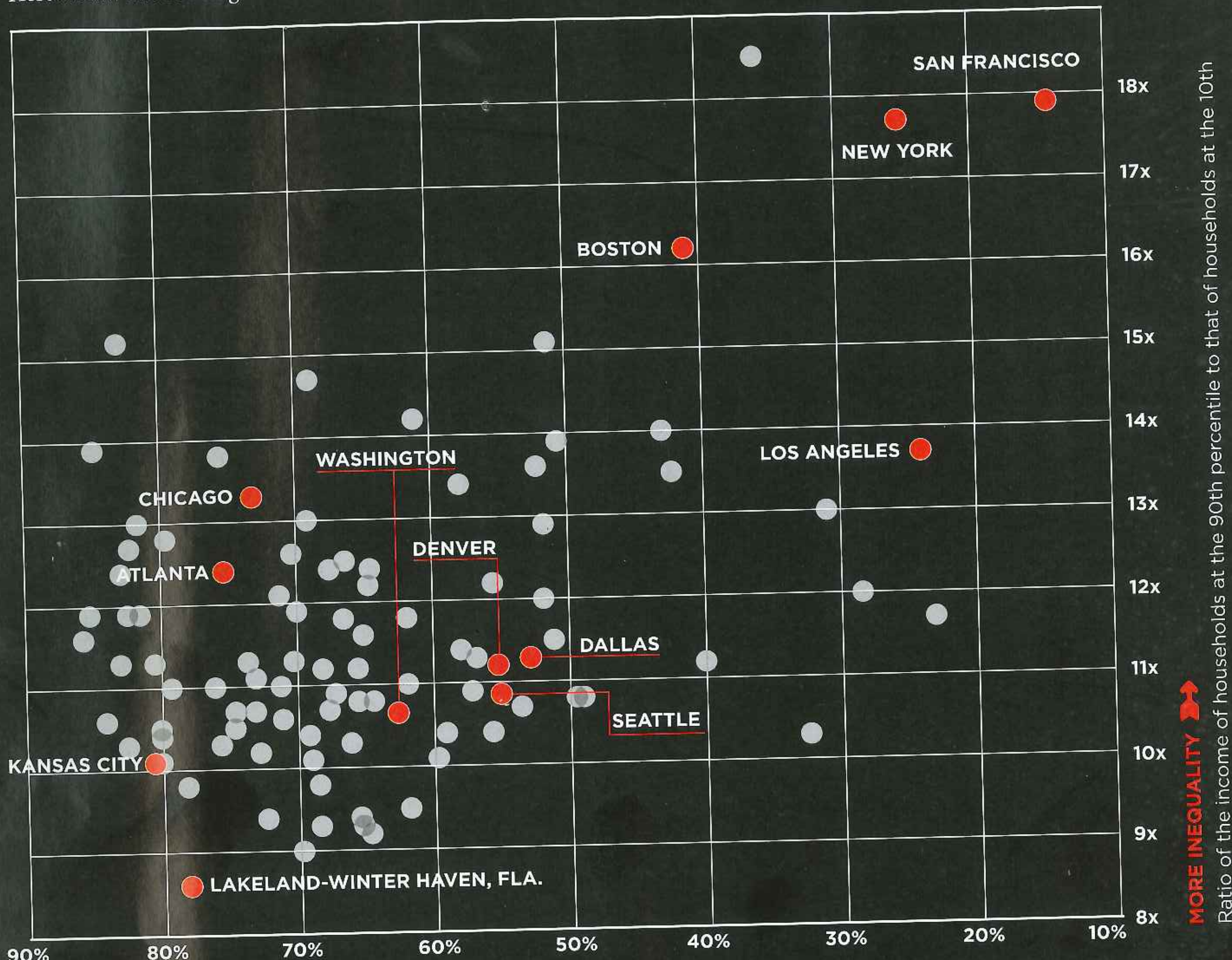
URBAN DIVIDES

Places with the greatest disparity between rich and poor also tend to be those with the fewest affordable houses. Here is how the 100 largest metro areas compare on those two measures.

