The Stamford Review

Spring/Summer 2006

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Schaefer Landing, on the former Schaefer Brewery site in Williamsburg, Brooklyn, highlights the transformation of former industrial tracts to residential development. Apartments in the first building, shown here, have already sold out. Photo: Simon Kristak.

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Introduction

This issue is about the reconfiguration of New York City, a physical transformation that has been fueled by a mixture of population growth, increased affluence, and an unusually strong housing market. What is happening here is mirrored to varying degrees in successful cities elsewhere in this nation and across the globe.

Here, nine experts praise and critique city government's efforts to guide this transformation, to meet and balance growing demands for market housing, affordable housing, open space, industrial space, and historic preservation. Even as the housing market softens, these policies will have long-term effects and will continue to be debated.

In recent years it has been easy to forget Jonathan Miller's reminder that twenty years ago Manhattan's housing market relied on government tax policy to stimulate demand. Julia Vitullo-Martin applauds the results of public and institutional investment in the Bronx, but she notes that destructive government policies helped depress the borough in the first place.

Much of our attention is drawn to the city's extensive rezoning of former industrial areas on the Brooklyn waterfront and the west side of Manhattan. Frank Braconi questions whether these initiatives are sufficient to meet the needs of our growing population, while Kimberly Miller and Mark Alexander address what will be required to make the rezonings a success. Peter Beck shows us that limited public resources, directed to these areas for affordable housing, could perhaps be more effectively spent, while Lisa Kersavage shows us how rezoning need not have cost us valuable historic resources. Pamela Hannigan praises the city policy that is creating new industrial business zones in order to preserve and stimulate the valuable manufacturing resources that remain.

And then there is Governors Island. Is there a greater possibility for adding a jewel in our crown than the history and open spaces that this island offers and represents? Our third issue is dedicated to the possibilities of Governors Island.

Lawrence Sicular
February 8, 2006

New residential development rises next to 19th-century housing on North 7th Street, Williamsburg, Brooklyn.
Photo: Simon Kristak.

New York Confronts the Limits of Growth Growth Management in a Mature City

By Frank Braconi

IN August 2004, New York's City Council passed a sweeping zoning reform called the Lower Density Growth Management Text Amendments, and it designated the Borough of Staten Island the city's first Lower Density Growth Management Area. It marked the first appearance of the phrase "growth management" in the city's zoning resolution and signaled a new stage in the city's remarkable revival. After nearly two decades of vigorous population growth, New Yorkers are beginning to question the benefits of increasing residential densities and demanding that new development enhance the quality of their neighborhoods rather than degrade it.

The public mood is a predictable response to the development and population pressures communities have experienced. And this response can only be expected to intensify as the remaining vacant and underdeveloped land disappears. For life in the city to continue to improve, planners and elected officials will need to readjust their thinking about growth and development and devise policies suitable to a city that is rapidly approaching its physical capacity.

For a long time New York City didn't have to worry about growth. Fewer people lived in the city in 1990 than at the outbreak of World War II[1]. During the 1970s, the population of the city declined by over 800,000, and decay, crime, and fiscal crisis were the most urgent civic problems. Even after the city started growing again, sometime during the 1980s, its political culture remained steeled against a relapse. Prevention of renewed housing abandonment remained a central objective of the city's housing and community development policies well into the 1990s, and even today not all of the city's political elite are convinced that the growth revival will last.

Nevertheless, for the past two decades the city has been adding 40,000 to 60,000 residents per year. Its population gain since 1980, greater than that of any other city in the nation, has been approximately equal to the entire population of Dallas. Housing starts in 2005 will approach levels not seen since the early 1970s, and transit ridership is at its highest levels in 50 years.

Not surprisingly, growth-related planning problems have reemerged as top community issues, and political pressure for better growth management, principally through tighter zoning controls, has flared up throughout the city. Neighborhood pressure for stricter zoning regulations is nothing new. It is a given of planning politics in New York (and just about everywhere else), that communities will welcome zoning changes that lower building densities and resist those that raise them. But during the past few years local demands for stricter rules have grown more vehement. Out of political necessity as well as, perhaps, planning conviction, the Bloomberg administration has accommodated community demands by mapping new contextual zoning districts and selectively reducing zoning density.

The recent spate of rezoning actions has raised concern within New York's pro-development coalition, which in addition to the usual real estate and business interests includes housing advocates and many of the city's policy intellectuals. With the dwindling supply of vacant sites already inflating land costs, they argue that the city should be liberalizing, rather than tightening, its zoning regulations.

During the Giuliani years planning officials sought to minimize community opposition to new development by more carefully regulating the form development takes. Guided by a belief that tall, out-of-scale buildings are what provoke community resistance, rather than density per se, the city mapped a number of contextual zoning districts while adopting an unofficial "no net loss" policy toward density. That is, the city would approve or even sponsor downzoning proposals, providing the community in question agreed to offsetting density changes elsewhere within its boundaries. When it sought to apply those principles through a citywide reform of building bulk regulations, however, it ran into vigorous real estate industry opposition.

The Bloomberg administration has apparently dropped the balancing requirement and has been more willing to accommodate community demands for reduced zoning density. Simultaneously, the administration has aggressively followed through with its predecessor's plan to open up underutilized industrial districts to residential development. But thus far it has not begun the more delicate process of adjusting housing and economic development policies to the day when the city approaches its built-out state.

NEIGHBORHOODS UNDER PRESSURE

Calls for stricter development controls are emanating from neighborhoods throughout the city, spanning the gamut of neighborhood types. Recently, the city initiated a downzoning of the Far West Village that, coupled with the mapping of a new historic district and the designation of several individual landmark buildings, will preserve the low-rise industrial scale of sixteen blocks west of Washington Street. In Brooklyn, the city is implementing a rezoning that would impose height limits and other contextual requirements in a 50-block area of south Park Slope, with some limited upzonings on major avenues.

Although the zoning actions in the Village and Park Slope have provoked protests from affected developers, the procession of restrictive zoning actions in lower-density districts has stirred more criticism in planning and policy circles. In part, that's because they affect much more of the city's land area. There is also, however, an undercurrent of dismissiveness toward the concerns of lower-density neighborhoods and even a murmur that the resistance to further development is racially motivated.

It's not surprising that the loudest calls for tighter zoning restrictions are coming from the city's lower-density districts – that's where the most rapid growth has been occurring. During the 1990s, the least-dense third of city's community board districts saw their aggregate population increase by 13.1 percent, compared to only 3.4 percent in the nineteen densest districts. Although there are no community-by-community population estimates beyond the census year, growth, as measured by the number of residential building permits issued, has increased further in those lower-density districts since 2000.

Any community would notice and react to population growth of those magnitudes. In exurban towns population growth occurs horizontally, with new housing development on the fringe leaving the texture of existing neighborhoods unchanged. But in the established communities of the boroughs, most new development comes through infill or tear-downs, changing streetscapes and crowding classrooms. Because a family cannot conveniently go about its business without a car in those lower-density neighborhoods, the population growth also brings with it most visible and bothersome signs of change: increased traffic and intensified competition for street parking.

The sense of change – and perhaps of a degradation of neighborhood character – is heightened by two factors not directly related to new development. One is the boom in home renovations fueled by rising real estate values and low interest rates. A modernization of the city's housing stock is desirable, but human nature being what it is, many of the renovations are ostentatious and insensitive to their neighbors. A second factor is the proliferation of accessory dwelling units. In the boroughs these units are usually in basements and often illegal. These units have raised population densities beyond what the official numbers indicate and have contributed to a sense that development and population growth in the boroughs is out of control.

In addition to the borough-wide growth management plan adopted for Staten Island, in recent months lower-density and contextual zones have been mapped in Bayside and College Point in Queens; Morris Park and Throgs Neck in the Bronx; and Bay Ridge in Brooklyn, and are completed or are in the works in a host of other communities. Usually the lower-density zoning changes involve raising on-site parking requirements, reducing floor-area exemptions, imposing height limits, and increasing front- and side-yard requirements. Those changes generally have only a modest effect on permissible dwelling unit density. In a few cases, however, remappings are decreasing permissible density substantially, as in the Homecrest section of Brooklyn, where 31 full or partial blocks are being remapped from R6 to R4-1. (The original designations permit FARs up to 2.43, while the R4-1 designation limits FAR to .75 plus an attic allowance.)

The mantra in almost all of these rezoning actions is the desire to "preserve the low-rise character" of the neighborhood or the "existing community character." Local communities are inherently conservative; residents will almost always prefer the status quo over a more intensely developed alternative, both because that is what they have grown accustomed to and because, to a large extent, they have sorted into neighborhoods according to their prior preferences. In many cases, the neighborhoods seeking contextual protections possess an undeniable aesthetic appeal, such as with the 1920s-era Americana of Bayside or the contemporary orderliness of Whitestone.

Is there a subtext of racial or ethnic exclusion to these rezoning actions? Well, you can always find racial and ethnic prejudice if you look for it, but as an explanation of growth politics in the boroughs, it simply doesn't ring true. Queens is, for example, a very different place now than it was during the infamous battle over "scattered-site" public housing in Forest Hills. The borough is over 60 percent minority, and it doesn't contain a single community board that is as "white" as Manhattan is below 110th Street. If there are many holdouts against ethnic diversity left, it's unlikely that they could have mustered the support to mount a borough-wide anti-growth movement, or would have picked contextual zoning as the cause around which to rally. Furthermore, more restrictive zoning is being requested and implemented in majority-white and majority-minority neighborhoods alike. It may just be that residents really are motivated by loss of parking, crowded schools, and a deteriorating built aesthetic.

Proponents of limitless population growth often characterize outer-borough neighborhoods as "suburban," and wonder why residents don't welcome the cultural and service benefits of higher density. Those neighborhoods more closely resemble some of America's favorite cities than they do modern suburbs, however; Flushing is already more dense than San Francisco, and Staten Island is as dense as Seattle. By any standards, the city's lower-density neighborhoods are highly urbanized places. The ambiance of some neighborhoods would undoubtedly be improved by more dense and varied development, but there is no scientific or planning evidence that greater density improves neighborhood quality always and everywhere.

Because they offer an urban form that is an alternative to Manhattan's hyper-urbanization, the city's lower-density neighborhoods should be valued as strategic assets. Some provide varied, high-quality residential choices to a critical managerial, professional, and technical class, while others offer affordable home ownership opportunities for the city's blue-collar and clerical workforce. It is wise for public policy to aim to protect and improve them.

CREATING NEW NEIGHBORHOODS AND REMAKING OLD ONES

While reacting to constituent demands for stronger growth controls in established neighborhoods, the past two mayors have sought to relieve development pressure by rezoning underutilized manufacturing land for residential use.

For many years this sensible policy was held up by industrial firms who wanted to remain protected from land-use competition, by romanticists who saw manufacturing jobs as the bedrock of the working-class city, and by residential-loft tenants who sought to keep their tenuous hold on undervalued space. But by the time Giuliani swept into office with a no-nonsense approach to the city's development priorities, there was little spirit left in the resistance. Manufacturing employment had continued its inexorable decline, and even old New York stalwarts such as Farberware, Swingline, and Domino Sugar were preparing to leave the city. One of the earliest rezoning actions of the Giuliani administration was the remapping of lower Sixth Avenue for commercial and residential uses, which was followed by the rezoning of industrial districts in Chelsea and Long Island City. Planning and environmental work was also undertaken for the redevelopment of Manhattan's far west side and Brooklyn's waterfront.

Planners and housing developers can find many faults with the subsequent rezoning of the Hudson Yards area of Manhattan and the Greenpoint-Williamsburg section of Brooklyn. Nevertheless, implementing zoning changes that essentially allow entirely new neighborhoods to be built is a significant achievement for the city's development program. In both cases, and in a somewhat smaller action in West Chelsea that soon followed, the city found that commitments of affordable housing through inclusionary zoning and city subsidies were an essential tool for gaining the support of community groups and local elected officials for intensive new development.

There are other industrial districts that may also be ripe for rezoning. A recent report prepared for the Manhattan Institute's Center for Rethinking Development identifies five areas, one in each borough, that could collectively yield between 64,000 and 86,000 additional housing units. Along with the 50,000 units that might eventually be accommodated in the rezoned Hudson Yards, Greenpoint-Williamsburg, and West Chelsea areas, that seems like a lot of housing. Yet, when one considers that new housing completions in the city are running at over 20,000 units per year, that represents only about seven years of siting capacity. Recycling formerly industrial land for residential use will help to alleviate market pressure on existing residential neighborhoods, but it will not stave off indefinitely even tougher land-use decisions.

Aside from the manufacturing zones, there are some neighborhoods that could be enhanced by higher residential densities. A recent report prepared by the Steven A. Newman Real Estate Institute at Baruch College for New York City's Public Advocate Office identified a number of commercial corridors in the boroughs where higher-density residential development could be encouraged. Often, these corridors are zoned C8, a designation that prohibits residential development. Retail services, pedestrian safety, and the general ambiance of those corridors would probably be enhanced with residential redevelopment, but because the districts are only mapped along thoroughfares, they do not have the aggregate housing potential of the deeper manufacturing zones.

"Smart Growth" principles suggest that higher density residential development should be encouraged around some of the city's major transit nodes. Commuter rail intersects with the subway system at only a few points, and new development could be concentrated there. One of those inter-modal transit hubs, Flushing, is already quite dense and another, the Atlantic Terminal in Brooklyn, is the locus of a proposed 9-million-square-foot development. Two others, Jamaica and Woodside in Queens, probably should have more intensive residential development surrounding them, but there is little political appetite for undertaking the zoning and development measures that would eventually lead to displacement of existing businesses and homeowners.

COMING TO TERMS WITH A FINITE CITY

About 7 percent of the developable land of the city is currently listed as vacant. If all of it were developed for residential purposes at densities typical of the community in which it is located, the city would be able to accommodate about 350,000 additional residents and bring its total population to 8.6 million or so. Even at the lower range of the city's recent population growth trend, that calculation suggests that the city's capacity for further population growth will be reached in seven to ten years. Some selective upzoning, along with the recycling of under-utilized properties, may allow the city to approach 9 million. Beyond that, population growth will be difficult without a radical redevelopment of some neighborhoods at significantly higher residential densities.

There is still room in New York City to develop new housing and even entirely new neighborhoods. But if the city's economy continues to expand, it will continue to attract domestic and international migrants and, in the not-too-distant future, its capacity limits will be felt. It is time that planners, officials, and other policy makers begin to think about the implications of the city's impending build-out and to modify some long-held beliefs about city growth and development.

A city unable to add significantly to its residential inventory will become increasingly dependent on neighboring jurisdictions to house its workforce and, to some extent, to provide jobs for its less-skilled residents whose employers are priced out of the city's real estate market. That, of course, has been happening for some time; at present, about one in ten New Yorkers commute to jobs outside the city and one in five jobs within the city are held by non-residents. Those cross-border flows will increase in both directions and will require a more regionalist approach on transportation, housing, and economic development issues. New York City officials and their counterparts outside the city will have to overcome their historic competitiveness and learn to cooperate on policies that promote regional health.

While New York City is already at a historic population peak, some of the region's smaller cities, including Newark, Jersey City, Trenton, New Haven, and Bridgeport remain well below their former population peaks. For the most part, those municipalities would welcome redevelopment and repopulation and need to be brought into a strategic partnership with the huge city at the region's core.

The implications for affordable housing policy are even more direct. New York City's record on creating affordable housing is well known. But as the potential for new housing development dwindles, new solutions will be imperative. The city's supply-side approach to affordable housing will have to give way to a new strategy that emphasizes increasing the access of low- and moderate-income families to the existing housing inventory. That means not only preserving existing subsidized housing, but also selectively removing unsubsidized, private low-income housing from the speculative market. Similarly, the city's affordable homeownership efforts will not be able to continue primarily through production programs, and new approaches for providing affordable homeownership opportunities will need to be explored. The sooner this shift in thinking occurs the better, so that opportunities for preserving affordable housing, in both the assisted and unsubsidized sectors, are not lost.

Perhaps the most important shift that needs to take place is the recognition that the city cannot accommodate all of the housing demands that are placed upon it. A strategy focused on an inexhaustible quest for new housing supply is fated to fail and may undermine the quality of the city's neighborhoods in the process. New housing production should be pursued only when it is likely to improve the social, economic, or built character of the neighborhoods in which it is located. Population growth is not an end in itself; in a mature city it is desirable only to the extent that it makes the city a better place to live.

Notes

1. The city's population was 7,454,995 in 1940, compared to 7,322,564 in 1990.

The City Builds Where There is No Room to Grow Rezoning in Manhattan and Brooklyn

By Kimberly Miller & Mark Alexander

OVER the past four years, the Bloomberg administration has laid the groundwork for unprecedented changes in the pattern and character of New York City's physical development. Where factories and shipyards once churned out the material of New York's industrial age, homes, schools, and parks are now slated to take their place. In contrast to a Manhattan-centric approach in administrations past, these changes are part of a rezoning effort that spans all five boroughs. While the city has "downzoned" or limited the buildable space in part or all of over 40 low-density neighborhoods in a bid to preserve existing character and meet other objectives, major changes to the face of the city will likely be concentrated in fewer than ten underused industrial and waterfront areas that have been "upzoned" to generate more housing and economic growth.

