

New York City Housing Challenges and Policies

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Outline

- Factors Driving NYC Housing Demand
 - Population
 - Employment
- NYC's Housing Affordability Challenge
- Weak Supply Response
- 10-Year Housing Plans
- The Economics of MIH
- NYC MIH Program

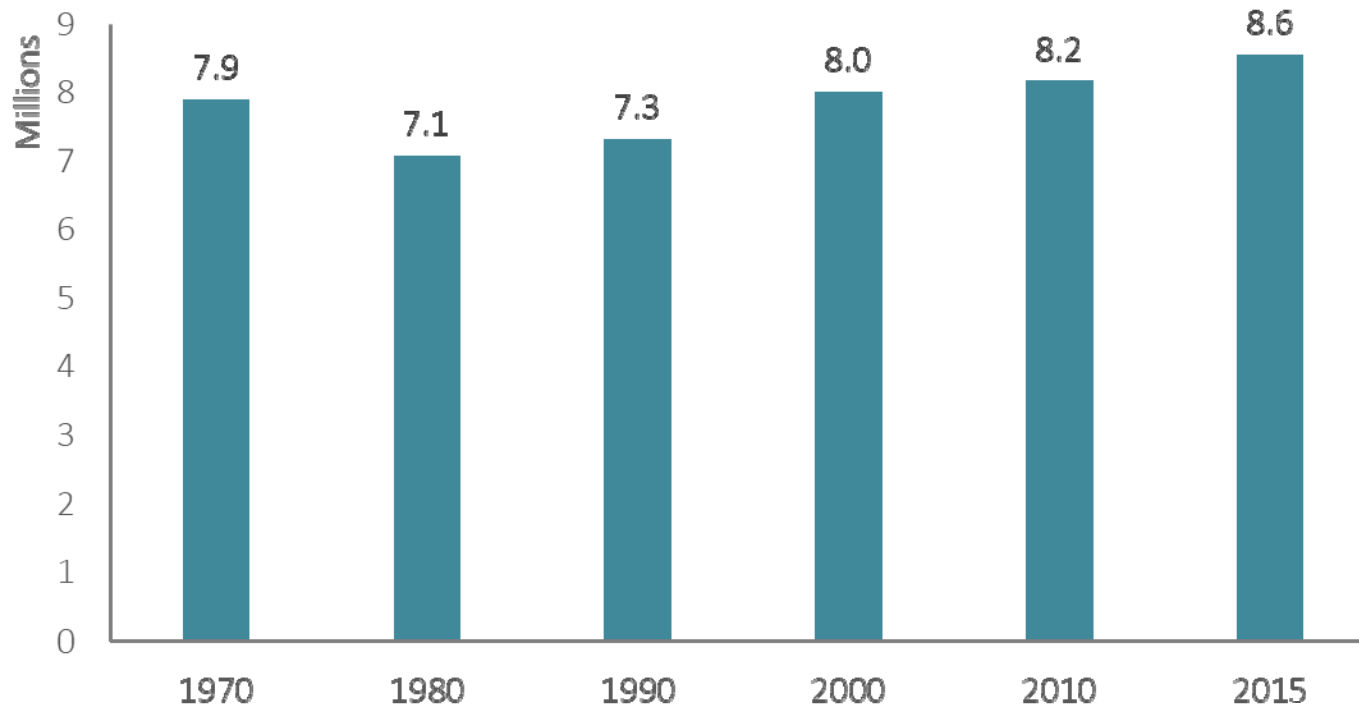
New York Population

	2015 Population	Share of US Population
United States	321.4 million	100%
New York City Metro Area	20.2 million	6.3%
New York City	8.6 million	2.6%

Sources: American Community Survey, NYU Furman Center



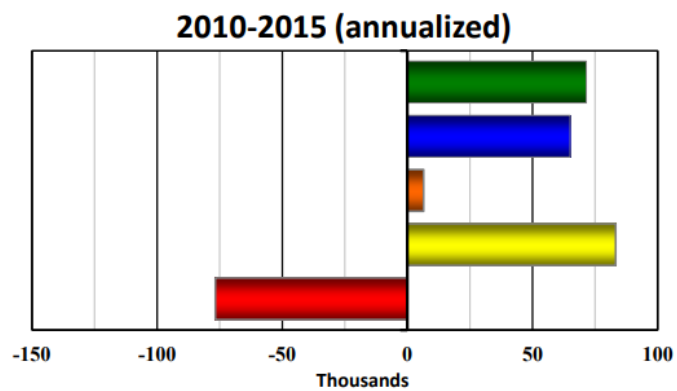
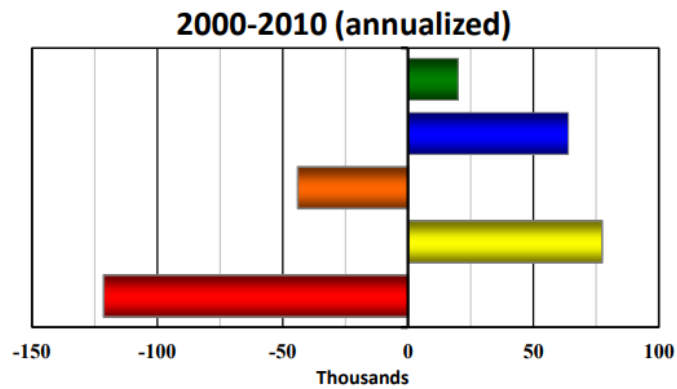
New York City Population at an All-Time High



Sources: U.S. Census, American Community Survey, NYU Furman Center



Net In-migration for First Time in 50 Years



- Population Change
- Natural Increase
- Net Migration
- Net International Migration
- Net Domestic Migration

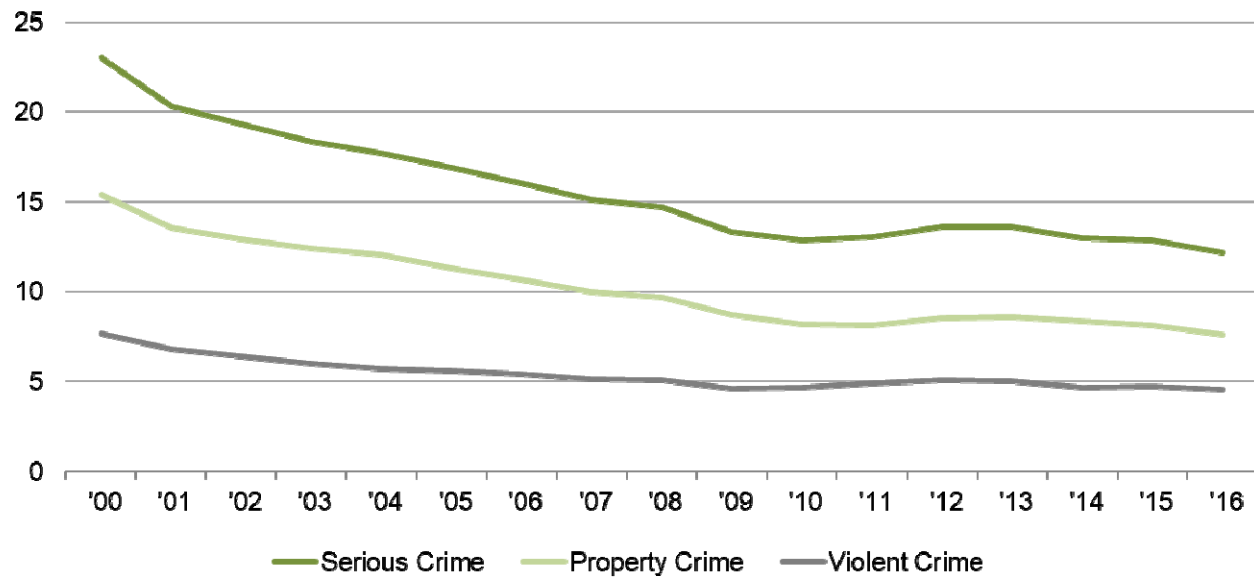
Sources: Adjusted U.S. Decennial Census data 1970-2010;
 U.S. Census Bureau, Estimates Program;
 New York City Department of Health and Mental Hygiene;
 United States Department of Homeland Security
 as revised by Population Division-New York City Department of City Planning

