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Housing Policy in New York City: A Brief History

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Furman Center for Real Estate and Urban Policy

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It is commonly said that New York City is exceptional, and housing is typically considered one of the most exceptional aspects of New York life. In reality, New York's housing conditions are not so different from those of other large cities. New York City's housing policies, however, are truly distinctive.

New York has long been a pioneer in housing policy. The city had the nation's first tenement laws, its first comprehensive zoning ordinance, and its first public housing project. Its present policies continue to set New York City apart. Practically nowhere else has rent regulation persisted so long, or do public housing projects successfully house so many residents, or does the government spend so much money to house the poor, the homeless, and the middle class. The homelessness budget of the City of New York, for instance, almost matches the federal government's spending on homelessness nationwide. The city's capital expenditures for housing, meanwhile, amounted to more than three times the housing expenditures of the next 32 largest cities combined during the late 1980s and 1990s (Schwartz 1999).

This policy brief aims to tell the story of housing policy in New York City over the past 30 years or so. The first section describes the city's unprecedented efforts to rebuild its housing stock during the late 1980s and 1990s. The second section analyzes the specific features of the city's Ten Year Plan that made these efforts so successful. The third section then discusses the city's current housing environment and the policy challenges it presents.

The Ten Year Plan: Origins and Programs

The story begins in the 1970s, a decade in which the city lost over 800,000 residents. As a result of these large population losses, together with rising maintenance costs and stagnant tenant incomes, entire neighborhoods in the city were devastated by waves of abandonment and arson. By 1979, New York City had taken ownership through tax foreclosure of over 60,000 units in vacant buildings and another 40,000 units in occupied and semi-occupied buildings. The city's housing agency, the Department of Housing Preservation and Development (HPD), very quickly became the second largest landlord in the city. (Only the New York City Housing Authority, the largest public housing authority in the country, controlled more units.) This *in rem* housing, named after the legal action that vested title in the city, continued to deteriorate under city ownership, despite consuming large amounts of HPD's annual operating budget.

By the mid-1980s, housing prices and rents were beginning to rise again throughout the city, and homelessness had become a persistent and increasingly visible problem. City officials were under pressure to provide housing to homeless individuals and families as a result of both public criticism and a highly-publicized lawsuit that was settled in 1981 through a consent decree in which New York City agreed to provide shelter to any homeless man who met the need standard. The consent decree also laid out minimum health and safety standards that city and state shelters had to meet. A few years later, as a result of other lawsuits, similar rights were extended to homeless women and families.[1] Meanwhile, cutbacks in federal subsidies by the Reagan Administration substantially reduced the resources that had historically been available for use in providing housing assistance.

There was broad consensus that a housing crisis had emerged in New York City and that something needed to be done. In response, in 1985, Mayor Koch announced what would come to be known as the city's Ten Year Plan for Housing.[2] In the original speech announcing the Plan, the Mayor described a "five-year $4.4 billion program to build or rehabilitate around 100,000 housing units for middle class, working poor and low-income families and individuals" (Koch 1985, 8). Three years later, the Mayor extended the plan to ten years, increased the city's financial commitment to $5.1 billion and raised the number of assisted units to 252,000 (New York City, Office of the Mayor 1988). Specifically, the aim was to renovate 82,000 units in occupied *in rem* buildings, rebuild 47,000 units in vacant *in rem* buildings, build 37,000 new units and upgrade 87,000 apartments in privately owned buildings.

To fund the program, Koch proposed using rent revenues from Battery Park City rents to finance approximately one billion dollars in bonds. Other revenues would come from the city's Housing Development Corporation (a public benefit corporation that issues bonds to raise capital for affordable housing), the city's capital budget, and various state and federal sources. According to estimates from the city's Independent Budget Office, the bulk of funds spent on the Plan came from city sources (Niblack 2001). Additional funds came from a mix of federal and state sources.

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[1] Culhane, Dennis P., Stephen Metraux and Susan M. Wachter. 1999. "Homelessness and Public Shelter Provision in New York City." In Michael H. Schill, ed. *Housing and Community Development in New York City: Facing the Future*. Albany: State University of New York Press.

[2] Many of the programs that would be encompassed in the Ten Year Plan were already in existence in 1985. What was unprecedented was the scale of commitment and activity.

The chief purpose of the program was clearly to address the shortage of affordable housing in the city. But a focus on neighborhood revitalization was evident as well. A document produced by HPD early in the Ten Year Plan made the point explicitly: "We're creating more than just apartments– we're re-creating neighborhoods. We're revitalizing parts of the city that over the past two decades have been decimated by disinvestment, abandonment, and arson**"** (New York City, Department of Housing Preservation and Development 1989).

