CITIZENS HOUSING AND PLANNING COUNCIL

THE URBAN PROSPECT

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The Affordable City

A tabulation of listings from a recent edition of the *New York Times* shows that the average asking rent for Manhattan apartments is over $2,460.

It is not only Manhattan rentals that give New York a reputation for high housing costs. According to the National Association of Realtors, the median price of existing homes sold in the metropolitan area during 1996 was $174,500, nearly 50 percent above the national average.

The most current upcycle in the area's housing prices has sparked interest in the underlying causes of high housing costs and provoked renewed calls for government intervention and regulatory reform. A group of housing experts convened by CHPC and the New York Housing Conference recently issued a report urging the state to renew its commitment to assisting middle-income housing production. That group, the Task Force on Middle-Income Housing, emphasized the need for shallow public subsidies to stimulate construction activity, along the lines of the middle-income production pilot program launched by New York City's Housing Development Corporation in 1997.

Other groups have focussed attention on the costs of producing housing in New York City and on the need for streamlining regulations. The New York Chapter of the American Institute of Architects recently formulated a series of building code proposals intended to facilitate walk-up apartment building construction, and the New York City Housing Partnership and the Center for Real Estate and Urban Policy at NYU's Law School are preparing a thorough analysis of why the city's development costs are so high.

Those efforts emphasize the need for new supply to constrain the continual run-up in housing prices. Often neglected in discussions of the city's housing costs, however, are demand factors that fuel the buyer competition that drives up prices. It is easy to forget that the metropolitan area's high housing costs reflect its sprawling size, appealing lifestyle, and high income levels.

Rewarding Education

Urban land price theory suggests that intercity wage differentials are a primary cause of housing cost differences among areas. Simply put, if workers in a particular city earn significantly more than their counterparts elsewhere, housing prices will be bid up by migrants seeking higher earnings and by affluent households jockeying for the most convenient residential locations.

In order to evaluate the earnings of New Yorkers relative to residents of other metropolitan areas, CHPC staff recently analyzed data from the Census Bureau's Current Population Survey (CPS). The CPS is a national sample of 78,000 households from which, among other things, the official unemployment rate is tabulated.

CHPC's analysis shows that New York City's job market is among the most favorable in the country for educated people — and that it has been getting more favorable during the course of the 1990s. In 1998, a New Yorker holding a bachelor's degree or higher earned approximately $11,000 more than the national average, holding constant education, age, race, gender and citizenship. As recently as 1992, that earnings differential was only $6,000.

Perhaps more interesting is how the city compares to other major metropolitan areas. Workers with a college education earn about $10,000 more in New York than they do in Los Angeles, $8,000 more than in San Francisco, and $6,000 more than in Chicago or Philadelphia. Educated workers in Southern growth centers like Dallas and Atlanta fare surprisingly well considering that the cost of living in those cities is so much lower, but their earnings still trail New Yorkers' by a substantial margin.

Asking Rents For Manhattan and Brooklyn Apartments

Location	*1 Bedroom*	*2 Bedroom*
50th-96th Streets, East Side	$2,205	$3,030
50th-96th Streets, West Side	2,390	3,214
4th-49th Streets, East Side	2,150	2,813
4th-49th Streets, West Side	1,851	2,514
Lower Manhattan	2,266	3,243
Park Slope, Brooklyn	1,409	1,858

Source: CHPC tabulations from NY Times Listings

Conforming to the "Two New Yorks" view, workers in the metropolitan area who have attained only a high school degree are in a much less favorable job market. High school graduates in New York earn only about $2,000 more than their counterparts in the rest of the country, and significantly less than they do in some other major metropolitan areas. Holding age, gender, race and citizenship constant, such workers earn nearly $3,000 more in San Francisco, and about $1,500 more in Boston, Philadelphia, or Atlanta. At lower educational levels, New Yorkers again fare relatively well, earning more than they would in any other metropolitan area with the exception of San Francisco. The higher relative earnings of New Yorkers without a high school degree may reflect a robust job market in food, building and other services as well as economic opportunities in vibrant immigrant enclaves.