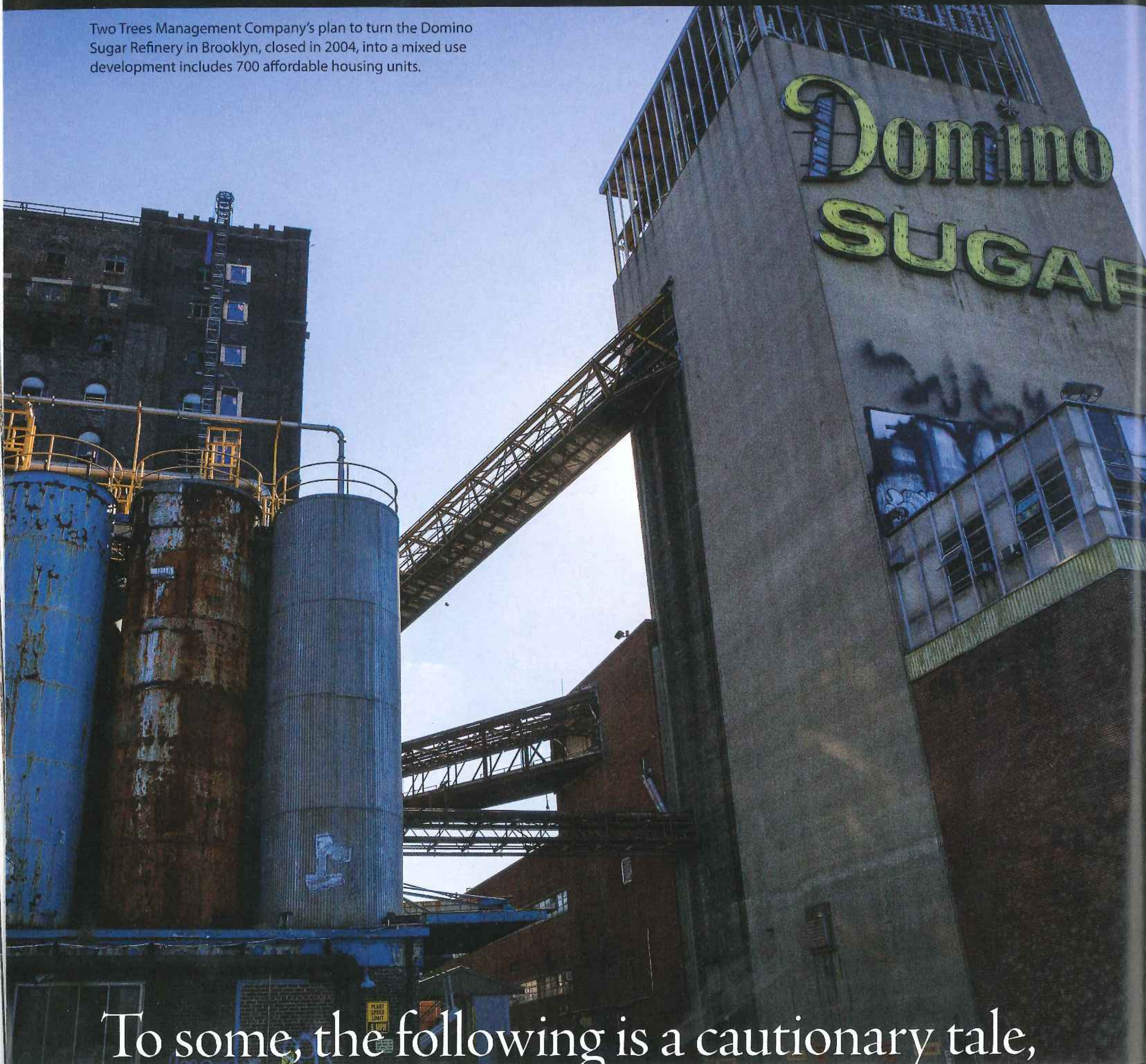


LESS AFFORDABLE HOUSING

Share of homes for sale that are affordable, based on whether the monthly payments are less than 31 percent of the metro area's median household income *Source:* Trulia; The *New York Times*