Over the course of the Plan, which ended up lasting some 15 years and extending through the Dinkins and Giuliani Administrations, HPD enlisted a wide variety of players. Since the agency did not aim to construct the housing itself or to own and operate it, HPD turned to capable nonprofit and for-profit developers that could undertake development and, in the case of rental projects, own and operate the housing. The city also depended critically on the involvement of local financial institutions and intermediaries, who provided both financial and technical support.

The 100 or so programs that formed the Plan can be grouped into three general categories. First, a number of programs provided low-interest loans to owners of occupied dwellings for upgrading and repairs. Most of these programs targeted the owners of rental dwellings, but several programs also made loans to assist owner-occupants of one- to four- family homes in making structural repairs. Property tax abatements were also provided for extensive repairs.

Second, a number of programs provided subsidies for new construction projects, which typically built affordable, owner-occupied homes. The largest program was the New Homes Program of the New York City Housing Partnership, a public-private partnership formed to increase and improve the affordable housing stock in the city. Through this program, the city contributed vacant land for only $500 per lot, and provided a $10,000 subsidy for each unit built; the state contributed an additional $15,000 per unit. Private developers, under the supervision of the Partnership and commercial bank construction lenders, typically built two- to three- family residences for moderate-income purchasers.

Finally, much of the Ten Year Plan was naturally focused on the *in rem* housing stock. While the details of the specific programs differed, the basic design was much the same. Buildings from the city's inventory of *in rem* property (both vacant and occupied) were conveyed at no cost or for a nominal amount to nonprofit or for-profit developers. Capital subsidies were provided in the form of mortgage loans at below market interest rates, using a combination of city and federal dollars. In addition, equity investors in the developments received Low Income Housing Tax Credits where available. Developers of these *in rem* buildings received tax abatements as well.

Most of the *in rem* stock was maintained or recreated as rental housing, but some buildings were renovated for homeownership, typically through the Tenant Interim Lease Program (TIL). The TIL program funded the renovation of buildings while they were still in city ownership. Tenants were required to participate in building management education programs, and after several years, the properties were transferred to tenants as cooperatives for a modest price.

Through the course of the Ten Year Plan, the city rehabilitated virtually all of its *in rem* buildings and developed virtually all of its vacant land. The production totals are impressive, and indeed unprecedented for a municipal government. As of 2003, the city's programs had created over 34,000 affordable units through new construction, had restored nearly 49,000 affordable units through the gut rehabilitation of formerly vacant buildings, and had provided renovation subsidies to another 125,000 units of distressed occupied buildings. And as noted already, the expenditures dwarfed those being made by other cities during this time period (Schwartz 1999).

As shown in Table 1, these investments were made throughout the city's five boroughs, but they were heavily concentrated in the Bronx, Brooklyn, and Manhattan. Within those boroughs, moreover, the city's investments were concentrated in a few areas. Table 2 shows that the five community districts with the largest number of city-assisted housing units (together housing over 66,000 assisted housing units) were clustered in Upper Manhattan and the South Bronx.[3] In some of these neighborhoods, over a third of the housing units had received some form of city housing assistance by 2003.

Table 1:
Housing Rehabilitation and Construction Through New York City Capital Programs, 1987-2003

	Rehabilitation of Occupied Housing Units	Rehabilitation of Vacant Housing Units	New Construction of Housing Units	Total Housing Units
Bronx	46,165	17,646	11,246	75,057
Brooklyn	32,293	11,882	12,394	56,569
Manhattan	39,744	19,016	7,320	66,080
Queens	5,916	177	1,985	8,078
Staten Island	1,023	99	1,438	2,560
Total, NYC	125,141	48,820	34,383	208,333

[3] New York City includes a total of 59 community districts, which range in population size from 35,000 to 220,000.

Table 2: Community Districts with the Largest Number of Total Housing Units Assisted by New York City Capital Programs, 1987-2003			
		Number of Units	**Percent of existing units, 2000**
Manhattan	Central Harlem	21,632	40.6%
Bronx	Highbridge/Concourse	14,483	30.2%
Bronx	Fordham/University Heights	11,945	28.7%
Bronx	Morrisania/Crotona	9,524	39.2%
Manhattan	East Harlem	8,938	19.4%

Clearly, the low- and moderate-income households who have been fortunate enough to move into these affordable units have benefited. But residents of the surrounding neighborhoods seem to have benefited as well. Researchers at New York University's Furman Center for Real Estate and Urban Policy have written a number of research papers that examine how these housing investments affected the surrounding communities. As discussed in the accompanying policy brief, these analyses offer strong evidence that the housing investments made by New York City over the past twenty years have generated significant improvements in the surrounding neighborhoods. Indeed, an analysis of approximate costs and benefits suggests that New York City's housing investments delivered a tax benefit to the city that exceeded the cost of the city's subsidies and offset some 75 percent of total public expenditures, which includes both state and federal dollars.[4] Naturally, adding in the individual benefits enjoyed by the households that actually get to live in the new subsidized housing would make the estimates dramatically more favorable.

