

Executive Summary

In 2009, the national recession and housing crisis continued to destabilize households and neighborhoods, with both unemployment and foreclosure filings reaching record highs. While the national downturn hit New York City later than it did in other parts of the country, by 2008 and 2009 there were undeniable signs of building and neighborhood distress throughout the City—the number of serious housing code violations and severely crowded households rose, while housing prices continued to fall and foreclosure filings soared. The real estate boom that had fueled staggering increases in housing prices and a condo-building frenzy was over; by 2009, debt-laden properties, stalled construction, and widespread foreclosures came to define real estate in New York City.

Last year, the *State of New York City's Housing and Neighborhoods (State of the City)*, examined 30 years of data on real estate booms and busts in New York—analyzing how far property values rose, and fell, and how different kinds of neighborhoods fared in the upturns and in the downturns. This year, as the City finds itself in the midst of a new bust, we examine the most recent boom in more detail, analyzing the characteristics of the development that took place throughout the beginning of this decade.

THE ANATOMY OF THE BUILDING BOOM

This year's chapter, *Causes and Consequences of New York City's Residential Building Boom*, beginning on page 9, looks specifically at trends in building activity (measured by the number of new certificates of occupancy issued) between 2000 and 2008 in New York City. Between 2000 and 2003, building activity grew by approximately 7% annually; and by nearly 17% annually between 2003 and 2006. In 2007, the number of new units completed in the City peaked at 25,659—the most in the past 20 years. Even with this impressive growth, New York City's boom was more modest than metropolitan areas with more available land and fewer regulations on new development.

Building activity was widespread throughout the City: between 2000 and 2008, Staten Island experienced the largest percentage increase in its housing stock (over 12%), followed by Manhattan (at almost 7%), while the other boroughs saw increases of between 4% and 5%. Strong building in Manhattan and Staten Island resulted

in new construction making up a significant share of sales. Specifically, between 2000 and 2008, nearly 20% of units sold in Manhattan and 14% of units sold in Staten Island were built during the same time period.

While much development occurred in areas with more traditional demand, such as the Upper East Side and Midtown, the City also experienced significant new construction in areas with typically less demand, including Greenpoint/Williamsburg, Central Harlem, and the Bedford-Stuyvesant neighborhood of Brooklyn. Indeed, in 2007 (the height of building activity outside of Manhattan), Greenpoint/Williamsburg, Flushing/Whitestone, and Bedford-Stuyvesant were among the top 10 neighborhoods citywide in the number of new units completed.

On average, we find that neighborhoods with better amenities or infrastructure and higher housing values received more development. Another neighborhood characteristic that proved important to new development was the amount of unused zoning capacity. In Brooklyn, the Bronx, and Queens, nearly three-quarters of the units built between 2004 and 2008 were built on sites that had substantial unused capacity, which we define as being built to less than 50% of what the current zoning would allow.

This building frenzy came to a halt in 2009. Between 2008 and 2009, building permits fell by 90%, a much steeper decline than the City experienced in the last bust (between 1987 and 1991). In 2009, the number of units permitted was lower than at any time since 1992.

As prices have fallen and credit has become more difficult to secure (for homeowners and developers alike), the City has begun to see the implications of the bust: completed developments remain vacant and unsold, while unfinished buildings and stalled construction sites are visible in several neighborhoods. Accordingly, the City, developers, and community stakeholders now face a critical challenge to find ways to restart stalled projects and prevent vacant properties from triggering neighborhood decline.

THE STATE OF MORTGAGE LENDING

The generous amount of credit made available to homebuyers (often in the form of high-cost, or more risky, loans) for the better part of the decade helped to fuel this building boom. The Furman Center has written extensively on the rise and fall of high cost lending, the communities affected, and the consequences for neighborhoods now facing high rates of foreclosures. In October 2008, the Furman Center released *Declining Credit and Growing Disparities: Key Findings from HMDA 2007*, which highlighted the steep decline in access to credit in 2007, pointing specifically to the drop off in loans (even prime loans) made to borrowers of color. In this year's *State of the City*, beginning on page 22, we update this analysis, looking at the continuing decline in credit availability that took place between 2007 and 2008, in New York City and around the country.

During this time period, first-lien home purchase loans declined by a third across the City, and mortgage refinancing saw an even bigger drop, falling by more than 50%. By 2008, high-cost and piggyback home purchase lending had virtually disappeared. After making up almost a quarter of all first-lien, conventional home purchase loans in 2006, the number of high-cost loans originated in New York City dropped by more than 90% over the following two years.

