Point of View

City Zoning Helps Keep Rentals High

By FRANK S. KRISTOF

Former asst. administrator, City Housing and Development Administration.

New York City is halfway through the third consecutive year of an unparalleled collapse of privately financed, fully taxpaying new apartmen construction. This year's output is headed well below the 3,000 mark. Only once in this century has the city approached this experience—in two depression years, 1933 and 1934 (aside from the nationwide World War II shutdown of residential construction).

What makes the city's experience even more exceptional is that the forces that have brought private apartment construction to a virtual standstill here cannot be attributed to high interest rates, lack of mortgage financing and soaring construction costs. The combined effect of these well-noted phenomena have not prevented the national rate of private new apartment construction from recovering to a record high in 1969 while that in New York City remained mired in the depths. The city has fallen from 6 per cent of the nation's apartment construction between 1950 and 1962 to less than 1 per cent from 1968 to 1970.

Clearly, forces are at work in New York City that are absent in the country at large. The major single differentiating factor was the adoption in December 1961 of the city's new zoning ordinance. From a residential construction standpoint, the rezoning that occurred was drastic.

The potential population that could be housed in the city was cut back from 55 million to 12 million. Economically feasible apartment construction was effectively barred from many areas of the city. Where apartments could be built, the new ordinance required that builders assemble from 25 to 100 per cent more plottage to produce a given number of apartments.

Because most new apartment construction in Manhattan, and frequently in other boroughs, requires assembly of built-up sites, with all the problems of relocation and eviction certificates from the rent agency, it was widely forecast that the result would be a serious downturn in private new apartment construction. These predictions proved sound.

Developers launched the greatest rush on the Buildings Department's plans examination office in its history during the last year of the old zoning ordinance (1961); plans were filed for construction of 150,700 apartment units and the resulting construction appeared in the city's completion figures for the next six years. Between 1962 and 1967, virtually no plans were filed for private new apartment buildings under the new ordinance. When construction under the old ordinance finally dried up in 1967, the dearth of activity under the new zoning ordinance became glaringly apparent.

Thus it remains true that after eight and a half years of experience, in only two of those years have as many as 3,000 private apartments been produced under the new zoning ordinance. This figure is only a fifth of the city's annual average of 14,500 private apartments produced in the 1950-to-1962 period.

If the new zoning ordinance is not responsible for the debacle in private new apartment construction, we are left with no explanation for it. The available data provide no other basis for explaining New York City's performance relative to the national experience.

To build a given number of apartments, from 25 to 100 per cent more land is needed, and this is the major concern of developers. True, this is a rational requirement to obtain open space for light and air as well as to provide for offstreet parking purposes. For developers of vacant land, this new requirement has not presented insuperable problems; it is a straightforward cost problem in site acquisition. For each 10 per cent increase in land price, rent will be about 1 per cent higher. Thus, a doubling of land prices—a 100 per cent increase—results in about 10 per cent higher rents.

However, land acquistion is much more complex where a proposed residential development must replace ex-

Continued on Page 4, Col. 1

City's Zoning Code Helps to Keep Rentals High

Continued from Page 1

isting structures on the site, as is usually the case in New York. A requirement to acquire 50 per cent more land when it is covered with buildings may result in 100 per cent or even 200 per cent higher costs.

Negotiations must be completed with owners of each parcel. The greater the number of owners, the more time-consuming the process becomes and the greater the likelihood of encountering reluctant sellers or shrewd owners who uncover the "assembly" process and become "holdouts" for a price five or ten times the value of their parcel.

Assuming the assembler overcomes these hurdles, relocation and clearance of the site remain. For residential buildings, the problem of obtaining eviction certificates from the rent agency must be met. If tenants resist eviction through court procedures or if the rent agency becomes supersensitive to tenant resistance, the time and cost to obtain possession of the larger number of buildings increases.

Under ordinary circumstances, the assembly of a 12,000-to-15,000 square-foot Manhattan site may take several years and involve holding costs (interest, taxes and operating losses) that add greatly to acquisition cost. When this time dimension is lengthened by the necessity to assemble 20,000-to-30,000-square-foot sites, the risk element becomes impossible except for financially strong entrepreneurs. The rapidly rising interest rates and construction costs of the last five years have greatly complicated the economic calculus of new apartment development now that site assembly has become so difficult.

If the foregoing conditions were all that the developer had to cope with, some new construction beyond the present low level probably would be forthcoming. But added to these has been a deteriorating climate of public policy toward private new construction. The rapid increases in uncontrolled rents between 1967 and 1969, when private new apartment completions fell far short of demand, led to widespread criticism of owners, culminating with City Council passage of the Rent Stabilization Law.