In the next quarter century, these few neighborhoods will accommodate much of the new housing growth in all five boroughs. To date, the Bloomberg administration has introduced land-use changes that promote increased density, or "upzonings," in several high-profile neighborhoods including Manhattan's Hudson Yards and West Chelsea, Brooklyn's Downtown and the East River waterfront neighborhoods of Greenpoint and Williamsburg. Together, these four rezoning actions encompass 300 city blocks and create potential for over 30,000 housing units.

These land-use changes are unprecedented not only in scale, but also in the degree to which private developers are being asked to pay for, and even design and construct, public benefits and amenities, including parks, public transportation, and affordable housing. This article will describe how the four land-use plans above share burdens between the public and private sectors to maximize investment; the degree to which policy goals and pragmatism are driving the choices of how and by whom these investments are made; and the plans' future implications for quality of life and neighborhood character.

TRENDS IN PUBLIC-PRIVATE PARTNERSHIPS

Policy Context

Conventional wisdom prior to the Bloomberg administration was that ambitious rezoning actions were a losing proposition. Marshalling the political will to pursue them faced so much controversy that it was rarely deemed worth the effort. By making a vision for bringing the 2012 Olympics to New York City a central platform of his administration, Mayor Bloomberg developed a compelling case for land-use changes in all five boroughs. The Olympic plan located major sports venues in areas the Department of City Planning (DCP) had long indicated as ripe for housing and commercial growth. Many sites were in extremely desirable waterfront areas made more accessible by the "Olympic X" transportation plan that expanded ferry service.

The prime location of these neighborhoods promised a substantial increase in land value and development returns, which the mayor hoped to recapture for use in a broad array of public benefits. Developers are being asked to take on a larger share of what were previously public responsibilities for infrastructure and the city's social welfare. While the city will continue to be provide most basic urban services (such as streets and sewers), parks, public transportation, and even the financing of affordable housing are being treated more and more as public amenities whose costs developers should help to bear. This land-use strategy is supported by Mayor Bloomberg's five-year plan to invest $3 billion of public and private monies in housing – the largest since Mayor Koch's ten-year housing program that rebuilt the South Bronx. The original goal was to develop 65,000 new units, 46 percent of which would be affordable to households earning less than 80 percent of the New York Area Median Income (AMI). This initiative is soon expected to increase by 100,000 units.

Given the relatively few neighborhoods where high-density growth is expected to occur and the demands of a land-use policy designed to meet a variety of local needs, the scale of many of these upzoned neighborhoods will increase dramatically. The following chart indicates how these rezonings would distribute future growth. The profiles below compare how costs, associated risks, and benefits are being shared in various locations.

HUDSON YARDS

Transportation, Housing, & Parks

Of all the neighborhood plans proposed by the Bloomberg administration, the $3 billion Hudson Yards plan is the most ambitious. Even without the proposed Olympic/Jets football stadium, planned improvements include an expansion of the MTA's 7 train, a new street system, a rail yard deck, and up to 24 acres of open space. The Hudson Yards Infrastructure Corporation is collecting funds and coordinating the expenditure of monies raised from the sale of air rights, bonus density payments, taxes, and other revenue sources. The corporation may also issue bonds against future revenues from these sources. To promote affordable housing, the city lowered the residential density required to participate in its inclusionary zoning program and increased the affordability requirement. The resulting bonus would provide up to 33 percent in bonus floor area and require that a minimum of 20 percent of square footage be dedicated to affordable housing. City, state, and federal programs may be used to help finance this housing. To further support this plan's public amenities and infrastructure improvements, the Hudson Yards proposal raises the maximum density permitted in any New York City zoning district from 21.6 to as high as 33 FAR on a few sites.

	Number of Blocks	Housing Units	Affordable Housing	Open Space	Commercial Development
Hudson Yards	59	13,600	3,350	24 acres	26 million sq. ft. 200,000 jobs
West Chelsea	15	5,500	1,200	6.7 acres	n/a
Greenpoint & Williamsburg	175	10,800	3,500	49-54 acres	600 jobs
Downtown Brooklyn	40+	1,000	n/a	1.5 acres	5.4 million sq. ft. 18,000 jobs

WEST CHELSEA

High Line and Housing

Just south of the Hudson Yards, the city adopted a plan to enhance the mixed gallery and residential neighborhood of Chelsea by creating the new High Line Park on a former elevated railway. Property owners adjacent to the High Line will be able to transfer their development rights to sites on 10th and 11th Avenues. Developers will pay into the High Line Improvement Fund to offset the cost of building a 1.6-mile greenway above the street. In a few locations, developers will receive bonus floor area for designing and building part of the High Line greenway to the city's specifications. Developers will receive additional bonuses in exchange for building affordable housing and investing in the fund. These bonuses may range from 25 percent to 46 percent of the total project size. Over 20 percent of new housing in the neighborhood could be affordable.

DOWNTOWN BROOKLYN

Regional Business District

Downtown Brooklyn, by way of contrast, focuses on building up its traditional central business district. The area bounded by Tillary and Court Streets and Flatbush and Atlantic Avenues will use more traditional public financing than its sister projects. It could gain 4.5 million square feet of new commercial space and is expected to create 1,000 housing units. A 1.5-acre park atop a below-ground public parking garage will be the centerpiece, while streetscape improvements along Fulton Mall and Flatbush and Myrtle Avenues will improve design, safety, and ambience. The initial $100 million investment grew with the MTA's $162 million commitment to renovate the Jay Street and Lawrence Street subway stations. Developers may use the city's traditional inclusionary zoning program in some areas.

GREENPOINT-WILLIAMSBURG

Transforming an Industrial Zone

In the recent rezoning of Brooklyn's Greenpoint and Williamsburg neighborhoods, the administration tasked private developers with designing and building a wide array of public infrastructure improvements. In addition to creating the sections of a 1.6-mile waterfront esplanade adjoining their properties, developers will also repair and build riverfront bulkheads; construct recreation and water taxi piers; and build and maintain public waterfront access corridors. The cost of the esplanade will be borne primarily by the private developers whom the administration anticipates will build thousands of luxury and mixed-income units along the waterfront. A substantial public investment of $100 million will go toward a 28-acre waterfront park originally planned for the Olympics.

In a trend that began with the Hudson Yards rezoning, the Bloomberg administration is promoting inclusionary zoning in medium- to high-density districts with Floor Area Ratios (FARs) of less than 10 and as low as 2.2. Previously, this program was limited to the densest areas of Manhattan. While Manhattan developers are allowed to build four additional square feet of market-rate housing in exchange for one square foot of affordable housing, in Greenpoint-Williamsburg the ratio is very close to 1:1. However, unlike in Manhattan, the developers in these Brooklyn neighborhoods will not be required to pay the full cost of the affordable housing. To encourage sufficient affordable housing under a variety of market conditions, the Departments of City Planning (DCP) and Housing Preservation and Development (HPD) will provide significant floor-area and capital subsidies to developers using the inclusionary zoning bonus. Developers of waterfront luxury housing will also receive height and density boosts in exchange for building city-subsidized affordable housing on the site or in the community. Over the next 25 years, this public–private partnership is expected to help produce 7,300 market-rate and 3,500 affordable housing units.

ANTICIPATING CHALLENGES

Because the Bloomberg administration has chosen to partner with the private sector in developing traditional public amenities and infrastructure, it will have less control than if the public was providing all of the improvements. While there is great potential for these changes to have a positive impact, the quality of the results will depend on the timing of private investment; coordination between the city and state entities and developers; sufficient public funding; and the resolution of outstanding issues.

Development Occurs Before New Infrastructure

In each rezoning, new development will trigger private contributions to public infrastructure and amenities. It will be essential for development to occur at a rapid clip so citizens reap the maximum benefits of these plans. Slow development in the Hudson Yards could cause delays in constructing the 7-train extension, streets, parks, and other improvements. The Hudson Yards Infrastructure Corporation will have advance borrowing power to finance the improvements; however, unless a steady flow of private investment is established, expenditures in this neighborhood could begin to affect money available for other city priorities. In Greenpoint-Williamsburg there is funding for the 28-acre park, but as of yet, no advance financing structure for the waterfront esplanade. If contributions to the 1.6-mile esplanade were to be made piece-by-piece over decades, the jumble of disjointed open spaces would do little to improve neighborhood quality and surrounding property values.

Coordinating between a variety of players with their own goals and bottom lines will also be a challenge. For massive projects like the 7-line expansion, the city must work closely with the MTA's management and workforce, as timely construction of this transportation infrastructure may unlock the greatest flow of commercial development.

Maintaining Neighborhood Character

These new developments could bring anywhere from 2,000 to 25,000 residents to their host communities. Many of the Environmental Impact Statements (EISs) prepared for these and other recent rezonings state that these dramatic changes in density will have little effect on some major infrastructure systems. In Greenpoint and Williamsburg, however, new development could place tremendous pressures on already stressed transportation, parks, and sewage systems. For example, the G train will be the primary form of transportation for new Greenpointers. This line has earned the transportation advocacy group Straphanger Campaign's worst breakdown record. Loading on additional passengers may cause additional crowding, breakdowns, and service delays – all on a line that does not run directly to Manhattan.

The early and comprehensive master planning the Departments of Parks and City Planning is initiating in Greenpoint-Williamsburg could speed the transformation of raw land into parks and prevent damage to the East River's eroding shoreline. But even with the planned new parkland, all four neighborhoods would still fall below the city's goal of 1.5 acres of parkland per 1,000 residents. Water and wastewater management also remains an unsolved part of the equation. Although its nearby treatment plant theoretically has excess capacity, Greenpoint-Williamsburg's 20,000-plus new residents would almost triple water use, from 950,000 to 3.1 million gallons per day. No improvements are planned to the sanitary system, but research by water quality advocates at Riverkeeper determined that during wet weather it now discharges raw sewage into the East River and Newtown Creek once per week. Given that reconnecting the neighborhoods with the water is a major goal, improvements will likely be needed to ensure that water quality is not diminished.

Delayed Residential &
Commercial Development

Developers in these areas will design, build, and finance a broad variety of public amenities, the cost of which will be offset in part by expanding zoning bonuses and financial incentives. Inclusionary zoning and a key tax incentive program will now be available beyond the luxury core of Manhattan. It appears that developers in Greenpoint-Williamsburg, if not elsewhere, will need to take advantage of a "package" of both zoning and financial incentives at the local, state, and federal levels to be competitive. The city expresses confidence that development will occur at a reasonable pace and that the additional requirements will be offset by the incentives. While this assessment may prove accurate, a number of issues should be carefully monitored to avoid unwanted results.

First, approvals for infrastructure design at the city and state levels must not unduly delay market-rate development or they will lower profitability. The application, approval, and development process for the affordable housing must also be expeditious. The overall cost burdens imposed by these new regulations could cause developers to delay projects while they wait for a stronger market. If development does not proceed as smoothly as the city anticipates, it is likely that the waterfront infrastructure and amenities will be built in a highly disjointed manner. A master plan and enforcement support could ensure that development meets uniform standards for design and activity.

Any significant delay or shortfall in quality of design and construction will likely result in an outcry from residents of the Greenpoint and Williamsburg communities. During the lengthy public process for the rezoning, the public made very clear their passionate interest in obtaining an esplanade, view corridors, and access to the waterfront.

Investment Concentrated in Rezoned Neighborhoods

During the past ten years, the city made a concerted and largely successful effort to privatize the thousands of city-owned residential buildings and lots that it took over during the 1970s and 1980s. From 1996 to 2005, it transferred its focus from building renovation to new construction of affordable housing on vacant land. During this period, it began to create new owner-occupied affordable housing units in multifamily buildings. Recently, the growing use of rental programs, such as inclusionary zoning and 421a regulations, indicates a shift toward large-scale, mixed-income rental buildings. While this is not an entirely new trend, the numbers of low-income, subsidized units called for in recently rezoned areas will likely require a much higher budget commitment from HPD than in the past. To assure market-rate developers that their projects will not be delayed, the city will be compelled to target significant government resources to a relatively few areas. The Bloomberg administration assumes subsidy dollars will be available to all of the developers that wish to utilize them. The concern is whether historically low-income areas of the city that were not rezoned would continue to receive a fair share of HPD subsidies. It is critical that HPD's performance be monitored and adjusted to meet the needs of developers as and when needed. Equally important is the need to monitor where the subsidy dollars are spent.

CONCLUSIONS

With an unwavering commitment to a bold land use program, Mayor Bloomberg is changing the future shape of New York City. Even in the absence of the 2012 Olympics, the legacy of the Olympic bid will live on in plans for neighborhoods like Manhattan's Hudson Yards, West Chelsea, and Brooklyn's Greenpoint and Williamsburg. Due to the joint efforts of city departments and the housing lobby, the administration has been steadily increasing its target percentage of affordable units. While developers can choose to use incentives in the Hudson Yards and West Chelsea that take them to the mid-to-high 20 percent range, over 30 percent of new units may be affordable in Greenpoint and Williamsburg. Early indicators also show that the city has successfully stimulated housing production, completing the most housing starts in 2005 of any year since 1972, and meeting at least 30,000 of its ten-year, 165,000-unit goal.

With regards to overall land-use and housing policy, it appears the level of density and the share of infrastructure and housing subsidy to the private market is directly linked to a pragmatic assessment of what the market in that area will bear. The administration's policy program will therefore depend on the accuracy of these assessments. In Hudson Yards and Downtown Brooklyn, for example, higher returns on a large commercial component means the city takes less risk by assuming heavier costs up front. In areas that produce lower returns per square foot, private developers have a greater share of the responsibility for providing amenities and housing. While this is in many ways a sensible basis for policy-making, there are a couple of potential drawbacks. If 30 percent affordability becomes standard for new rezonings in more residential areas, these commitments may stretch HPD's budget and leave less to invest in the lower-income communities that have not been rezoned. Changing market conditions could make it difficult for developers to meet not only the established housing goals, but also to fulfill their infrastructure and amenity obligations. This could mean that the city would ultimately foot the bill for transportation and parks for example, or in the absence of an organized constituency, that these amenities might never be built.

The mayor's second term offers an excellent opportunity to test the effectiveness of these planned collaborations between the public and private sectors. In the immediate future, the city should allow the market to begin to absorb the development sites created, while officials monitor the pace and quality of the related improvements. A push during the administration's second term could also ensure that essential but neglected issues, such as water quality, get top priority. New construction in Hudson Yards, West Chelsea, Greenpoint-Williamsburg, and Downtown Brooklyn will continue for decades. It may be necessary to leave flexibility for regulatory adjustments or unanticipated public investments to ensure these bold policy changes produce a higher quality of life for both current and prospective residents.

The Tentative Bronx Comeback

By Julia Vitullo-Martin

The Bronx is undergoing a retail boom, both in traditional commercial areas like this one not far from Yankee Stadium, and in recently developed areas, such as the River Plaza shopping center on the Harlem River just north of the 207th Street bridge. The privately financed 235,000-square-foot retail center was built by Kingsbridge Partners and is anchored by a Marshalls and a Target store. Photo: Simon Kristak

EVEN though the Bronx of the 1960s and 1970s will go down in urban history as a monument to government incompetence, the Bronx of today thrives as a celebration of government determination and redemption. For while government policies – including ruthless urban renewal, excessive taxation, mandatory busing of school children, and destructive welfare programs – helped plunge the borough into chaos and decline, the city's housing programs of the last twenty years have brought it back. It's an entirely different Bronx – Hispanics have largely replaced the Irish, Italian, and Jewish immigrants who gave it its character – but it's again a Bronx of working-class upward mobility and dynamic, mixed-use neighborhoods.

The burning Bronx of infamy has been replaced by the booming Bronx, which is receiving investment, people, and jobs in record numbers. The issuance of building permits jumped to 4,924 in 2004, up from 2,935 in 2003, according to the Department of Buildings, as ever greater numbers of two-paycheck working households moved in. Its population, which increased by 10.7 percent to 1.33 million people between 1990 and 2000, has edged up another 2.5 percent since the 2000 census, according to the Department of City Planning. The Bronx has over 470,000 jobs, up about 50,000 since 1990. Yet its success is not universal. Its unemployment rate of 7 percent is the highest in the city. Its homeownership rate is 22 percent, versus 33 percent for the city as a whole. Only 62 percent of its residents are high school graduates, in contrast to 79 percent citywide, according to the U.S. Census. While 28 percent of households citywide speak a language other than English at home, more than half (53 percent) of Bronx households do – a benefit if the children are fully bilingual, but an impediment to upward mobility if the grasp of English is weak.

