

New York City's Housing Gap *Revisited*

Peter Salins

Senior Fellow,

The Manhattan Institute for Policy Research



CENTER FOR CIVIC INNOVATION
AT THE MANHATTAN INSTITUTE

EXECUTIVE SUMMARY

This study measures New York City's housing gap—the difference between the net number of dwelling units added to the housing supply in a given time period, and the number needed to accommodate population change. The study finds that:

- New York City's housing gap is large—about 140,000 units in 1999.
- The City's housing gap is even larger—over 400,000 units—if one takes into account the need to replace older housing stock. Failure to replace these decaying structures is a major reason New York City has an older housing stock than any other major American city.
- Compared to other cities, housing in New York is not only scarce, but of low quality and highly priced. Only two cities—Boston and San Francisco—have higher median rent levels than New York.
- Although housing production in New York City has trended upward since 1994, gains in the housing stock have been offset by a dramatic rise in the city's population.
- New York City and State have instituted policies that severely distort the dynamics of housing supply and demand. Only 30 percent of the city's rental units, for instance, are subject to market prices. These distortions—coupled with Rube-Goldbergian environmental and zoning regulations—have denied New York the kind of healthy housing market enjoyed by most other major cities.
- The addition of more price-controlled housing—as proposed by most housing advocates, and by most candidates in the city's recent electoral campaign—will only exacerbate the market-distortions which underlie the current housing shortage.
- If New Yorkers are to enjoy a vibrant and high quality housing market, building regulations must be streamlined to accord with those of other cities, and the proportion of market-priced housing must be expeditiously increased.
- The current crisis should energize the new city administration to tackle reform with renewed vigor. In the end, however, true reform will require policymakers to mobilize the city's greatest strength, which has fortunately been everywhere in evidence since September 11: the good judgment, and enlightened self-interest, of New Yorkers themselves.

TABLE OF CONTENTS

About the Author	i
Introduction	1
The Housing Gap Today	2
Table 1: Components of Change in New York City Housing Stock (DU)	2
Table 2: Estimated Household Growth	3
Table 3: Estimated Annual Housing Gap	3
Comparing New York to Other Major Cities	4
Table 4: Comparative Housing Construction Rates—Large U.S. Cities	4
What is New York Doing to Improve Housing Conditions?	5
Table 5: Rental Housing Characteristics by City	5
Government Regulations Impede Housing Construction	5
Table 6: Vacant Land by Major Zoning Category	6
Table 7: Comparison of Zoning Factors—NYC/Chicago, Dallas, Los Angeles	6
Table 8: Comparative Housing Construction Costs—Large U.S. Cities	7
Government Price-fixing Impedes Housing Construction	7
Table 9: Changes in the Regulated Stock 1996–1999	8
Conclusion	9
Notes	11

ABOUT THE AUTHOR

Peter D. Salins is Provost and Vice Chancellor for Academic Affairs of the State University of New York and Senior Fellow of the Manhattan Institute. A nationally recognized urban planner and housing expert, his publications on New York's housing problems include "Reviving New York City's Housing Market," in *Facing the Future: Housing and Community Development in New York City* (SUNY Press, 1998), *New York City's Housing Gap* (Manhattan Institute, 1996), *Scarcity by Design* (Harvard University Press, 1992), and *The Ecology of Housing Destruction* (New York University Press, 1980). A fellow of the American Institute of Certified Planners, Dr. Salins is also a Trustee of the Lavanburg Foundation and a Director of The Citizens Housing and Planning Council of New York.

NEW YORK CITY'S HOUSING GAP *REVISITED*

Introduction

By September 2001 New York City had enjoyed a decade of spectacular resurgence. The city's economy had added 300,000 jobs. Crime had fallen by more than 57 percent. The city's population had grown by over 500,000, to an all time high of 8,008,300. Tourism and hotel occupancy were up, streets and sidewalks were cleaner, elegant stores and restaurants flourished, parks were refurbished and vibrant. Out-of-towners were saying extraordinarily complimentary things about New York. One heard far less often than formerly that familiar but tired phrase: "A nice place to visit, but I wouldn't want to live there." From all over the nation and the globe, people *did* want to live in New York: young professionals and empty-nesters from the suburbs, from upstate, and from other states; tens of thousands of immigrants who arrived each year; even retirees returned from Florida and other Sunbelt havens.

There was just one problem facing all these new New Yorkers: finding a decent, affordable place to live. Amid the resurgence and revival, the one thing that hadn't changed was the unsatisfactory condition of the city's housing. For all but the very rich or the very lucky, an attractive, spacious, well-located apartment or house was hard to find—and, when found, outrageously expensive.

The dearth of reasonably priced, good-quality housing had not extinguished the city's economic and social revival. The scarcity of housing may even have perversely contributed to some of the city's revitalization, by pushing New Yorkers into some of the city's formerly most derelict neighborhoods, sparking their social and commercial revival. Nevertheless, housing scarcity, exorbitant apartment rents and house prices, and poor housing conditions are clearly not good things.