Squeezed OUT

Tackling NEW YORK CITY's AFFORDABLE HOUSING CRISIS. *By* Lisa Selin Davis



Two Trees Management Company's plan to turn the Domino Sugar Refinery in Brooklyn, closed in 2004, into a mixed use development includes 700 affordable housing units.

PHOTO BY ANGEL FRANCO/THE *NEW YORK TIMES*

To some, the following is a cautionary tale,

to others it's good news: The Domino Sugar Refinery shuttered its doors in 2004; now the building is going upscale. At its height the company had employed as many as 5,000 workers—in what was once the working-class neighborhood of Williamsburg, Brooklyn. Although hipsters had been encroaching on the neighborhood for over a decade, the iconic yellow Domino sign on the side of the refinery had remained a testament to the neighborhood's—and the city's—extant working class: a place where the working man could live and labor.

In 2012, luxury developers Two Trees, previously responsible for transforming the once-desolate Brooklyn neighborhood whose acronym is DUMBO into the most expensive spot in the borough, bought the refinery and its surrounding 11 acres for a reported $185 million. The plan was to turn the property into a 2.9-million-square-foot, mixed use enclave of mostly market-rate apartments (average rent in the neighborhood is $3,359) and commercial space.

To secure a tax abatement and other financial incentives, Two Trees had agreed to set aside 660 units, or 500,000 square feet, of affordable housing. But by the beginning of 2014, as Two Trees' plan was still under review by the city planning commission, Bill de Blasio took office as mayor.

The Domino Sugar Refinery became a symbol of his mission to make New York City more affordable and hang on to the city's dwindling middle class, in part by creating or preserving some 200,000 units of affordable housing—about 35,000 more than his predecessor, Michael Bloomberg, did during his dozen years in office. (For more, see "Two Cities, Two Mayors, Two Housing Plans," in May News.)

To the surprise of many, de Blasio managed to convince Two Trees to redo the math, upping the ratio of affordable places to 700 units and 537,000 square feet—in exchange for more density: 55 stories in some buildings instead of 30 or 40.

The victory was 40 more units in a city that is purported to be hemorrhaging middle-class residents, one that has seen record high prices for apartments and in which speculators, investors, and developers are paying cash and snatching up property at an unprecedented pace and scale. What good will 40 more units do?

Admittedly, not much. But maybe the crux of the matter isn't the number of units in one development. Maybe it's about changing the way New York City provides affordable housing in the future.

A national crisis

While affordable housing is in crisis in New York City, shortages are widespread. According to the nonprofit Center on Budget and Policy Priorities, which focuses on moderate- and low-income families, more than 10 million low-income renter households in the U.S. spend more than half of their income on housing. Many of these households have only $140 a month to spend after paying rent.

The Urban Institute, a nonpartisan policy and research group, reported that only 29 units of housing are affordable (and available) for every 100 extremely low-income renters in America. In 2012, there were 11.4 million ELI renter households and 3.2 million affordable and available units across the country. The hardest hit spots run the geographical gamut, including Yell County, Arkansas; Dubuque County, Iowa; Delaware County, Ohio; Sagadahoc County, Maine; and Humboldt County, California. Erika C. Poethig, director of urban policy initiatives at the Urban Institute, calls this phenomenon "the new geography of poverty."

Falling incomes, rising rents, a scarcity of jobs in some areas and the concentration of them in others, the foreclosure crisis, which took millions of people, many of them low income, out of home ownership and back into the rental pool: The confluence of these events has fueled the fire.