Source: Urban Land Institute



Falling Crime Rates

Serious Crime Rate (per 1,000 Residents) by Major Type, New York City

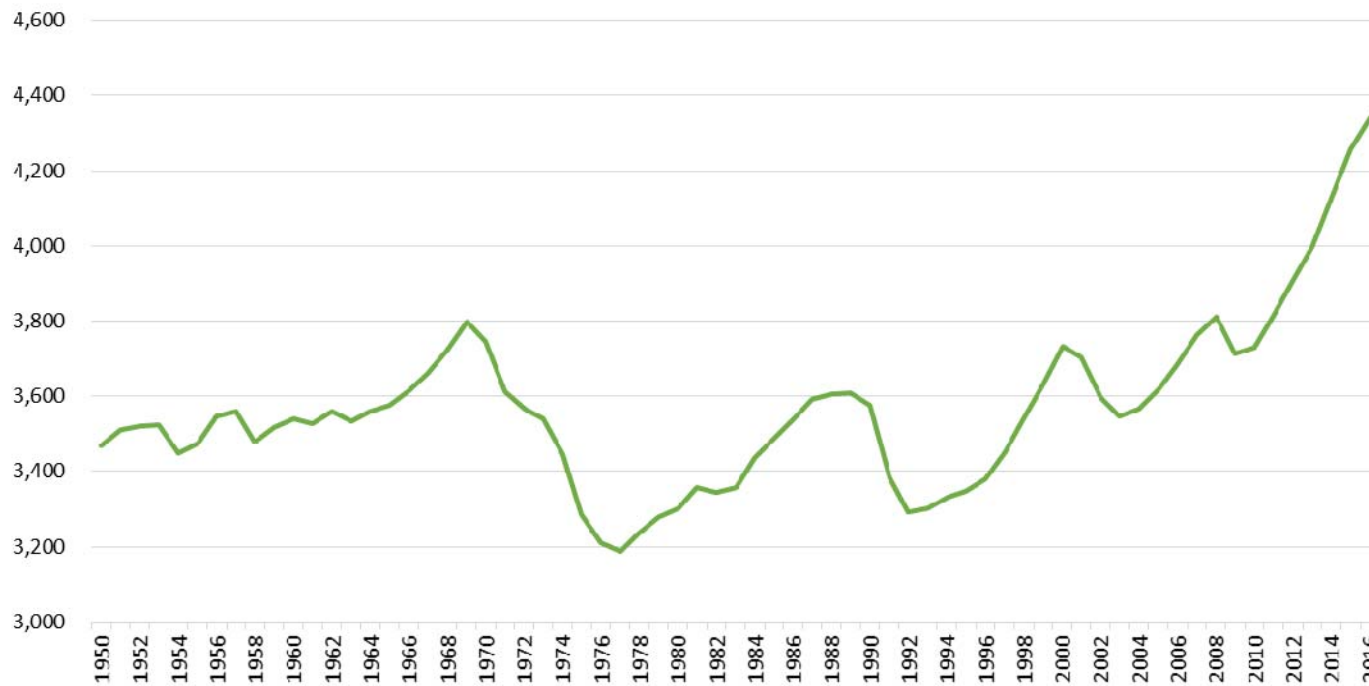


Sources: New York City Police Department, US Census, NYU Furman Center



New York City Employment at an All-Time High

Total Nonfarm Employment (Millions), New York City



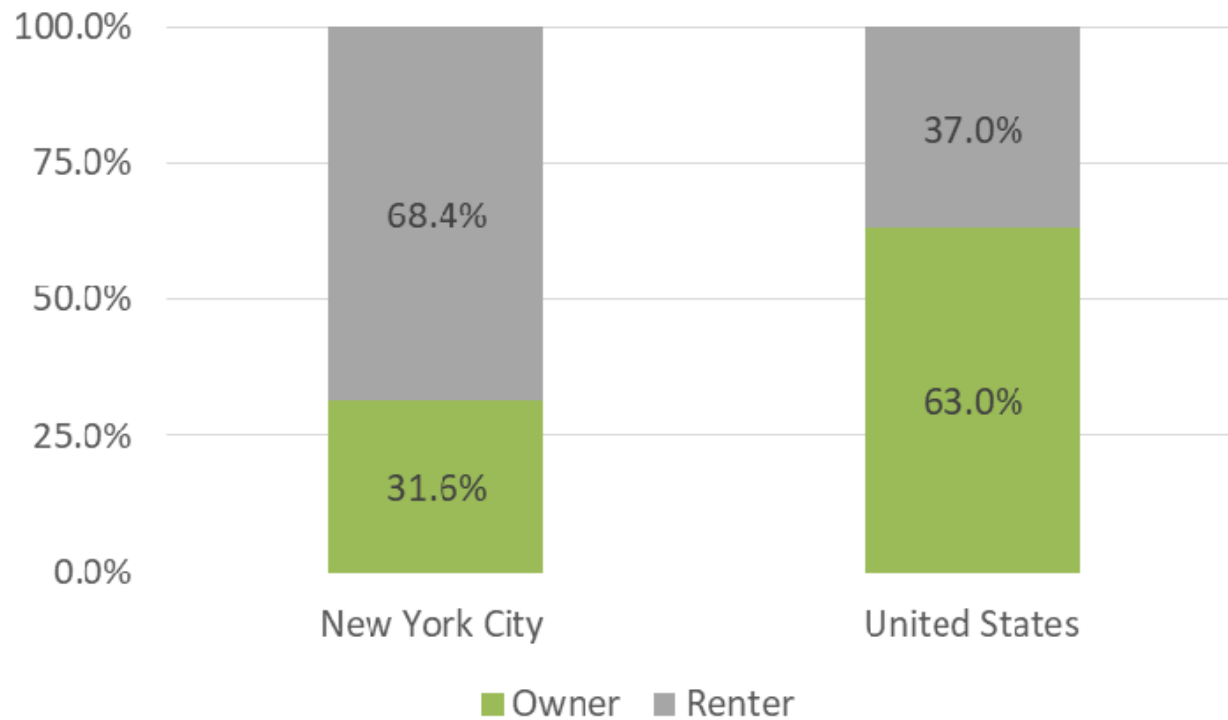
Sources: BLS, St. Louis Fed, NYU Furman Center