Some observers, remarkably, see a silver lining in the clouds of the September 11 tragedy. Daily press-accounts of New Yorkers fleeing Manhattan—and expectations that immigration to the city's other boroughs will be sharply curtailed—have sparked speculation that New York's housing shortage will soon turn into a glut. Such hope, however, is premature.

As documented in this report, the city's housing shortage has become so severe that recent events will almost certainly not cure it. Although the post-disaster trauma may well soften *demand* for housing, it will constrict *supply*—by depressing housing construction and renovation—to an even greater degree.

New York City's housing shortage can only be overcome by removing its root cause: the panoply of housing policies, unique to the city, which have perniciously constricted supply, degraded quality, and inflated prices for many years. Attacking and repealing these outmoded policies will require courage and foresight from the city's newly elected and appointed officials. True reform will require putting the city's long-term health above short-term political pressure. But if public officials do take this path—and stick to it—they will unleash a revival more spectacular than the one which the city has recently seen.

In the quality and affordability of its housing, New York City is closer to the bottom of U.S. cities than the top. It lags other American cities—and even its own suburbs—because its housing market has *not been allowed to work*.

That was the thesis of "New York City's Housing Gap,"¹ a Manhattan Institute *Civic Report* I authored in 1996. Presented as the most concise indicator of the fundamental inadequacy of New York's housing market, the housing gap was defined as the difference between the net number of dwelling units

added to the housing supply in a given time period and the number needed to accommodate population change and improve housing quality. The report estimated that the housing gap in 1994—the simple difference between supply and demand—was nearly 17,000 dwelling units annually and, adjusted to foster quality enhancement, it rose to over 40,000.² To place the city’s housing gap in a meaningful national context, the 1996 *Civic Report* compared New York’s rate of housing production, as well as housing conditions, with those in other large American cities. In that comparative analysis, New York did not show up especially well. Compared with nearly all of its erstwhile national peers, the city had anemic housing production rates and anything but anemic rents.

This report revisits the issue of the housing gap, to see if conditions since 1994 (the data baseline for the 1996 report) have improved, stayed the same, or worsened. Using the same methodology and more recent data, the housing gap is calculated for the decade, and housing conditions are again compared to a panel of other large American cities. Then we will review the two factors, unique to New York’s housing market, that are very likely instrumental in creating the housing gap. One is the broad array of distinctive New York City and State policies regulating housing development and construction. The other is the extraordinary extent to which prices in the city’s housing market are set by governmental agencies, rather than through the interplay of supply and demand. While both the data and the analysis in this report pre-date the September 11 tragedy, the underlying supply-demand dynamics—

and the public policy constraints on New York’s housing market—remain firmly in place.

The Housing Gap Today

Looking at the changes that have taken place since the last *Civic Report*, we must conclude that New York City’s housing gap is still larger than that of any other large American city. We must also conclude that New York still lags most of its big city competitors, especially the ones that are its true peers or rivals, in indicators of housing quality and affordability.³

Moving directly to the “bottom line,” housing production in New York City since 1994 has, encouragingly, trended upward slightly, and housing losses have declined—in fact, reversed—as more formerly abandoned or withdrawn dwellings have been “returned” to the housing stock in recent years than existing ones have been “lost.”

The beneficial effects of these mildly positive trends have been largely offset, however, by a dramatic rise in the city’s population over the last decade. Indeed, New York’s recent population growth (erasing the huge population drop of the 1970s) was perhaps the most important evidence of the city’s social and economic revival. But even as New Yorkers have rightly celebrated the generally salutary implications of a demographic trend unmatched in any other older northeastern city, population growth poses a substantial additional challenge to a city housing market that could not even keep pace in the years when population change was sluggish or negative.

Table 1: Components of Change in New York City Housing Stock (DU)

Year	Total Housing	Housing Completions	Net Housing Losses ¹	Net Housing Increase	Vacant/Not Available ²	Available Housing
1991	2,980,762	7,638	-9,863	-2,225	94,351	2,886,411
1992	2,978,537	7,900	-9,600	-1,700	102,695	2,875,842
1993	2,976,837	5,512	-2,059	3,453	111,038	2,865,799
1994	2,980,290	7,438	-1,291	6,147	110,722	2,869,568
1995	2,986,437	8,205	634	8,839	110,406	2,876,031
1996	2,995,276	7,540	3,075	10,615	110,090	2,885,186
1997	3,005,891	7,607	6,900	14,507	103,051	2,902,840
1998	3,020,398	11,432	6,967	18,399	96,012	2,924,386
1999	3,038,797	9,827	5,600	15,427	88,973	2,949,824
2000	3,054,224					

Sources: NYC Department of Housing, Preservation and Development, 1996, 1999 Housing and Vacancy Surveys; NYC Department of City Planning, Certificates of Occupancy for Newly Constructed Buildings

1) Net housing losses equal new losses minus former losses returned to housing stock. A positive number means returning losses exceed new losses.

