CITIZENS HOUSING AND PLANNING COUNCIL

THE URBAN PROSPECT

Housing, Planning and Economic Development in New York

January 2005 Volume 11, Number 1

The Big Picture

Although the five boroughs contain only 37 percent of the New York metropolitan area's population, housing and land use policies usually are discussed in isolation from the broader regional trends that affect them. While a regional perspective has long been institutionalized in transportation planning, it remains almost totally absent from policy decisions on housing and land use. Many familiar problems, however, take on new aspects when viewed from a regional perspective.

In order to sharpen the focus of city policies, and perhaps to forge new ties among housing and planning professionals throughout the region, CHPC has recently joined forces with the Regional Plan Association to study metropolitan housing trends and to evaluate the policies and practices employed by various jurisdictions. This first collaboration between CHPC and the RPA draws upon CHPC's expertise in housing finance and land use policy and RPA's experience in transportation policy and regional planning. A number of academic institutions, professional organizations, and development professionals were invited to inform the effort.

A report representing the first phase of the project, entitled *Out of Balance*, was jointly published by the two organizations and is available in full on their respective Web sites. *Out of Balance* presents some of the salient demographic and housing market trends that have characterized the New York metropolitan area during the past 10 to 15 years. The policy implications of those trends will be analyzed more fully in a second phase of the project.

Vexing Volatility

Public discourse that focuses on housing costs exclusively within the five boroughs neglects the integrated nature of the metropolitan housing market. Housing consumers tend to arbitrage price differences across metropolitan boundaries, so that price movements in any part of the region have reverberations on all of the other communities.

Data from the 2000 Census dramatizes the extent to which people move about the region. In 2000, about 10 percent of New York City's households reported that they had lived in New Jersey, Connecticut or another part of New York five years earlier. However, realizing that a household's residential choices span many five-year periods, the chance that any given household will move across city lines at some point is quite high. Those residential changes are especially common at transitional points in an individual's life cycle: entrance into the labor market, marriage, birth of children, and retirement, among others.

Recognizing that people move about the region as their life cycle needs and preferences dictate underscores that the prosperity of the city and its suburbs are mutually dependent. Affordable rental housing near mass transit may be important for the immigrant work force that provides so many essential services, but attractive, spacious suburban communities are also necessary for the region to compete for the educated labor modern economies depend on.

The CHPC/RPA research indicates that home prices in the New York metropolitan area are among the highest in the country, but are not dramatically higher than might be expected given the city's wealth, size, and coastal geography. According to National Association of Realtors data, each of California's major cities, as well as Boston, have home prices equal to or above those of the New York region. As recently as 2001, Seattle and Washington D.C. had home prices almost as high, although New York's prices have surged ahead during the past three years. All of those coastal cities are at their greatest competitive disadvantage relative to home costs in landlocked sunbelt cities like Houston, Dallas and Atlanta.

In 2003, the median price of a single-family home in the New York metropolitan area was $353,000, about 108 percent above the national median. Ten years earlier, the regional price was only 62 percent above the national median. Over the past two decades, the rate of real price appreciation of homes in the New York region has been about 3.4 percent annually, compared to 1.9 percent in the nation as a whole. Our region is, in fact, much less competitive on housing costs than it was just a few years ago. Since 1999, home prices in the region have risen by about 20 percent relative to home prices nationally. Sobering as it might be, there is virtually nothing public policy could do that would offset the impact of the price gains of the past five years.

It is equally true, however, that housing prices in our region experienced a long-term decline prior to the recent run-up. The CHPC/RPA research shows that inflation-adjusted home prices in the core counties surrounding Manhattan decreased by about 9 percent from 1990 to 2000. In the outer ring of suburbs, they decreased by almost 15 percent. Nor were the declines confined to owner housing: real rents were flat in the inner core counties, decreased by about 2 percent in the inner suburbs, and decreased by almost 10 percent in the outer suburbs.