Housing Affordability Challenge



New York City Homeownership Rate is Inverse of US, 2015

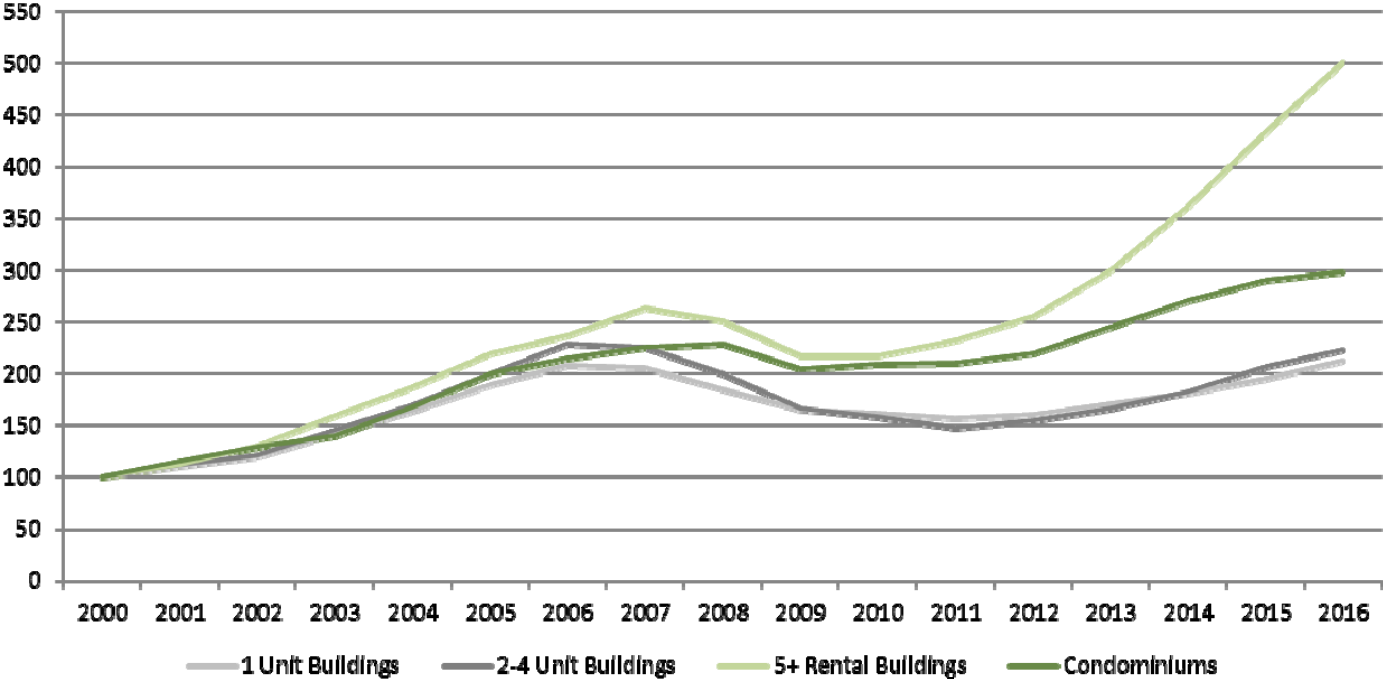


Sources: American Community Survey, NYU Furman Center



Home Prices Have More than Doubled Since 2000

Index of Housing Price Appreciation by Property Type, New York City (Index = 100 in 2000)



Sources: New York City Department of Finance, NYU Furman Center



Rents Have Risen Faster than Incomes

Index of Real Median Gross Rent and Real Median Renter Income, New York City (Index=100 in 2005)

