporate and financial elite, both domestic and foreign, who are looking for prestigious residences and investment properties. The penthouse and the upper-floor apartments at One57 and other such buildings have spectacular views of the city and are much sought after as status symbols through which the wealthy can flaunt the riches gained via financial speculation and other parasitical activities. It is now typical for condominium apartments in these buildings to go for prices in the tens of millions of dollars. Many will be occupied minimally or not at all by their owners.

Meanwhile, millions of New Yorkers are desperate to find affordable housing and tens of thousands are forced to live either in squalid shelters or on the street. Recent data indicates that nearly 60,000 people, including more than 23,000 children, stay in the city's main homeless shelter system. Several thousand more spend nights in other shelters. In addition to these, the city recently claimed that there are only 3,182 unsheltered homeless people in the city. The Coalition for the Homeless advocacy group strongly disputes this figure, saying that the actual number is much higher. This is supported by the visibly growing presence of the homeless in the city's parks and sidewalks.

These statistics do not include many more people who are "unstably housed," forced to repeatedly move from one lodging to another, such as temporarily doubling up with

family or friends, because of the inability to find sufficient permanent residences. For example, during the 2013-2014 academic year, New York City reported 87,210 unstably housed public school students.

The housing crisis is one reflection of the city's gross economic inequality. Nearly 45 percent of New Yorkers live at or near the official poverty level. Nearly a third of those living in homeless shelters have jobs, but do not earn enough income to pay for housing.

The luxury real estate boom, which first developed in Manhattan, has spread into the "outer boroughs" of the city, primarily Brooklyn and Queens, pushing up rents in those areas. Construction activity has increasingly become focused on the erection of "upscale," more-profitable buildings, either as super-tall "spikes" on small lots in the most desirable locations, such as One57, or in the outer boroughs, where land is less expensive. The city has explicitly rejected calls to limit the height of buildings that are grossly out of scale with their surroundings.

The frenzied rise in housing prices is also reflected in the cost wealthy New Yorkers pay for garaging their vehicles. Ten parking spaces in a luxury condo in Manhattan's SoHo district have recently been offered for \$1 million apiece. There are no buyers yet. The current reported top price for a parking space in a building in Manhattan is a more modest \$325,000.

These developments put upward price pressure on existing housing stock and create incentives to substantially increase rents or drive out current tenants altogether. Areas of the city in which housing costs were once relatively affordable for middle- and working-class families are witnessing a surge in rents. The median rent for an apartment in a new development in Brooklyn was \$3,405 in June. The construction of new buildings or rehabilitation of existing buildings that would provide affordable housing for those with middle and lower incomes is far below the need because it is not as profitable without substantial public subsidy.

The tremendous advantages given to developers are

politically camouflaged as incentives that are intended to induce the construction of affordable housing by providing tax breaks or loosening zoning or other regulations to facilitate more profitable undertakings. In fact, the supposed gains in affordable housing, minuscule compared to the need, are dwarfed by the loss of revenue to the city, which is mirrored by the enhanced profits of the developers.

The construction of One57 and other luxury buildings is being supported by a tax abatement program known as 421-a, which gives developers substantial, decades-long tax reductions provided that in addition to highly lucrative luxury apartments they also construct some small number of “affordable” units, not necessarily in the same locations.

As a consequence, developers can reap huge profits on buildings constructed in the most sought-after areas, primarily in Manhattan, while placing the relatively unprofitable affordable units in less desirable neighborhoods, generally in the outer boroughs, where the cost of real estate is cheaper. The developers make out like bandits, the city loses large amounts of revenue, estimated at \$1.1 billion per year, and the number of affordable housing units built is nowhere near what is needed to address the city’s acute housing shortage for the working class population.

Data compiled by the *Economist* magazine from a number of sources indicates that issuance by the city of permits for the construction of new residential housing collapsed following the 2008 economic crisis, down to only a few thousand a year. There was a slow recovery beginning in 2012, but remaining at fewer than 20,000 per year. However, 2015 has so far seen a dramatic increase, totaling 42,000 during the first half of the year, in part due to uncertainty about renewal of the 421-a program.

By contrast, public data indicates that the rate of housing unit completion overall has not recovered significantly from its steep decline beginning in 2008. However, the number of units receiving initial 421-a tax benefits, despite a decline, remains higher than it was before 2008. This difference is an indicator that housing construction as a whole is not being positively influenced by these tax incentives, but rather that they are in fact a mechanism for benefiting wealthy developers.

The value of this program to developers is dramatically illustrated by a report that during May and June alone, the Real Estate Board of New York, the industry’s main lobbying organization, made \$1.9 million in political donations aimed at preserving this highly lucrative tax break as its renewal was being considered by the state legislature. At the end of the legislative session, the program was renewed, but some details were left to be worked out.

In the specific case of One57, the city will lose an

estimated \$66 million in revenue over 10 years. The price to the developer for gaining this windfall was the construction of a mere 66 affordable housing units in the Bronx.

The city’s “progressive” mayor, Democrat Bill de Blasio, whose election campaign was based on a pledge to fight inequality, recently proposed a new housing plan that would increase the proportion of affordable units required to be included in some new housing developments. Many details are not yet available. However, it appears that the income thresholds would exclude many lower-income working class families. The new scheme merely represents slight changes to the approach that has allowed the housing situation in the city to steadily deteriorate over decades (see: “Legislative deal means further deepening of New York’s housing crisis”).

The mayor’s plan is a further attempt to mislead people into believing that the city’s massive housing crisis can be solved by a few policy changes within the structure of capitalism. Given the power of the real estate interests in New York, it is certain that even de Blasio’s modest proposals will be substantially weakened or killed altogether. Developers have already complained that it doesn’t provide “incentives” (i.e., bribes) and could threaten the continuation of the 421-a program that has been so lucrative for them.

As long as the availability of affordable housing, a fundamental social right, is predicated on the “right” to maximize profits, housing conditions and homelessness will continue to worsen, especially with the intensifying world economic crisis. The right to affordable housing for all can only be realized by a massive effort of construction and rehabilitation carried out according to a socialist program under workers’ control.



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