This placed virtually all the city's rental housing under some form of rent control. When coupled with the administration's interment of several of its own proposals to upzone a few locations in Manhattan on the heels of "local community" objections, these events have led developers and mortgage institutions virtually to abandon the private residential construction market in Manhattan. At public hearings on the new rent restrictions, one Councilman commented: "Well, they're not building anyway, how can controls make the situation worse?"

The administration's efforts to provide some relief to developers in Manhattan by upzoning limited areas from R-8 to the higher allowable density of R-10 have led to violent reaction of small groups that creates the sorry spectacle of government by veto power. One result of the ability of self-appointed "community groups" to pack City Planning Commission hearings has been virtually to paralyze government decision-making processes.

The irrational quality of the arguments — that local residents do not want the "characteristics" of their neighborhood "blighted" by towering luxury structures—is heightened, when at hearings to modify the rent laws, the same residents are likely to be there denouncing landlords for permitting their buildings to deteriorate into slums. Many of the local residents opposing up-zoning are as likely as not to be ensconced in rent-controlled apartments for which they are paying a small fraction of the real market rent. Thus the passionate defense of neighborhoods frequently represents more than a little selfish interest.

The most ludicrous spectacle of all has been the recent Planning Commission hearings to downgrade an existing R-10 section of Carnegie Hill to R-8 because the residents want to preserve the "present character" of their neighborhood. This illogic surpasses that of two-acre-lot-zoned suburban communities that want to keep out half-acre lots because they like the present "character" of their communities.

It is notable that some "liberals" who led the fight on Carnegie Hill's existing R-10 zoning to keep out high-rise apartments are in the vanguard of the fight against suburban restrictive zoning — undoubtedly because the latter happens to be someone else's ox. If the City Planning Commission caves in to this pressure, the prospects for new private apartment construction in Manhattan will reach a new low.

My previous study on the subject indicates that the small supply of R-10 sites in Manhattan should be tripled to accommodate existing demand for private new construction in the city. If such a step could realistically be accomplished in a brief time-span, there is little doubt that the supply of private new apartments in Manhattan would jump from the current level of 1,000 to 1,500 to a level of 5,000 to 6,000 annually in a short time.

This is the minimum expansion in R-10 sites required to prevent loss of the benefits of up-zoning through capitalization of increased land values. Rents in such cases would fall from an average of $125 to $112 a room monthly in Manhattan through land and operating savings made possible by large structures. Outside of Manhattan, apartment construction has been effectively curtailed by down-zoning large areas to R-4 and below. Only in areas zoned R-5 can the popular and economical six-story, semi-fireproof structure feasibly be produced, provided developers can assemble sites twice the size required under the old zoning ordinance. This efficient type of structure is penalized by the zoning ordinance in R-6 and higher densities.

This discrimination has discouraged construction of this modest-rent type of structure except in cases where its economies are deemed necessary to sacrifice maximum floor area ratios obtainable in R-6 or R-7 sites by building 13-to-15-story (higher rent) fireproof structures. Thus, the shifting of areas from R-3 and R-4 to R-5 zoning probably would stimulate a considerable amount of this type of construction while a correction of the floor area ratio bias against the six-story structure in the R-6 and R-7 zones also would be helpful.

The continued dearth of private new apartment construction inevitably will adversely affect the city's continued economic development in the area of its greatest potential growth—the office sector. Projections of increased professional and supervisory employment will not be realized if the requisite housing is not provided. Employers are increasingly finding it more difficult to attract or to hold capable personnel in New York City and housing is regarded as a major contributer to this problem.

Lastly, one long-standing fetish of New York City housing policy has been to prevent the "drain of middle-class families to the suburbs" by subsidizing them to remain in the city at the cost of something like $500 a family each year in city tax benefits. Given an expense budget deficit of half a billion dollars annually, it becomes self-defeating to permit those families able to pay full market rents to be lost to the suburbs.

There is a far greater shortage of such families in New York City than of any other group. Consumers of market-rent housing — other than young apartment-sharing secretaries—tend to be smaller, childless, families who place less than average demands upon community facilities such as schools, libraries and health centers while making higher than average contributions to the city in the form of real estate, income and sales taxes.

From the city's fiscal as well as social balance, therefore, these households are a precious asset, and any steps that can be taken to maintain or increase their number in the city should be encouraged.

Privately Financed Full Taxpaying Apartment Construction in the United States and New York City, 1950-1970

Thousands of Apartment Units

Year	United States (Building permits)	New York City (Completions)
1950-62 annual average	240.0	14.5
1963	536.4	35.0
1964	504.5	25.5
1965	458.2	16.9
1966	351.1	13.5
1967	406.3	8.1
1968	562.2	3.0
1969	613.2	3.8
1970	455.0 *	2.5 *

* Estimated from first four months' data

Source: U.S. data—U.S. Bureau of the Census; N.Y.C. data—Department of City Planning

New York City as percent of United States