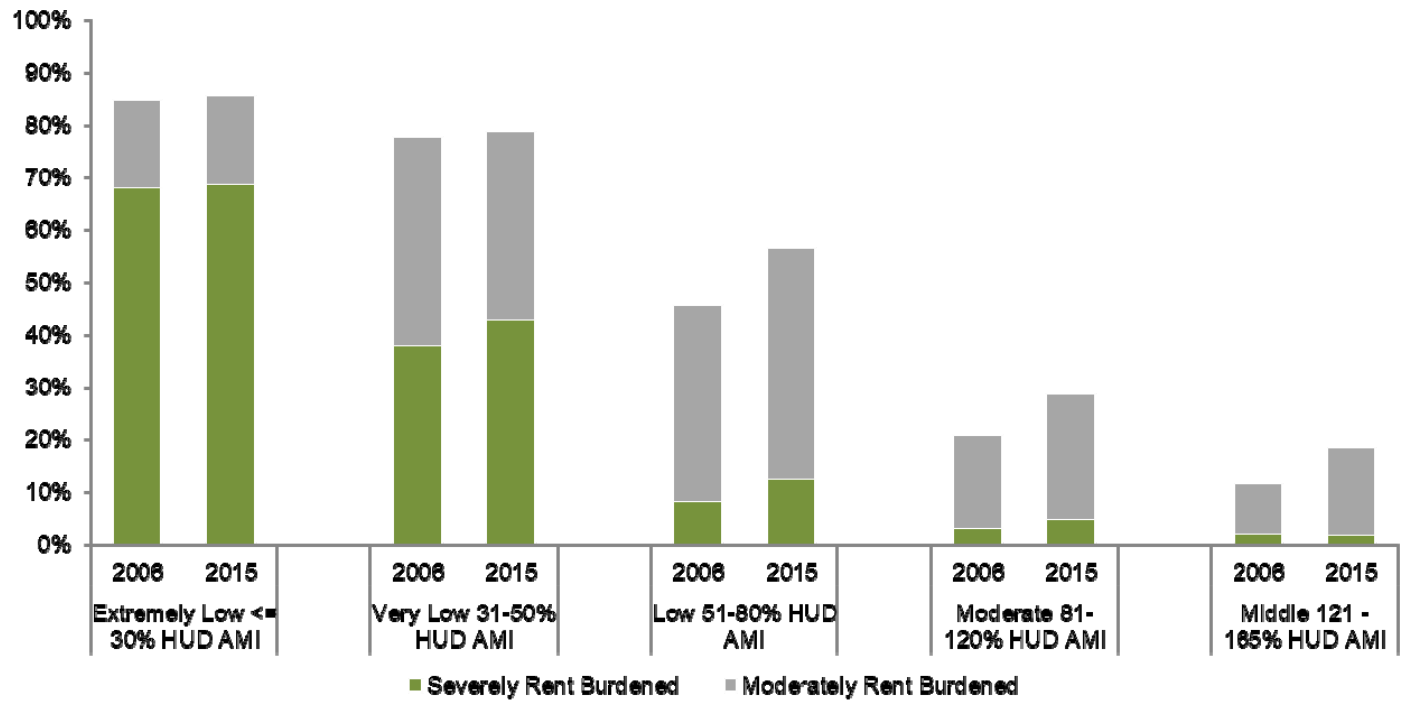


Sources: New York City Department of Finance, NYU Furman Center



Rental Stress

Rent-Stressed Share by Household Income, New York City



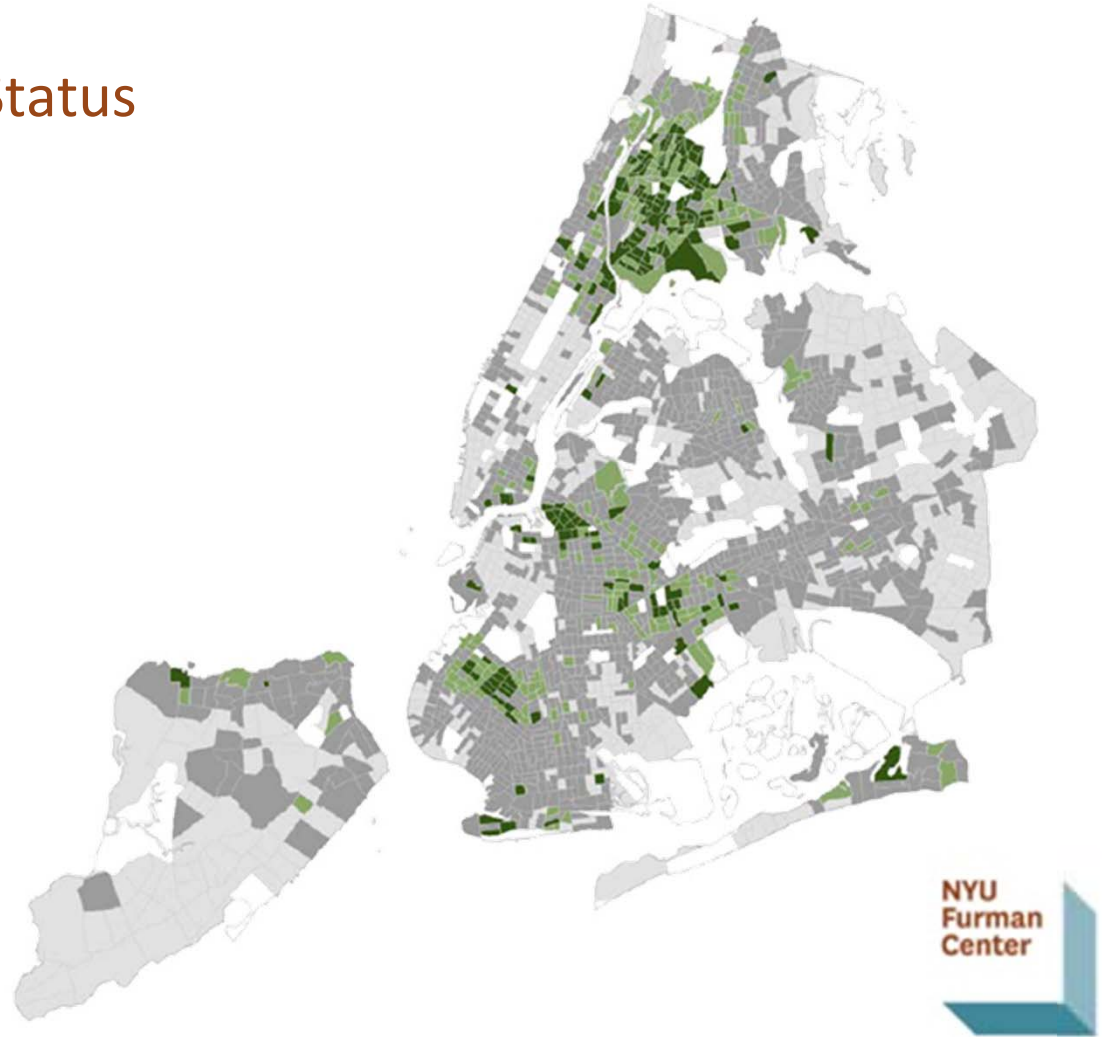
Sources: American Community Survey, U.S. Department of Housing and Urban Development Section 8/HOME Program Income Guidelines, NYU Furman Center



Neighborhood by Poverty Status

Poverty Rate by Census Tract in 2011-2015

- Extreme-poverty (> 40%)
- High-poverty (30% to 40%)
- Moderate-poverty (10% to 30%)
- Low-poverty (<10%)



Sources: American Community Survey, NYU Furman Center

Rent Change in Gentrifying Neighborhoods

Average Percent Change in Mean Household Rent by Neighborhood Type

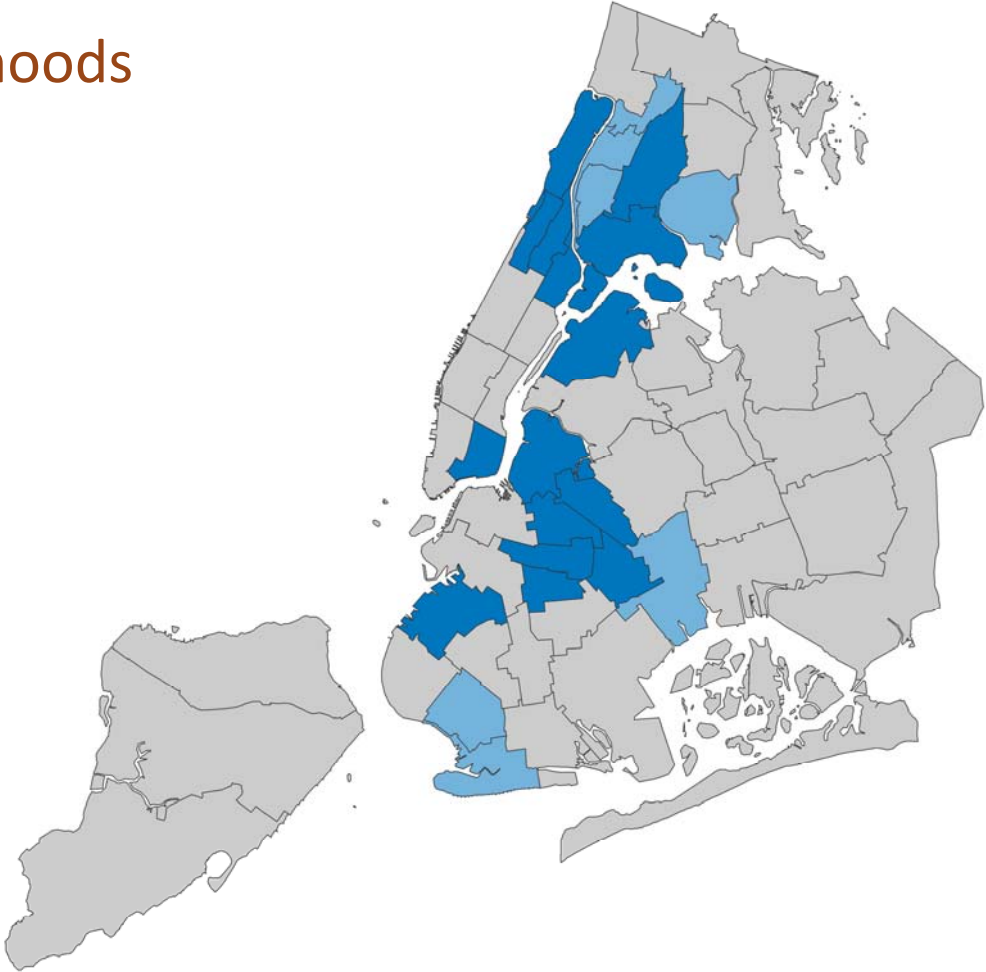
	1990 to 2000	2000 to 2010-2014	1990 to 2010-2014
Citywide	1.9%	18.9%	22.1%
Gentrifying	3.0%	30.4%	34.3%
Non-Gentrifying	-2.5%	16.1%	13.2%
Higher-Income	1.8%	15.8%	17.8%

Sources: Neighborhood Change Database, American Community Survey, NYU Furman Center



