

New York City and Subsidized Housing: Impacts and Lessons of the City's \$5 Billion Capital Budget Housing Plan

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Abstract

New York City has devoted far more resources to the development and rehabilitation of affordable housing than any other U.S. city, investing more than \$4 billion from 1986 to 1997. This article surveys the impact, status, and implications of New York's housing programs. It looks at correlations between publicly funded housing starts and changes in the housing stock, welfare rolls, and crime and at the economic impact of the city's housing investments within low-income neighborhoods.

New York's housing programs have transformed neighborhoods, replacing large swaths of abandoned shells and vacant land with new housing and preserving thousands of buildings at risk of abandonment. While these housing investments correlate most strongly with reductions in vacant units and vacant lots, they also show significant correlations with reductions in welfare rolls and violent crime, but uneven economic impacts as well. New York's housing programs are important nationally less for the specifics of particular programs than for the institutional collaborations on which they are founded.

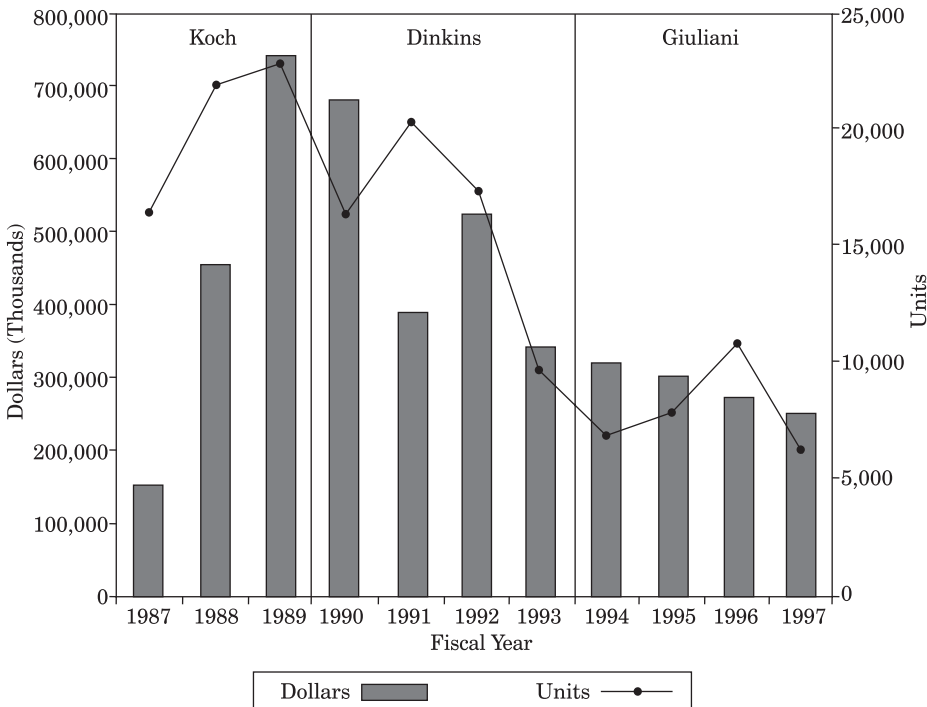
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No city in the United States can match New York City's commitment to the development and rehabilitation of affordable housing. In this era of federal devolution, states and localities throughout the nation have become increasingly important in the housing policy arena (Goetz 1993; Turner and Cook 1989), but New York stands alone in the extent to which it uses its own resources for housing. The city has long distinguished itself in pioneering new ways of producing low- and moderate-income housing; it created public housing several years before the federal government established a national public housing program in the Housing Act of 1937. Labor unions and religious institutions sponsored many limited-equity cooperative housing developments in New York from the 1920s through the 1960s. The city was among the first jurisdictions to issue tax-exempt bonds to finance moderate-income housing, including more than 150,000 units built in the 1960s and 1970s under the Mitchell Lama program.

New York launched its most recent innovation in housing policy in 1986, with its 10-Year Plan for using the city's capital budget to invest in affordable housing. The capital budget plan initially called for \$4.2 billion to fund the development and rehabilitation of 150,000 housing units. Later, the city raised the ante to \$5.1 billion. The plan has been sustained under three mayors—Koch, Dinkins, and Giuliani (see figure 1). Still often called the Ten-Year Housing Plan, it has now been in effect for 13 years and is carried forward in the city's *Ten-Year Capital Strategy: Fiscal Years 1998–2007* (City of New York 1997).