The federal government has a number of programs in place to provide affordable housing, especially for the elderly, people with disabilities, people with AIDS/HIV, and the ELI population. CBPP reports that federal programs help five million households. But, says Poethig, there's still a basic problem of supply and demand. "We have a gap increasing between what's available and what's affordable."

Many expect that gap to widen. Judging by preliminary data for 2013, CBPP estimates that housing agencies assisted between 40,000 and 65,000 fewer families by the end of 2013 than they did

A TALE OF TWO MAYORS — TWO TREES MANAGEMENT COMPANY will turn the the Domino Sugar Refinery and the surrounding 11 acres in Williamsburg into a 2.9-million-square-foot, mixed use enclave of mostly market-rate apartments (average rent in the neighborhood is $3,359) and commercial space.

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MAYORS PHOTOS: COURTESY NYCMAYORSOFFICE'S PHOTOSTREAM/ FLICKR; RENDERING BY SHoP ARCHITECTS

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Maybe it's about changing the way New York City provides affordable housing in the future.

in 2012, due in large part to federal budget cuts. By the close of 2014, housing agencies may be assisting 125,000 to 185,000 fewer low-income families than they did last year.

The state of New York State

Bill de Blasio was swept into office on a platform that told a tale of two cities: a New York for billionaires and a New York for the poor. Because New York actually does an almost adequate job of housing the poor, says Poethig, "If you're an ELI person in New York you have a relatively better chance of finding affordable housing than if you were in, say, the Atlanta region."

But in places with hot real estate markets and thriving economies—most notably New York, Silicon Valley, and San Francisco—affordable housing is harder to find for people with decent jobs, sometimes even for families with two solid incomes. In a recent analysis commissioned by the *New York Times*, the real estate website Zillow found that the median rent (not including utilities) was more than 30 percent of the median gross income in 90 U.S. cities. Rents that exceed 30 percent of household income are generally considered unaffordable.

In San Francisco, the middle class may make 80 to 150 percent of area median income, or $77,000 to $116,500 for a family of four, but they have a harder time securing housing.

"It's very difficult for the middle class to live in San Francisco," says Sarah Karlinsky, deputy director of SPUR, a nonprofit planning group for the Bay Area and Silicon Valley. "There are programs for very low-income people and housing that only wealthy people can afford."

New York can report the same. "Our middle class isn't just squeezed," de Blasio said in his State of the City address in February. "It's at risk of disappearing altogether." While the number of middle-class New Yorkers—families making between $66,400 and $199,200—has grown, the share has decreased, from nearly 50 percent in 1989 to just over 40 percent by 2012. They simply can't afford the city.

"Someone making $70,000 a year in other parts of the country would need to make $166,000 in Manhattan to enjoy the same purchasing power," The *New York Times* reported in 2013. "It's that middle-income group that is really feeling the pinch, in part because there aren't many federal subsidy programs that reach them," says Poethig.

The average rent in Manhattan was $3,816 in February 2014, according to MNS Real Estate, a real estate advisory service. The average sales price in Manhattan in the first quarter of 2014 was $1.7 million, according to the real estate company Douglas Elliman. Formerly middle- or working-class neighborhoods like Kensington in Brooklyn or Long Island City in Queens regularly see $1 million fixer-uppers or luxury condos costing more than that much. Foreign investments have skyrocketed, and the number of all cash deals for homes over $1 million is at an all-time high, reports the *Wall Street Journal*.

Meanwhile, housing for the poor isn't in great shape, either. It cost $8.3 billion in public funds for Bloomberg to build or preserve 165,000 units, according to *New York Magazine*. And that was years ago. Construction costs and land prices are higher than ever, and there are fewer untouched corners of the city that developers or investors haven't found.

The *New York Times* reported in 2012 that 200,000 apartments have been removed from subsidy programs and 150,000 shuttered by local housing authorities due to weakened federal support and lack of repair funds, some $26 billion of which is needed. According to CBPP, 6,876 fewer New York households used vouchers at the end of 2013, compared to a year earlier. And 100 of the 138 New York agencies that administered housing vouchers reduced the number of households they served.