2) Dwelling units (DU) are vacant/unavailable when they are uninhabitable or withdrawn from market by owner.

Giving us a synoptic view of New York's housing supply dynamics, Table 1 looks at the components of change in the city's housing stock from 1991 through 1999. The table clearly shows a steady increase in additions to the housing supply over the decade due to increases in new housing production after 1993, and the impact of "returning losses." The table also shows a modest reduction in the number of "vacant but unavailable" units—dwellings about to be abandoned or withdrawn from the stock for other reasons. The intersection of these supply components has allowed the available housing supply over the decade to grow from 2,886,000 units to 2,950,000, an increase of 64,000 or 2.2 percent. During this same period, however, as indicated in Table 2, the city's population (interpolating from the 1990 and 2000 census data) rose from 7,358,000 to 7,890,000. The resulting growth in numbers of households, assuming household size factors grounded in historical trends (calculated separately for renters and owners), raised the number of housing units needed by over 217,000, an increase of over 7.0 percent.

As Tables 1 and 3 show, net housing production (new construction minus housing losses)⁴ has risen substantially since 1994 from 6,000 to between 15,000 and 18,000 units per year. However, because the city's household population has consistently outpaced housing production, the estimated basic housing gap has been remarkably stable at approximately 15,000 dwelling units per year. This gap calculation is predicated on building just enough housing to put a roof over the heads of the city's new residents. Across the rest of the nation, however, enough housing is built each year to not only accommodate household growth but also to replace about 1 percent of the existing housing stock. Using that standard to calculate a "quality

Table 2: Estimated Household Growth

Year	NYC Population ¹	Annual Population Growth	Household Size ²	Additional Households
1990	7,323,600			
1991	7,357,800	34,200	2.58	13,300
1992	7,397,000	39,200	2.58	15,200
1993	7,442,000	45,000	2.58	17,400
1994	7,493,600	51,600	2.59	19,900
1995	7,552,800	59,200	2.60	22,800
1996	7,620,700	67,900	2.61	26,000
1997	7,698,600	77,900	2.62	29,700
1998	7,787,900	89,300	2.62	34,100
1999	7,890,400	102,500	2.63	39,000
2000	8,008,300	117,900	2.64	44,700

Source: US Bureau of the Census, Population Division

1) 1990 and 2000 based on actual Census count; 1991 to 1999 based on author's interpolation

2) Based on recent NYC housing and population trends

Table 3: Estimated Annual Housing Gap

Year	Additional Households ¹	Net Housing Increase	Basic Annual Housing Gap	Cumulative Housing Gap	Quality Adjusted Annual Housing Gap ²	Cumulative Quality Adjusted Gap
1991	13,300	-2,200	15,500	15,500	44,500	44,500
1992	15,200	-1,700	16,900	32,400	45,900	90,400
1993	17,400	3,500	13,900	46,300	42,900	133,300
1994	19,900	6,100	13,800	60,100	42,800	176,100
1995	22,800	8,800	14,000	74,100	43,000	219,000
1996	26,000	10,600	15,400	89,500	44,400	263,500
1997	29,700	14,500	15,200	104,700	44,200	307,700
1998	34,100	18,400	15,700	120,400	44,700	352,400
1999	39,000	15,400	23,600	144,000	52,600	405,000
2000	44,700					

1) Taken from Table 2

2) Including housing needed to replace 1.0 percent of NYC housing stock

adjusted” housing gap,⁵ the city’s annual housing shortfall rises to about 44,000 units. In either case, an annual housing gap that persists year after year causes mounting hardship. The cumulative basic housing gap has grown by over 140,000 units since 1991; the quality adjusted gap has grown by a staggering 400,000 units.⁶

Fortunately, the news is not all bad. Some encouragement can be taken from the well-defined trend of improvement in housing supply growth over the decade. In addition, some of the basic housing gap has been met by the return of existing units to the rental market. As Table 1 shows, about 5,500 additional units have become available for use since 1991, slightly reducing the cumulative housing gap. Nevertheless, the task of adding an additional increment of 100,000 to 150,000 units to the stock over the next few years, while challenging, is not inconceivable; such an increase is well in line with rates of housing production in New York in earlier decades. Obviously, both the demographic and housing construction figures in this analysis will need to be reexamined over the next year or so, as the full impact of both the September shock and a declining national and regional economy is absorbed.

Nevertheless, under any scenario—pre or post-September 11—New Yorkers should be concerned about the city’s poor overall housing quality, and the policies responsible for it. To put New York’s housing performance in a national context, it is instructive to look at housing production and conditions in other major U.S. cities.