Increasingly, it appears that significant price volatility has become a permanent feature of our housing landscape. The first big inflation in housing prices, during the 1970s, can be easily explained by a high rate of overall inflation and a huge baby-boom generation of first-time homebuyers. The price spurt in the late 1980s is somewhat more difficult to explain, and the most recent price run-up even harder. Despite the depressing effect of the stock market slump on local incomes, the tragedy of 9/11, and a recession followed by a sluggish recovery, housing prices have spiked. While it might be tempting to attribute the recent increases to low mortgage rates, in fact mortgage rates fell throughout the country and did not have such a dramatic effect on home prices.

Some recent academic research indicates that housing prices are becoming more volatile in coastal markets and in "new economy" housing markets. The reasons for that remain puzzling, since the metropolitan economies themselves are not more volatile. Nevertheless, the new price volatility is yet another factor complicating the housing decisions of the region's families and confounding the efforts of organizations that work for greater housing equity.

Citizens Housing and Planning Council

50 East 42nd Street, Suite 407, New York, NY 10017
Please call (212) 286-9211 for membership information.

A Question of Balance

The rapid rate of home appreciation in the New York metropolitan area raises thorny questions, as it can be interpreted in different ways.

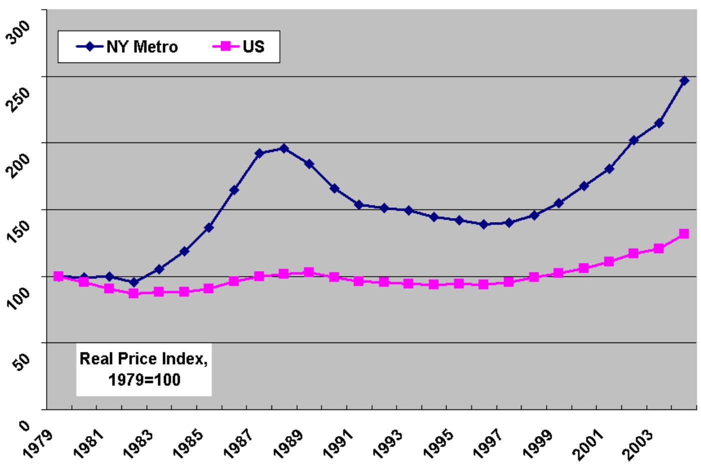
Many economists would argue that the appreciation premium our region has experienced reflects its growing prosperity and attractiveness relative to other metropolitan areas. Cities that have had lower rates of housing price growth, like Cleveland and Philadelphia, have also had lower rates of personal income growth. In housing market studies, personal income growth consistently registers as a principal determinant of housing price changes. Yet, one can point to cities like Chicago, Charlotte and Atlanta, which experienced faster per capita income growth, but more modest house price appreciation, than New York during the past decade.

It is possible that supply constraints in our region channel population and income growth more into price inflation, and less into new housing construction, than would be optimal. It is, however, difficult to make the case that supply is excessively constrained in our metropolitan area. From 1990 to 2003, over 630,000 new housing unit permits were issued in the 32-country region—more than the total number of housing units that exist in the cities of Baltimore and Washington, D.C., combined. Relative to population growth, the housing inventory in the New York metropolitan area grew faster during the 1990s than it did in Houston, Dallas, or Phoenix.

It is not entirely obvious, then, that the housing price increases in our region have been a bad thing. Since about 58 percent of households in the New York metropolitan area own their own homes, rapid appreciation of home prices has promoted wealth accumulation for many, if not most, of the region's families. That housing wealth can translate into a more secure retirement for homeowners, or it can be leveraged into a college education for their children. The benefits of such wealth accumulation to the home-owning middle-class, which is simultaneously threatened by rising college and health care costs and retirement pension uncertainties, cannot be dismissed. Unfortunately, urban land theory provides little guidance for determining how much housing appreciation is too much.