The plan triggered a massive increase in the city's spending on housing. Annual housing expenditures rose from \$25 million in 1985 to more than \$850 million in 1989, although annual spending tapered off to around \$250 to \$300 million by the mid-1990s (see figure 1). From 1986 to 1997, New York invested in the new construction of 16,000 housing units, the gut rehabilitation (gut rehab) of 44,000 units in formerly vacant buildings, and the moderate rehabilitation (mod rehab) of 97,000 units of mostly occupied housing.

Figure 1. Capital Commitments for Housing in Dollars (Thousands) and Units, 1987 to 1997



Source: City of New York, Department of Housing Preservation and Development, unpublished data.

Two studies, conducted six years apart, put New York's housing investment in national perspective. Berenyi (1989) surveyed the nation's 51 largest cities to examine their use of "own source resources" (operating and capital budgets, trust funds, block grants) in fiscal year 1989 for housing production and rehabilitation. She found that New York spent 3.7 times more for housing than the next 50 largest cities combined. On a per capita basis, New York spent about \$102 per resident on housing, compared with an average of \$5.90 in the other cities (Berenyi 1989).

Basolo's study of municipal housing expenditures in fiscal 1995 shows that New York's commitment to housing continues to tower over other cities. The study covered a random sample of 396 cities with populations of 25,000 or more. Included were New York City and 32 other municipalities with populations of at least 250,000. Basolo found that New York spent \$786 million in fiscal 1995 on housing, more than three times the \$250.9 million spent *in total* by the 32 other large cities. New York's housing expenditures amounted to \$107 per capita, compared with \$13.01 in the 32 other large cities and \$7.06 in the entire sample of 396 cities (Victoria Basolo, personal communication 1998).¹

States and localities throughout the United States put more of their resources in low- and moderate-income housing in the 1980s and 1990s than ever before (Goetz 1993; Turner and Cook 1989), but none came close to New York City's level of investment on a per capita or any other basis of comparison. While much state and local spending on housing derives from federal block grants and relatively modest housing trust funds (Connerly 1993), New York stands virtually alone in also issuing municipal bonds for the production and preservation of low-income housing. This article examines the impact, status, and lessons of New York City's housing investment. The following section provides background on the capital budget plan, the different types of housing funded through the city's programs, and the key institutions involved in their implementation. The subsequent section examines the effect of the city's housing programs on land use patterns, economic development, and, to a lesser degree, welfare dependency and crime. Next, the article dis-

¹ Basolo's findings are somewhat misleading in that they include operating as well as capital expenditures. New York is probably the only city in the sample that spent significant amounts on the maintenance and upkeep of housing. As will be discussed later, New York has owned a large stock of occupied and vacant housing acquired through tax foreclosure. In fiscal year 1995, the year of Basolo's survey, the city spent about \$480 million of \$780 million in total housing expenditures on maintaining this housing and on other programmatic expenses. This left about \$303 million in capital commitments for housing development and rehabilitation, an amount that exceeds the combined housing expenditures in the 32 other large cities in Basolo's sample.

cusses the current status of New York's housing policy, identifying key constraints and challenges facing the city's policy makers, and concludes with a discussion of New York City's relevance to housing policy in other states and localities.

Background

Faced with mounting homelessness, a chronically severe shortage of affordable housing, diminishing federal assistance, and a growing accumulation of tax-foreclosed housing, Mayor Edward I. Koch unveiled the capital budget plan in April 1986 (see Brower 1989; Michetti 1995; and Willis 1987 for background). Previously, the city had relied almost exclusively on federal funds for the production and rehabilitation of low- and moderate-income housing: Public Housing and Section 8 New Construction and Substantial Rehabilitation for new housing and Community Development Block Grants and Section 8 Moderate Rehabilitation for renovation of occupied buildings (DeGiovanni 1989).