Comparing New York to Other Major Cities

Compared to its major national peers, New York looks inferior both in the rate at which it builds new housing, and the resulting housing conditions. Table 4 compares the pace of housing construction over the last decade—as measured by the issuance of housing permits—in central cities of 13 of the largest American metropolitan areas. The data show that, in 1999, only four cities had a lower rate of housing production than New York, three of them being cities whose population had declined over this period. Taking the interval from 1995 to 1999, only five cities fell below New York in housing volume, again with three cities in that group having a shrinking population. The two other cities whose housing production rates were below that of New York were Boston and Los Angeles. But Boston had a much lower rate of population growth rate over the decade than New York (27 percent of New York’s level) while still building 72 percent as much housing. Los Angeles’ lower rate of housing production in the latter 1990s followed a period of extraordinarily high production from 1990 to 1994.

The intercity comparative data arrayed in Table 5. suggest a strong relationship between rates of housing production and two key indicators of the health of the rental housing market: rent levels and apartment age. All things being equal, the lower the average rent, the more benign the housing conditions. Apartment age is a succinct surrogate for general housing quality. Newer dwellings are generally superior to older ones and, notwithstanding

Table 4: Comparative Housing Construction Rates—Large U.S. Cities

City	Housing Permits per 1000 DUs, 1999	Housing Permits per 1000 DUs, 1990–94	Housing Permits per 1000 DUs, 1995–99	Percent Population Increase, 1990–99
San Antonio	32.41	47.17	108.19	22.3
Columbus	29.88	73.48	92.46	12.4
Atlanta	24.76	37.99	77.92	5.7
Indianapolis	19.23	60.19	82.77	6.7
Houston	14.02	27.99	73.22	19.8
San Francisco	8.78	15.12	28.14	7.3
Chicago	5.57	11.41	19.49	4.0
Boston	5.03	4.39	11.46	2.6
New York	4.33	8.59	15.89	9.4
Los Angeles	3.67	22.35	12.63	6.0
Detroit	1.33	5.58	5.09	-7.5
Baltimore	.83	5.64	3.04	-11.5
Philadelphia	.63	3.82	4.89	-4.3

Source: U.S. Bureau of the Census: Census of Population, 1990, 2000; Housing Units Authorized by Building Permits, 1990–1999

New York's and other cities' large stock of architecturally and historically important older residential buildings, most older rental buildings contain many housing deficiencies. As the table shows, only two cities in the survey, Boston and San Francisco, have higher median rent levels than New York, and no city has an older housing stock. With the exception of Detroit and Baltimore, whose low rents are undoubtedly related to population loss, higher production levels are associated with lower rents. With respect to median apartment age, the only cities approaching New York's threshold of 44 years, are Philadelphia and Baltimore, both of which have experienced exceedingly low rates of housing construction. More detailed comparative studies of housing quality indicators taken from the *American Housing Survey* and census reports, looking at the incidence of specific housing defects, further confirm the relative inferiority of New York's housing.

What is New York Doing to Improve Housing Conditions?

The evidence that other cities—even the nation's largest and fastest growing—manage to build enough housing to accommodate population growth and raise quality convincingly indicates that New York's deficient housing conditions are self-imposed; the product of unique city and state policies rather than inherent in its status as a large city. The 1996 *Civic Report* reviewed in detail the nature and impact of these policies. Here I will only summarize

the broad contours of New York's housing policy environment, and note the minimal changes that have been implemented since then.

The reason New York has not been able to produce enough housing to close its housing gap is really quite simple. A healthy housing market depends on the dynamic interplay of the forces of supply and demand. New York City and State have, over time, but especially during the last three decades of the 20th century, incrementally instituted policies that severely distort the dynamics of both. With respect to supply, New York's policies regulating new development and construction have made it inordinately difficult and expensive to build in the city. With respect to demand, government policies that fix the prices of more than half the dwellings in New York—and two-thirds of all rental units—have distorted the housing behavior and expectations of a large segment of the household population.

Government Regulations Impede Housing Construction

In their specific design, but most especially in their interaction with each other, New York's zoning, environmental, land use review, and construction regulations represent a particularly toxic and development-unfriendly mix.