Most important, violent crime is way down – almost 67 percent between 1993, when crime in New York started its descent, and 2005. Yet this lags the almost 70 percent decline that the city as a whole has experienced. While murder has declined a stunning 81 percent in the Bronx (versus 75 percent

When Jewish households moved up to the Bronx in the 1930s, from the teeming Lower East Side, they were moving up in every sense – socially, economically, educationally. Life was better and public services were excellent. But most Jewish households fled the Bronx 30 years later, leaving behind their institutions, synagogues, social centers, and homes. Photo: Simon Kristak

citywide), rape has only declined 36 percent in the Bronx, versus 44 percent citywide. In other words, decreasing crime has helped spur a Bronx comeback, but that comeback is ever so slightly less sure than in the other boroughs. Worse, in the waning days of 2005, the Bronx endured several horrific crimes, including the vicious, near-fatal beating of a frail elderly woman by a well-dressed couple posing as home buyers; the murder of a young policeman by two convicted drug felons, one of whom was an actor on the television series "The Sopranos"; and several brutal rapes. Though way down, crime keeps Bronx neighborhoods on edge, and prevents its revival from being completely secure.

Nonetheless, the old advantages that made the Bronx the borough of striving immigrants are still in place. The Bronx has the finest basic infrastructure in the city, including the most extensive public transportation network and a large park system covering one-fourth of its land, making the Bronx simultaneously the greenest borough and the one best suited for density. Its waterfront is long and complex, with hundreds of inlets and hidden enclaves that allow wildlife to flourish. It has magnificent early-20th-century architecture found in private apartment houses as well as public buildings, universities, and museums. Its neighborhoods include the affluent, educated Northwest Bronx; elegant Pelham, renowned for the number of judges who live just inside the city's border; and the maritime village of City Island, which still builds boats as well as launches them. These and dozens of others, distinct and attractive areas join many small historic sections, such as Longwood. How could such a place have plunged as deeply as it did in the terrible 1970s?

WHAT WENT WRONG – AND THEN RIGHT

A large, complex borough, the Bronx is not easy to understand. "You have to think of the territory of the Bronx in two parts, East and West, divided by the Bronx River, the city's only true river," says Dart Westphal, publisher of the Norwood News, a neighborhood newspaper in the Northwest Bronx. "The East Bronx is like Queens. The West Bronx, with its handsome old buildings, is more like Washington Heights. Now consider the triangle of events. You have Co-op City opening in 1972, New York University moving out in 1974, Burnside Avenue burning during the blackout of 1977."

Westphal's own neighborhood of Norwood, a multi-ethnic, pulsating enclave at the northern terminus of the D subway line, fought for its life during the bad days of the Lindsay, Beame, and early Koch administrations. Even though it's one of the most attractive and defined areas of New York – bounded by Van Cortlandt Park and Woodlawn Cemetery on the north, Bronx Park (with the New York Botanical Garden) on the south and east, and Mosholu Parkway to the south and west – Norwood trembled on the edge of disinvestment and disaster. "So much property was overvalued in the 1970s," says Westphal. "Some owners overpaid then got overextended. Profit margins were very small. You didn't need a big change to get in trouble. The huge fuel increases could do it. Then interest rates took off. People started losing money left and right. Tenants left for new places like Co-op City. That would have been fine – except that no one was moving in."

Norwood residents watched with horror the destruction in the South Bronx, on the far side of Fordham Road, where the population of three community districts fell 57 percent between 1970 and 1980. But Norwood had an asset that made all the difference: the 121-year-old Montefiore Hospital, the largest private employer in the Bronx, whose forceful attitude toward the neighborhood is one of the reasons Norwood survived intact. As the devastation of the South Bronx seemed to march northward toward Fordham Road, Montefiore established the nonprofit Mosholu Preservation Corporation to provide technical assistance on maintenance and renovation to building owners, to offer second mortgages to owners unable to get financing elsewhere and, on rare occasions, to buy important neglected properties that would otherwise have brought the neighborhood down. Even today Montefiore is a commanding presence. When an ugly, ten-year dispute between Fordham University and the Botanical Garden over Fordham's huge (and blighting) radio antenna seemed to only worsen, Montefiore stepped in with a solution: it offered the roof of its newly built apartment building on Wayne Avenue.

The neighborhood's future will surely be different from its past. Demographer William Bosworth predicts that it will stay middle-class but with a difference: a "very interesting, dynamic, multi-ethnic middle class of Hispanics, Indians, Asians, and other immigrants." Indeed, the new immigrants are saving the Bronx, bringing capital and enterprise to sections earlier New Yorkers had abandoned. They are opening stores, restaurants, salons, and clubs, reviving formerly fragile retail streets, many of which are now dense with customers. In some neighborhoods, the new immigrants live side-by-side with hip, young New Yorkers looking for cheaper housing.

NEW LIFE FOR OLD NEIGHBORHOODS

Perhaps it was inevitable that New York's territorial imperative – the unrelenting demand for land – would eventually move across the river to the Bronx, but it certainly did not look that way, even in the late 1980s when Manhattan artists started moving into the handsome, 19th-century warehouses of Port Morris. Located between the Bruckner Expressway and the East River, Port Morris benefited from a Giuliani administration rezoning in 1997, which encouraged the legal conversion of old industrial space to residential and commercial uses, promoting a now successful arts and antiques district. A November 2005 Bloomberg administration rezoning of eleven more blocks is meant to encourage residential renovation of empty, privately owned buildings, producing between 300 and 400 units.

And while the success of Port Morris's antiques district now seems assured, the area just beyond it remains highly questionable. Just on the other side of the Bruckner Expressway – made notorious by Tom Wolfe's The Bonfire of the Vanities – are vast, ugly stretches of public-housing projects, impeding the natural path of investment moving inland. The New

York City Housing Authority, which is proud of not having divested itself of a single regular project unit, has no intention of downscaling or rethinking these projects. Nonetheless, some investment is jumping over the projects, mainly by small contractors, developers, and home-seeking households willing to live in rough-looking neighborhoods. Small, fully renovated, three-family houses facing industrial streets in Port Morris are selling for around $500,000 – modest by, say, Brooklyn standards, but still a high price by, say, Newark, New Jersey standards.

Even highly residential Bronx neighborhoods often have commercial uses mixed in to a degree not seen elsewhere. This can be advantageous, allowing residents to walk to work, as many New Yorkers did in the 19th century. But a factory across the street is not for everyone.

BILLIONS OF DOLLARS TO SAVE THE BRONX

Billions of taxpayer dollars have been spent to save the Bronx – and billions more have been pledged by the Bloomberg administration. The most important and successful part of the Koch administration's Ten-Year Plan, announced in 1986 and carried out for two decades, was the emphasis on government-financed rehabilitation of formerly abandoned property. Even gut rehabilitation, which was often required, cost less than half of new construction. Unfortunately, new construction was too expensive for the Bronx market in the 1980s, and is even too expensive in most of the Bronx (and all of the South Bronx) today – except when subsidized. And though the Bloomberg administration should be using every available tool to shore up the market – particularly rezoning – the truth is that the Bronx will need subsidies for years to come. But subsidies in the Bronx make far more sense than subsidies in the many areas of New York, including the Brooklyn waterfront, where the market is working just fine on its own. Carol Abrams, former spokesperson for the city's department of Housing, Preservation and Development, points out that the Bronx is different from the other boroughs in actively welcoming development. "They say bring it on," she notes. "Give us the housing. We have the biggest sites and the most demand. We want it. So send it up here."

Indeed, every unit subsidized at top dollar on the Brooklyn waterfront could buy 2.5 units and up in the Bronx. This should give New Yorkers pause: Brooklyn is making it on its own; the Bronx still needs help. As New Yorkers debate subsidies for economically strong areas like the Brooklyn waterfront, which demands deep subsidies to make up the difference between the market rent and what low-income families can pay, they should consider how much further their dollars will go in the Bronx, where only shallow subsidies are required. Developer Paul Travis, managing principal with Kingsbridge Development Partners, says, "The true sign of a Bronx comeback will be successful market-rate construction." In the meantime, modest government investment is restoring the Bronx neighborhood by neighborhood.

Greenstreets: Conceived by engineer Louis Risse in 1870, as a great boulevard equivalent to the Champs Elysées, the Grand Concourse was finished in 1909. Fine governmental, commercial, and residential buildings were erected, making the concourse one of the best-looking streets in New York. After World War II, transportation planners removed trees and landscaping to add another traffic lane to its 182-foot breadth. The Greenstreets planters are a forlorn attempt to return greenery to the concourse and quiet its traffic. Photo: Simon Kristak

Even though the Bronx has more parkland than any other borough, it has closed off its waterfront to the public for most of its history. This lovely view of Pugsley's Creek, which flows into the East River, is off of Clason Point Park. Opposite the park, the Beechwood Organization is building market-rate townhouses and condos, impressive private sector investment in an area that had been shut off from financing for years.

Probably the most interesting borough geologically, the Bronx has many distinctive hills, often given aspirational names like Mount Eden or, in this photo, Mount Hope, close to Lebanon Hospital, a major employer. This large one-family yellow house, built in the 1890s, has three stories plus a cellar, the original stone fireplace, and a carved ornate staircase. It sold for $379,000 in September 2005 – far more house at this price than in most of the city's neighborhoods.

This New England-looking harbor is the waterfront of City Island, adjacent to Pelham Bay Park, which is geologically the southern tip of Maine. Quaint and isolated, City Island aggressively retains its maritime heritage. Marred by relatively few inappropriate developments, it feels both bucolic and bustling.

Many classic neighborhoods in the Bronx, such as this industrial section on 138th Street in Port Morris, were developed before the zoning code of 1916. Workers expected to live within walking distance of work and houses were interspersed with factories. These residences are now non-conforming uses, though tolerated today by a city government inclined to think mixed use is good.

Built in the 1890s, these modest worker houses are scattered through industrial areas of the South Bronx. These three-family houses, with two stories and basement, are on East 138th Street in the Port Morris section. Though they face factories they were priced at $500,000 and up in fall 2005.

Photos: Julia Vitullo-Martin

Toward a More Inclusionary Zoning

Lowering the High Costs of Affordable Housing?

By Peter T. Beck

AROUND the country, cities are facing the challenges of neighborhood change and rising housing costs. To preserve income diversity and retain housing for lower-income families, many local governments have adopted inclusionary zoning to control or limit the increasing prices for housing. Generally speaking, inclusionary zoning policies are incentives or mandates requiring developers of market-rate housing to set aside a portion of any new housing units for households unable to afford the prevailing market prices. With such policies, a local government can require developers to produce new affordable housing, at little apparent cost to the public. Consequently, inclusionary zoning has become very popular with municipal governments nationwide; over 100 localities in the state of California alone have adopted some form of inclusionary housing.

Earlier this year, New York City introduced inclusionary housing to wide swathes of Brooklyn and Manhattan. The city's new inclusionary zoning program promises significant public benefits, including the creation and preservation of mixed-income housing and the expansion of affordable housing programs into higher income neighborhoods. However, these benefits come at a cost: public subsidies to provide incentives for developers to build inclusionary housing. Before New York City enters into further expansion of the program, it is worth weighing the benefits of inclusionary zoning against these costs. Are the goals of inclusionary housing worth the public expense? Could the program be retooled to create more affordable housing for a wider population and with less public subsidy?

FROM DECENT HOUSING TO AFFORDABLE HOUSING

For the last 50 years, New York City has used various programs to stimulate the construction of new housing for lower-income households. The need for a government role in the housing market arose from several causes. First, a substantial portion of the existing housing stock was considered substandard and in need of replacement. Secondly, those living in substandard conditions could not afford newly constructed housing, and consequently were not served by private developers. Lastly, improvement to the quality and affordability of the housing stock was viewed as essential to retaining the middle class in the city.

Over the last decade, the nature of the city's housing problems has changed significantly. Much of the housing lost in the large-scale abandonment of the 1970s and 1980s has been replaced or restored, in large part due to public investment and the efforts of housing advocates. In 1975, the New York City Housing and Vacancy Survey found that nearly 6 percent of the city's housing units were dilapidated, a physical condition so poor that they posed "a serious threat to the health and well-being of their occupants." In 2002, less than 1 percent of dwellings fell into this category. The *in rem* housing stock (property acquired by the city through tax foreclosure), which exceeded 120,000 units in the early 1980s, has now largely been returned to private sector ownership.

Because the condition of the housing stock has improved, housing affordability has become the greater concern. The middle class has returned to many parts of the city, driving up prices and rents. Private investment and development of new housing, once nearly absent, is now surging, squeezing out affordable housing construction. Accordingly, many of the city's housing subsidy programs now emphasize making more inexpensive housing available to lower-income households, rather than improving the quality of the housing stock or reducing abandonment. Inclusionary zoning is one outcome of this change in focus.

Inclusionary zoning is also a response to the changing character of neighborhoods in Manhattan and Brooklyn. New market-rate housing is built only for the most wealthy, and the existing stock of affordable housing in these neighborhoods, provided through rent stabilization and, to a lesser extent, governmental programs such as Mitchell-Lama and the housing tax credit program, is gradually dwindling. Some fear that without inclusionary housing, Manhattan and other desirable parts of the city will become islands of affluence. By setting aside a portion of newly-built housing for low- and middle-income households, inclusionary zoning will ensure that central areas of the city continue to be mixed-income in character.

Affordable housing advocates have also hailed the inclusionary zoning program as a way to breathe life into existing housing subsidy programs. The affordable housing community is currently facing a crisis stemming from its own success. Because New York has become so prosperous, in part due to the turnaround of the city's once troubled neighborhoods, land prices have risen dramatically throughout the city, making it harder for developers of affordable housing to find viable sites on which to build. The city's stock of in rem vacant land, which enabled the development of thousands of units of HPD-sponsored housing over the last two decades, is now nearly gone. Some advocates are predicting that in less than a decade, most of the vacant sites in the city will be built out. Inclusionary zoning addresses the twin problems of high land costs and the city's disappearing inventory of vacant, city-owned land by providing new sites for developers to build subsidized housing, with no direct cost for purchasing the land.

INCLUSIONARY HOUSING IN NEW YORK CITY

New York City first introduced inclusionary zoning with a change to the city's zoning rules in 1987. This program, which is still in effect today, permits developers to earn a zoning bonus for affordable housing, but only in the highest density residential zones (R10 zoning). The bonus ranges from 2 to 4 square feet of additional market-rate housing for each square foot of affordable housing, depending on whether the affordable units are onsite (in the same building as the market-rate units) or offsite (in a separate building), and whether the units are renovated or newly constructed. From 1987 to 2002, approximately 500 affordable units were created under this program, all in Manhattan.

The inclusionary housing program was greatly expanded earlier this year with the rezoning of formerly industrial areas in the Hudson Yards and West Chelsea areas of Manhattan, and the Greenpoint-Williamsburg waterfront of Brooklyn. The new inclusionary housing requirements for these districts differ significantly from the 1987 program. Developers are offered a zoning bonus of only about one square foot for each square foot of affordable housing, regardless of whether the units are onsite or offsite, or in some cases are required to set aside 20 percent or more of the project for lower-income households in order to build at the highest density permitted under the zoning code. Unlike the 1987 program, the economics of the new inclusionary zoning rules were carefully crafted to mesh with the city's housing programs. Indeed, since the new districts require a much greater ratio of affordable housing to market-rate housing, public subsidies are necessary for developers to find the construction of mixed-income projects financially advantageous relative to building solely market-rate units at lower densities.

WHO BEARS THE COST OF INCLUSIONARY HOUSING?

One problem with inclusionary housing is that it is expensive to build. Its high cost arises in part from the relatively high price of land in areas zoned for inclusionary housing. On the West Side of Manhattan, land costs upward of $200 per buildable square foot (FAR). In the waterfront areas of Brooklyn, prices of $150 per FAR square foot or more are not uncommon. By comparison, land in less desirable, outlying areas of the city can cost as little as $40 per FAR square foot or less.

Construction costs also tend to be much higher in areas zoned for inclusionary housing. In Manhattan, construction costs for a mid-rise or high-rise building, exclusive of the cost of land, range from a minimum of $275 per square foot to as much as $400 per square foot. By comparison, low- or mid-rise affordable housing in the outer boroughs built through city subsidy programs typically costs less than $250 per square foot. The one- to three-unit townhomes built under the New York City Partnership program cost under $150 per square foot, even with today's high construction costs. (See fig. 1, below.)

Some of the cost of constructing inclusionary housing can be met with debt and equity financing supported by the apartment rents. As figure 2 illustrates, low-income units produced under the new inclusionary program, affordable to households earning up to 80 percent of the city's median household income, can rent for a maximum $13 per square foot annually, supporting roughly $80 per square foot in financing. The balance of the project's development cost must therefore be subsidized, either from public funds or by the market-rate units. (Income limits for affordable housing are usually measured as a percentage of the local area median household income, or AMI, a figure which is determined by HUD each year. New York's inclusionary zoning program requires the affordable units to be available to households earning 80 percent of AMI. Developers can offer a portion of the units to middle-income

Fig.1: **Construction Costs for Prototypical Building Types**

	HUDSON YARDS High-Rise Construction	**BROOKLYN WATERFRONT** Mid-Rise Construction	**OUTER BOROUGHS** Five-Story Construction (Multi-Family Affordable Housing)
Development Costs (per GSF)			
Land Acquisition	$200	$150	$30
Hard Costs	$250	$200	$160
Soft Costs: 30%	$75	$60	$48
Development Fee/Profit: 10%	$25	$20	$16
Total Development Costs (per GSF)	**$550**	**$430**	**$254**

households earning up to 175 percent of AMI in certain zoning districts, but must provide more affordable units in order to earn a comparable zoning bonus.)