The income patterns revealed by CHPC's analysis of the 1998 CPS are roughly consistent with the image of New York as a "global city." This notion attributes a growing concentration of highly-educated, highly-paid professionals in New York and a handful of other cities to the globalization of the world's economy and to the corresponding surge in the demand for international financial and producer services. Other economic growth sectors, such as communications technology and the "new media," and the boom in tourism and culture, may also be promoting earnings growth for those at the highest end of the educational spectrum.

While the city's workforce has become increasingly comprised of high-income professionals, there has also been a sea change in attitudes toward the urban lifestyle. There is a growing appreciation of its cultural amenities, ethnic diversity and environmental efficiency, which has been reinforced, especially in New York, by falling crime rates, improved subway service, and other quality-of-life improvements.

With a growing number of high-income households and a growing preference for urban lifestyles, it is not surprising that there is price pressure on Manhattan's 800,000 housing units. The spillover of Manhattan demand into nearby sections of Brooklyn has been one of the defining characteristics of the city's real estate market in the 1990s. Listings for vacant rental apartments in Park Slope, for example, averaged over $1,750 per month in a recent edition of *The New York Times*.

Income growth in the metropolitan core also tends to inflate housing prices in the suburbs. According to a recent study by Richard Voith of the Federal Reserve Bank of Philadelphia, a one percentage point increase in per capita income in large central cities increases appreciation of homes in its adjacent suburbs by about 1.5 percent.

Fringe Commuters

Another basic principle of urban land theory is that when jobs are concentrated in a central business district, the larger the city, the higher the housing prices. That is because there is a tradeoff between commuting and housing costs. Workers faced with long commutes between the CBD and outlying suburbs where land is cheap will tend to bid up housing prices in desirable urban neighborhoods and close-in suburbs.

With a population of nearly 20 million, the New York Metropolitan area is by far the largest in the country. It is more than twice the size of the Chicago metropolitan area, three times the size of San Francisco-Oakland-San Jose, and four times the size of Dallas-Ft. Worth or Houston-Galveston. The suburban fringe of the New York area now extends into Monroe County, Pennsylvania, into mid-Suffolk County on Long Island, and into Mercer County in New Jersey. Door-to-door commutes between those suburbs and offices in midtown Manhattan can easily exceed one and a half hours.

The geographical expanse of the New York metropolitan area gives its residents the longest commutes in the nation. According to the 1990 Census, the average commuting time for area residents exceeds the national average by about 30 percent. Commuting costs are compounded for families with two earners, giving such households both the incentive and means to bid up prices in conveniently located neighborhoods.

One implication of the commuting time-housing cost trade-off is that pressure on housing prices could be relieved by improvements to the region's transportation infrastructure. Faster mass transit to the city's outlying suburbs—via high speed rail, for example—could make it more appealing for affluent households to reside in bucolic suburbs, easing demand for urban housing. But such transportation improvements will happen decades into the future, if ever, and would risk draining the city of its tax base of high-income households.

How the Other Half Lives

The strong correlation between housing costs, income levels and city size is confirmed by a simple econometric regression using the nation's 42 largest metropolitan areas. When a "California" variable is added to the model to reflect that state's unique housing market, the regression is able to explain an amazing 86 percent of the intercity variation in home prices. It indicates that each additional $1,000 in annual per capita income is associated with a $7,500 increase in home prices, and each one million in additional metropolitan area population is associated with a $3,000 increase in home values. It provides no evidence that home prices in the New York metropolitan area are unusually high given the region's size and wealth.

That New Yorkers' housing costs are roughly proportional to their incomes is confirmed by data tabulated from the American Housing Survey (AHS), a 64-city survey of housing costs and conditions that covers both renters and owners. The AHS shows that middle-income residents of the New York

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Budget Watch

HUD Budget Bonanza

This year's federal budget appropriations bill brings long awaited public housing reforms, new Section 8 vouchers, and a HUD budget increase of $2.7 billion.