Contrary to widespread belief, it is not true that New York offers no place to build new housing. New York actually has a great deal of vacant land; 749 million

Table 5: Rental Housing Characteristics by City

City	Median Apartment Rent (\$)	Median Apartment Age (yrs)	Median Tenure (yrs)	Housing Permits per 1000 DUs 1995-99
Detroit	447	38	4	5.09
Baltimore	466	43	3	3.04
San Antonio	467	36	4	108.19
Columbus	485	34	2	92.46
Indianapolis	497	35	1	82.77
Atlanta	506	36	2	77.92
Houston	527	37	3	73.22
Philadelphia	559	42	4	4.89
Chicago	586	39	4	19.49
Los Angeles	613	40	3	12.63
New York	671	44	6	15.89
Boston	750	36	3	11.46
San Francisco	839	39	3	28.14

Source: U.S. Dept of Housing and Urban Development: *American Housing Survey: Detroit, Chicago, Los Angeles, New York, Philadelphia; 1999; Baltimore, Boston, Houston, San Francisco: 1998; Atlanta, Indianapolis: 1996; Columbus, San Antonio: 1995; all rents updated to 1999.*

square feet, or 47,500 separate parcels to be precise, as Table 6 indicates. However, a sizable chunk of that land is not available for residential use at all, and even the portion that can be used for housing is restricted to very low-density development. While the kind of 1–3 family (often owner-occupied) home that the zoning favors is an appealing and appropriate dwelling type, the economic calculations of developers and lifestyle choices of consumers also demand mid- and high rise apartment complexes of the kind that are only permitted “as-of-right” on 10 percent of all available sites. Under the city’s current zoning rules, 24 percent of the city’s vacant land is set aside for manufacturing, and 60 percent is designated for low-density residential use. Further, on the limited number of most attractive and viable sites where housing development is permissible—in desirable parts of Manhattan and Brooklyn—developers must seek specific approvals under one or another of a growing variety of special districts or programs.

Overall, this state of affairs discourages most potential housing developers, and forestalls the kind of high volume residential development that characterized New York’s housing market in its most halcyon decades. Even so, the large unsatisfied demand for housing poses highly profitable development opportunities for more fearless and better-capitalized prospective builders. To succeed, they must appeal some aspect of the applicable zoning, or seek permission to build in a special district. This is where the “Catch-22” aspects of New York’s development regulations come into play. To proceed, prospective developers must not only receive preliminary approval (or encouragement) from the NYC Department of City Planning, but such zoning appeals subject their projects to two additional levels of review. Under state and city environmental quality review procedures (SEQRA and CEQR) they must first file an environmental impact statement, and then be screened under the rules of the Uniform Land Use Review Procedure (ULURP). Both of these reviews are expensive and time-consuming and the ULURP clock does not even begin ticking until the environmental review is complete. But the greatest potential hazard is that the documentation required under these review protocols then exposes the proposed development to potentially lengthy and expensive legal or procedural

Table 6: Vacant Land by Major Zoning Category

Zoning Category	Land Area (Square Feet)	Percent of Total
Commercial	44,914,422	6.0
Manufacturing	178,559,887	23.8
Low Density Residential	449,741,426	60.0
Medium/High Density Residential	74,263,267	9.9
All Other	1,698,403	0.2
Total	749,177,405	100.0

Source: NYC Department of Finance, as cited in New York University School of Law, *Reducing the Cost of New Housing Construction in New York City*, 1999.

challenges mounted by antagonistic local groups and advocacy organizations.

The best review of both current policies and recommendations for changing them are contained in a recent study conducted by Michael Schill, Director of NYU Law School’s Center for Real Estate and Urban Policy and Jerry Salama, former Deputy Commissioner of the city’s Department of Housing, Preservation and Development. Titled *Reducing the Cost of New Housing Construction in New York City*, and issued by New York University School of Law,⁷ this monograph, unprecedented in its depth and thoroughness, not only surveys the nature and impact of each of New York City and State’s relevant regulatory rubrics, but compares them to those of other cities. The report documents the extent to which New York is a national outlier at every phase of a process that begins with the city’s overly restrictive zoning ordinance, runs through the environmental and land use reviews triggered by the need to gain zoning relief, and concludes with sky high construction costs.

When it comes to zoning, for example, when compared to Chicago, Dallas and Los Angeles, not only does New York have a larger number of residential zones (each zone having its own idiosyncratic rules), but it specifies more building features in each zone (Table 7). Generally, the greater the number of zones—and zoning rules operative in each zone—the harder

Table 7: Comparison of Zoning Factors—NYC, Chicago, Dallas, Los Angeles

City	Number of Zones	Specs per Zone
New York	34	11
Chicago	8	6–7
Dallas	16	7
Los Angeles	24	6

Source: New York University School of Law, *Reducing the Cost of New Housing Construction in New York City*, 1999.

it is for a housing developer to design an economically viable project “as-of-right” (i.e. without any appeals or exceptions). As New York’s regulatory matrix stands, almost all projects not built “as-of-right” require environmental and land use review. Among the more interesting findings presented by the report is that in California, for example—not a state known to be a slouch when it comes to environmental protection—the kinds of zoning appeals that currently trigger the environmental review process in New York would not even be considered environmental issues. Furthermore, the kinds of protracted legal battles launched by antagonistic neighborhood and advocacy groups that derail (or make costlier) housing development in New York, couldn’t happen in California because the opponents of development would lack legal standing.