Proponents of inclusionary zoning have argued that the higher costs are irrelevant, since developers bear the cost of construction, and that the cost of the land is "free," since the incremental air rights would not exist if the city had not provided it through rezoning. In fact, it is the city, rather than the developer, that pays most of the cost of building the affordable housing, through direct and indirect subsidies to inclusionary housing developers. Without these subsidies, building inclusionary housing would be economically prohibitive.

A simple analysis illustrates why. Assume that a developer building inclusionary housing in Manhattan can earn a zoning bonus of one square foot for each square foot of affordable housing. If each square foot of development rights for market rate housing is worth $200 per FAR square foot, then it is to the developer's advantage to take the zoning bonus if the affordable housing can be produced for less than $200 per FAR square foot. However, as illustrated in figure 2, it would cost the developer $470 per square foot to produce affordable housing in Manhattan – that is, $550 per square foot for land and construction, less $80 for the conventional financing that could be supported by the apartment rents. This cost is the same whether the affordable units are built onsite, by setting aside some apartments for lower-income households, or offsite, by creating affordable housing on another site in the same neighborhood. Unless the city provides additional subsidies to the developer – in this case, $270 per square foot – the value of the zoning bonus is not worth the cost of building the affordable housing.

The city provides various subsidies to developers to make inclusionary housing feasible. For example, a Manhattan project reserving at least 20 percent of its units for low-income housing – an 80/20 project – could access tax-exempt bond financing, lowering the cost of its debt, and would qualify for an as-of-right 20-year real estate abatement under the city's 421a program. These subsidies, along with the value of the bonused air rights, would more than offset the cost to the developer of setting aside 20 percent of the project as affordable housing.

The city could substantially reduce the amount of subsidy it needs to provide if it permitted inclusionary housing for a project in Manhattan to be built on less expensive land in the outer boroughs. Affordable housing in the Bronx, for instance, would require between one-half and one-third as much subsidy to be built as the same amount of housing in Manhattan or the high-priced Brooklyn Waterfront (see fig. 2). However, while the inclusionary program permits the compensating affordable housing to be built offsite, under the current rules the inclusionary units must be located very close to the project receiving the zoning bonus, which means most inclusionary housing will be built in high-cost locations like Midtown Manhattan. Is it good public policy to dedicate resources to producing relatively few affordable units in the most expensive areas of the city, when many more units could be produced at lower cost in the outer boroughs?

IS INCLUSIONARY HOUSING EQUITABLE?

Another problem with inclusionary housing is that it disproportionately benefits a small segment of the public. While the public as a whole sees benefit from mixed-income neighborhoods and new housing construction, it is the residents of this housing that benefit most directly.

Altogether, the three rezoning actions in Manhattan and Brooklyn are expected to result in the development of roughly 4,000 units of new housing that will be set aside for low- and moderate-income tenants. This new housing will be allocated by lottery and will be a windfall to the 4,000 renters. (One such lottery recently held for 36 affordable units in the East Village produced over 4,000 applications.) Rents on the inclusionary units will be perhaps one-third the rents of equivalent market-rate apartments, and the tenants' right to occupancy will be conferred for life. Measured in financial terms, the value of this benefit might be several hundred thousand dollars to each occupant.

For the majority of the public, however, inclusionary housing will have little impact. About 600,000 of the 2 million rental households in New

Fig. 2: Subsidy Required to Build Affordable Housing

	HUDSON YARDS High-Rise Construction Affordable to 80% of Median	**BROOKLYN WATERFRONT** Mid-Rise Construction Affordable to 80% of Median	**BRONX** Five-Story Construction Affordable to 80% of Median
Total Development Costs (per GSF)	**$550**	**$430**	**$254**
Stabilized Operating Pro Forma			
Revenues:			
Gross Rents (per GSF)	$13.00	$13.00	$13.00
Vacancy 3%	$(0.39)	$(0.39)	$(0.39)
Net Revenues	**$12.61**	**$12.61**	**$12.61**
Operating Expenses	$(7.00)	$(7.00)	$(7.00)
Net Operating Income	**$5.61**	**$5.61**	**$5.61**
Capitalization Rate	7%	7%	7%
Supportable Financing (per GSF)	**$80**	**$80**	**$80**
Required Subsidy:			
Total Development Cost	$550	$430	$254
Supportable Financing	$(80)	$(80)	$(80)
Total Subsidy Required	**$470**	**$350**	**$174**

York pay more than 40 percent of their income in rent, and almost half of the city's rental households have at least one severe maintenance deficiency. Roughly 80,000 households live in overcrowded housing with more than 1.5 persons per room. By one estimate, over 100,000 households live in illegal dwelling units, in violation of building and zoning codes. A small number of new affordable units will do very little to solve the overwhelming scale of housing problems in New York. The fairness of providing such a benefit to 4,000 households, when so many more households are in need of public assistance, is debatable.

More troubling is that many beneficiaries of the inclusionary housing program will be households in the moderate-to-middle-income range, who can already afford to find housing on the private market. In the Chelsea and Hudson Yards districts, for instance, a portion of the affordable housing requirement for an inclusionary zoning bonus can be met with housing affordable to households earning up to 175 percent of AMI, or roughly $110,000 for a family of four. While housing in Manhattan or on the Brooklyn waterfront may be too expensive, market-rate rents in much of the city are within reach for working families. Is it reasonable to subsidize households with moderate incomes to live in the most desirable areas of the city, when so many New Yorkers of lesser means can barely afford to live in substandard housing?

POLICY QUANDARIES

Inclusionary housing is an imperfect affordable housing program. Because it requires heavy public subsidies and focuses these resources on high-cost areas of the city, it will produce fewer affordable units than if these same resources were allocated to the outer boroughs. Furthermore, it is less than perfectly fair: relatively few households will receive all the benefit from the program, while the majority of lower-income households in need will benefit only indirectly, if at all.

The inclusionary program presents a quandary to affordable housing policy. Should the city subsidize low- and middle-income people to live in affluent areas in order to preserve income diversity? Should the city subsidize affordable housing production in areas of high land cost, where greater subsidies are required to produce fewer units of housing? Should subsidies be reserved solely for the households most in need, if it means that fewer affordable units can be produced? By creating a program that allocates public resources toward affordable housing in Midtown Manhattan and on the Brooklyn waterfront, the city has lost an opportunity to leverage these resources to build much greater amounts of housing on less expensive land.

There are options to address these concerns that would require only minor modifications to the existing program. One simple and effective way the city could fix the inclusionary program to produce more affordable housing is to expand the offsite options available to developers. Currently, the inclusionary zoning regulations require offsite inclusionary housing to be located in the same neighborhood (Community District) or within a half-mile of the compensated market-rate development. If instead, the regulations permitted developers to earn a zoning bonus for building affordable housing anywhere in the city, substantially more affordable housing could be built. The ratio of affordable housing required for each square foot of zoning bonus could simultaneously be dramatically increased. It is possible that, without altering the developer's financial calculus, the city might be able to require three square feet of affordable housing for each square foot of zoning bonus, instead of the ratio of roughly one-to-one it requires in some areas today. Alternatively, less public subsidy could be allocated to projects utilizing the inclusionary zoning bonus.

An even better solution might be to require developers to pay impact fees for high-density projects, rather than requiring them to build affordable housing. Developers in areas with valuable land could be required to pay impact fees of $100 to $150 per square foot of bonus FAR, over the base level permitted as-of-right. These funds could then be applied by the city to affordable housing projects in areas with less expensive land.

Coupled with modest city subsidies, an affordable housing fund financed through impact fees on market-rate projects would be a far more cost-effective approach to building affordable housing. Such a fund could also result in a more equitable distribution of the benefits of inclusionary zoning. The fund could serve populations that are unable to acquire decent housing for themselves in the private market, such as the elderly, the disabled, and the homeless – populations that are not well-served by the current program. Greater subsidies would be required to fund housing for persons with lower incomes, but addressing the needs of these populations is a more pressing housing problem than lowering the cost of housing for working families.

In all, if impact fees could be collected on five million square feet of zoning bonuses over a ten-year period, at an average sales price of $125 per square foot, the fund would have another $625 million to allocate to affordable housing. At an average cost or subsidy of $40,000 per unit, the fund could build, preserve, or renovate over 15,000 housing units citywide, a four-fold improvement over the existing inclusionary zoning program. While such a change to the program might mean a greater concentration of luxury housing in Manhattan, it would provide much more housing for households in need.

Inclusionary housing is a powerful tool to create affordable housing. It could potentially fund tens of thousands of units in the outer boroughs, or it can ensure that a substantial share of new housing in more expensive areas of the city is reserved for lower-income households. It cannot, however, do both. Before the program is further expanded, New Yorkers should decide which goal is more important.

Erasing a Historic Past

What Went Wrong With the Brooklyn Waterfront Plans

By Lisa Kersavage

Weidmann Cooperage, 75 N. 11th Street. Designed by prolific Williamsburg architect Theobold Engelhardt, this brick building was constructed in 1900. This is the only remaining cooperage in Williamsburg, a remainder of a once thriving industry for the making and repairing of barrels and casks. This building was not included in the city's EIS. Photo: Charles Gifford for the Municipal Art Society

DURING the last three years, the City of New York has rezoned 3,600 city blocks. Some, most notably in Staten Island and Throgs Neck in the Bronx, were downzonings that took into account the existing character of the communities, while others were substantial upzonings. Particularly in manufacturing and industrial areas, these rezonings did not adequately balance redevelopment with the protection of key historic buildings. Losing such buildings not only places the neighborhoods' character and sense of history in peril, but also it weakens the ability to provide affordable housing and retain manufacturing and industrial businesses. Preservation and redevelopment can coexist, but critical historic resources must be identified early in the process and need to be protected before the rezoning is approved.

The failure to address preservation issues is especially evident in two recent cases where manufacturing areas were rezoned and historic resources have been recorded in Environmental Impact Statements (EIS). In the Greenpoint-Williamsburg Land Use and Waterfront Plan, the EIS failed to adequately identify the area's historic assets, and in the Red Hook Ikea plan historic resources were identified but ultimately not protected.

PRESERVATION'S PLACE IN NEW YORK'S ENVIRONMENTAL REVIEW PROCESS

In 1969, Congress created the National Environmental Policy Act (NEPA). This established a national policy of environmental protection requiring federal agencies to integrate environmental values into their decision making processes, considering the impacts of their proposed actions and reasonable alternatives. The definition of the environment in the act is broad, and it includes historic resources. NEPA, and the state and local environmental review acts that followed, are procedural statutes that can best be described as "stop, look, and listen" provisions. They require the collection and dissemination of information but do not require that action be taken.

Both New York State and New York City also have similar legislation. In 1975, New York State adopted the State Environmental Quality Review Act (SEQR), which requires that all state and local government agencies assess environmental effects of discretionary actions (such as permits), before undertaking, funding, or approving them. New York City developed the City Environmental Quality Review (CEQR), a process by which city agencies identify the effects of certain actions on the environment, including the historic fabric.

To meet NEPA, SEQR, or CEQR requirements, an Environmental Impact Statement must be prepared whenever a project will have significant consequences. An EIS is a substantial study that must contain a detailed discussion of any unavoidable adverse effects, including consideration of alternatives that would reduce or offset the most significant of them. The applicant, whether a private developer or a government agency, is responsible for producing the EIS. The EIS is generally prepared by specialized consultants who are paid by the applicant. Because the final EIS becomes the official basis for government approval, it is essential that the environmental review be comprehensive and independent.

The EIS must contain a thorough discussion of the historic and archeological resources located within the project area (not just those directly impacted). While the definition of *historic* is broad, it is commonly thought to be defined by buildings that are potentially eligible for national or local landmark designation.

GREENPOINT-WILLIAMSBURG LAND-USE & WATERFRONT PLAN

On May 11, 2005 the New York City Council approved the rezoning proposal for the Greenpoint-Williamsburg waterfront. The project was put forth by the city itself, and it therefore went through CEQR review. The scale of the rezoning plan is immense – covering 180 blocks and a section of the Brooklyn waterfront equivalent to Canal to 34th Streets in Manhattan. The plan allows for construction of 40-story residential buildings on many waterfront sites and a 1.6-mile waterfront esplanade. Upland blocks that were zoned for manufacturing are now mixed-use, which will likely cause either a widespread conversion of manufacturing buildings to residential uses or their demolition.

Both Greenpoint and Williamsburg have a long and venerable past and there remains a wealth of buildings related to that history. In the 1850s Williamsburg was the third-largest city in the region, and it is filled with 19th-century rowhouses and manufacturing buildings interspersed with historic banks, schools, churches, and synagogues. From the 1840s to the 1870s Greenpoint was an important center for shipbuilding, and the great ironclad Civil War ship, USS Monitor, was built on its shores. In Greenpoint, 90 percent of the existing housing stock was built before World War II, much of it constructed by the 19th-century shipbuilders who worked on the nearby docks. Some of Brooklyn's oldest churches are found in these neighborhoods, as are significant public works, such as McCarren Park Pool. Historic buildings, which bear witness to the rich and venerable history of these neighborhoods, will be affected by the rezoning.

It was alarming to find that, given the expansiveness and rich history of the rezoning area, the Environmental Impact Statement was so lacking in historic resources. The EIS from the Department of City Planning, finalized March 4, 2005, identified only eighteen historic buildings and one historic district in the rezoning area. And of those identified resources, seven of the buildings and the historic district were already designated by the Landmarks Preservation Commission (LPC). As a point of comparison, in the Hudson Yards rezoning of 59 blocks (half the size of the Greenpoint-Williamsburg rezoning), 110 potential resources were identified. With the limited information in the EIS, it was impossible to adequately assess the impact of the proposed rezoning on historic resources or the appropriate mitigation measures. When it became clear that the city would not expand the content of the EIS, the Municipal Art Society's Preservation Committee conducted a major review to identify the resources that were omitted.

The biggest hurdle facing the review committee in undertaking a major survey was the lack of information. In many neighborhoods, the LPC has surveys that provide building histories and note buildings of architectural and historic significance. Until 1990, the commission had a survey department staffed by preservationists who surveyed large parts of the city. However, that survey was for the most part limited to Manhattan and the brownstone neighborhoods in Brooklyn. Many other areas including the city's former industrial neighborhoods have not been surveyed.

Beginning in December 2004, members of a Municipal Art Society preservation committee and of the community surveyed the 184 blocks that the city proposed to rezone. Surveyors spent weekends walking the streets, identifying and photographing buildings that appeared to be architecturally and historically significant. Follow-up research used primary-source materials such as historic maps, photographs, and local guidebooks. Surveyors later convened for discussion, guided by architectural historians, to determine the significance of the buildings.

The Municipal Art Society identified 91 individual buildings and three historic districts, totaling 264 buildings that appeared to be eligible for listing on the state and national registers of historic places and ought to have been included in the EIS. The survey results were shared with the Department of City Planning (the lead agency for the rezoning), the LPC, and the city council. The LPC confirmed that a significant number of the buildings are eligible for the either designation as a New York City landmark or listing on the state and national register. Clearly, the EIS was proved to be inadequate in terms of the identification of historic resources.

Due to the inadequacy of the EIS, it was impossible to comprehend the effects of rezoning on the neighborhood's historic buildings prior to its approval. The controversy surrounding the Greenpoint-Williamsburg rezoning continues on several fronts, and the community has now galvanized around the issue of historic preservation, creating a preservation organization to advocate for designation of pivotal structures and districts. They have an uphill battle, however, as it is more difficult to designate buildings after an area has been upzoned and new development sites have been created. If the EIS had been adequate, certain blocks that had concentrations of historic resources could have been zoned to encourage their preservation. Furthermore, the LPC could have lobbied to designate key buildings before the rezoning was approved.