New York City has long had an acute shortage of affordable housing. Indeed, New York's rent regulation system is premised on the existence of a "housing emergency," defined as a vacancy rate of less than 5 percent (Keating 1998). Should vacancy rates rise above that level, state law dictates the automatic elimination of rent regulations. To measure rental vacancy rates, the city commissions the U.S. Census Bureau to conduct a triannual Housing and Vacancy Survey (HVS). In 1987, around the start of the 10-Year Plan, the HVS found that the overall rental vacancy rate was 2.46 percent, and for units renting for less than \$300, it was 0.96 percent—down from 1.78 percent in 1981 (DeGiovanni and Minnite 1991). The 1987 HVS also showed that 47.5 percent of all renter households in New York City paid more than 30 percent of their income for rent, up from 45.6 percent in 1981; 32.9 percent paid at least 40 percent of their income for rent, up from 30.5 percent in 1991 (DeGiovanni and Minnite 1991).

While decent housing that low- and moderate-income households can afford had been extremely scarce since long before the city's housing plan was announced in 1986, the issue became more urgent as homelessness seemed to spiral out of control and federal housing funds began to dry up. Adding to the pressure to do something about the homeless in particular and housing in general were court actions and political pressure to provide permanent and appropriate housing for the homeless instead of barracks-style shelters and welfare hotels. In 1981, the city settled a class-action suit filed on behalf of the homeless and agreed that on the basis of the New York Constitution and other statutes, the city was obligated to provide

shelter on demand to any homeless person or family (Culhane, Me-traux, and Wachter 1999).

While homelessness and federal budgetary cutbacks affected many cities in the 1980s, New York was the only one to become a major landlord as a result of tax foreclosures. In 1976, the city started foreclosing on properties that were one year in tax arrears; previously, it gave owners of tax-delinquent property a grace period of three years. Intended to discourage landlords from abandoning their buildings, the policy instead triggered a surge of tax foreclosures. The number of *in rem* (tax-foreclosed) buildings jumped from 2,500 in September 1976 to 9,500 in September 1978. Whereas, other U.S. cities almost always sold or demolished their tax-delinquent housing, New York acquired and operated thousands of tax-foreclosed buildings. By 1986, the city owned more than 53,000 units of occupied *in rem* housing, and an additional 49,000 units in vacant *in rem* housing. Tax foreclosures had made New York's municipal government equivalent in some ways to a very large public housing authority, managing thousands of low-income housing units. Only the public housing authorities of New York City, Puerto Rico, and Chicago had larger portfolios of low-income housing. (For a comprehensive analysis of New York's *in rem* policy, see Braconi 1999.)

Not a single comprehensive plan in the traditional sense, the 10-Year Plan is rather a shifting assemblage of individual programs, several of which had already been operating for years by 1986 (Marcuse 1996; Michetti 1995). The introduction to the revised plan, released in 1988, reads:

The Plan does not designate specific projects or allocate funds to specific neighborhoods. However, it does provide a general outline as to the kinds of programs which will operate over the next ten years and the proportion of the total funding which will be devoted to these programs. (cited in Fainstein 1994, 107)

In other words, as summarized by Fainstein (1994), the plan

indicated in general the method by which the city government expected to provide housing. It offered a context in which housing officials could support projects. . . . In sharp distinction to typical redevelopment plans, it contained no maps and named no projects. Essentially it freed the hands of the implementing agencies to pursue individual projects as they saw fit, to whatever extent community support would allow. (107–08)

Individual programs have come and gone since the plan's inception, and virtually all programs have seen significant changes, including

substantial increases in the extent of rehabilitation they provide. For example, the Tenant Interim Lease Program for limited-equity co-ops provided less than \$3,000 per unit for rehabilitation from the program's inception in 1978 to 1986. The scope of rehabilitation increased to \$10,000 to \$20,000 per unit from 1986 to the mid-1990s, and to around \$50,000 per unit since 1995 (Braconi 1999; White and Saegert 1997). On average, New York's capital commitments per housing unit increased from \$8,400 in 1987 to more than \$30,000 per unit in the years afterward. Finally, it is important to note that the city's programs have had varying levels of success; some have been more successful—and controversial—than others.

Housing and resident profile

Under the plan, New York City has invested in a wide range of housing. Some programs support new construction of mostly one- to three-family homes. Others fund the gut rehab of vacant buildings, both city owned and private. Several programs involve mod rehab of occupied buildings, again under city and private ownership. Table 1 shows the distribution of housing units and capital commitment dollars across these categories. While mod rehab is the predominant form of construction in terms of total units (61 percent of the total), gut rehab claims the most funding—61 percent of total capital commitments. New construction amounts to 10 percent of total units and 7 percent of capital commitments.