Finally, should a developer actually succeed in navigating his project through New York’s regulatory maze, he then faces construction costs 33 percent higher than those in most other large American cities (See Table 8). New York’s inflated building costs, it appears, are inherent in virtually all aspects of the construction process. Again comparing New York to Chicago, Dallas, and Los Angeles, and surveying 18 stages of the construction process, costs in New York exceed those of the comparison cities at all stages, for all housing types (save for slightly cheaper foundation and site outlays than LA). Only a portion of this differential can be blamed on the New York metropolitan area’s high labor costs or the city’s density. Much of the remainder is tied to New York City’s outdated building code—one considerably more restrictive than that adopted by most other jurisdictions in the state—and longstanding tolerance of deep-seated corruption in the city’s building trades.

Both the current and previous city administrations have worked to ameliorate some of the worst features of the zoning component of this regulatory maze, but with only limited success. The city’s Department of City Planning has, over the last decade, rezoned manufacturing sites in parts of Manhattan, Bronx and Brooklyn to permit residential development. A more sweeping and comprehensive plan for citywide rezoning, specifically aimed at promoting housing development, was proposed by City

Planning in December, 1999. However, this ambitious (and overdue) initiative has come under attack from both anti- and pro-development interests. Advocacy groups antagonistic to development (on environmental or NIMBY grounds) have opposed it because it might actually succeed in spurring new construction. Even more vehement opposition has been expressed by major builders and real estate organizations because the new zoning would restrict certain kinds of projects—very tall luxury apartment houses in prime sites, for example—favored by their target markets. As for the rest of the “Rube Goldberg” concatenation of environmental and land use reviews, let alone the building code, not even the most preliminary proposals for reform have been seriously advanced.

Government Price-fixing Impedes Housing Construction

However much the city’s dysfunctional regulatory policies may inhibit housing supply, as serious—and possibly contributing—a shortcoming of New York’s housing environment is the distortion of housing demand that results from having only half the housing stock, and 30 percent of its rental units, subject to market prices. Through the rules of rent regulation, the income-determined rent schedules of public housing and housing vouchers, and the rent-setting protocols of a variety of other government assisted housing programs, most of the city’s apartments have their prices fixed by one or another government agency. There are two profound impacts of non-market price-setting on the housing market.

Table 8: Comparative Housing Construction Costs—Large U.S. Cities

City	Low-density Residential Median Construction Cost/Sq Ft (\$)	High-density Residential Median Construction Cost/Sq Ft (\$)
New York	69.50	101.00
San Francisco	64.50	93.00
Boston	60.50	87.50
Los Angeles	57.50	83.50
Chicago	57.00	83.00
Philadelphia	57.00	82.50
Detroit	54.50	79.00
Baltimore	47.50	69.00
Houston	46.50	67.00
Atlanta	46.00	66.50
Large City Average	52.43	75.98

Source: R.S. Means Construction Cost Data, as cited in New York University School of Law, *Reducing the Cost of New Housing Construction in New York City*, 1999.

The most immediate impact of price-fixing is to discourage most price-protected tenants from moving, except to another, better, price protected apartment. This deprives the housing market of the turnover necessary to accommodate new households entering the market. The regime of government-set prices discourages protected tenants from seeking—as do households everywhere else—better, newer or larger accommodations as their incomes and family circumstances rise, and reduces the incentive for middle income renters to become home owners. With 70 percent of its households renting, New York City has a higher ratio of tenants to owners than any other major city. The national average, incidentally, is approximately 35 percent. The dysfunctionally low turnover in New York’s “frozen” housing market resulting from irrational pricing is plainly documented in recent *American Housing Survey* data showing that the median renter household in New York has occupied its apartment more than twice as long as its counterparts in other large American cities (Table 5).

But perhaps the most serious impact of price-fixed housing is that it distorts the allocation of housing—i.e. the matching of dwellings to households—making it both inefficient and unfair. To begin with, the arcane rules governing each of these housing sectors assure that there is little relationship between what supposed beneficiaries pay and what they get, so that some households realize astounding windfalls while others are hardly better off than they would be without assistance. Worse, because the rules of rent regulation and other forms of housing assistance are most beneficial to long term residents, they generate a strong bias favoring the most, rather than the least, fortunate New Yorkers.

The largest component of the price-fixed housing stock, comprising 1.1 million units or 55 percent of rental dwellings, is that subject to rent regulation. Increasingly, the operative form of rent regulation is rent stabilization. Outright rent control is gradually disappearing as formerly controlled units fall under rent stabilization when their tenancy changes. The last time rent stabilization policy was seriously debated was in 1997, when the state’s *Emergency Tenant Protection Act* (ETPA), which authorizes rent stabilization, was up for periodic renewal. A few liberalizing reforms were introduced then, primarily aimed at removing regulatory protection for

high-income tenants through “luxury decontrol.” Rules were tightened so that luxury apartments—defined as those renting for over \$2000 per month—would be deregulated as soon as their rents rose above that threshold under standing stabilization guidelines. Given the limited number of apartments or tenants to which the new rules currently apply, the impact of these changes in fostering deregulation to date has been minimal. As Table 9 indicates, the reduction in the stock of stabilized apartments since 1996 has been small—about 23,000 city-wide, and largely confined to Manhattan (27,500 units), and Brooklyn (5,300 units).

