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Who Says New York Is Not Affordable?

By CATHERINE RAMPELL

One of the first things you learn when living in New York is that what qualifies as wealthy somewhere else seems barely middle-class here. On the Upper West Side, where I live, it’s hard not to feel as if Manhattan is impossibly expensive for young professionals. The average nondoorman, one-bedroom apartment in the neighborhood rents for about $2,500 a month. Oatmeal-raisin cookies at Levain Bakery cost $4 *each*. A pair of sensible, unstylish walking flats from Harry’s Shoes can set you back $480. I suppose, by comparison, that the $198 chef’s menu at Jean-Georges doesn’t sound so ridiculous.

New Yorkers assume that we live in the most expensive city in the country, and cost-of-living indexes tend to back up that assertion. But those measures are built around the typical American’s shopping habits, which don’t really apply to the typical New Yorker — especially not college-educated New Yorkers with annual household incomes in the top income quintile, or around $100,000. According to a recent study by Jessie Handbury, an economist at the University of Pennsylvania’s Wharton School, people in different income classes do indeed have markedly different purchasing habits. That may not be surprising, but once you account for these different preferences, it turns out that living in New York is actually a relative bargain for the wealthy.

While compiling her research, Handbury looked at Nielsen shopping data for 40,000 American households, across more than 500 food categories, with details on everything from organic labeling to salt content. Remarkably, she found that for households earning above $100,000, grocery costs are 20 percent lower in cities with a high per-capita income (like New York) than in cities with a low per-capita income (like New Orleans). There’s evidence that the same forces hold true for other products that cater to upper-income people, from high-end retail to beauty services. The average manicure, for example, is about $3 cheaper in New York City than in each of the rest of the top 10 biggest cities in the United States, according to Centzy, a company that collects data on the prices of services.

Part of the reason high-income residents get good deals, Handbury explains, results from a particular economic system. Highly educated, high-income New Yorkers are su
equally well-educated and well-paid people with similar tastes. More vendors
business, which effectively lowers prices and provides variety. There’s also a h
distributing a niche product to an area; if there’s more demand for that produc

cost can be spread across more customers, which will justify bringing the product to the market in the first place. That's why companies go through the expensive hassle of distributing, say, St. Dalfour French fruit spreads in rich cities but not in poor ones and why New York can support institutions like the Metropolitan Opera.

Of course, not everything that wealthy New Yorkers spend money on is cheaper here. Housing, after all, is absurdly expensive, even for the rich. Complex zoning regulations and limited land make it all but impossible for supply to grow alongside demand. Still, it's somewhat unfair to compare housing costs here to those in a place like Buffalo, or even Atlanta, since perks like access to amenities and unusually lucrative jobs are baked into the cost of New York real estate. Yet those higher rents all but ensure that tenants will appreciate an amazing bakery or a fancy shoe store — and that retailers will have to lower prices to compete for their business. Regardless, the rent burden isn't actually as onerous as people assume: the typical resident here pays roughly the same share of her income in rent as does her counterpart in Los Angeles, Chicago, Philadelphia and Houston, according to N.Y.U.'s Furman Center for Real Estate and Urban Policy.

Professional-class workers who like to moan about the cost of living in New York — and I'm including myself in this group — don't realize how spoiled we are by both variety and competitive pricing. Truthfully, things seem more expensive here because there's just way more high-end stuff around to tempt us, and we don't do the mental accounting to adjust sticker prices for the higher quality. We see a sensible shoe with a $480 price tag or an oatmeal cookie for $4 and sometimes don't register that these are luxury versions of normal items available from Payless or Entenmann's. The problem, in part, is that people tend to anchor their own expectations for what they should buy based on what their neighbors are buying, not what some abstract, median American buys. It's a phenomenon known by some as affluenza, and it partly explains the overborrowing by the lower and middle classes during the bubble years, when their incomes were flat but their high-income neighbors' incomes were growing phenomenally.

There is, however, an ominous flip side to Handbury's findings. When you look at the cost of living for low-income people based on their tastes and preferences, New York's poor turn out to be even poorer than you think. According to her research, a household earning $15,000 a year faces approximately 20 percent higher grocery costs in cities with relatively high per-capita income. The same is very likely to be true for other essentials, like clothing. Real estate is most crushing for all but those lucky enough to get into subsidized housing. For the poor, it is impossible to unbundle apartments from all the perks that help drive up costs.

A concentration of rich consumers should lead to better salaries for low-skilled jobs like waiters or manicurists. But federal programs intended to help the poor, like food stamps or child-care subsidies, are generally not adjusted for the local cost of living. In New York, the poor are "getting disqualified from a lot of these programs because they're being paid $10 an hour rather than $7.50 an hour," says David Albouy, an economist at the University of Michigan, "which can sort of artificially put them above the poverty line or wherever the threshold is."

Between these competing forces of higher-paying jobs and high living costs, the high costs seem to be winning out. As I talked to Handbury, I began to realize why, in part, New York seems so wealthy. It's not so much that the city has been colonized by hedge-fund millionaires (though it often feels that way) as it is losing its lower classes. The greater New York area now has the longest average commute in the country (35 minutes, compared to a national average of 25). Many of the less-educated are leaving the metro area altogether: from 1980 to 2010, the population of college-educated workers rose by 73 percent, while the population of workers without college degrees fell by 15 percent, according to Rebecca Diamond, an economics graduate student at Harvard.

What's happening in New York is just part of a national shift. Highly paid, college-educated people are increasingly clustering in the college-graduate-dense, high-amenity cities where they get good deals on the stuff they like, while low-skilled people are increasingly flowing out to cheaper places with a worse quality of life. The end result, Diamond's research shows, is that measures of the growing income gap between the high-skilled and the low-skilled, which already look pretty shocking, seriously understate the inequality between these two classes.

This two-tier economy can seem inevitable, but other middle-income cities — particularly Sun Belt hubs like Houston and Charlotte — are now offering a third option, says Edward L. Glaeser, an economist at Harvard. A large part of their appeal has to do with policies that make it easier to build homes and expand the affordable housing stock for those people fleeing cities like New York. Places like Detroit are cheap, Glaeser told me, because they have become drastically less attractive locations to live and work. But places like Houston are cheap — and staying cheap, even as they grow — because the local governments have realized their comparative advantage is in deregulation, not in fancy cookies.

Catherine Rampell is an economics reporter for The Times. Adam Davidson is off this week.