Because of the difficulty of judging the proper level of housing costs or the optimal rate of price appreciation for the region as a whole, RPA and CHPC researchers have utilized the concept of "market balance" in evaluating regional housing problems. The three principal components of a

Real Prices of Single-Family Homes
(Based on OFHEO Repeat Sales Index)



balanced housing market were defined as affordability, choice and quality, which interact with each other to determine the adequacy of the regional housing infrastructure. For example, there may be a wide range of housing types and neighborhood environments from which to choose, but if prices are prohibitive for the groups that desire them, regional competitiveness is diminished. Likewise, there may be ample supplies of low-cost housing, but it may be in poor condition or located far from low-skill job opportunities. Such issues can be analyzed without the need to make value judgments about what is the "right" level of housing prices.

Out of Kilter

In a well-balanced housing market, most households with permanently low incomes would have access to subsidized housing that leaves them sufficient funds to cover other living necessities. Since demand for housing amenities tends to rise less quickly than income, there should be a smooth decline in housing cost-to-income ratios as one goes up the income scale. However, relatively few households with moderate-, middle- or high-incomes would have high housing cost burdens, as there would be a range of housing alternatives appropriate to their tastes and resources.

It will come as no surprise that our regional housing market diverges from that idealized balance. About 29 percent of the region's households had high housing cost burdens (defined as 35 percent of income), a rate well above the national average. Everywhere in the region, nearly four out of five households with annual incomes under $20,000 had high cost burdens. Such figures indicate a gross undersupply of subsidized housing. RPA and CHPC calculated that, while the region added about 57,000 low-income households during the 1990s, it lost over 100,000 apartments affordable to them. Cost pressures are not, however, limited to low-income families. In the inner ring of suburban counties, nearly one-fifth of households earning between $50,000 and $75,000 annually have excessive housing cost burdens.

In addition to the growing shortage of subsidized housing for low-income families, our region has other distinct housing imbalances. For example, while there are over 1 million rental apartments affordable to low-income families (not all of which are occupied by such households), many of them are in poor maintenance condition. The percentage of renters in our region who are dissatisfied with the maintenance condition of their building is above the national average of 7 percent, especially in New York City and Newark, where 12.5 percent and 14.2 percent are dissatisfied, respectively. Though maintenance conditions are better in the suburbs, even on Long Island tenant dissatisfaction with building maintenance is more common than it is nationally.

The physical inadequacy of the regional housing stock is also apparent when looking at the amenities it offers. New York has a lower proportion of dwelling units with automatic clothes washers and dish washers than any other metropolitan area in the country. While the absence of those appliances may impose only small inconveniences on residents, it is indicative of a growing gap between the characteristics of our regional housing inventory and the needs of contemporary households. The maintenance and amenity shortcomings of our regional housing stock are partially a function of its age, which is greater than that of any comparable metropolitan area.

Perhaps the most alarming imbalance revealed by the first phase of the RPA/CHPC project is highlighted by commuting data. Over 40 percent of our region's workers commute over 40 minutes each way, and 6 percent travel for more than 90 minutes, both proportions significantly higher than any other metropolitan area. Furthermore, the commuting picture is deteriorating rapidly. Between 1990 and 2000, the number of regional commuters with long commutes (over 45 minutes) increased by over 300,000, while the number with short commutes (under 25 minutes) decreased by about the same amount.

Although greater congestion probably accounts for some of the increased commuting time, a more plausible explanation is that there is a growing mismatch between where jobs and dwellings are located. This is not a simple matter of too few housing units being created in the city, leading to more commuting from the suburbs: during the 1990s, New York City added 114,000 jobs and 95,000 housing units, a ratio of jobs to dwellings very close to the prevailing average. More likely, lengthening commutes result from a complex interplay between the types of jobs being created around the region, and the types of dwellings available in those areas. For example, if high-wage jobs are being created in the city while lower-wage jobs are being created in the suburbs, and housing trends are just the opposite, average commuting times will increase. CHPC and RPA researchers are currently delving into the data to better understand why commuting times have increased so dramatically.