Table 1. Units and Dollar Commitments of City-Assisted Housing Units, Fiscal Years 1987 to 1996

	Units		Dollar Commitment	
	Number	Percent	Amount (Thousands)	Percent
New construction	15,007	10.0	268,281	6.6
Gut rehabilitation				
City owned	33,558	22.3	2,098,650	51.7
Private	9,573	6.4	391,448	9.6
Total	43,131	28.6	2,490,098	61.3
Moderate rehabilitation				
City owned	44,328	29.4	1,031,388	25.4
Private	48,215	32.0	269,622	6.6
Total	92,543	61.4	1,301,010	32.0
Total	150,681	100.0	4,059,389	100.0

Source: City of New York, Department of Housing Preservation and Development, unpublished data.

Note: Percentages may not total 100 percent because of rounding.

Although new construction constitutes a relatively small portion of the city's total housing investment, it accounted for a substantial share of total new residential construction during a period when housing starts were at a historic low. Table 2 compares the number of publicly supported new construction housing starts (excluding gut and mod rehab) with total building permits issued for new construction in New York City. (Building permit data are not available for gut and moderate rehab.) From 1986 through 1996, in the city as a whole, government-assisted starts account for nearly one in four building permits issued for new construction; in the Bronx and Brooklyn, which received more than two-thirds of all government-assisted new construction, these starts constitute *more than half* of total building permits for new construction.

Low- and moderate-income households occupy the vast majority of city-financed housing.² When the plan was first announced, middle-income families were to receive a substantially greater share of the housing investment. However, in response to political pressure, the city increased the proportion going to lower-income groups. As of 1998, low-income households, including the formerly homeless, account for nearly two-thirds (63.3 percent) of the roughly 151,000 units committed for renovation or construction (see table 3). The formerly homeless occupy about 10 percent of total units and more than 30 percent of the units in gut-rehabilitated buildings. Moderate-income households represent about one-quarter of total households and middle-income households less than 10 percent. However, the latter comprise a large majority (73 percent) of the

Table 2. Government-Assisted New Construction Starts and Total Building Permits Issued for New Construction, 1986–1996

	Publicly Funded Housing Starts	Total Building Permits	Starts as Percent of Permits
Bronx	7,433	13,133	56.60
Brooklyn	7,874	14,526	54.21
Manhattan	3,521	22,559	15.61
Queens	1,697	17,205	9.86
Staten Island	1,063	26,317	4.04
City total	21,588	93,740	23.03

Source: City of New York, Department of Housing Preservation and Development, unpublished data, and U.S. Census Bureau 1987, 1997.

Note: Government-assisted new construction starts include housing subsidized by federal, state, and city programs. City-funded starts account for approximately 70 percent of total government-assisted new construction starts.

² Low-income is defined as less than 50 percent of the New York metropolitan area's median family income, moderate-income as 50 to 79 percent of the median, and middle-income as 80 to 119 percent.

Table 3. Income and Homeless Status of City-Assisted Units

	Middle Income		Moderate Income		Low Income		Homeless		Total
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
New construction	10,949	73.0	3,630	24.2	247	1.6	181	1.2	15,007
Gut rehabilitation									
City owned	966	2.9	10,173	30.3	11,297	33.7	11,122	33.1	33,558
Private	304	3.2	2,791	29.2	2,864	29.9	3,613	37.7	9,572
Total	1,270	2.9	12,964	30.1	14,161	32.8	14,735	34.2	43,130
Moderate rehabilitation									
City owned	654	1.5	4,089	9.2	39,330	88.7	256	0.6	44,329
Private	413	0.9	21,293	44.2	26,008	53.9	502	1.0	48,216
Total	1,067	1.2	25,382	27.4	65,338	70.6	758	0.8	92,545
Total	13,286	8.8	41,976	27.9	79,746	52.9	15,674	10.4	150,682

Source: City of New York, Department of Housing Preservation and Development, unpublished data.
 Note: Low-income households do not include the formerly homeless.

market for new construction, which is dominated by homeowner housing.