In eliminating the federal preferences that prioritized the very poor for public housing placements, Congress and HUD hope to reduce the poverty concentration and racial segregation that have come to characterize public housing. Public housing authorities (PHAs) will be allowed to prioritize working families for project-based assistance while 75 percent of Section 8 vouchers will be directed towards low-income families. Local housing authorities caught between declining operating subsidies and an increasingly poor tenant base have viewed these changes as essential to their economic and social vitality. The increase in funding for HUD programs and the flexibility granted to local authorities also represent a profound shift in Congress' estimation of an agency that just five years ago it sought to eliminate.

Public Housing Reforms

The Housing Quality and Work Responsibility Act allows PHAs greater latitude in property and asset management by permitting more flexible use of operating, capital and other subsidies, providing greater discretion in rent-setting, and allowing PHAs to keep any additional revenue they raise. (Much like their tenants, whose work participation was discouraged by corresponding rent increases, PHA operating subsides declined proportionally to any additional income they generated.)

Federal tenant selection preferences are widely blamed for contributing to a decline in working families in public housing, falling from half of all tenants in 1983 to roughly a third in 1998. In eliminating federal preferences, the bill allows PHAs to determine their priorities in response to local needs and requires them to submit an annual plan for HUD approval. PHAs will be required to allocate 40 percent of available vacant units to persons below 30 percent of area median income, but the remaining units may be allocated to households with incomes up to 80 percent of median (roughly $36,000 in New York City). NYCHA had already begun to allocate one out of every two vacancies to working families, adding over 2,500 working families since January 1998.

PHAs are encouraged to facilitate economic integration by offering incentives to higher income families moving to lower income developments and vice versa. Prioritization of low-income families for Section 8 is also expected to contribute to poverty deconcentration, yet, a recent CHPC study, *"Paying the Rent: An Evaluation of the Section 8 Existing Housing Program in New York,"* found that program participants were unlikely to move to middle-income white or minority communities. Racial discrimination, inadequate fair market rents, a well-defined Section 8 submarket, and renters' attachments to their existing neighborhoods were cited as possible reasons.

A cut in operating subsidies and a provision requiring community service are among the disappointments for PHAs. The community service provision requires all nonworking, able bodied adults (who are not participating in welfare-to-work programs) to contribute eight hours of service per month. PHAs are forbidden to renew the leases of persons who fail to comply with this provision, making its implementation a potentially huge administrative burden for PHAs.

HUD Budget Appropriations for Major Programs, 1998-1999

	FY98 ($ millions)	FY99
Housing Certificate Fund	9,373	10,326
Contract Renewals	8,180	9,600
Section 8 Vouchers	0	283
Amendments	850	0
Relocation	343	434
Public Housing Capital fund	2,500	3,000
Public Housing Operating Fund	2,900	2,818
HOPE VI	550	625
Community Development Grants	4,670	4,750
HOME	1,500	1,600
Housing for Special Populations	839	854
Homeless Assistance Grants	823	975
Housing for people with AIDS (HOPWA)	204	215

Source: Federal Appropriations Bills for FY98 and FY99.

Vouchers to Work

The appropriations bill provides for the first new Section 8 vouchers since 1995. HUD will receive $283 million for 50,000 new welfare-to-work vouchers in FY99 and an additional 100,000 vouchers in both FY00 and FY01. HUD is expected to issue a NOFA in the coming months that will describe the extent to which vouchers will be competitively awarded and delineate any specific program priorities. Eligibility for the vouchers is essentially limited to families that have received welfare within the last two years and for whom housing assistance is critical to obtaining or maintaining employment.

New York and seven other cities/counties are each guaranteed at least $4 million for their programs. This provision is reportedly a holdover from earlier versions of the bill when the Section 8 pool was considerably smaller, and guarantees New York only 600 to 700 vouchers. If the city receives an allocation comparable to its past share, it could anticipate roughly 3,500 new vouchers for FY99. The elimination of the three-month waiting period for reissuing Section 8 vouchers is expected to generate an additional 40,000 vouchers nationally in FY99. Yet, because the 90-day delay was never fully implemented in New York City, this change represents little gain for the city. ■

City

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metropolitan area devote between 15 and 20 percent of their income to housing expenditures. They spend more of their incomes on housing than do residents of Atlanta, Dallas, or Houston, but a smaller percentage than residents of Boston, Washington D.C. and the major California cities. The biggest differences show up among New Yorkers earning under $30,000 annually, who carry housing cost-to-income burdens much higher than the national average.