Breaking the Barriers

A survey of housing and planning policies throughout the region and discussions with officials and other experts indicates that there is widespread agreement on the barriers to better housing conditions and greater housing equity. The barriers are easier to identify than to overcome, of course, and strategies for doing so will be the principal focus of the second phase of the project.

In providing housing for the lowest income groups, the availability of subsidy is always a limiting factor. The steady retreat of the federal government from housing support will exacerbate that constraint, especially in suburban jurisdictions that rely almost exclusively on federal monies to fund their housing programs. Jurisdictions will be looking increasingly for state and county resources to fill the gap, and will probably continue to move toward inclusionary housing and other indirect subsidy techniques. It is somewhat surprising, however, that housing officials outside of the city often list other constraints ahead of those that are purely financial.

Land use and zoning restrictions have long been seen as important barriers to affordable housing and to a wider range of housing choice. During the years of the most rapid “white flight” from the city, exclusionary techniques, such as large-lot zoning, were often employed by suburban communities for deliberately discriminatory purposes. Ironically, even as the suburbs become more racially and ethnically diverse, new factors are encouraging adoption of similar zoning measures.

Metropolitan Area Commuting Times

	Percent of Workers Commuting		
	Less thar 40 minutes	**More thar 40 minutes**	**More thar 90 Minutes**
Metropolitan Area:			
NY-NJ-CT	66%	34%	6%
Los Angeles	76%	24%	4%
Chicago	70%	30%	4%
San Francisco-Oakland	74%	26%	3%
Boston	77%	23%	2%
Washington-Baltimore	69%	31%	3%
Philadelphia	77%	23%	3%
Detroit-Ann Arbor	81%	19%	2%
Dallas-Fort Worth	78%	22%	2%
Houston	75%	25%	2%

In particular, rapid loss of open space and growing congestion in once bucolic areas encourage communities to mandate larger lot sizes in order to limit development and preserve the remnants of their wooded or agricultural pasts. Although that zoning trend may have exclusionary effects, there are real environmental and quality-of-life concerns that underlie it. The challenge for housing advocates and planners is to channel growing preservationist sentiment into political support for smart growth policies that can both foster housing opportunity and enhance suburban environments.

One housing barrier that does not exist within the city but looms large outside it is fiscal zoning. Within the five boroughs, any single affordable housing project has a negligible fiscal impact, with the city’s varied tax base, $47 billion budget, and five-county school system. But in the suburbs, residential property taxes are the basis of public school finance, and new housing development can have a material effect on the fiscal balance of local school districts, especially when new school facilities are needed. Consequently, housing development proposals of any kind are increasingly scrutinized for their impact on public school capacity and the tax base and, if the net effect is judged to be adverse, are rejected. Many housing officials outside the city believe that there will be no significant progress toward greater housing opportunity until that fiscal dilemma is addressed.

As entrenched as the municipal finance system is, there is nevertheless opportunity for change. With the recent rulings in the *Campaign for Fiscal Equity* litigation, New York courts have followed those of New Jersey and Connecticut in demanding sweeping school finance reform. Thus far, planning and housing professionals have been largely absent from the school finance debate, but educational and fiscal inequities are rooted in land use disparities and land use experts should be more involved in the discussion. How court-ordered school finance reform is ultimately undertaken—or evaded—will influence the housing and planning environment for decades to come.

Interest in regional perspectives on housing has tended to ebb and flow. A swell of interest in the late 1960s and early 1970s, driven by “Fair Share” housing goals, ultimately to led to political impasse and discouragement. Motivating the recent work of CHPC and RPA, however, is a belief that as conditions and jurisdictional interests change, new possibilities for coordination will emerge.--*Frank Braconi*

CHPC would like to express its gratitude to the Fannie Mae Foundation, the Surdna Foundation, the Community Independence Bank Foundation, the Wachovia Foundation, Bank of America, and the Greenpoint Foundation for underwriting the regional housing project.

Publication of the Urban Prospect is made possible in part through grants from the Community Preservation Corporation, the Dickler Family Foundation and the JPMorgan Chase Foundation.