The city's housing programs have promoted rental and homeowner housing as well as co-ops and SROs (single-room occupancy units) for the homeless (see table 4). Rental housing comprises almost 71 percent of total units, followed by co-ops (mostly limited equity) with 14 percent. Owner-occupied housing accounts for 12 percent of total units but more than 96 percent of all new construction. SROs make up just over 3 percent of total units, but almost half of the privately owned units that were gut rehabilitated.

Institutional partners

Although the city government created the capital budget plan for housing and is its chief financial backer, the city does not act alone in its implementation. Scores of nonprofit and for-profit institutions play crucial roles in both the design and execution of capital budget programs. New York's Department of Housing Preservation and Development (HPD) has worked closely with a variety of national and local intermediaries and other organizations in structuring and supervising the programs, with many more nonprofit and for-profit groups serving as developers and property managers. These entities include national intermediaries such as the Enterprise Foundation, the Local Initiatives Support Corporation (LISC), and Neighborhood Housing Services (NHS), as well as other national organizations such as the Industrial Areas Foundation (IAF), a network of community organizers. Some of the most prominent local organizations include the New York City Housing Partnership, the Community Preservation Corporation (CPC), the Urban Homesteading Assistance Board (UHAB), and individual banks.

LISC and the Enterprise Foundation jointly run a program with HPD that combines low-income housing tax credits with city funds to rehabilitate vacant city-owned buildings. Nonprofit community groups, with technical and financial assistance from LISC and Enterprise, acquire, renovate, and often manage the buildings. More than 80 community-based organizations have participated in this program, producing more than 11,000 units of rental housing. NHS, in a program that predates the 10-Year Plan, provides low-interest home-improvement loans to low- and moderate-income homeowners in selected neighborhoods. The IAF has worked with churches in Brooklyn and the South Bronx to create the Nehemiah homeowner-ship program for moderate-income households (Rooney 1995). The New York City Housing Partnership helps run city-funded programs involving neighborhood-based for-profit housing developers (Orlebeke 1997; Wylde 1999).

Table 4. Tenure of City-Funded Housing

	Owner		Rental		Co-op		SRO		Total
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	
New construction	14,479	96.5	487	3.2	0	0.0	41	0.3	15,007
Gut rehabilitation									
City owned	631	1.9	31,949	95.2	978	2.9	0	0.0	33,558
Private	1,309	13.7	3,789	39.6	0	0.0	4,475	46.7	9,573
Total	1,940	4.5	35,738	82.9	978	2.3	4,475	10.4	43,131
Moderate rehabilitation									
City owned	0	0.0	24,177	54.5	20,151	45.5	0	0.0	44,328
Private	1,185	2.5	46,356	96.1	0	0.0	674	1.4	48,215
Total	1,185	1.3	70,533	76.2	20,151	21.8	674	0.7	92,543
Total	17,604	11.7	106,758	70.9	21,129	14.0	5,190	3.4	150,681

Source: City of New York, Department of Housing Preservation and Development, unpublished data.

The partnership's New Homes Program combines city and state subsidies for the construction of two- and three-family homes on vacant city-owned property. In its more recent Neighborhood Entrepreneurs Program, the partnership helps for-profit developers and real estate companies renovate clusters of vacant and occupied city-owned buildings. CPC, a consortium of 94 banking institutions and insurance companies, has collaborated with HPD in several programs involving for-profit developers and property owners (Community Preservation Corporation 1998). These include the Vacant Building Request for Proposal Program for the gut rehab of city-owned vacant buildings and the Participation Loan Program, which finances major capital improvements in occupied, privately owned buildings. A number of New York City-based banks have also participated in the city's housing programs. The Chase Manhattan Bank's Community Development Group, for example, is the largest private lender under the Participation Loan Program for the preservation of privately owned multifamily housing. The nonprofit UHAB helps the residents of city-owned buildings form limited-equity co-ops and provides them with ongoing technical assistance. UHAB has been instrumental to the success of New York's Tenant Interim Lease Program, which has funded the rehabilitation of more than 13,000 units of co-op housing (White and Saegert 1997). (See City of New York, Department of City Planning [1998] and City of New York, Department of Housing Preservation and Development [1998] for program descriptions.)