The decline in credit hit black and Hispanic borrowers especially hard, leading to a further shift in the racial and ethnic composition of home purchasers in the City in 2008 (a trend we first documented in *Declining Credit*

and Growing Disparities). We find that, while Asians make up about 11% of New York City households, they were responsible for 27% of the first-lien loan originations in 2008. Blacks, on the other hand, make up about 23% of New York City households, but were responsible for only 11% of home purchase loan originations.

REZONING THE CITY

Coinciding with the building boom was an unprecedented number of City-initiated rezonings. In *The State of New York City's Capacity to Grow*, on page 25, we highlight a series of Furman Center research projects that investigate development patterns in New York City and the impact the City's land use policies have on those patterns.

Our analysis shows that between 2003 and 2007, City-initiated rezonings affected about 188,000 lots citywide, or about 18% of the City's total land area. These rezonings resulted in a net gain of about 100 million square feet of residential development capacity, equal to a 1.7% increase citywide. To highlight the changes, we report new indicators—*Percentage of Land Area Upzoned*, *Percentage of Land Area Downzoned* and *Percentage of Land Area Contextual-Only Rezoned*—at the borough level, and describe how much of the land area in each borough was rezoned as part of a City-initiated rezoning between 2003 and 2007.

We also add a new indicator, the *Unused Capacity Rate*, which measures the percentage of residentially zoned land area that is built out at less than half the residential development capacity allowed by the City's zoning code. Based on our research, lots built at less than half their zoned capacity present the greatest opportunity for new development, and are therefore important for the City and community groups to track. In 2008, the Unused Capacity Rate for the City was about 30% (we also report this figure for the City, boroughs and community districts). To learn more about the Furman Center's research on rezonings, visit http://furmancenter.org/files/publications/Rezonings_Furman_Center_Policy_Brief_March_2010.pdf.

STATE OF IMMIGRANT NEW YORK

This year we add a new section to the report that profiles the City's immigrant population (see page 29). In 2008, 36% of the New York City population was born outside the U.S. Nearly half of the residents of Queens are foreign born, and even Staten Island—the borough with the smallest share of immigrants—boasts a population that is 21% foreign born, far above the national rate of 12%.

We find that the socioeconomic characteristics of immigrant New Yorkers are somewhat mixed. On the one hand, they have a higher participation in the labor force and are less likely to be in poverty than native-born residents. On the other hand, they are less educated and have lower homeownership rates than native-born residents do (though, it is worth noting that these disparities are smaller in New York City than they are nationwide).

To get a better understanding of what predominantly immigrant neighborhoods look like, and how they compare to other neighborhoods in New York, we look at the neighborhood characteristics of the eight community districts where a majority of residents are foreign-born. We find that majority immigrant neighborhoods tend to be more stable than many other neighborhoods in the City: they have experienced lower rates of foreclosure, crime, tax delinquencies and poverty.

SIGNS OF DISTRESS AND SIGNS OF HOPE

New residential building permits fell off of a cliff in 2009—down to 3,275 from 30,947 in 2008. Certificates of occupancy have seen a more gradual, but still sizable decline, falling from 22,650 in 2008 to 18,928 in 2009. Despite upbeat newspaper articles on widespread deals in the rental market, the downturn has yet to translate into real gains in affordability. Citywide, there was a slight increase in the rental vacancy rate between 2007 and 2008, but the median monthly rent and the percentage of New Yorkers who are rent burdened continued to rise. As large multi-family buildings fall into financial distress, their residents face deteriorating properties—a trend we notice as serious housing code violations have risen. Smaller, 1-4 family properties also are more distressed than in the recent past, as evidenced by increases in foreclosures and tax delinquencies.

Of course, New York City is a dynamic, resilient place and there are also signs of hope. Despite these hard times, crime rates have continued to fall, and students' test scores have continued to climb. The poverty rate remained stable through 2008, and the unemployment rate was still lower than it had been in 2000, indicating that the social fabric of the City has remained strong. Progress in those areas, despite the economy, is good news indeed. But preventing the kind of distress and decay the City experienced in previous downturns will require still more investment in the City's neighborhoods, along with unprecedented levels of commitment, cooperation and creativity from the public, non-profit, and private sectors. ■