Gentrifying Neighborhoods

- Gentrifying
- Non-Gentrifying
- Higher-Income

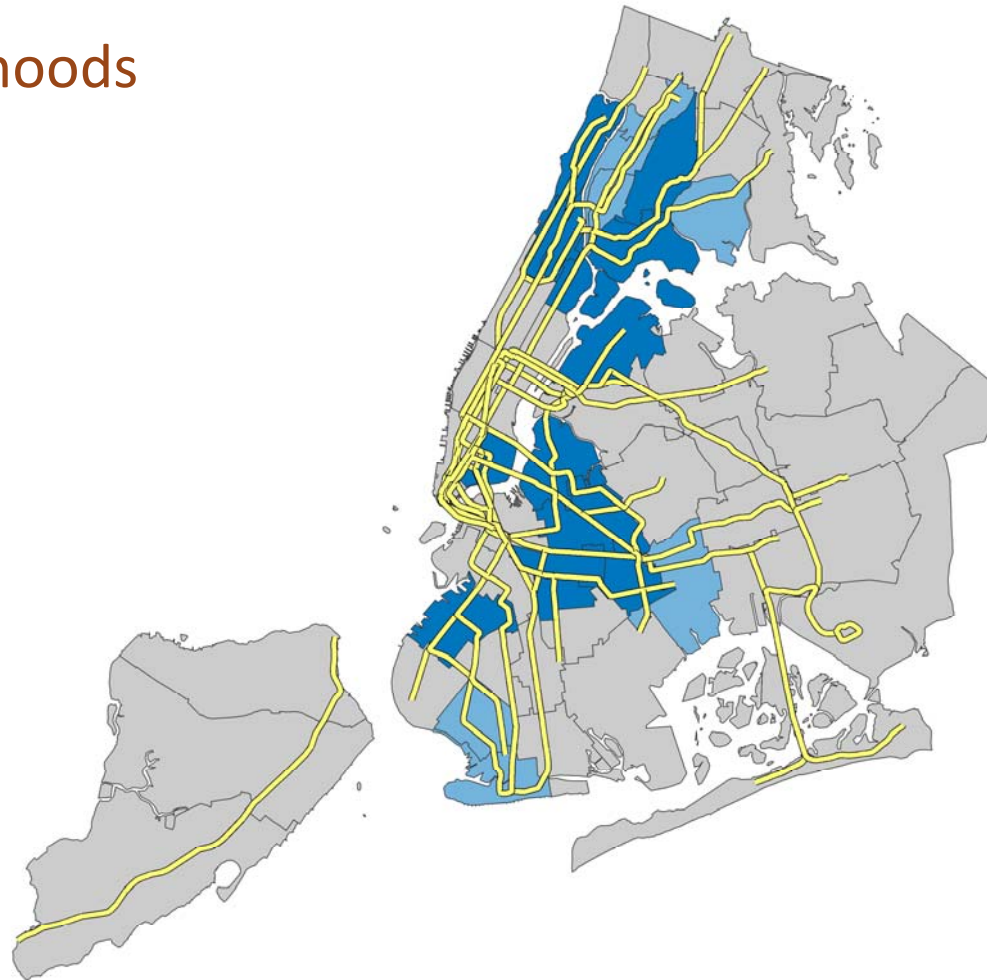


Sources: NYU Furman Center



Gentrifying Neighborhoods

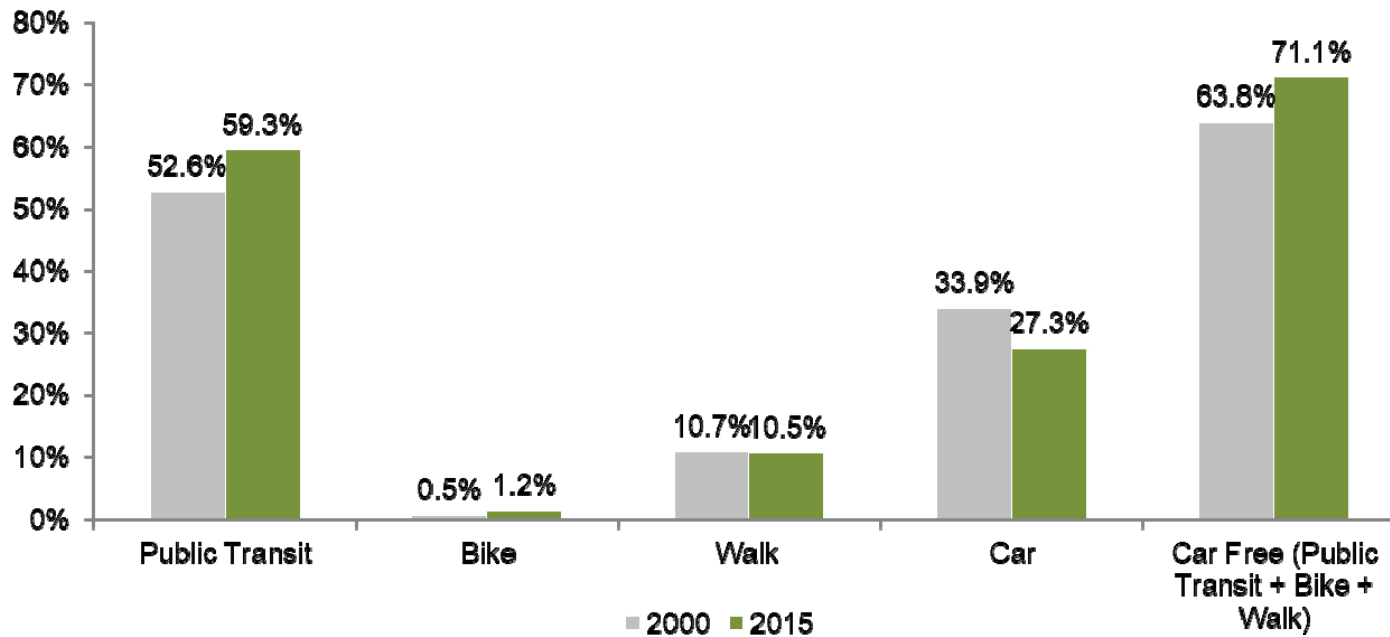
- Gentrifying
- Non-Gentrifying
- Higher-Income
- Subway



Sources: NYU Furman Center

Commuting

Means of Traveling to Work (Share of Commuting Workers), New York City



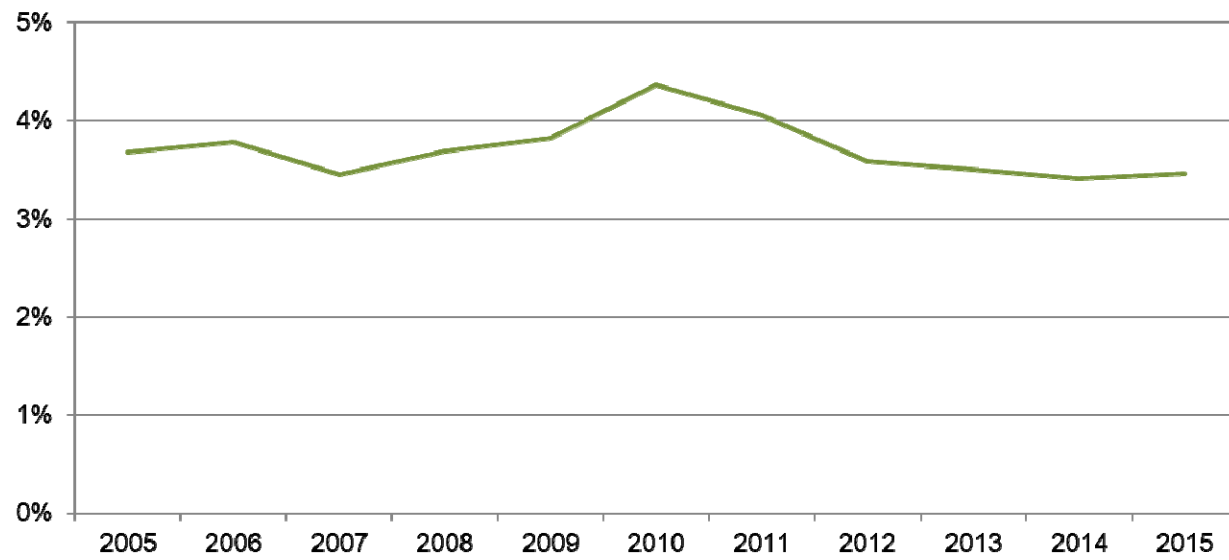
Sources: American Community Survey, NYU Furman Center