The AHS data suggest that American households choose to spend a fairly constant proportion of their incomes on housing, and then seek the best housing they can get for their money. Consequently, it is housing quality relative to cost that varies most among cities, and the measure on which New York's housing problems become most apparent.

Housing Amenities and Cost, by Income and City

	% With Dish-Washer	% With Two Baths	Median Square Feet	Median Monthly Costs
Household Income: $30,000-$60,000				
New York	37	16	1,000	$754
Northern NJ	50	27	1,500	786
Chicago	45	28	1,300	707
Los Angeles	53	42	1,268	800
Atlanta	81	65	1,500	735
Dallas/Ft. Worth	83	61	1,400	681
Household Income: $60,000-$100,000				
New York	59	37	1,620	955
Northern NJ	71	43	2,016	1,094
Chicago	74	50	1,800	1,033
Los Angeles	75	60	1,500	1,119
Atlanta	92	86	2,000	893
Dallas/Ft. Worth	95	86	1,850	987

Source: American Housing Survey, 1994-1996

Residents of the New York metropolitan area get far less housing for their dollar than do residents of most other regions. That is partially because of the price pressures discussed earlier, and partly due to the obsolete character of much of the area's housing stock. The housing infrastructure of the New York area is older than that of any other region in the country, and reflects a long dearth of new housing construction.

One way to measure housing quality is to tally the modern amenities it offers. For example, nearly 70 percent of the housing units in the Houston and Atlanta metropolitan areas have automatic dishwashers, compared to only 34 percent in the New York area. Similarly, about 40 percent of the housing units in the 44 largest metropolitan areas have two or more baths, compared to only 20 percent in the New York metropolitan area. Not surprisingly, a statistical analysis of apartment listings in Park Slope indicates that a second bath adds about $340 to the monthly asking rent.

Aside from the inconvenience, the absence of those amenities can be taken as an indicator of the out-dated design of much of New York's housing stock. Unlike Park Slope, many neighborhoods in the city and its adjoining suburbs also feature architectural and urban design characteristics that are unappealing to the tastes of a more educated and prosperous middle class.

New Age Neighborhoods

Recognition of the demand-side factors that raise housing costs can help to clarify the objectives of housing policy as we enter the new century. Clearly, a deliberate strategy to limit income growth in order to ease housing inflation would be a cure worse than the disease. Similarly, suppression of metropolitan area population growth is a goal beyond the reach of municipal or regional authority, even if it was deemed desirable. Barring an unforeseen revolution in transportation technology, the New York metropolitan area will remain a relatively high-cost region.

It is equally implausible that governmental assistance or regulatory reform could stimulate enough new supply to have a material impact on metropolitan area housing costs. Without a fundamental change in the geographical pattern of market-driven development, any surge in new housing supply would probably provoke a strident anti-growth backlash.

Nevertheless, innovative development assistance programs and a streamlining of the regulatory structure could have salutary effects if strategically targeted. Most immediately, they could ease the rent-to-income burdens of low- and moderate-income households who now share only in the adverse consequences of the region's economic prosperity.

A strategic housing policy would also promote the redevelopment of neighborhoods that contain an antiquated housing stock. The information-age middle class has enthusiastically reclaimed the deteriorating homes of the 19th century bourgeoisie; they are unlikely to find neighborhoods built haphazardly for an industrial-age working class as inviting.

In coming years any large expansion of the housing supply will have to come in areas of the city that have enough vacant land to accommodate significant infill development. Within the city, for example, the 20 poorest community board districts contain 18 percent of the city's land area but 36 percent of its vacant zoning lots. Those neighborhoods have been completely bypassed by market-rate development and, in fact, are threatened by housing abandonment. As emphasized by the Task Force on Middle Income Housing, targeted middle-income development assistance could help to return those communities to market viability.

A policy of encouraging middle-income development in currently impoverished areas risks aggravating the housing cost problems of low-income families. Rather than arguing against revitalization, however, it underscores the urgency of integrating them into the prospering sectors of the city's economy. ■