New York does have a number of policies and programs—237 of them, according to the Moelis Institute for Affordable Housing Policy—to help create or preserve affordable housing. And there are new affordable units being created, much of them by private developers. In November 2013, The *Wall Street Journal* reported that, since 2004, market-rate buildings included some 6,470 affordable apartments, thanks in large part to subsidies.

In some ways, this is the perfect moment to talk about affordable housing in New York City. The skyline has shifted in ways New Yorkers may never have imagined, at times because vast swaths of the city have been rezoned, usually from industrial to mixed use; the Domino Sugar Refinery is a prime example. There were 115 rezonings in New York City between 2002 and 2012, more than in any comparable time period since citywide zoning was introduced in 1916.

While affordable housing can be a condition of upzoning—allowing for greater density—that isn't always the case. The city issued permits for 15,310 residential units in new buildings located within inclusionary housing-designated areas (where greater density is allowed in exchange for affordable units) by July 2013, some 2,888 of them, or 19 percent, affordable. But the nonprofit advocacy group Association for Neighborhood and Housing Development says that less than three percent of the housing developed citywide as a result of inclusionary housing rezonings is affordable. There's no citywide requirement to include affordable housing in those areas, meaning developers reap the benefits but residents may not.

"We upzone things that create a lot of value, and the public should recapture some of that housing," says Moses Gates, AICP, planning director at ANHD.

One of the most popular subsidy programs is the New York State Housing Finance Agency's 80/20 program. It provides subsidies—in the form of low-income housing tax credits—when developers set aside 20 percent of units for families with incomes of 50 percent or less than the local area median income for a given period, or in some cases 25 percent of units for families with 60 percent or less AMI. The Domino Sugar Refinery project may make use of this program.

Other programs, like inclusionary zoning, allow developers to build bigger or denser in exchange for creating affordable housing, either on-site or off. And the 421a tax incentive allows developers a break for as long as 25 years in exchange for affordable units.

Can such subsidies make a difference? "There's an enormous divide between what it costs to generate units and what rents need to be to be affordable," says Paul Freitag, director of Rose Development at Jonathan Rose companies, which builds affordable housing throughout the country, including New York City. "You can't build stuff cheap enough in New York City to achieve truly affordable rents." Not without subsidies.

Some reports suggest that rising land and construction costs are actually a boon to the creation of affordable housing. The *Wall*

ling classes

Street Journal reported that developers depend on tax exemptions, and thus willingly partake of the 80/20 program and other incentives in order to get their projects off the ground.

The developer Joseph Moinian is building a 656-foot-high V-shaped tower on West 42nd Street and 11th Avenue—on the western edge of midtown Manhattan—with retail space, an auto dealership, a basketball court, and indoor and outdoor swimming pools. It will include 1,174 apartments, with 236 below-market-rate units, according to the *Wall Street Journal*. The developer TF Cornerstone's 45-story building in midtown will have 1,189 apartments, 238 of them affordable, and permanently so. The building will be partially financed by a city zoning bonus and the state's 80/20 program.

In essence, because of the extremely high price of land, some developers say they can't afford to build anything without these subsidies.

Solutions with expiration dates

Mayor Bloomberg also had ideas about how to address affordability, including a tower of 55 "micro-unit" apartments measuring between 250 and 370 square feet in Manhattan's Chelsea neighborhood, 40 percent of which would be for low- and middle-income New Yorkers. The city calls it "My Micro NY." (One report said dwellings of that size could incite domestic violence.)

And the city does have some affordable projects in the works, including those on the sites of former psychiatric wards or once toxic sites. (To be fair, luxury housing is also being considered for former Superfund sites—that's how little room there is left in the city.)

The *New York Times* suggests that de Blasio consider Bloomberg's proposed plan to lease open space in public housing projects—which is often blocked off—to developers. They would build mixed income apartments that the *Times* said could generate as much as $50 million a year.