RED HOOK IKEA

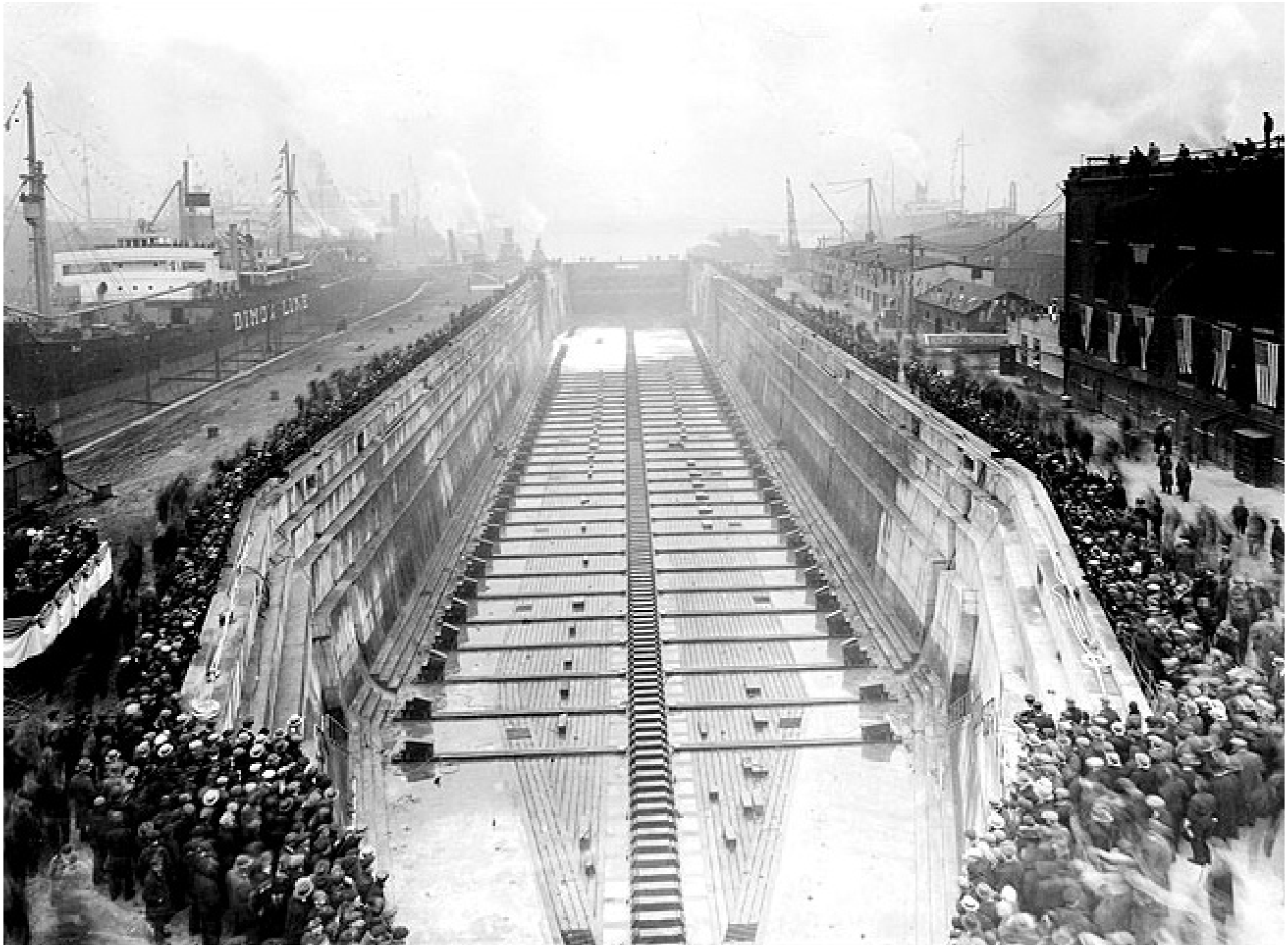
In 2004 the city approved a redevelopment and rezoning plan that would allow for the construction of an Ikea store in Red Hook, Brooklyn. The 22-acre site, bounded by the waterfront and Beard Street between Dwight and Otsego Streets, contains a number of significant historic buildings, two graving docks, and gantry cranes, used for loading and unloading cargo. The plan allowed for Ikea to demolish all of the historic buildings, fill a graving dock, and clear the entire site to make way for the store and its 1,400-car parking lot. The plan required a number of actions from the Department of City Planning, including a zoning map change (from M3-1 to M1-1), a special permit to allow a large retail establishment in a light manufacturing district, and other modifications regarding height and bulk and waterfront regulations. The plan also required approval from some state and federal agencies, including the United States Army Corps of Engineers.

Unlike the EIS for the Greenpoint-Williamsburg rezoning, which failed to identify historic resources, the EIS for Ikea identified many of the historic buildings on the site. Furthermore, the EIS clearly indicated that the plan would have significant adverse effects on historic resources. (The draft EIS was deemed complete by the Department of City Planning on April 23, 2004. It identified twenty significant adverse effects the plan would have in Red Hook, ranging from increased traffic and hazardous materials to solid waste and sanitation.) The EIS did not have much sway: the project was not altered to preserve the buildings or graving docks and the city should have withheld approval of the project. Options were available to reduce the effects; the Municipal Art Society developed plans that accommodated all of Ikea's programmatic needs while also preserving the historic buildings and the working graving dock.

The proposed Ikea is located at the historic Todd Shipyards, a site of significance to the history of shipping in New York and the United States. The shipyards are situated on the Erie Basin, an artificial harbor built in the early 1850s, in the southern reaches of Red Hook. By the late 19th century, with the building and expansion of the Erie Canal and the construction of the Erie and adjacent Atlantic Basins, Red Hook became one of the most important shipping depots in the Port of New York and served as the terminus of the shipping network that included the Erie Canal. The shipyards were first developed by the Robins Dry Dock Company who owned the property from 1864-1916. In 1916 they sold it to the Todd Shipyard Corp., who created one of the largest shipbuilding and ship repair businesses in the country. During WW II, the Navy took over the southern end of the site, employing nearly 20,000 people to repair and refit its ships. Todd regained full ownership again in 1965 and operated it as New York Shipyards until 1983; it was sold to United States Dredging in 1985, who subsequently sold the site to Ikea.

In addition to the Civil War-era historic buildings, the site contains two graving (dry) docks. The docks are based on a relatively simple technology – ships floated in, a door closed behind them, and the water was pumped out, leaving the hulls of the boats exposed for repair. It was the size of the docks that distinguished them. Graving Dock No. 1, constructed in 1866, was originally 540 feet long and built of timber. Graving Dock No. 2 was constructed shortly thereafter. At 630 feet, it was large enough to fit any ship then sailing but one. Graving Dock No. 1 was lengthened in the 1880s and then again in 1928 to 730 feet, when it was also rebuilt in steel and concrete. In 1883, Scientific American called the graving docks at Erie Basin the largest dry docks in the country and possibly the world. While Graving Dock No. 2 was partially buried under landfill in the late 1970s, it remains one of the last large, wooden graving docks left in New York Harbor.

Graving Dock No. 1 has obvious historic significance. And until the ship-repair company Stevens Technical Services lost its lease when Ikea took over the property, it was a functioning piece of maritime infrastructure, employing up to 100 people. As one of the largest graving docks in the New York Harbor, it was critical to the burgeoning maritime industry. The capacity for ship repair in New York Harbor is inadequate, and there are only a few ship repair yards left in New York and New Jersey harbors that can handle heavy and large vessels. Ikea's plans called for



Graving Dock No. 1. Photo: Underwood and Underwood, about 1930. Collection of the Brooklyn Historical Society.

infilling all but a portion of the dock and covering it for a parking lot.

The State Historic Preservation Office (SHPO) and the LPC determined that these were important historic resources, finding five buildings, one graving dock, and one crane were eligible for listing on the National Register of Historic Places. Despite LPC's request, the city approved a plan that allowed for demolition of the structures and infill of most of the graving dock.

The Municipal Art Society commissioned architect Harold Fredenburgh, AIA to produce site plans that incorporate all of Ikea's programmatic needs while preserving the graving dock and national register-eligible buildings. Fredenburgh incorporated a 346,000-square-foot store, ancillary retail buildings, a 6.3-acre waterfront public access area with an esplanade, and approximately 1,400 parking spaces. Fredenburgh's addition of a second deck to the parking garage increases the height of the building slightly, but it is clearly feasible and meets the needs of Ikea (in fact, it greatly improves upon their site plan). However, Ikea remains resistant to the adoption of the plan.

CONCLUSION

As manufacturing and industrial areas are redeveloped, they will likely go through an environmental review process, and it is important that the mistakes made in Greenpoint-Williamsburg and Red Hook are not repeated.

The identification of historic resources in an EIS provides a wealth of information about the history of a neighborhood and opens a public debate for the designation of those resources worthy of preservation. This is only possible, however, if the EIS is properly prepared. Furthermore, only if historic resources are identified can the impact of the project be properly assessed, thus guiding the development of mitigation measures.

The survey and research of a neighborhood's historic architecture require considerable time and resources. This is particularly true in formerly industrial areas – particularly those outside of Manhattan, where the LPC or the SHPO have not previously surveyed. If the city is the lead agency, it needs to set aside adequate funding for preservation consultants to properly survey the neighborhood. In order to assure the survey is high quality, it would be ideal to have the survey supervised by the LPC. One option is to have the applicant, particularly private developers, pay a sort of impact fee to the LPC's foundation to cover the costs of conducting a professional survey. That would ensure that a quality survey was conducted and that the resources and appropriate alternatives and mitigation explored.

Only with proper identification can appropriate mitigation be developed. If, for example, there is a concentration of low-scale historic buildings, rezoning plans can be adjusted to protect these buildings. Blocks can be downzoned to the scale of the existing buildings and manufacturing areas can retain their uses. Or, as the Municipal Art Society showed in the Red Hook Ikea site, alternatives can be developed to save buildings. Finally, projects can be denied approvals if they require the demolition of important historic places. NEPA and SEQRA authorizes decision-making bodies to withhold approvals for actions such as permits or funding if not satisfied the project sponsor will reduce or offset significant environmental impacts. If the decision-making body fails to address the effects of a project, the procedure has been violated and can be challenged in court.

Throughout New York, former manufacturing areas are being transformed, primarily into residential areas. Brooklyn's waterfront, ringed as it is with manufacturing and industrial areas, has been the focus of much of the redevelopment and will continue to be in the future. While some redevelopment can help provide housing and rejuvenate neighborhoods, there is the potential to lose both the sense of place and infrastructure. Former industrial neighborhoods in Manhattan, such as Soho and Tribeca, were transformed into some of the city's most expensive residential neighborhoods while preserving their historic architecture and character. Regrettably, the Brooklyn waterfront has not been granted the protection needed to benefit from its storied past.

Guiding New York City's Economic Growth

New Initiatives to Expand Manufacturing

By Pamela Hanningan

ON January 19 2005, the mayor's office announced citywide initiatives to enhance and expand incentive programs that assist manufacturing in New York City. Far more than any City Hall in recent memory, this city administration has restructured and transformed economic policy, now squarely aimed at promoting the city's long-term growth in a competitive global economy.

September 11th crushed city finances and raised questions regarding New York's dependence on its dominant employer, the finance industry. As finance jobs hemorrhaged, employment in New York's industrial sector led the way out of the recession.

The diverse base of manufacturers concentrated in New York contributes significantly to the city's economic base. It increases local and global competitiveness while reducing the city's vulnerability to economic fluctuations. More than 500,000 manufacturing jobs, 15 percent of citywide employment, remain in New York despite losing many firms to the South and overseas. Industrial employment is significant throughout the city, representing more than 20 percent of total employment in the Bronx, Brooklyn, and Queens. More than 40 percent of the city's industrial jobs are located in Manhattan, although industry represents a small portion of Manhattan employment. The sector contributes nearly $2 billion in city taxes annually and further strengthens the city's tax base by employing many immigrants and minorities who help build New York's middle class, with average salaries of nearly $40,000 a year.

Previous development programs have been successful, but benefits have been limited because the programs largely stood alone. The new policy is a geographically targeted strategy that coordinates existing programs and integrates new, complementary initiatives designed to help the sector as a whole. Sixteen Industrial Business Zones (IBZs) outside Manhattan will serve as platforms for the package of incentives designed to reduce high costs and uncertainties of doing business in New York. New initiatives will combine relocation tax credits and real estate development tax abatements with small-business services, employee training programs and enhanced public services. These are expected to cost the city $9 million in tax incentives and $17 million in direct investment and services through 2009. Measures to discourage illegal conversions of industrial property to residential use in these areas are also included. A new Mayor's Office of Industrial and Manufacturing Business will coordinate and manage implementation of the sixteen IBZs once they are approved by the state. Local hearings were held in early February 2006 to discuss the proposed Industrial Business Zone boundaries.

NEW INITIATIVES IN A GLOBAL ECONOMY

The new strategy takes advantage of two important dynamics in modern urban economies: a balanced economic base and agglomeration. Urban economies produce economic growth through trade with other economies and trade within their own economies. The combination of export trade and intra-city trade creates a multiplier process that increases local economic growth far beyond what would be possible through self-sufficiency. Similarly, too much dependence on outside trade, especially in one industry, can result in an episodic economic future as a city's fortunes fluctuate with changes in outsiders' preferences or fortunes. In New York, this means building a portfolio of local economic assets that help balance a highly concentrated export sector in the finance industry.

Secondly, as globalization opens new economic possibilities around the world, it also rewards the competitive advantages of local economies. Local competitiveness increases with spatial concentration and the clustering of economic activity, or agglomeration. Economies of scale develop as common pools of labor, materials, and services benefit large and small firms alike. Economies of scope develop as one economic activity makes carrying out a complementary activity cheaper by fostering diversity and specialization among firms. Transaction costs, especially costs of assembling a qualified workforce, are significantly reduced. And proximity also accelerates innovation.

In New York, the size and diversity of the industrial sector itself is an important competitive advantage. Light industries such as printing and publishing, film production and set design, medical supplies, food processing, apparel, woodworking, metal fabrication, glass, plastics, mechanical contracting, durable and chemical manufacturing, warehousing and distribution, transportation, communications, utilities, waste management, wholesale trade, and work associated with culture and tourism benefit from proximity and help diversify New York away from the fortunes and failures of Wall Street. Motion-picture production and biotech research are also becoming important components of this sector. Their economic advantages can be further integrated and enhanced through geographically targeted incentives aimed to maximize agglomeration benefits.

Growth sectors of economies are usually concentrated in cities, where they benefit from agglomeration economies including ample markets, labor, and rapid diffusion of new ideas and knowledge. Consequently, how cities manage development has a powerful impact on economic growth and the shape of urbanization.

The Bloomberg administration surpasses limited successes of the past by adopting more current knowledge of economic development. This time, planning and implementation are integrated in the planning stage. Instead of racing to an inter-city marketplace of shortsighted and fragmented supply-side subsidies that mimic more productive strategies, this New York City government will invest and position itself to help local businesses link up with the global economy on a long-term basis.

CHALLENGES TO THE CITY'S INDUSTRIAL GROWTH

New York's industrial companies are primarily small, specialized businesses and most are renters. Eighty percent of New York City's industrial businesses have fewer than twenty employees and more than 60 percent lease their space.

In New York, tax on industrial property is based on rent-producing potential. This means that, in principle, taxes are assessed before demonstrated occupancy. The Department of Finance estimates that, absent development incentives, increased property taxes can absorb 25 to 35 percent of initial rents for new or expanding businesses before their estimated revenue potentials are achieved. As a result, an important disincentive to industrial development has been the extent to which higher rents from physical property improvements are automatically and immediately absorbed by higher tax liabilities. New or renovated industrial properties need to increase rents substantially to cover large increases in property tax expenses and provide adequate returns on construction investments. In 2003, the city council added further disincentives to industrial development by raising New York City's property tax by 18.5 percent.

As a consequence, New York City is at risk of losing industrial employment to nearby locations within the metropolitan area. More than 50 percent of industrial businesses report near-term expansion plans, but fewer than half plan to expand at their current locations because of space constraints and real estate uncertainty. In addition to the distortions of rent-potential taxation, rising land costs and revitalization add considerable uncertainty. Industrial businesses often report serious difficulties securing long-term leases from reluctant landlords who see land values escalating and anticipate future opportunities to convert space to residential use.

STRATEGIES THAT DO NOT WORK

As in many cities, political expediency has often dictated a very fragmented economic policy. Market forces generally determine the size of a local economy unless local government policy either expands demand for its products or subsidizes production. Given the emphasis on employment for political support, tax incentives that are production subsidies have been relatively easy to implement. They produce additional jobs that politicians can easily recite, but often because production costs are set artificially low. Further, counting jobs completely overlooks a critical element of economic development, job quality. If newly created jobs are of such low quality that incomes cannot meet household expenses or add to the city's tax base, after the costs of development incentives are considered, program success is illusory. In other words, programs geared for political expediency may only mimic the employment benefits of better-designed policies. For example, many criticized tax breaks for a McDonald's expansion in Queens. The incentives were not part of the expansion decision. Employment would have increased anyway. In another case, lucrative tax incentives awarded to retain Chase Manhattan Bank employment in Manhattan proved ineffective when Chase subsequently relocated their operations outside the city. If, instead, policies successfully expand markets for a city's products, then employment, wages, and property values rise and the costs of development subsidies are covered.

BLOOMBERG'S STRATEGY

Early in its term, the Bloomberg administration made a firm commitment to professional management of New York's long-term economic prospects. In order to restructure and transform the city for a global future, the administration insisted upon increased transparency, community participation, and objective analysis based on reliable information. At the city level, an independent consulting firm was engaged to recommend what industries would benefit from locating or expanding in New York.

Mayor Bloomberg and Deputy Mayor for Economic Development and Rebuilding Daniel L. Doctoroff appointed career investment strategist Andrew Alper as president of the New York Economic Development Corporation. Previously, the agency was known as a haven for political patrons without any particular commitment to the city's future. Under Alper's leadership, however, city officials have discussed the advantages of a New York City location with more than 300 companies in 23 countries.

