



NEW YORK STATE SENATOR

Julia Salazar

Assemblymember Epstein and State Senator Salazar Unveil Proposal to Raise Millions for Public Housing by Taxing Private Equity Backed Real Estate Transactions

SENATOR JULIA SALAZAR March 20, 2020

| ISSUE: **MEZZANINE DEBT**, **AFFORDABLE HOUSING CRISIS**, **FAIR HOUSING**, **HOUSING**



Expanding the mortgage recording tax to include private equity financed real estate acquisitions could raise hundreds of millions for New York's public housing

ALBANY, NY – Responding to the New York City Housing Authority's (NYCHA) historic capital needs deficit and disinvestment in public housing across New York, state legislators Assemblymember Epstein and Senator Salazar are **proposing** an expansion of the state's

mortgage recording tax to capture a percentage of the billions of untaxed dollars real estate investors use to bankroll their property acquisitions (S7231/A09041). The additional revenue generated by the proposal would be directed to fix crumbling public housing statewide.

Institutional investors who purchase real estate with the goal of turning a profit use complicated debt instruments to finance their billion dollar acquisitions. While these instruments serve as de facto mortgages, they aren't subject to the same recording requirements and taxation as traditional mortgages employed by everyday homebuyers. New Yorkers buying a home pay at least \$1000 in mortgage recording taxes for a \$200,000 mortgage on property in the state — profit-driven real estate financiers backed by private equity loans don't pay the mortgage recording tax and the terms of their debts don't become part of the public land record.

The state currently forgoes potentially hundreds of millions of dollars a year by failing to tax private equity financed property acquisitions in the same way it taxes everyday families buying a home. For example, asset manager Blackstone's 2015 purchase of Manhattan's Stuyvesant Town Peter Cooper Village leveraged at least \$2.7 billion of financing not currently subject to the mortgage recording tax. Under the legislators' proposal, such a transaction could have netted \$65,475,000 for the state's coffers.

By creating parity between traditional mortgages and private equity financing—two types of debt instruments that serve the same purpose but are currently treated differently under the law—the legislators hope to curb speculation by steering investors towards ostensibly less volatile instruments provided by banks instead of private equity, create more transparency in the market, and raise badly needed tax revenue from corporations that can afford to pay their fair share.

“Faced with a yawning budget gap, we must seek out new sources of revenue to provide for the state’s public programs,” said Assemblymember Epstein. “Right now, some of the wealthiest corporations in the world aren’t paying their fair share for the privilege of doing business in our state—they need to step up and contribute so we can make badly needed improvements to the public housing that hundreds of thousands of New Yorkers call home ”

"The New York City Housing Authority's \$40 billion capital needs deficit is a direct result of our state legislature's complicity in disinvestment from public housing and previous unwillingness to ask millionaires and billionaires to pay their fair share. Closing this tax loophole and requiring private equity groups to pay the same mortgage recording taxes everyday homeowners do is only fair and will level the playing field for families seeking to buy a home to live in. This bill also guarantees public transparency regarding high-level financial transactions that up to now have often been secret. Our state needs to stop encouraging the use of limited housing stock as an investment vehicle instead of as a place for people to live," said State Senator Salazar

"Public housing has been subject to severe disinvestment that's resulted in the gross neglect of the homes of working class tenants. Their health, their safety, their dignity, and their right to feel secure inside their own home - a person's most valuable sanctuary - were not deemed to be of the urgency that the crisis demands. The State can end this pattern of disinvestment by fighting for new sources of revenue that would be dedicated to NYCHA's capital needs. This bill is an important step in the efforts of securing funding for public housing tenants," said Assemblymember Robert J. Rodriguez.

“While public housing suffers from decades of divestment, private equity landlords like Blackstone and Brookfield are making billions overleveraging private rental housing,” said Cea Weaver, Campaign Coordinator, Housing Justice for All. “This bill takes aim at speculative real estate investment that drives tenant harassment, unsafe living conditions,

and evictions -- while returning millions of much-needed dollars to public housing authorities across the state.”

“ANHD applauds Assemblymember Epstein and Senator Salazar for introducing this bill to record and tax mezzanine debt, a risky form of financing that is completely hidden from public view and public scrutiny. Mezzanine lenders are often part of that financing for predatory equity landlords that have a long history of raising rents, harassing and displacing tenants. We cannot hold landlords, lenders or investors fully accountable if they are allowed to hide in the shadows,” said Barika Williams, Executive Director, Association for Neighborhood & Housing Development.

“New York State needs responsible tax policies to close our state budget gap and help prevent future shortfalls, fund essential public programs and solve our homelessness and affordable housing crises,” said Jonas Shaende, Chief Economist of the Fiscal Policy Institute. “The Fiscal Policy Institute applauds Assemblymember Harvey Epstein and Senator Julia Salazar for holding deep-pocketed real estate investors and speculators to the same standards of everyday New Yorkers. Closing the tax loophole that allows the wealthy to use loan funding schemes that avoid the mortgage recording fee will make our tax system fairer, likely discourage some risky speculative behavior, and create a multimillion-dollar new revenue potential for the state.”

“This bill takes direct action to fight extreme economic inequality and invest in our communities,” said Michael Kink, Executive Director of the Strong Economy For All Coalition. “State government power is necessary to take back our wealth from the private equity billionaires so we can invest in public housing that benefits all of us.”

RELATED LEGISLATION

2019-S7231

- Introduced
- - In Committee Assembly
 - In Committee Senate
- - On Floor Calendar Assembly
 - On Floor Calendar Senate
- - Passed Assembly
 - Passed Senate
- Delivered to Governor
- Signed By Governor
-

Relates to requiring the recording of mezzanine debt and preferred equity investments and including mezzanine debt in the mortgage recording tax

January 13, 2020

In Senate Committee [Judiciary](#)

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Do you support this bill?