Of course, the city will lose even more green space, and with continually increasing density, some residents—even those not in public housing projects—may object to that. And in any neighborhood where density is increased, it's unlikely that services and infrastructure can keep up. New Yorkers have been waiting for the Second Avenue subway for decades.

Another suggestion is to reduce state property tax on rental property, which, writes the *Times*, saddles "the city's rental buildings with some of the highest tax burdens in the nation." And yet another: Don't let developers use multiple subsidy programs without increasing the number of affordable units for each subsidy.

"Developers can use a 421a abatement, inclusionary zoning bonus, and additional city subsidy or tax-exempt bond financing, all to create 20 percent affordable housing," says Gates. "Needless to say, we don't think that's the best policy."

In addition, as helpful as these subsidies are, most of them do not provide permanently affordable housing. Many HUD-subsidized projects and Mitchell-Lama units—housing created beginning in the mid-1950s to provide rental and co-op housing for middle-income people—started expiring in the 1990s; most have a covenant of 30 years. ANHD says that 169,561 of the 294,402 units created between 1987 and 2007 are at risk of expiring between 2017 and 2037. The organization found that of the 234,508 city-subsidized rental units created between 1987 and 2007, some 169,561 units (72.3 percent) could become unaffordable by 2037.

Some units built recently to be affordable aren't actually so. ANHD found that one-third of subsidized housing built in New York City since 2003 is unaffordable for local residents. And even the rent on rent-stabilized apartments, where increases are determined by the New York City Rent Guidelines Board, is rising faster than the rate of inflation or salary increases. Currently tenants can choose to renew a lease at an increase of four percent for one year or 7.25 percent for two. The NYCRGB estimates that there are close to 1.1 million rent-stabilized apartments in New York City (including one inhabited by this author); even those may become unaffordable, although as this article went to press, the board was considering a rent freeze.

Many a solution has been floated, including making the tax abatements permanent in exchange for permanent affordability. Alicia Glen, the deputy mayor for housing and economic development, told the *Times*, "Buildings don't get shorter over time. Just like the buildings are permanently taller, the affordable units will be permanently affordable."

ANHD suggests mandatory inclusionary zoning: All residential development should include affordable housing, and the share should increase. "Any medium to large building built across the city should include affordable housing," says Gates. Anybody who wants to create housing here has to follow miles of red tape already, he says. "All it is is one more rule change."

Mayor de Blasio is in favor of mandatory inclusionary zoning, as well as using city pension funds to cover construction costs and raising taxes on vacant land. "I want to see much more aggressive policies in terms of how the city works with the real estate industry," de Blasio said when answering questions for readers of the online community forum Reddit in October 2013.

Freitag suggests that affordable housing not be relegated to the physical structure alone, but to include higher minimum wages and investment in public transit: Get multiple city and private agencies involved. "It's not just a place to go to sleep at night; there are also parks and health care and schools," he says. "How can affordable housing be a part of a community to live in?"

Lessons from elsewhere

Some cities have found innovative approaches. In Philadelphia, Jonathan Rose companies built Paseo Verde, a 120-unit mixed income project adjacent to the Temple University train station, funded by a variety of local, state, and federal programs. Seattle's multistory buildings—concrete on the bottom and wood-framed higher up—reduce construction costs.

Building codes could be revised to encourage cost savings. In Pinellas County, Florida, which includes St. Petersburg and Clearwater, the county purchased foreclosed units and turned them into affordable rentals.

There are other ways to generate revenue to put toward public housing, like a tax on second homes or vacation homes: Charge people when they take units away from permanent residents for the purpose of part-time use.

"Many of the solutions would be incredibly unpopular," says Karlinsky. "That's probably why nobody's done them yet." ■

Lisa Selin Davis is a New York City freelance writer who covers urban planning, housing, real estate, architecture, and design.