Although the IBZs are not yet approved, the administration has begun providing support to firms that help diversify the city's portfolio of economic assets and multiply local incomes. In October, the Department of Small Business Services committed more than $500,000 to train employees in cost-effective manufacturing and to help finance expansion of fourteen companies. One recipient is Showman Fabricators, Inc., a set of leading manufacturers serving television and theater production in Queens. Another recipient is Liberty Brass Turning Company, Inc., which manufactures custom lamps and lighting parts in Long Island City. Other recipients include IceStone LLC, an innovative producer of commercial surfaces and green building materials made of recycled glass and concrete; Wolf-Gordon, a producer of commercial wall coverings in a variety of materials; and D.W. Haber and Son Inc., a Bronx producer of packaging supplies. These firms routinely trade with the export-focused finance sector, the local household sector and each other.

In 2004, Bloomberg and Doctoroff convened an unprecedented task force from twelve city agencies and departments to survey 500 local industrial companies regarding their needs and challenges and to establish citywide needs for a viable industrial base. The initial task force initially included representatives from the Department of City Planning, the New York City Economic Development Corporation, and the Department of Small Business Services. To provide specific recommendations for implementation, representatives from nine additional agencies were added including The Department of Finance and The Department of Transportation.

THE NEW INDUSTRIAL BUSINESS ZONES

A cornerstone of the new policy is establishing best-in-class industrial zones that cannot be rezoned or converted illegally for residential use. By concentrating industrial activity in limited IBZ areas, the new policy meets marketplace demands and creates agglomeration benefits that provide location advantages over other parts of the metropolitan area. New York is now one of few cities with an overall schematic zoning strategy. In the past and in most cities, zoning is usually the result of parcel-by-parcel negotiations.

Sixteen new Industrial Business Zones replace the old industrial parks and protect the newer, smaller and more specialized firms that dominate New York industry today. The new IBZs also replace outdated In-Place Industrial Park zones created twenty years ago.

The sixteen IBZs are designed to stimulate and protect the availability of industrial space by lowering the cost of real estate development. All IBZs are located outside Manhattan in neighborhoods selected to best reflect the most productive industrial districts in the city. In 2003, Bloomberg formed a zone Task Force to identify concerns and establish objectives. The administration worked closely with community leaders, elected officials and government agencies such as the Economic Development Corporation and the Department of Small Business Services to identify what mix of businesses best develop economic growth in the zones. Specific IBZ boundaries will depend upon existing land uses, traffic patterns, industrial character, and existing development incentive programs in each area. Feasibility analyses conducted by an independent consultant will also play an instrumental role.

Six proposed IBZs are located in the Bronx, five are located in Queens, and four are located in Brooklyn. IBZs in the Bronx include Bathgate, Eastchester, Hunts Point, Port Morris, and Zarega. IBZs in Queens include Jamaica, the JFK Industrial Corridor, Long Island City, Steinway, Flatlands Fairfield, and West Maspeth. These zones are located in areas with a base of industrial firms proximate to excellent transportation, suppliers, distributors, and career centers. With relief from real estate uncertainty, firms in these zones can become more competitive.

Hunts Point in the South Bronx illustrates the administration's IBZ blueprint. The Hunts Point peninsula employs over 10,000 in one of the world's busiest food distribution centers. Much of the New York region is fed by the Hunts Point Food Distribution Center, where more than 115 wholesalers generate more than $3 billion in yearly revenues. City resources dedicated to spur this zone's business and employment growth include new workforce development centers as well as improved infrastructure such as new market facilities, utilities, roadways, and freight access. In addition, workers will have better public transport links with new bus lines, and businesses will have better transport links with safer, more efficient road access. Important new initiatives will also include improved land-use options. City planning will rezone the area to encourage growth and expansion in food-related businesses while protecting existing residential neighborhoods.

The new IBZs also expand and integrate several existing initiatives designed to counteract disincentives to construction and renovation imposed by the ordinary operation of the city's property tax. Since most industrial companies are renters and not all have the interest or ability to become owners, the Bloomberg administration is working to provide these incentives without regard to building tenure. The Commercial Expansion Program, a package of tax benefits worth $350 million annually, is expanding eligibility to industrial tenants. The New York Industrial Development Agency is also expanding assistance for developers of rental space. The Relocation and Assistance Program, which subsidizes job creation by companies who relocate to New York, and the Energy Cost Savings Program, which provide relief for energy costs of qualified industrial and commercial firms, are also revised and expanded. Many of their benefits were not utilized due to difficulties in applying and securing them. The Department of Finance could cite only one example, the knitting industry, which relocated to New York City during the 1970s as a result of commercial expansion programs. Many community development programs routinely reported significant red tape and delays under these incentive programs during past administrations.

Other new initiatives will also be implemented under the IBZ platform. The Department of Small Business Services will provide detailed financing advice and assistance including information about small-business registration; available and affordable space for start-up or expanding businesses; access to capital investment; eligibility for lucrative city, state, federal, and non-governmental contracts; expertise on how to form and protect business improvement districts (which will add to the 56 business improvement districts already established); and how to access employee training and recruitment services at New York City's Workforce1 Career Centers. In October, the mayor announced a new Workforce1 Career Center at LaGuardia Community College, a $3.9 million initiative to connect New Yorkers with jobs created by the IBZs in Queens. The center joins the network of six existing Workforce1 Career Centers and expects to place 2,000 jobs during its first year.

CONCLUSION

In New York City, the assumed link between the numbers of new jobs and economic prosperity often preempted a more essential question of sustainable economic development: job quality. Assuming that any incentive that produces a job also improves the level and distribution of economic prosperity does not address structural roots of long-term economic development. Fragmented business incentives may even worsen income disparities and the city's economic prospects. On the other hand, identifying agglomerative forces and creating geographically targeted inducements to support them is a more useful strategy for directing an urban government's ability and power to shape a development agenda.

Since his first election, Mayor Bloomberg has identified small manufacturing businesses as dynamic engines of economic growth in New York City. In principle and in practice, his administration has pursued a more proactive and professional approach to increase this sector's employment and long-term investment. The result is the Industrial Business Zone strategy, which identifies economic and production linkages that argue for spatial concentration, and serves as a platform for targeted development incentives and support services that build sustainable economic growth.

Governors Island

Which Comes First, the Deal or the Plan?

By Robert Pirani

FILLED with history and serenity and an overwhelming island quality, Governors Island poses truly singular opportunities to redevelop one of the largest single properties in the city and one of the unique places in the world, and to help transform both lower Manhattan and the city's relationship to its harbor.

The slow progress made since the Coast Guard quit the island in 1997, and since the city and state took control in 2003, is a testament to the many challenges posed by the island's redevelopment. Many of these are inherent in the physical nature of the island itself. There are obvious questions about access. Repairing infrastructure and creating the mandated parks will require hundreds of millions of dollars. There are more than one million square feet of historic buildings in need of willing and able tenants.

But to overcome these very real challenges, the city and state must offer a modicum of certainty in terms of process and of place. More than just about any other development project in this city, Governors Island demands that government instill some confidence in the private sector.

Finding the best way to build that confidence raises the fundamental conundrum of large-scale public redevelopment projects. Will commitments to parks and preservation be placed at risk by striking deals with developers before planning, infrastructure, and park improvements proceed? Will the value inherent in these property improvements be ceded too cheaply? Or will planning constrain the flexibility needed to accommodate the creativity and special needs of potential investors? And will decisions made too early leave an otherwise viable suitor cold?

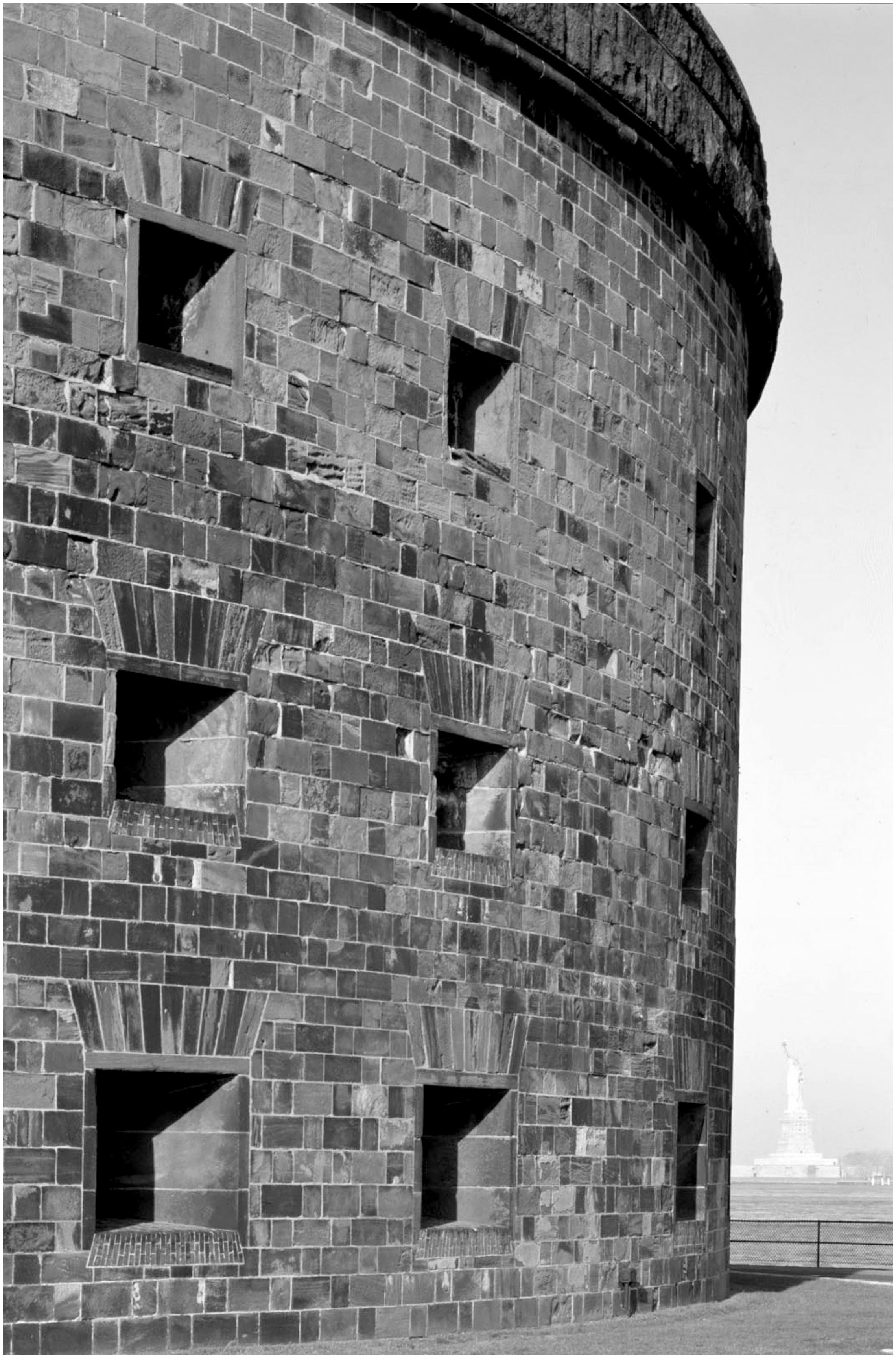
Which comes first, the deal or the plan?

GOVERNORS ISLAND IS A SPECIAL PLACE

Helping build momentum for any action on the island is the simple fact that Governors Island is a truly spectacular place. No visitor to its shady paths, monumental stone forts, or harbor sunsets comes away thinking the same about New York. Five minutes from lower Manhattan or Brooklyn, the island is a world apart.

The 172-acre island's central-yet-apart location has defined its history and is likely to define its future. Its strategic location at the mouth of East River attracted Dutch settlers, who landed on small and safer Governors Island before establishing the New Amsterdam colony on Manhattan. Deeded to the colonial governor (hence the name), the island served as an executive retreat and pasture for much of the 18th century. Revolutionary cannon on the island fired a warning shot that helped convince the British to land their 1776 expeditionary force in Brooklyn rather than Manhattan; a decision that enabled Washington to preserve his army for another fight.

Following the British withdrawal, the fledgling



Castle Williams. Photo: Peter Aaron/Esto, courtesy of the Regional Plan Association.

republic took control of the island from the State of New York in 1800 and commissioned plans for more permanent fortifications. Fort Jay and Castle Williams, still standing and at the heart of the national monument on the island, are credited with helping spare New York from the attacks that torched Baltimore and Washington D.C. Thus began more than 200 years of military use: the Army until 1966 and the Coast Guard from 1966 to 1997.

These two centuries of military use have left an extraordinary legacy. There are over one million square feet of buildings in the island's national and city historic landmark district, including five individually designated landmarks. In addition to the massive stone forts, there are Federal- and Victorian-style homes, administrative buildings designed by McKim, Mead, and White, landscaped paths, and shady courtyards. This unique ensemble is surrounded by a two-mile waterfront offering views of lower Manhattan, the Statue of Liberty, and the Brooklyn docks.

RETURN TO NEW YORK

Beginning in the late 19th century, New York City repeatedly sought control of the island. At least three federal legislative attempts were made to have the island returned to the city for park use. The Regional Plan Association and Mayor LaGuardia proposed its use for a municipal airport in 1929. All of these proposals were defeated politically by the military, who prized their island postings and the strategic value of having a major command center in the nation's economic capital.

But federal control was doomed by changing technology, national politics, and congressional budget hawks. The U.S. Coast Guard announced that it was quitting the island in 1996, to the displeasure of the 3,000 officers, enlisted men, and their families who lived in what was essentially a small rural town. The operations of the largest and probably most expensive Coast Guard base in the world were moved to South Carolina and other low-cost locations.

The disposal of Governors Island was handled by the General Services Administration. But rather than have the GSA follow standard surplus property procedures (which includes mandated offering of the property for public-benefit uses such as homeless housing, historic preservation, and conservation), the leadership of the U.S. Congress and the Balanced Budget Act of 1997 directed the GSA to sell the island for fair market value by 2002. This legislative maneuver enabled lawmakers to count the island's appraised value (first $500 million, later reduced to $330 million) as revenue toward their budgetary goals.

But, fortunately, New York's legislative leadership was able to insert a clause in the act granting New York City and New York State a right of first offer (at fair market value). This authority led to a handshake deal between New York Senator Daniel P. Moynihan and President Clinton by which the island was to be transferred to the city or state at no cost for public benefit uses – that is, uses that could be appraised as having no value. The benefits of such a public benefit plan helped galvanize the many civic organizations concerned about the future of the island. The Regional Plan Association, which had formed the Governors Island Alliance in 1995, convened a community workshop and prepared one such plan for the island in 1998. Efforts by the New York Landmarks Conservancy and others led to a 93-acre New York City Historic District being established on the island in 1996, a local ordinance that buttresses federal protection offered by the National Landmark Historic District designation in 1985.

Jolted by the civics, the city and state launched a variety of proposals, task forces, and plans for the island. Their efforts culminated in a joint city–state announcement in January 2000 for a program of uses including hospitality, tourism, education, and parks. However, unclear prospects for future private tenants, coupled with dismal relations between the city and state and between Washington and New York, stalled negotiations on the proposed no-cost transfer.

At the urging of Representatives Carolyn Maloney and Jerrold Nadler, President Clinton created the 22-acre Governors Island National Monument in January 2001 by executive order, one of his last acts as president. The order affirmed the important role the island played in the nation's history, and assured that the National Park Service would forever be stewards of the island's most conspicuous historic features – Fort Jay and Castle Williams.

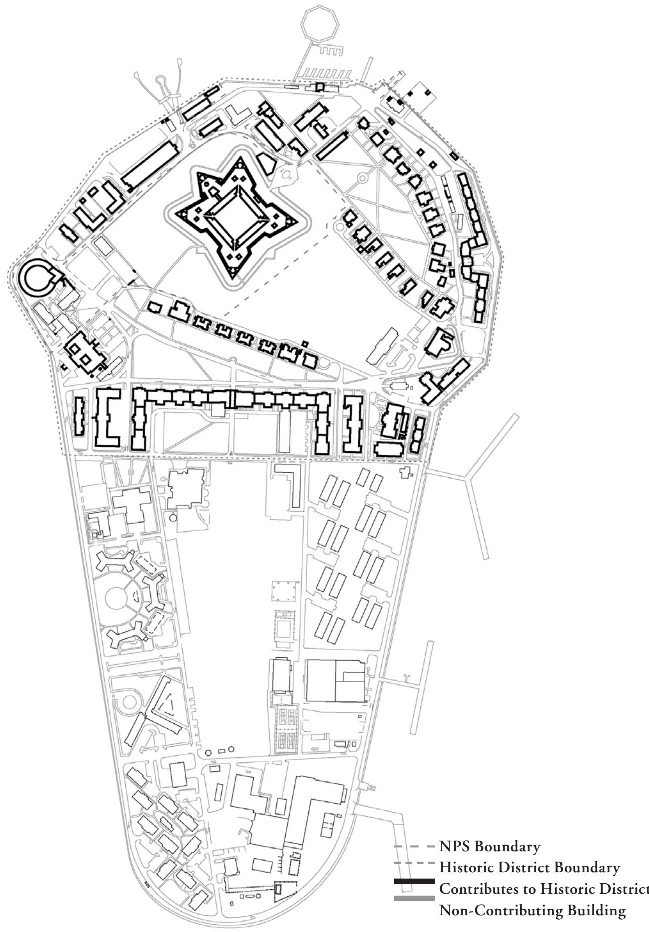
But the fate of the rest of the island remained unsettled. With Congress' legislative deadline approaching, and with new-found sympathy for New York and lower Manhattan in the aftermath of September 11th, President Bush, Mayor Bloomberg, and Governor Pataki announced their intention to transfer the island at no cost in April 2002.