[4] For more detail on these tax benefit estimates, see Amy Ellen Schwartz, Ingrid Gould Ellen, Ioan Voicu, and Michael H. Schill, "The External Effects of Subsidized Housing," NYU Furman Center for Real Estate and Urban Policy, January 2005.

More broadly, these neighborhood impact studies suggest that cities may be able to use housing subsidies to serve two purposes – to create new, affordable housing units for qualified recipients and to revitalize urban neighborhoods. Further, the rise in property values in the vicinity of the new housing suggests that a city may be able to re-coup some or all of its housing investments through an increase in property tax revenues. The next section highlights some of the possible factors underlying New York City's success, which may offer important lessons to other cities as they design and implement local housing programs.

Explaining the Success of the Ten Year Plan

Naturally, no one single factor explains the success of New York City's efforts. However, it is worth highlighting several features of the Ten Year Plan that appear to have had the greatest impact on its success: the income mix of households; the focus on preservation and neighborhood revitalization; the cooperation with local institutions; and the overall level of public commitment.

Income Mixing: As noted above, New York City was under tremendous pressure during the 1980s to focus its housing efforts on homeless families. But while the city's programs housed a large number of homeless and very low-income families, they also served a range of income levels. Indeed, most of the individual programs aimed to serve a mix of incomes in their buildings. Most of the rental programs, for instance, set aside 10 to 30 percent of the units for formerly homeless families, while reserving other units for a mix of low- and moderate-income households earning up to 80 percent of the area median income. Homeownership programs typically targeted households earning up to the median income.

This focus on income mixing helped to stretch subsidy dollars further, since the subsidies required to house higher-income families are lower. In addition, income mixing may have been critical in rebuilding the fabric of the city's neighborhoods. Not only did the city's efforts help repopulate neighborhoods that had been devastated during the 1970s, but they attracted a diverse mix of households, including many working families, who had resources to spend on improving their properties and supporting local businesses, who could serve as role models and sources of information about jobs, and who arguably held greater sway with local politicians.

Focus on Preservation and Neighborhood Revitalization: Historically, much of the affordable housing subsidies in the United States have been allocated to the construction of new housing. By contrast, in New York City, the focus was on rebuilding the city's existing stock of housing and revitalizing communities. The city, for instance, paid careful attention to where they deployed their rehabilitation resources. The planners at HPD recognized that renovating a single building on an otherwise dilapidated block would do little to spur neighborhood change. Thus, they worked to stage city investments so that entire blocks and sections of neighborhoods were rebuilt simultaneously.

The city also took care to revitalize existing buildings, in part to ensure that the new housing would fit in with the design and character of existing communities. Even in cases where a building was completely vacant and abandoned, the city maintained the existing structure in undertaking the renovation. Finally, as discussed below, the city's strong emphasis on working with community-based partners also helped to further neighborhood revitalization.

Cooperation with Local Institutions: The city depended heavily on the cooperation of local partners in carrying out its ambitious efforts. In part because rebuilding the fabric of local neighborhoods was a central goal, the city worked closely with community-based nonprofit organizations. To build the capacity of these organizations, the city worked with both the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation to provide technical support to community development corporations, as well as access to equity from Low Income Housing Tax Credits. Over the course of the Plan, the number of nonprofits involved in the city's efforts grew dramatically. Significantly, the city also worked to build the capacity of local entrepreneurs and community businesses through such efforts as the award-winning Neighborhood Entrepreneurs Program, which helped small-scale, neighborhood-based entrepreneurs renovate and ultimately own clusters of city-owned apartment buildings.

Finally, the city depended critically on the active participation of local financial institutions and intermediaries. Banks and bank consortia such as the Community Preservation Corporation (CPC) provided not only the financing for much of the construction, but also added to the capacity of HPD in supervising construction expenditures (Wylde 1999). The wide array of actors involved in the Plan amplified the city's efforts and helped to build a political constituency for housing as well.

Level of commitment: Finally, the unprecedented magnitude and scope of New York City's investment in housing may have played a large role in driving the success of the program. This large commitment may have helped to generate confidence on the part of neighborhood residents, investors, and developers, encouraging them to contribute time and resources to the endeavor.

