

## Reducing the Cost of New Housing Construction in New York City



Furman Center for Real Estate and Urban Policy  
New York University School of Law  
Robert F. Wagner Graduate School of Public Service

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### Regulation Increases Costs

- A variety of studies suggest that government regulation adds between 10% and 25% to the cost of housing construction in the United States
  - stringent zoning laws
  - cumbersome environmental reviews
  - unnecessary building code requirements
- In addition to direct costs, complexity and stringency of government regulations increase
  - Time required to administer the rules
  - Risk to developer
  - Opportunities for government corruption

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### Costs may sometimes outweigh benefits

- Costs of regulation sometimes assumed to necessarily be a sign of inefficiency
- But increased prices resulting from regulation may reflect benefits that the regulation provides – making the housing safer, making the neighborhood less polluted, etc.
- Need to get beyond “environment versus people” or “all regulations are barriers to affordability” versus “criticisms of regulation are just about profits of developers” mentality

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## Getting to Yes

- Need analysis of regulations that affect affordability that is:
  - Balanced
  - Careful about what we do and don't know
  - Sufficiently specific to generate change

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## Setting for Reducing the Costs Study

- New York City Partnership, important civic organization of industry and financial leaders
    - With its own demonstrated commitment to affordable housing
- Became convinced that future economic vitality of New York City was imperiled by spiraling housing prices that proved unaffordable not just to low income families but to teachers, firemen and mid-level managers

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## Furman Center for Real Estate and Urban Policy

- Joint research center of NYU's School of Law and its Wagner School of Public Policy
- Research focuses on empirical studies of the effects of both public and private investments and actions on neighborhoods
- Impartial facilitator of more informed policy debates

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## Research focus

- How much more expensive is it to build in New York City than other comparable cities?
- Why?
- What concrete steps can be taken to reduce costs?

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## Higher costs relative to competitor cities

- Comparing the cost of new housing construction in New York City and three control cities— Los Angeles, Chicago and Dallas:
  - R.S. Means Cost Index
  - Three prototypes priced by cost estimator
- Depending on methodology, cost of housing in NYC is higher than LA (3-8%), Chicago (9-13%) and Dallas (37-47%).

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## Why?

- In-depth interviews with over 140 experts
  - Developers (market rate and affordable; for-profit and not for profit)
  - Lenders
  - Government officials
  - Labor representatives
  - Architects, lawyers, others involved in the process
  - Academic experts on real estate and housing

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### Identified regulations about which there was broad skepticism

- Big picture problems: The Department of Buildings
  - Documented the time and complexity of getting a building permit
  - Compared the process used to that used in other cities
- "As the city has done to improve operations in other agencies . . . , the city should engage an external consultant to conduct a thorough management analysis of the way that the Buildings Department does business. . . . The goal of the management consultant study should be to propose changes to the DOB's operations that will make it more efficient and effective. Among the areas where efficiencies can be achieved are: [17 detailed proposals]."

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### Down to the Nitty-Gritty

- "Local 3 of the Int'l Bro. Electrical Workers requires one of their own separate stickers on all electrical fixtures used in NYC . . . . Even if the fixture has a universal listing. . . . While the requirement was originally adopted to insure the safety of the product, that is no longer the case. Instead, the rule seems intended only to create work of Local 3 electricians."

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### What Can be Done? More than 60 concrete recommendations

- Eliminate inefficient work rules that do not affect worker safety, including: [list of similar examples]
- The city should prepare an inventory of privately - owned vacant land that is zoned for residential use and located near city -owned land and obsolete institutional properties, to facilitate land assembly
- Modify inclusionary zoning plan to allow program to be combined with other government subsidies
- *Naming names:* Who should take each step

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## Building Code: Findings

NYC is one of few large cities in the U.S. with a building code that is not based on a model building code.

- 1,000-page Building Code is unnecessarily complicated, increasing development cost and opportunities for corruption, and decreasing competition and availability of cost-cutting improvements in technology.
- City should adopt a modified model uniform building code . . . Amended as necessary to insure that the code is coordinated with applicable state and local laws and reflect the unique density issues in NYC.

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## Recommendations (update)

Fast adoption of a model building code, with modifications to reflect NYC's unique density.

- City must resist political pressures from special interest groups (city agencies, manufacturers, labor unions) to unnecessarily burden code with special provisions.
- City should also adopt International Fire Code
- Department of Buildings should eliminate its arcane procedure for allowing new/different materials and equipment to be used in construction and rely instead on the model building code organizations for testing and approval.

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## Results

- Considerable media attention – front page story in New York Times
- Authors of the study publicized the study's recommendations by appearing on scores of panels and hearings and authoring op-ed columns, meeting with government officials and with interest groups who wanted to push for reforms
- But for months after the report's publication, no real evidence of policy change motivated by study

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## Role of Political Leadership

- Then Mayor Giuliani, nearing end of his last term, decided that he wanted to make a major financial commitment to housing
- In annual State of the City address, Mayor brandished a copy of the Cost Study in one hand, and offered the City Council a quid pro quo: If they adopted regulatory reform, he would invest an additional \$600 million in housing

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## Role of Advocates

- Citywide umbrella organization, Housing First!, was created by several foundations and banks in New York City to keep housing issues in the spotlight during the mayoral election
- Housing First! adopted many of the proposals in the Cost Study. Ultimately, regulatory reform became part of each mayoral candidate's platform

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## Considerable Progress

- Mayor Bloomberg has appointed dynamic and creative leaders for HPD, DOB, and other key agencies
- 2005 Update provided progress report, repeated process to come up with scores of new recommendations
- Building Code reform is moving forward, many other recommendations adopted or under serious consideration

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## Credibility

- Breadth and balance of outreach to experts
- Left no ox un-gored
- Solicited and encouraged debate about recommendations
- Observed the line between research and advocacy
- Specificity and concreteness reframes debate

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<http://www.furmancenter.org>

- Download Full Cost Study Update
- White paper about using the methodology as a model
- We're happy to work with groups who want to undertake similar projects

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