The resulting memorandum of understanding and deed restrictions, formally signed in January 2003, affirmed the creation of the National Monument and transferred the remaining 150 acres to the control of a city–state Governors Island Preservation and Education Corporation (GIPEC) for $1 subject to a series of public benefit commitments and deed restrictions. These include creation of at least 40 acres of public parkland, twenty acres for educational use, protections for the city and state historic district, and prohibitions on residential and industrial uses, casinos, and electric power generating stations.

WHAT'S HAPPENING NOW

GIPEC is a subsidiary of the Empire State Development Corporation (ESDC), with a twelve-person board of directors: six from the city and six from the state. A rotating chairmanship resulted in former Secretary of State Randy Daniels leading GIPEC from 2003 to the spring of 2005. Deputy Mayor Dan Doctoroff is now in charge.

Under the terms of transfer, GIPEC is required to develop a master plan for the island by January 2007, a schedule that roughly parallels the adoption of a general management plan by the National Park Service. To accomplish this, GIPEC will propose a preliminary master plan – or General Project Plan (GPP) in the state's parlance – in January 2006. It is expected to follow release of this plan with a request for proposals (RFPs) to developers in February; and the signing a memorandum of understanding with the developer(s) by fall. The draft and final GPP and environmental impact statement would be undertaken soon thereafter, with the expectation that these documents will be drafted around the needs and proposals of the specific developers and tenants selected through the RFP process.



Governors Island map courtesy of the Regional Plan Association.

But success of this venture is far from certain. The island's near-yet-far quality both endears and challenges prospective tenants. The trick has always been to come up with the right set of uses that match its islanded charm, the 1.2 million square feet in the island's National Landmark and city Historic District, and public commitments to parkland, including a minimum 40-acre city/state park and a 22-acre National Monument.

The essential program for the island, developed and refined through a half dozen public and private planning studies, is well established. The island is to become a great civic space, with a suite of hospitality, education/research, recreation, and cultural uses. Private residential use is prohibited for policy, fiscal, and legal reasons (i.e. prospects of privatization, expensive demands for public services, and the $1 valuation by federal appraisers). This overall concept and the political consensus it represents is memorialized in the federal/city/state memorandum of understanding and the deed restrictions that accompanied the island's transfer from the federal government. Its latest expression is in the "Development Framework" and the four conceptual plans developed by a team led by Robert Charles Lesser Company in association with Ehrenkrantz Eckstut & Kuhn Architects and Urban Strategies, Inc. (see www.govisland.com/development_framework.htm.)

What has always been missing is some substantial political and financial certainty. Without this roadmap, it has been difficult to realize any real private-sector interest. According to GIPEC, the 90 proposals garnered by the Request for Expressions of Interest they issued in the spring of 2005 delivered some good ideas and some potential partners but no real answers, exactly what one might expect from a solicitation that carried with it no actual commitments by either government or the private respondents. It is far from certain that the request for proposals to be issued in 2006 will fare better.

MAKING THE ISLAND A SUCCESS

The city's current policy relies heavily on the promise of finding that one, right tenant. As with the far West Side, Atlantic Yards, or the Bronx Terminal Market, the city's vision is driven by concept that large projects are defined largely by a principal developer and tenant. And this is not wrong at all; the island will surely flounder without two or three economic legs to stand on.

But it is worthwhile remembering that Battery Park City and scores of other large, successful development projects took a generation or so to build out, requiring a little faith and some risk-taking on the part of their public stewards.

In waterfront projects from throughout the world, government has used planning and public investments in open space and infrastructure to create land value and thus maximize the public's return on future private leaseholds.

GIPEC has already identified about $400 million in infrastructure investment on the island, ranging from critical repairs to the historic buildings, to improvements in ferry connections, to upgrades in water and sewer services. It is likely to commit at least $45 million in the coming year, on top of $35 million that has already been authorized. This funding is largely designated for needed repairs to historic buildings and improving the existing ferry systems.

It is a start, but will treading water be enough to attract private developers? This is a unique property with no real comparable. With its historic structures subject to coastal conditions and decay, Governors Island demands that government act rapidly to instill some confidence in the private sector. The city and state should set and deliver on specific political, financial, and planning milestones. These milestones should include substantial plans and budgetary commitments toward the two major drivers of real estate activity: access and amenity.

Governors Island is tethered to Manhattan by two old docks and a single, old boat. But the first question of any prospective tenant is how to get his clients and employees to the island. Visitors will want, like any New Yorker, to have a boat waiting for them whenever and wherever they want. The city and state must plan and invest in an infrastructure that creates a seamless connection to lower Manhattan and the new Brooklyn waterfront.

Amenity is also critical, especially on an island set apart from typical investment opportunities. What was instrumental to the success of Battery Park City was the front-end investment by the state in parks, public ways, and the waterfront esplanade. These became valuable assets for private developers because they provided marketable addresses and defined the quality of property frontages. Creating spectacular open spaces and opening up waterfront views will enhance the value of the island. Moreover, this approach can allow for incremental development and change over time to meet unpredictable market requirements and unforeseeable future events. These commitments can be provided for without sacrificing the creativity or flexibility of any potential respondent. In fact, including both commitments and guidelines in an RFP will help ensure better responses by providing clarity and certainty to any potential partner.

Will the development of Governors Island continue to drift? There are surely many miles to go in this saga. But this remarkable island will not be becalmed for long if the city and state set a strong course and run enough sail up the pole.

The Gentrification of Manhattan

Long Term Trends in the Housing Market

by Jonathan J. Miller

AFTER Wall Street, real estate is the most heavily watched sector of the economy. Its role in changing the fabric of neighborhoods, reducing blight and decay, and enhancing the city's tax revenue stream, has been all important in determining the character of Manhattan. Over the past 25 years, real estate development has thrived in Manhattan. Housing demand has increased since the city was on brink of bankruptcy in the 1970s, and there is now a shortage of supply. Rising prices have pushed development into the other boroughs, especially Brooklyn and Queens. Along the way, there have been changes in the nature of new development, which are affecting where and how New Yorkers live.

THE 1980s: CONVERSIONS, NEW CONSTRUCTION, & TAX ABATEMENTS

In the early 1980s, demand for new, open-market housing was rising, but little inventory had been added to the housing stock since the 1960s.

Developers responded by converting existing rental buildings to cooperatives and, to a lesser degree, to condominiums. At its height, more than 16,000 units per year were converted in this manner. Landlords in a non-evict plan were required to convince at least 15 percent of the existing tenants to purchase as "insiders." The sponsors discounted prices in order to encourage a high enough percentage of tenants to vote in favor of the conversion. As a result, many tenants stayed, the apartment mix of these buildings remained stable, and the relatively affordable prices attracted outside buyers with similar or only somewhat higher incomes. Sponsors maximized their investment by upgrading retail tenancies as they expired, but the general level of residential support services was not significantly affected in many neighborhoods.

From 1985 to 1990, our firm, Miller Samuel Inc., tracked 119,319 units added to the condominium and cooperative housing stock in Manhattan. Of this total, 72 percent were within co-op conversions. The totals include tenant-occupied units that had the potential to convert to individually owned units.

Pressed by housing activists, the city also encouraged developers to build new housing through a variety of initiatives. One of these initiatives was the 50/50 program where a large quantity of city-owned property, that had been taken *in rem,* the legal definition for a court-supervised sale, was sold to private developers in return for their agreement to develop an equal amount of subsidized housing for low-to-middle income families. Other programs interspersed affordable housing units within new developments, in 80/20 percent market-to-affordable ratios, in return for tax credits.

Middle- and upper-income housing development was stimulated by 421a and J-51 tax abatement programs that encouraged development by granting tax abatements over ten to twenty years. The 421a abatement program allowed developers to pass along tax savings to condominium purchasers. Initially, real estate taxes were discounted 80 percent with 20 percent increases every two years until the abatement expired. Similarly the J-51 program encouraged capital improvements in existing buildings and was used primarily in older loft buildings undergoing conversion from manufacturing to residential use.

The mixture of new, open-market housing and subsidized housing proved to be an incendiary mix in some neighborhoods and was one of the factors that led to the Tompkins Square Park riots in 1988. This followed a decade of gentrification in surrounding lower-income neighborhoods. The image of a stripped and burned out school bus in front of a new "gut rehab" luxury cooperative or condominium development, with the words "Die Yuppie Scum" spray-painted on the front door, typified the entry of new housing stock into certain lower-income markets.

TAX CHANGES & A RECESSION END THE BOOM

While a large number of new condominium units entered the market, changes in the tax laws stalled many new developments. These tax-law changes included a revision of the Federal Tax code in 1986 that effectively eliminated write-off of passive losses against rental income, drying up most of the demand for investor units. Until then, developments had been more configured with studio and one-bedroom units to meet the demand of purchasers who rented them, often at a loss. As a result of these tax law changes, new developments were reconfigured mid-construction due to the loss of the investor sector. In 1986, the 421a tax abatements expired below 96th Street in Manhattan, resulting in an over-supply of condominium developments. Developers had to have the foundations installed on the site by the fall of 1985 to qualify for the abatement. Many were digging holes in the ground to make the deadline without definitive plans for the project.

The 1987 stock market crash was followed by recession, and the market was oversupplied until the mid-1990s. As mortgage rates rose, and the recession gained momentum, the surge in development evaporated and a trickle of new product entered the market through the middle of the 1990s.

THE LATE 1990s & THE 2000s, LUXURY CONDOMINIUM DEVELOPMENT DOMINATES

The new condominium units of the 1980s offered largely the same mix of unit sizes as the cooperative conversions of the day. As a result the disparity in demographics was not that pronounced. However, nearly ten years after the development boom ended, the dotcom boom of the late 1990s fueled a new type of development.

The pace of conversion from rental to either condominium or cooperative was about 10 percent the rate seen in the 1980s, largely because sponsors had already converted most economically feasible buildings. Rehabilitation and conversion of manufacturing and commercial properties, especially class C office space, has largely dominated the limited conversion activity.

Nearly all new development contained much higher levels of luxury amenities, and nearly all were in the form of condominiums. Prices increased more rapidly from 1998 to 2000 than any earlier three-year period, and the units that were developed were larger and contained a higher quality of finishes than had ever been attempted. The average size of a condominium unit that sold in early 1998 was 1,262 square feet. By 2000, the average square footage of condominium units had swelled to 1,666 square feet, a 32 percent increase. Since the average price per square foot is generally higher for larger units, the average sales prices were the highest ever recorded.

THE FOCUS ON LARGER APARTMENTS & LESSER LOCATIONS CONTINUES

In the Manhattan housing market, unlike most residential markets, there is a premium placed on larger contiguous space. As a result, developers continued to develop larger units than in the 1980s.

While the overall size of a Manhattan apartment increased a nominal 2.2 percent, or 28 square feet, from 1989 to 2005, the change within each size category tells a different story (see fig. 1).

The "sweet spot" for new units, as developers like to call it, has been found in the larger sized units. The average size of three-bedroom and four-bedroom apartments has grown 11.4 percent and

Fig.1

Manhattan Cooperatives and Condominiums

Avg. Square Feet	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4+ Bedroom	All
1989	548	756	1,366	2,376	3,879	1,260
2005	486	758	1,441	2,647	4,157	1,288
% Change	-11.2%	0.2%	5.5%	11.4%	7.2%	2.2%

Fig.2

Manhattan Cooperatives and Condominiums

Price Per Square Foot	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4+ Bedroom	All
1989	$273	$298	$352	$466	$538	$332
2005	$790	$840	$1,027	$1,339	$1,925	$955
$ Increase	$517	$542	$675	$873	$1,387	$623

Source: Miller Samuel, Inc.

7.2 percent respectively since 1989. Even the average size of a two-bedroom unit increased over this period by 5.5 percent.

However, the entry-level units did not follow the same pattern of square-footage growth. One-bedroom units are essentially unchanged in average square footage and studios contracted 11.2 percent in size. The developer's incentive to emphasize larger units is clearly found in fig. 2.

The difference in nominal dollar amounts is the compelling rationale for the change in the development incentive of new housing stock. On a per-square-foot basis, the change in the price was proportional to unit size. In other words, the net change for studio units was the lowest at $517 per square foot while the net change for four-bedroom units was the largest at $1,387 per square foot. Since this data includes both new developments and resale data, the growth in price for new housing was even more pronounced than this data suggests. Most new development has been in the form of condominiums because of their higher value. This premium was estimated at 15.5 percent in our joint research project with New York University in 2003, *The Condominium v. Cooperative Puzzle: An Empirical Analysis of Housing in New York City.*

The rush for new condominium development has been accelerating since 2001, making the availability of sites for assemblage more limited and expensive each year. One of the primary catalysts for the housing boom in Brooklyn, Queens, and potentially Long Island City, has been the high cost of land in Manhattan.

High land prices have forced developers to do two things. Firstly, to create larger units to extract more profit out of their sites. The problem with this approach is that there has been a shift in demand to mid-sized units and greater weakness at the upper end of the market, due to a larger supply of listing inventory. Secondly, to build upscale properties in neighborhoods that have not seen this type of housing before, where sites are available and where land

Pricing Survey

Fig.3

Price Per Square Foot Change Since 1989	All	Area
Washington Heights	330.8%	Uptown
Hamilton & Morningside Heights	300.7%	Uptown
Soho & Tribeca	272.7%	Downtown
Greenwich Village	253.2%	Downtown
Chelsea	252.5%	Downtown
Inwood	242.8%	Uptown
Financial District	234.0%	Downtown
Lincoln Center	231.7%	West Side
Upper West Side	229.3%	West Side
East Village & Lower East Side	227.0%	Downtown
Union Square, Gramercy, Kips Bay, & Murray Hill	211.1%	Downtown
Riverside Drive & West End Corridor	197.9%	West Side
MANHATTAN	**187.6%**	
Midtown West & Clinton	180.7%	West Side
Harlem & East Harlem	179.3%	Uptown
Lenox Hill	169.3%	East Side
Midtown East & Turtle Bay	158.4%	East Side
Carnegie Hill	157.1%	East Side
Yorkville	156.7%	East Side
Upper East Side	156.5%	East Side
East End Avenue	151.7%	East Side
Battery Park City	119.7%	Downtown
Sutton & Beekman	110.1%	East Side

Source: Miller Samuel Inc.

costs are less than in more established locations. This places further pressures on developers to make the projects viable. The spread in price per square foot between new developments in these emerging markets and those in established markets has decreased in recent years.

GENTRIFICATION OF THE LOFT MARKET

The downtown loft market is a primary example of gentrification of housing stock. In the mid-1990s, the economy broke free of the recession and the surplus of housing that dated from seven-to-ten years prior was quickly being absorbed. Commercial and manufacturing areas downtown were underutilized and targeted for development. New loft units added to the residential housing stock eventually competed with established residential neighborhoods such as the Upper East Side and Upper West Side. The size and amenities of these new units grew over the years making the price points higher than most artists, who comprised the earlier occupancy base, could afford. Purchasers tended to be affluent professionals who worked in financial services. Along with these new residents came upscale restaurants, food, and clothing stores, pricing existing retailers out of the market. Gallery owners, who were there long before loft neighborhoods like Soho and Tribeca became upscale residential neighborhoods, were also priced out. Many of the galleries moved north to Chelsea, and these same tenants are being priced out again as retail rents increase there.

Dollar Change in Price Per Square Foot Fig.4

Market Area Change Since 1989	All	Area
Lincoln Center	$804	East Side
Soho & Tribeca	$747	Downtown
Chelsea	$735	Downtown
Upper West Side	$734	West Side
Greenwich Village	$717	Downtown
Carnegie Hill	$713	East Side
Lenox Hill	$684	East Side
MANHATTAN	**$623**	
Upper East Side	$599	East Side
Midtown East & Turtle Bay	$596	East Side
Midtown West & Clinton	$591	West Side
East Village & Lower East Side	$563	Downtown
Riverside Drive & West End Corridor	$556	West Side
East End Avenue	$524	East Side
Union Square, Gramercy, Kips Bay, & Murray Hill	$511	Downtown
Financial District	$473	Downtown
Battery Park City	$422	Downtown
Sutton & Beekman	$410	East Side
Yorkville	$393	East Side
Washington Heights	$374	Uptown
Hamilton & Morningside Heights	$364	Uptown
Harlem & East Harlem	$298	Uptown
Inwood	$250	Uptown

Source: Miller Samuel Inc.