This decline in Manhattan and Brooklyn has been partially offset by increases in the stabilized stock in Queens (10,000 units) and Staten Island (1,500 units).

While the incremental liberalization and deregulation of the rent-stabilized stock is encouraging, it makes only a modest dent in the city’s regime of arbitrarily determined housing prices. New York will never have a vibrant housing market until the vast majority of its dwellings have their prices determined by market forces. Even granting that the lowest income city residents will continue to require some form of housing assistance, New York’s 315,000 units of publicly assisted housing (11 percent of the stock), a larger inventory relative to population than in any other American city, should be sufficient. The rest of the city’s residents will have far more housing to choose from, of higher quality, at lower prices, if they are permitted to experience the opportunities and discipline of an unconstrained housing market.

Getting to that point, especially when it comes to liberalizing, or ending, rent stabilization, may look politically hopeless at this time. But sooner or later, as in Boston in 1997, New York will have to bite this particular housing policy bullet.

Table 9: Changes in the Regulated Stock 1996–1999

Borough	Regulated Stock 1999	Regulated Stock 1996	Change 1996–1999
New York City	1,098,939	1,122,014	-23,075
Bronx	200,087	202,027	-2,000
Brooklyn	291,629	296,932	-5,303
Manhattan	384,062	411,550	-27,488
Queens	211,130	200,982	10,148
Staten Island	12,031	10,523	1,508

Source: NYC Department of Housing, Preservation and Development, 1996, 1999 Housing and Vacancy Surveys

The next opportunity to review this issue will be in June, 2003, when ETPA comes up for renewal again. In the meantime, the worst thing that New York's new mayor and other policy-makers can do is to add to the stock of price-fixed housing, either through new government-funded housing development, or through subsidies.

Unfortunately, more price-fixed housing is what most housing advocates propose. Virtually all proposals to improve the housing crisis have assumed that inexpensive, high quality housing should be a government-funded entitlement. An example of this mindset can be seen in the "platform statement" of the advocacy coalition calling itself *Housing First*, which, earlier in the year, called for a \$10 billion housing development program.

As concerned New Yorkers, we call upon the City of New York, its elected officials, its civic leadership and its corporate, labor, religious and philanthropic communities to commit to a multi-year Capital plan to address the critical shortage of affordable housing in this city.⁸

Yet if government action were the key to better housing, New York City would be the best housed city in the nation. No city in the United States has as much public housing (172,000 units); as much other publicly assisted housing (143,000 units); as many apartments whose rents are restrained by regulation (1,099,000 units); as many housing vouchers (100-150,000 units); or as many persons sheltered in a homeless program that is an entitlement for all who claim homelessness (25,000 persons).

Increasing the share of price-fixed housing in New York City would only increase the price-distortions which are very much a cause of the current housing gap. At this critical juncture, there could be no graver error.

Conclusion

Until recently, New York's political and civic leadership—including the most influential private and non-profit sector spokespersons—has shrugged off all criticism of the city's regulatory and price-setting incursions into the housing market. Its members have believed that not only were these measures necessary to protect New Yorkers from the many hazards of an untrammelled marketplace, but also that they were, at bottom, innocuous.

Increasingly, however, the kind of detailed research and analysis embodied in the Schill/Salama study—as well as a growing body of work by other economists and housing policy specialists—reveal

the extent to which these interventions harm, rather than protect, New Yorkers, and have an aggregate impact that is anything but innocuous.

Meanwhile, as the data in this report show, the city still faces a significant housing gap—one that will not be filled by "natural" changes in housing demand and supply. Housing production and conditions in other major American cities still make New York look pathetic.

There can no longer be any doubt that New York seriously lags behind other cities in the production of new housing—especially relative to population growth—and in the quality and affordability of the existing stock. The housing gap that is estimated in this report is one way of expressing this shortfall. We also know that New York's housing market is, indeed, distinctive among major American cities in the complexity and stringency of its development regulations, and in the amount of government involvement in setting housing prices.

If these facts are now generally understood, all that is left to do is to convince New Yorkers that they need to change these policies if they ever hope to reside in a vibrant and high quality housing market.

It is long past time for New Yorkers to be as well housed as their fellow Americans. After all, they inhabit what Mayor Giuliani has named—and they believe to be—the "capital of the world," a city unrivaled in commerce and the arts, in social dynamism and physical grandeur, in every domain of urban life. Why should New York's housing conditions remain, indefinitely, the one exception to New York's general superiority among U.S. cities?