Weak Supply Response

Vacancy

Rental Vacancy Rate, New York City

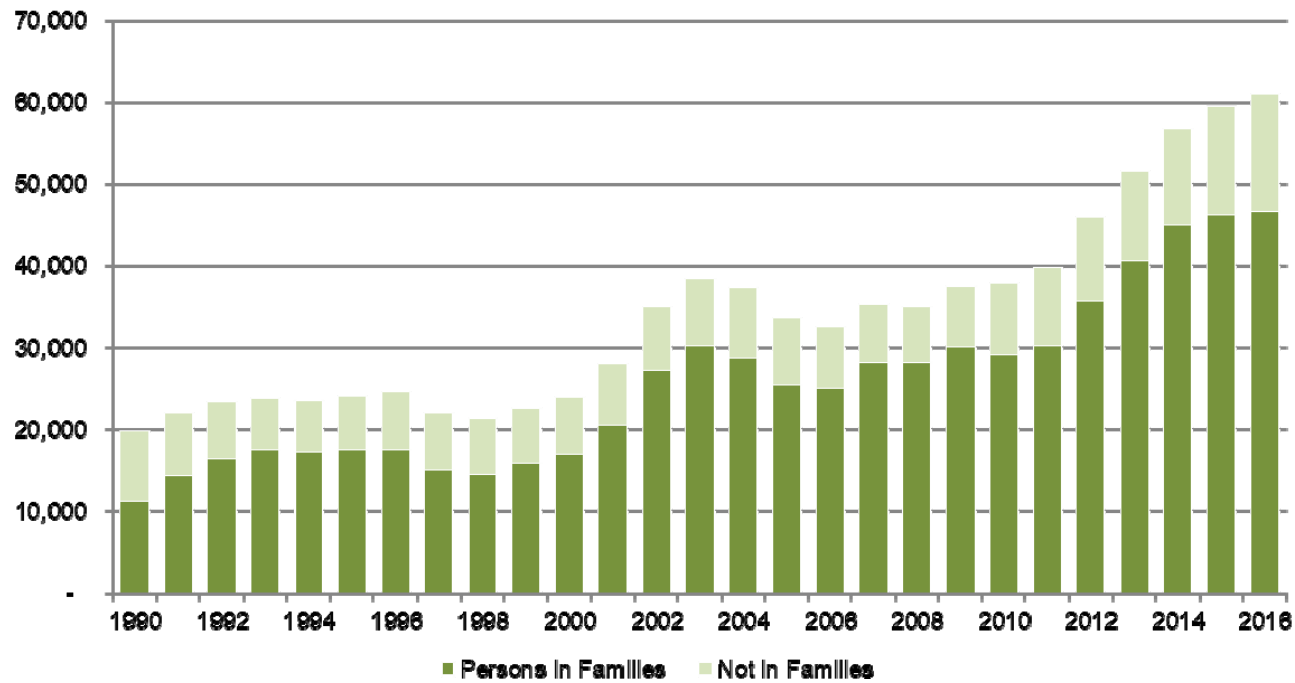


Sources: American Community Survey, NYU Furman Center



Homelessness

Average Monthly Homeless Shelter Population by Family Status, New York City

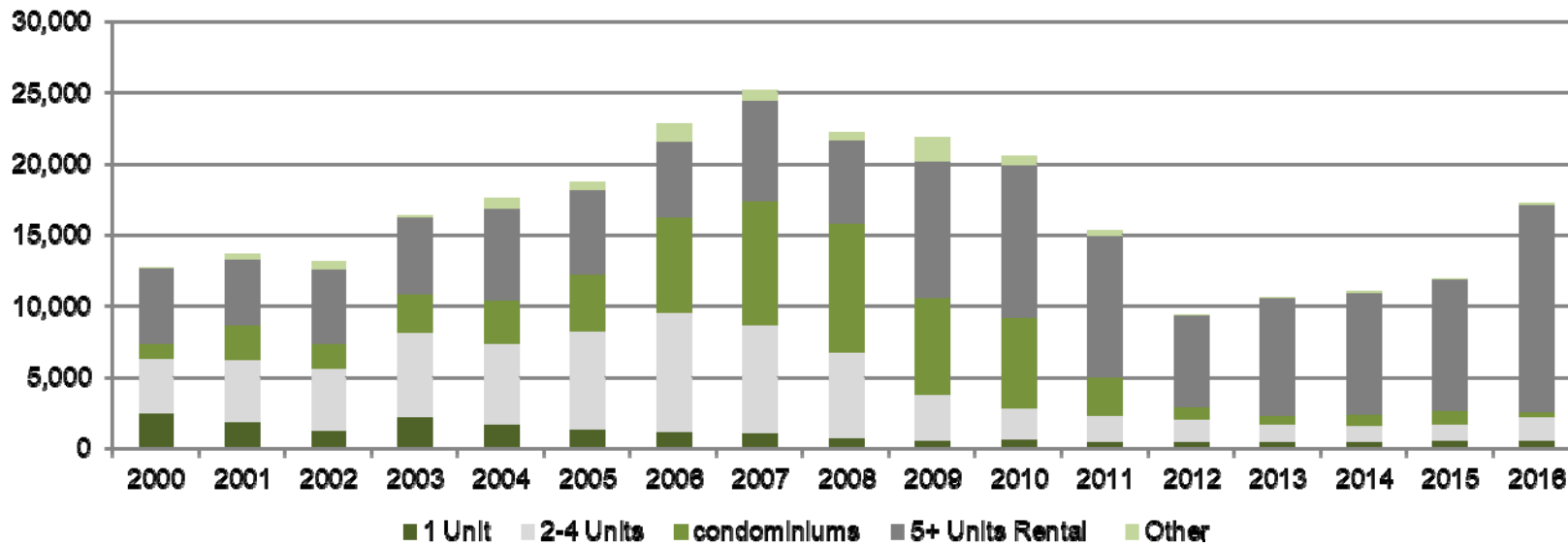


Sources: New York City Department of Homeless Services, NYU Furman Center



Completed Units

Types of Completed Residential Units Issued Certificates of Occupancy, New York City



Sources: New York City Department of Buildings, NYU Furman Center



NYC Affordable Housing Plans



Mayor Koch's Ten-Year Housing Plan (1986)

- Create and preserve 252K units, place –based,
- Rebuild neighborhoods
- \$5.1B from City/State/Federal governments
- Grants/Low-cost Loans/Property Tax exemption
- Focus on rebuilding neighborhoods



Housing New York

A Five-Borough, Ten-Year Plan



The City of New York
Mayor Bill de Blasio

Alicia Glen, Deputy Mayor for
Housing & Economic Development

NYC

NYU
Furman
Center



A Balanced Housing Plan to Maintain Diverse Neighborhoods

1. Create/Preserve affordable housing units
 - Create 80,000 units/Preserve 120,000 units/Total 200,000 units
 - Extremely low, Low, Moderate, Middle Income
2. Increase overall supply of housing units
 - 160,000 units (notes: important to slow/stop filtering up)
3. Enhance housing stability and quality
 - Anti-displacement (legal, grants)
 - Neighborhood quality/infrastructure
4. Helping homebuyers and tenants access and afford units in the private sector
 - Rental assistance (note: expensive, federal program helps only one in four)
 - Fair Housing laws



Mandatory Inclusionary Zoning: Economic Potential of Upzonings



GOALS OF INCLUSIONARY ZONING ANALYSIS

- Economic analysis only. Significant planning (e.g., infrastructure capacity), political, and legal issues not considered.
- In light of city's housing plan, demonstrate economic potential of added zoning density to generate affordable housing without the need for additional subsidy beyond the existing property tax exemption program (421-a) and without disrupting the current and future pipeline of development