PRICING SURVEY BY MARKET AREA

We have reviewed the average price per square foot of a number of market areas in 1989, as compared to 2005 (fig. 3). This analysis was based on a series of published market surveys completed by our firm for Prudential Douglas Elliman. The 2005 numbers were based on the first three quarters of the year.

The neighborhoods and market areas were selected from our market reports as locations that have distinct and similar housing characteristics and, more importantly, where there is adequate data available to derive some sort of conclusion. Some of these markets overlap. For example, the Upper East Side includes Yorkville, Carnegie Hill, and Lenox Hill. These markets have specific identities and as we have the capacity to analyze them, so they were included.

There is a distinct pattern in the appreciation rates of the various areas in the rankings. The overall Manhattan market saw a 187.6 percent increase in the nominal average price per square foot from 1989 to 2005 and would be considered a rough midpoint to determine whether a particular market areas exceeded or fell behind the overall average.

The Downtown markets saw major gains largely due to the expansion and development of the loft market, which changed the character of the area and attracted more upscale retail goods and services. One of the exceptions was Battery Park City, developed on landfill in the early 1980s. Its housing stock characteristics have not changed significantly since 1989 with the exception of a few new developments that are targeting more affluent buyers with larger units.

The Uptown area (including Washington Heights, Inwood, Harlem, East Harlem, Hamilton Heights, Fort George, and Morningside Heights) also saw significant price gains as buyers moved northward on the island in search of more affordable housing.

The Upper West Side saw some large increases but the gains were specifically related to new developments in the Columbus Circle area and Trump's Riverside South development. The East Side neighborhoods are the most established in Manhattan and have far less "upside" than the other market areas.

With few exceptions, newly developed market areas saw the greatest appreciation rates while previously established residential locations with less potential "upside" and saw the lower growth rates. However, one of the missing components of an analysis based on percentages is the impact to the potential buyer in terms of price. When analyzed by the change in price per square foot, the results change considerably (see fig. 4).

In this scenario, we see Manhattan prices have appreciated an average of $623 per square foot, which is in the top third of the market instead of in the approximate middle. This indicates that dollar growth leans in favor of the most expensive markets, with the highest dollar gains in more established neighborhoods such as the Upper West Side and Lenox Hill and in markets with a new or existing stock of larger units, including the loft markets in the downtown areas like Chelsea, Soho, and Tribeca.

THE HOMOGENIZATION OF PRICING

One of the more significant differences in terms of prices from 1989 to 2005 has been the homogenization of pricing between market areas. For a macro perspective, we divided Manhattan into the four distinct market areas: Eastside, Westside, Downtown, and Uptown (fig. 5).

Excluding Uptown, the dollar spread between the low and high price areas in 1989 was $100 in nominal terms while in 2005 the difference was actually less at $65. The development of new units has had the effect of reducing the pricing differential between market areas. Development opportunities in the Downtown and West Side market areas have essentially reached parity with the East Side.

Price Per Square Foot Summary

Fig.5

Quadrant	1989	3Q 2005	Spread
Uptown	$116	$472	$356
Downtown	$280	$956	$676
West Side	$320	$1,021	$701
East Side	$380	$1,018	$638
High-Low Spread (excluding Uptown)	$100	$65	

Source: Miller Samuel Inc.

OVERVIEW

After 25 years of residential development, Manhattan now has limited room for the large-scale expansion of owner-occupied housing that has resulted in higher housing costs and a higher cost service economy. The availability of buildings to convert to residential owner-occupied housing has become more limited. The development of new housing stock to meet the needs of low-to-middle-income wage earners has also been limited as gentrification has emerged as one of the driving forces of the new housing economics in Manhattan since the early 1980s.

The irony here is that the original grittiness and texture that makes living in Manhattan so unique, and serves as a powerful attraction to buyers, may ultimately be priced off the island.

Manhattan's Housing Market and the Media

by Jonathan J. Miller

THE Manhattan real estate market, not unlike many metropolitan real estate markets in the United States, replaced the stock market as the primary topic of backyard barbeques over the past several years, due in large part to the recent fixation with the word "bubble" in big media and the blogosphere.

This began to take shape in the early spring of 2005, when the housing market became synonymous with the word "bubble" in much of the media coverage. Comparisons were drawn to the stock market correction in 1987 and the dotcom bubble burst in 2000. After all, to what other financial phenomenon can we compare the current real estate market? This time around, however, the coverage seemed to imply that the housing market would be a catalyst for some sort of economic disaster, rather than be affected by one. By the time summer arrived, reasons for concern appeared.

In economic terms, the summer of 2005 was far from ordinary. It was a hurricane of bad news, literally. Mother Nature, as well as China, Iraq, Detroit automakers, and Alan Greenspan all seemed to add to the economic uncertainty as it related to housing. Each month, the Census Bureau and the National Association of Realtors released their existing and new home sales statistics and, no matter the outcome, it seemed to stoke a rising media frenzy. Finally, it was the devastation of hurricanes Katrina and Rita that sent shockwaves across the housing market.

Followers of the Manhattan housing market expected bad news. In fact they *needed* bad news because that was the mindset of the day. On October 4, 2005 Miller Samuel released the Manhattan Market Overview 3Q '05 that we author for Prudential Douglas Elliman. Two other brokerage firms released market reports on that same day as well. Market participants seemingly braced for the results. Many in the media indicated to us that if a major real estate market like New York fell, it was possible that others would follow.

In residential real estate, there is a need by many to rely on the one number that will identify trends. Real estate is not about one number, which is why Miller Samuel presents several. Among these price indicators, as compared to the prior quarter, median sales price showed a 3.2 percent drop, average price per square foot showed a 1.4 percent increase, and average sales price showed a 12.7 percent drop. These statistics showed relatively mixed results, more negative than what readers had become accustomed to over the past several years, though by no means a sign of a bubble bursting.

Not surprisingly, the 12.7 percent drop in average sales price was selected almost universally in the first batch of stories that were published; among them was the *New York Times'* front page story "Slowing Is Seen in Housing Prices in Hot Markets." The response was similar from other influential media including Bloomberg News, Dow Jones, and CNN. Coverage of the report that day extended from Australia, to New Zealand, to Italy, to Alabama, to New

York. We are aware of 46 distinct stories on the first day the report was released, including broadcast and Web coverage. In addition to the media interest, Wall Street investment firms, bond companies, real estate brokerages, New York City government agencies, the Federal Reserve, and others called us to clarify whether we thought the housing boom was over. The deluge of requests for additional information and clarification was so overwhelming that we posted a summary of the salient points in our Matrix Web log, http://matrix.millersamuel.com/?p=160, called "Manhattan After The Hoopla Over A 12.7% Drop: What Really Happened In 3Q 05?" Media coverage continued to be heavy over the next several days but backed away from the 12.7 percent figure once the other statistics in the report were reviewed.

Buyer psychology can be a fragile force in a housing market. A rapid change in sentiment was certainly possible after six months of negative housing coverage in the media, which then peaked in the third quarter. However, consumers remained surprisingly optimistic, despite concerns that a weaker fourth quarter could mark the beginning of a significant downturn for Manhattan real estate.

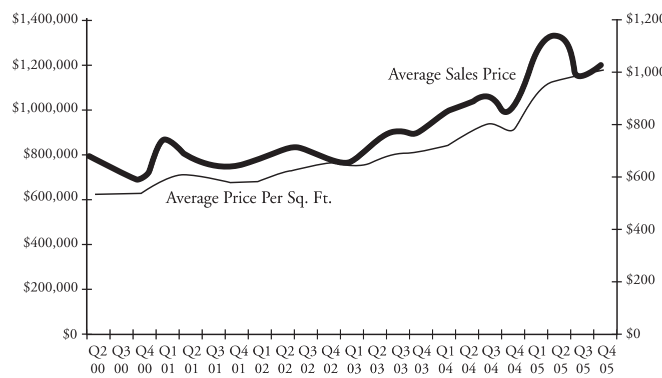
Fourth quarter housing prices in Manhattan saw modest gains over the prior quarter. Price appreciation had now remained relatively modest for two consecutive quarters. This suggested that the market has shifted gears from the double-digit growth of the past several years to single-digit growth, which is more likely to be sustainable in the long term. The resulting media coverage was just as widespread as in the third quarter, but the sense of panic seemed to have abated.

Why? The fourth quarter did not see a drop in housing prices. It did experience a sharp drop in the number of sales and a rise in inventory as compared to the prior quarter. The negative change in these indicators was interpreted as a *short-term holdback* by buyers, caused by a plethora of troubling economic news.

Now, after two consecutive quarters of modest price appreciation in Manhattan as well as nationally, the media has adjusted its terminology from a "bubble ready to burst" to a "soft landing" or a more "normalized" market. Interestingly, economic fundamentals did not see significant change in the second half of 2005 yet its characterization, and thus public perception, did change.

An increase in the number of contracts, including at least six sales in excess of $20 million in December, seemed to signal more optimism for the outlook in early 2006. The good news couldn't have come at a better time. The record Wall Street bonuses paid out due to the solid year by mergers and acquisitions specialists as well as investment bankers is what differentiates the New York regional real estate market in 2006 from the remainder of the country. Historically, Wall Street bonus income has flowed through the real estate economy after the New Year and this year seems to be no exception. It has been hailed as a panacea for the current real estate market. However, it is not certain whether this money will flow into the real estate economy as freely as it has in years past.

Average Sales Price v. Average Price Per Sq. Ft.



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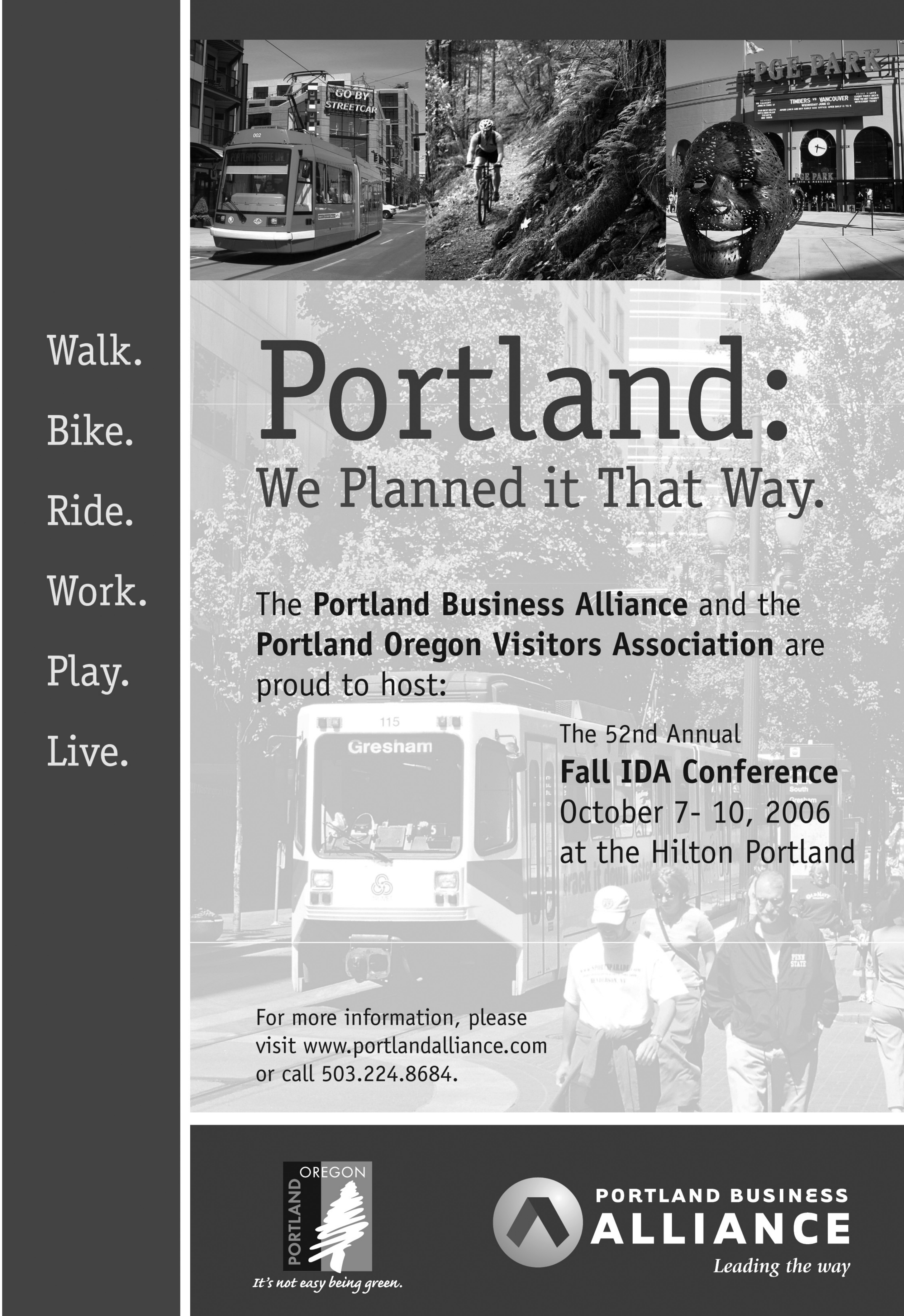

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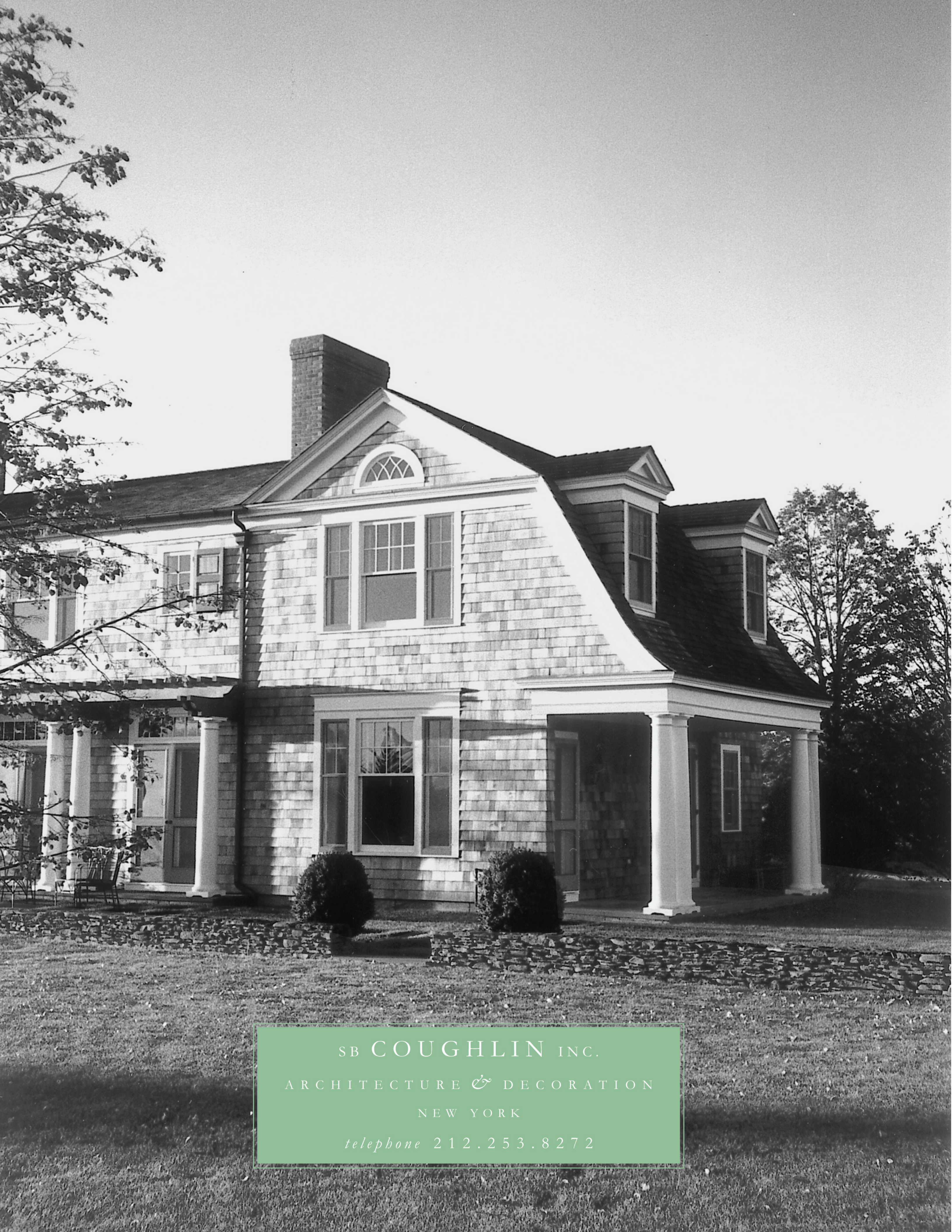
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