Today, a new city administration, possessing an as yet undisclosed approach to housing issues, is about to take office. A new mayor will face a severe fiscal crisis, exacerbated by both a national recession and the aftermath of September 11. In this situation, it is simply not realistic to expect the city to finance a massive expansion of government-subsidized housing—no matter what one thinks of its merits. If New York's housing crisis, its housing gap, is to be addressed in the near term, the new administration will have to reconsider the role government plays—through regulation and through price-fixing—in crippling the city's housing market. The current crisis, rather than furnishing yet another excuse for putting off a wholesale overhaul of the city and state's housing policies, should energize both the new administration and the concerned polity to tackle reform with renewed vigor.

NOTES

1. Salins, Peter D. (1996). "New York City's Housing Gap," *Civic Report*, No. 2, September. (New York, Manhattan Institute for Policy Research).
2. The report identified the essential elements and dynamics of a healthy housing market, grounded in the assumption that a healthy market for any consumer good is one that balances supply and demand, and offers its products at reasonable prices and acceptable quality. Then, reviewing the many ways in which the city's and state's housing and development policies hobbled New York's housing market, the report calculated fairly precisely the consequences of these policies in terms of a concept characterized as the city's "housing gap." In estimating the housing gap, changes in the housing supply are calculated by tracking annual rates of new housing production, offset by annual housing losses due to abandonment or the withdrawal of dwellings from the residential stock. Changes in demand are calculated by establishing the volume of growth or decline in the household population. Because a truly healthy housing market is one in which the rate of housing production should be high enough to permit replacement of the worst existing dwellings, a quality enhancement adjustment is added to the population-based estimate of demand.
3. In conducting an analysis of New York's housing gap—in the context of housing market performance in other large U.S. cities - we draw on data from the U.S. Census Bureau to determine rates of housing construction in New York and a set of 12 other large cities, and to determine rates of population change. For a more detailed look at New York City's housing market we depend on the rich statistical lodes of the city's triennial *Housing and Vacancy Survey* and the annual report of the NYC Rent Guidelines Board. To compare housing conditions in New York with the cities in the comparative panel we review information contained in reports of the *American Housing Survey* series issued by the U.S. Census Bureau and U.S. HUD.
4. This calculation takes into account both new production, new losses and returning losses.
5. The assumption used in this analysis, based on national patterns, is that to significantly raise housing quality, enough additional housing needs to be built each year to replace 1.0 percent of the existing stock.
6. In a report of the Citizens Housing and Planning Council of New York, using a different methodology, the city's housing shortfall was estimated to be 225,000 units in 1999. "How Much Housing Do We Need?" *Urban Prospect*, Vol. 5, No. 4, Sept/Oct 1999. (New York, Citizens Housing and Planning Council of New York).
7. Salama, Jerry J., Schill, Michael H., and Stark, Martha E. (1999). *Reducing the Cost of New Housing Construction in New York City*. (New York: New York University Law School).
8. "Housing First! Affordable Housing for All New Yorkers," Gotham Gazette, Searchlight on Campaign 2001, GG Website.

EXECUTIVE DIRECTOR

Henry Olsen

ADVISORY BOARD

Stephen Goldsmith, Chairman

Mayor Jerry Brown

Mayor Norm Coleman

Mayor John O. Norquist

Mayor Bret Schundler

FELLOWS

John J. DiIulio, Jr.

William D. Eggers

Chester E. Finn, Jr.

Floyd H. Flake

Jay P. Greene

Byron R. Johnson

George L. Kelling

Edmund J. McMahon

Peter D. Salins

The Center for Civic Innovation's (CCI) purpose is to improve the quality of life in cities by shaping public policy and enriching public discourse on urban issues.

CCI sponsors the publication of books like The Entrepreneurial City: A How-To Handbook for Urban Innovators, which contains brief essays from America's leading mayors explaining how they improved their cities' quality of life; Stephen Goldsmith's The Twenty-First Century City, which provides a blueprint for getting America's cities back in shape; and George Kelling's and Catherine Coles' Fixing Broken Windows, which explores the theory widely created with reducing the rate of crime in New York and other cities. CCI also hosts conferences, publishes studies, and holds luncheon forums where prominent local and national leaders are given opportunities to present their views on critical urban issues. *Cities on a Hill*, CCI's newsletter, highlights the ongoing work of innovative mayors across the country.

The Manhattan Institute is a 501(C)(3) nonprofit organization. Contributions are tax-deductible to the fullest extent of the law. EIN #13-2912529



MANHATTAN INSTITUTE FOR POLICY RESEARCH

52 Vanderbilt Avenue • New York, NY 10017
www.manhattan-institute.org

Non-Profit
Organization
US Postage
PAID
Permit 04001
New York, NY