FINDINGS

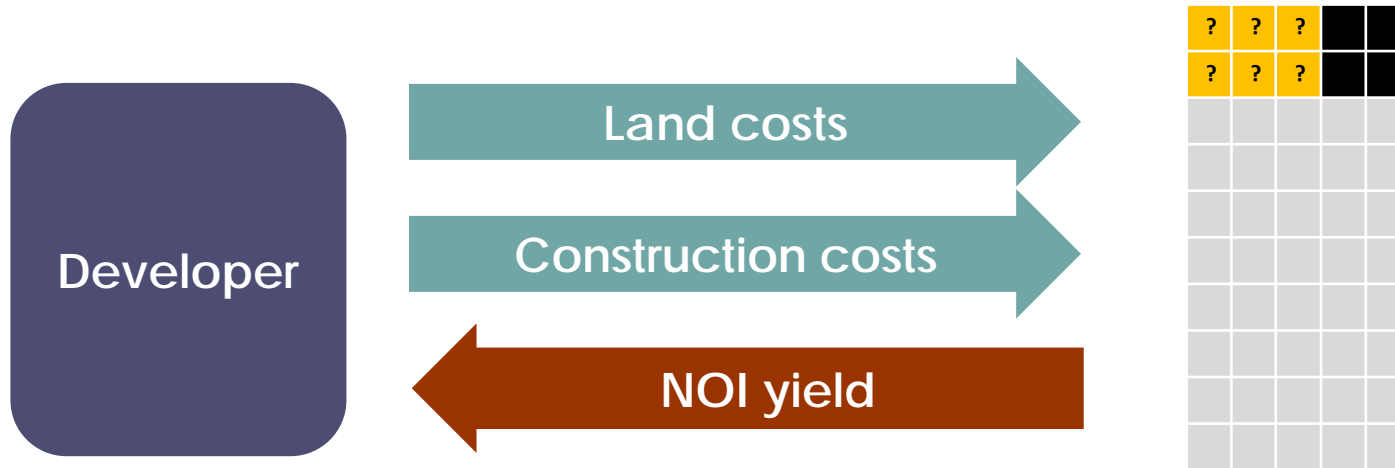
1. In higher-rent neighborhoods, additional zoning density is valuable enough to generate affordable units without subsidy.
2. In lower-rent neighborhoods, additional zoning density will not generate affordable units (without subsidy), even if land were free.
3. The economics of mandatory inclusionary zoning will change as rents, operating costs, and construction costs shift over time (tradeoff between certainty and flexibility/discretion).
4. A program can use the cross subsidy generated by additional density in different ways (tradeoff between share of units affordable and affordability levels).

Methodology

- Financial analysis of mid-rise and high-rise **rental** projects, varying by:
 - Market rent
 - Building type
 - Affordable share
 - Affordability level
 - Property tax exemption
- Similar analysis to what developers use; relies on assumptions about:
 - Construction costs
 - Operating costs
 - Market rents and rent up rate (or market sale prices and sell out rate)
 - Minimum financial returns required by developers—here we're just using NOI yield
- NOTE: Analysis based on reasonable estimates of market conditions and costs and are not designed to give point estimates but rather indicate potential and pitfalls of MIH. The analysis looks at Net Operating Income Yield (NOI Yield) to measure developer profitability



Methodology



FINDINGS

1. In higher-rent neighborhoods, additional zoning density is valuable enough to generate affordable units.

FINDINGS

Examined a Range of Market Types

Construction Type	Market Type	Annual Gross Rent	Example Neighborhood(s)
High-rise	Very Strong	\$80 per rentable sf (1BR: \$4,800/mo)*	Manhattan Core
High-rise	Strong	\$60 per rentable sf (1BR: \$3,600/mo)*	Downtown Brooklyn
Mid-rise	Strong	\$60 per rentable sf (1BR: \$3,600/mo)*	Williamsburg Upland
Mid-rise	Moderate	\$44 per rentable sf (1BR: \$2,600/mo)*	Astoria
Mid-rise	Moderate-low	\$37 per rentable sf (1BR: \$2,200/mo)*	Bedford-Stuyvesant (inside the GEA)

*1BR size of 720 square feet

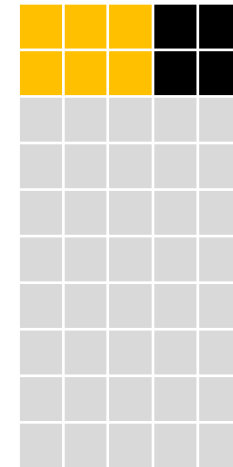


FINDINGS

If Rents Sufficiently Higher Than Operating Costs

- Where rents are high enough, additional density will increase NOI yield:

Opportunity for cross-subsidy



FINDINGS

Example of Mid-Rise in Strong Market

Construction Type	Market Type	Annual Gross Rent	Example Neighborhood(s)
Mid-rise	Strong	\$60 per rentable sf (1BR: \$3,600/mo)*	Williamsburg Upland

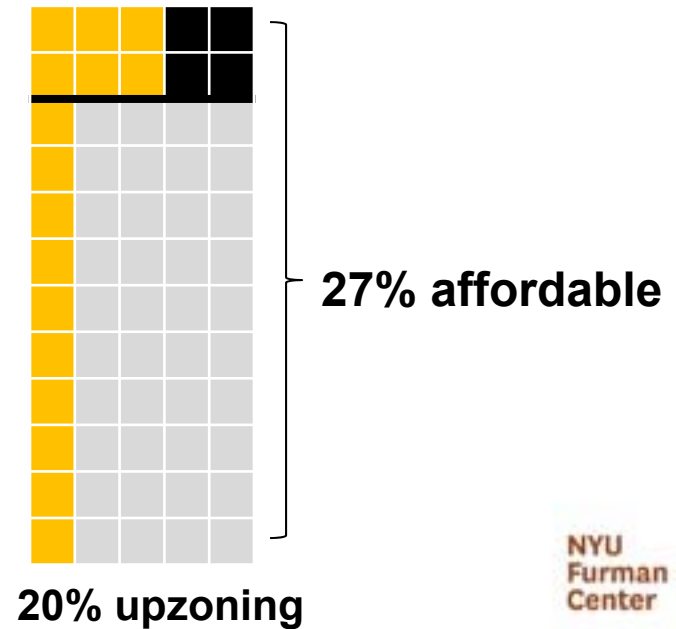
*1BR size of 720 square feet



FINDINGS

Example of Mid-Rise in Strong Market

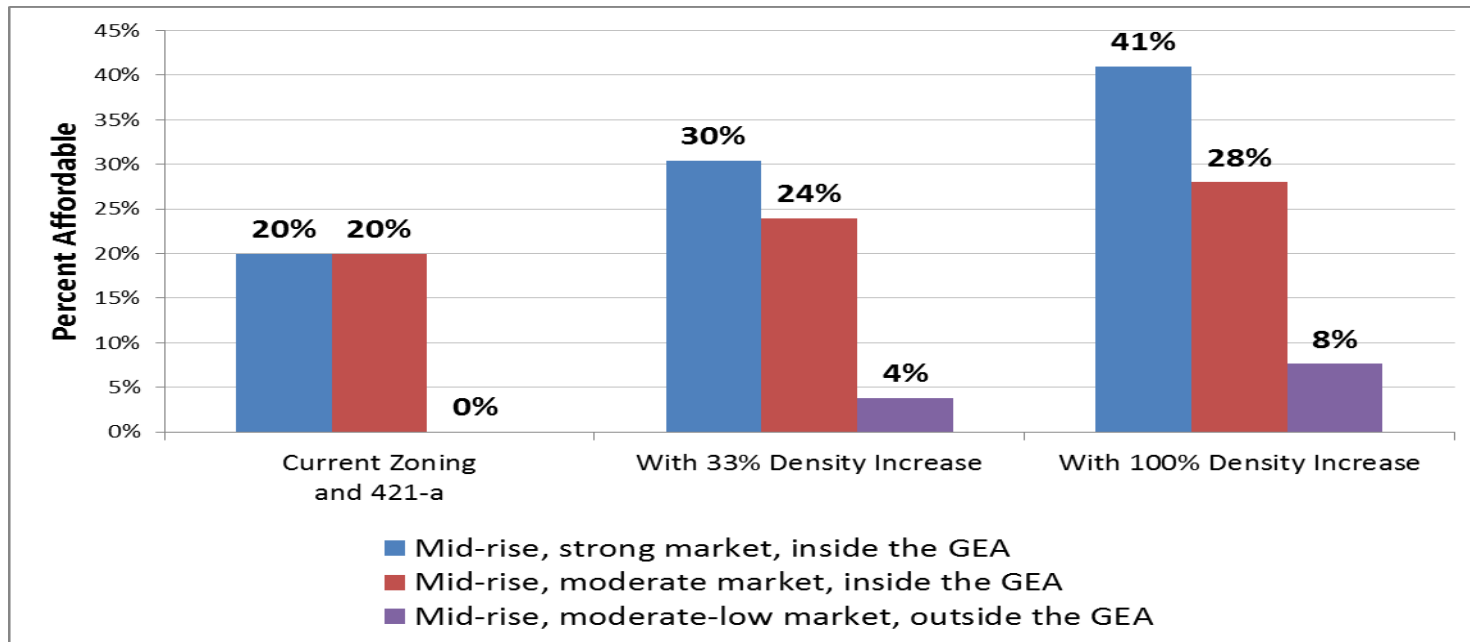
- Mid-rise in **strong market**
- 421-a property tax exemption requires 20% affordable.
- If additional density pays **no property taxes**, we estimate that additional density can be **62% affordable** (at 60% of AMI).
 - Only 19% of new density could be affordable if no tax exemption
- 20% upzoning results in building where 27% units of the entire building are affordable (up from 20% in base building)