Current Environment

The housing problems faced by New Yorkers today are far different from those encountered in the 1970s. In contrast to the dramatic flight experienced during the 1970s, the city's population, fueled in large part by immigration, is growing once again. Census estimates suggest that the city's population grew substantially between 1990 and 2000 and has continued to grow in the years since 2000. Neighborhood conditions have improved dramatically. Neighborhoods that just a few years ago were marked by abandoned buildings and notorious for their high crime rates, are now bustling, thriving communities. According to the 2005 New York City Housing and Vacancy Survey (HVS), the proportion of renter households that rated the quality of the residential structures in their neighborhood as good or excellent rose to 71 percent, the highest percentage recorded since the HVS started asking households about neighborhood quality in 1978.

Residential construction activity has risen considerably in the city in recent years, as evidenced by building permits and certificates of occupancy. The number of new units authorized by building permits issued in 2005 was higher than it has been since 1972. According to the HVS, the physical condition of the city's housing stock is better than it has ever been.

Still, despite this stepped-up construction activity, the housing market remains extremely tight. Rental vacancy rates remain around 3 percent, and housing prices and rents have risen significantly in recent years. Twenty nine percent of renter households now pay more than half of their income for gross rent and home sale prices are rising rapidly throughout the city, pushing homeownership out of reach for most families. Moreover, this hot market also jeopardizes the city's large stock of subsidized housing, as owners are tempted to convert to market-rate status when affordability agreements and subsidies expire. In short, if property abandonment was the challenge in the 1970s, affordability and preservation are surely today's challenges.

Affordability: New York's extremely tight housing market gives rise to many policy challenges. One implication of the market is that affordability problems plague all but the very wealthy, which suggests a greater need for subsidized housing targeted to the middle-class. The city is now experimenting with a number of housing programs aimed at preserving affordability for middle-income households who might otherwise choose to leave the city in search of lower-cost locations.

Another challenge is to continue adding to the stock of housing. Yet federal support for housing is declining, while the supply of vacant land available for residential development is dwindling. Increasing the supply of new housing requires either the rezoning of manufacturing and commercial areas to allow for housing (something the city is already doing) or increasing density in existing residential areas. HPD is also working with other city and state agencies to identify obsolete publicly-owned facilities that could be rebuilt as affordable housing.

Finally, it is critical in this market to search for ways to decrease the costs of residential construction, which are significantly higher in New York City than in other cities around the country (Furman Center, 2005). There are many reasons for these elevated costs, but one noteworthy contributor is the regulatory barriers that the city itself places on new housing construction. The Furman Center has issued two reports on the cost of construction in New York City and has found that regulatory barriers increase the difficulty and cost of housing construction in the city. The reports offered a long list of policy recommendations that would help to ease regulatory burdens.

Preservation: A second key challenge is not simply to build new housing but to preserve what we already have. As is the case with many cities in the country, subsidies and affordability agreements are expiring for much of the subsidized stock. There are an estimated 77,000 units of HUD-assisted housing in New York City and another 115,000 units of city- and state-subsidized Mitchell Lama units that are nearing the end of their subsidy terms. Finally, there are also 64,000 units of housing developed through the Low Income Housing Tax Credit program that will soon reach the end of their 15-year terms. A clear challenge for the city is to figure out creative ways to preserve these critical resources.

Ensuring that the privately-owned stock remains in good shape is also critical. While today's market conditions are strong, the market will at some point soften, and the city should do its best to ensure that pockets of disinvestments and abandonment do not re-emerge. Predatory lending has emerged as a significant threat to the stock of owner-occupied homes as well as to privately-owned multifamily housing, as lenders have persuaded owners to accept unreasonably costly loans. Burdened with extremely high interest payments, these properties face an elevated risk of default and foreclosure. The city needs to work proactively to educate borrowers and help them escape from unfavorable loans. It also needs to aggressively enforce laws prohibiting lending behavior that is clearly duplicitous.

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The New York City housing policy community should be proud of its highly innovative and successful efforts during the past two decades. The programs that comprised the city's Ten Year Plan successfully housed a large number of diverse households and, in the process, brought vitality back to entire neighborhoods throughout the city. But the city cannot rest on these past successes. It must work hard to preserve these accomplishments and continue to develop new housing. The city's population is rising and much of its affordable stock is at risk.   At the same time, federal support for housing is waning. The city government must figure out how to do more with less – less vacant land and fewer capital resources. The city has been proven to be a pioneer in housing policy in the past; today's challenges once again call for innovative strategies and approaches.