FINDINGS

Incremental Affordable Possibilities

Affordable share* of entire building



*Affordable at 60% of AMI



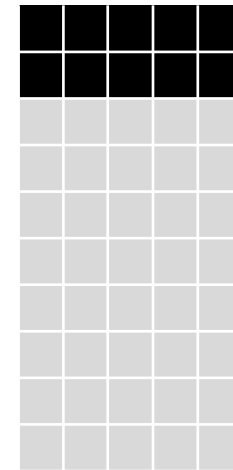
FINDINGS

1. In higher-rent neighborhoods, additional zoning density is valuable enough to generate affordable units without subsidy.
2. In lower-rent neighborhoods, additional zoning density will not generate affordable units (without subsidy), even if land were free.

FINDINGS

In Low-Rent Neighborhoods

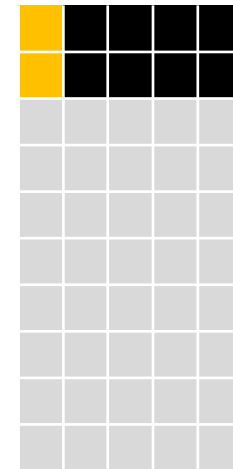
- In some neighborhoods, 100% market rate may not generate an attractive return on construction costs (let alone land).
- In these neighborhoods, no amount of additional density will make development viable.



FINDINGS

In-between Neighborhoods

- In some borderline neighborhoods, 100% market rate projects may be viable with upzoning.
- But adding a new requirement may make NOI too small; would stifle development even with current rents.



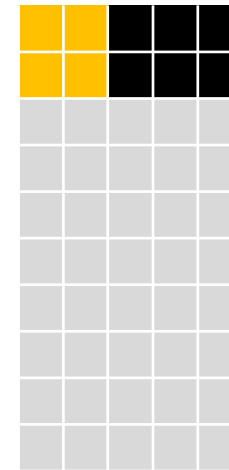
FINDINGS

1. In higher-rent neighborhoods, additional zoning density is valuable enough to generate affordable units without subsidy.
2. In lower-rent neighborhoods, additional zoning density will not generate affordable units (without subsidy).
3. The economics of mandatory inclusionary zoning will change as rents, operating costs, and construction costs shift over time (tradeoff between certainty and flexibility/discretion).

FINDINGS

Economics Will Change

- What works today may not work tomorrow
- Tradeoff between certainty and flexibility



FINDINGS

1. In higher-rent neighborhoods, additional zoning density is valuable enough to generate affordable units without subsidy.
2. In lower-rent neighborhoods, additional zoning density will not generate affordable units (without subsidy).
3. The economics of mandatory inclusionary zoning will change as rents, operating costs, and construction costs shift over time.
4. A program can use the cross subsidy generated by additional density in different ways (tradeoff between share of units affordable and affordability levels).

FINDINGS

Policy Design Decisions

- On-site versus off-site
 - On-site: ensures ongoing cross-subsidy; access to high opportunity neighborhoods.
 - But high opportunity cost: can be as high as \$1.2 M for rent-restricting 1,000 rentable square feet of floor area at 60% of AMI
- Level of affordability vs. percent affordable
 - The share of units that can be affordable is less sensitive to the level of affordability the higher the market rents
 - However, lower levels of affordability may affect market rate rents (sale prices)

FINDINGS

Policy Design Decisions

- Permanent vs. long term affordability:
 - Probably does not affect development decisions
 - Present value of cash flow differences in distant future are small.
 - Impossible to forecast so far in the future
 - But other concerns: economic sustainability of off-site, 100% affordable vs. on-site mixed income

CONCLUSIONS

1. In higher-rent markets, additional density is valuable; city can require affordable units where it adds density without the need for subsidy.
2. The use of other incentives (in NYCs case, property tax exemption) makes additional density much more valuable
3. In much of the city, the market is currently too weak for additional density to have any potential to spur mid-rise or high-rise development, let alone cross-subsidize affordable units.
4. The economics of mandatory inclusionary zoning will shift over time.
5. Policy options pose some significant tradeoffs.

NYC Inclusionary Zoning Programs



NYC Inclusionary Zoning

1. Voluntary (since 1987) Increased density and subsidies offered in exchange for affordable units)
 - Only in high density districts or specially designated districts
 - Units permanently affordable (as long as bonus density is being used)
 - About 4,000 units created
2. Mandatory (now being implemented citywide)
 - Required in rezoned districts and for special permits that increase density
 - Non-discretionary/As of right
 - Maintain income diversity in all neighborhoods
 - Units permanently affordable

NYC Mandatory Options

1. 25% of the housing must serve households with incomes averaging to 60% of AMI (low/moderate)
 - 10% at 40% of AMI
2. 30% of housing must average 80% of AMI (moderate income)
3. Additional restrictions possible when rezone
 - 20% of housing must average 40% of AMI (extremely low/low)
 - 30% of housing must average 115% with 5% at both 70% and 90% of
4. Additional 5% for offsite

What Appealed to the Community

- Applicable citywide
- Helps to preserve diversity of neighborhoods
- Units will be permanently affordable
- Serves those with very low incomes
- Fills in income gaps not served by other programs
- Accompanied by infrastructure dollars
- Community preference (note: now at risk)

What Appealed to Developers

- Cost of affordable units offset by increase in density
 - No decrease in land value
 - No decrease in profitability
- Recognizes differences in project size and local housing markets
 - Variation in income targets/percent affordable
 - Income averaging
 - On-/off-site
 - Payment in lieu
- As of right

What Government Did Well

- Goals were clearly articulated
 - Preserving income diversity of neighborhoods
 - Citywide
 - Permanently affordable
- Economics validated by a third-party study
- Off-budget (plus infrastructure fund)
- Developers did not oppose/lawsuits less likely

What Government Did Not Do Well

- Targeted income levels/not helped by starting in a section of Brooklyn called East New York which is low income and has no market rate development
- Concern that zoning changes that encourage new buildings will focus/channel development to that neighborhood
- Resistance to new construction/higher density

On-going MIH Challenge

- The politics of rezonings