Impacts

New York's housing programs have helped transform the urban landscape in many neighborhoods. This section examines the impact of the plan from several perspectives. It starts with an analysis of two indicators of change in housing stock: units in vacant buildings and vacant lots. This discussion compares the geographic distribution of city-funded housing starts among the 42 community districts³ in Manhattan, the Bronx, and Brooklyn—the boroughs that received most of the city's housing investment—with change in the number of units in vacant buildings and vacant lots during the 1986–1997 period. Next, the section looks at the economic effects of the city's housing programs in certain low-income neighborhoods. Finally, it offers a more speculative analysis of the possible connections between the city's housing investments and changes in welfare dependency and public safety (crime).

³ New York City is divided into 59 community board districts (12 in Manhattan, 12 in the Bronx, 18 in Brooklyn, 14 in Queens, and 3 in Staten Island). These boards play an advisory role in setting municipal land use and budgetary policy (see Fainstein and Fainstein 1991 for background). Community districts have an average population of about 120,000.

Effects on the housing stock

New York City's plan invested in housing development and rehabilitation during a period of slow growth in the overall housing stock. Table 2 shows that a total of 93,740 units of new housing were built from 1986 to 1996, an annual rate of just 8,500 units per year. The HVS shows that from 1986 to 1996, the city's total housing stock increased by 155,000 units (5.4 percent) to 2,995,276, an annual rate of 14,090 units a year. Besides new construction, this increase stems from the net conversion of nonresidential buildings to residential use, changes in the number of units within existing structures, and the restoration and reoccupancy of vacant, abandoned buildings. In the city as a whole, publicly funded new construction accounts for about 12 percent of the increase. An additional but unfortunately unknowable portion derives from the city-funded gut rehab of nearly 43,000 units in vacant buildings. While the HVS classifies some vacant buildings as still in the housing stock, others have deteriorated too much to be considered occupiable and are therefore no longer counted as part of the stock. If a vacant building is not counted, its rehabilitation would count as an increase in the stock; if the building had not yet been classified as unoccupiable, gut rehab would not have this effect. At most, assuming all city-funded gut rehab projects involve structures too deteriorated to be classified as part of the housing stock, this investment would account for about 40 percent of New York's total net increase of housing units in the 1986–96 period.

Unfortunately, no data at the neighborhood level are available on change in housing stock in the entire post–1986 period covered by the plan. The available data⁴ start at 1990 or 1991, several years after the plan took effect. Approximately 55 percent of all city-funded gut starts took place before 1991 (including about 75 percent of the Bronx's gut starts), as did about 43 percent of all publicly funded new construction. As a result, it is not possible to assess the full impact of New York's housing investments on neighborhood housing stocks.

The following analysis looks at two indicators of change in housing stock that cover all or most of the post–1986 period; units in vacant buildings and vacant lots. Both variables measure tangible changes

⁴ Three data sets provide housing stock information for individual neighborhoods: (1) The HVS covers "sub-borough areas," which usually resemble the city's community districts. (2) The New York Department of City Planning's MISLAND computer database includes annual estimates of several housing variables for census tracts, tax lots and blocks, and community districts. This data set derives from surveys conducted by the Osborn Map Company. (3) The Claritas Corporation offers estimates and projections of several housing stock characteristics for census tracts and community districts.

in neighborhood landscapes—restoration of boarded-up buildings and development of vacant land. It must be noted, however, that the renovation of boarded-up buildings and construction of new housing may not always increase a neighborhood's total housing stock. New development may be at a lower density (fewer units per structure) than the buildings it replaced, notwithstanding the fact that most of these buildings were empty.

Units in vacant buildings. The most dramatic evidence of the plan's effect on the city's housing stock is in the sharp reduction in vacant residential buildings. In 1986, New York City had 12,637 vacant buildings containing 93,610 housing units. By 1997, the number of vacant buildings stood at 9,483, containing 53,446 units. Units in vacant buildings decreased by 40,164, or 43 percent. (Data on vacant buildings and vacant lots are from the New York Department of City Planning's MISLAND computer database.) Vacant buildings under city ownership declined even faster. In fiscal year 1987, New York City owned 4,638 vacant residential buildings containing an estimated 48,987 units. By fiscal year 1997, only 1,139 vacant buildings with 8,177 units remained in city ownership, a decrease of more than 83 percent. (Data on *in rem* housing stock from the *Mayor's Management Report*, fiscal years 1987 and 1997.) The decline of vacant buildings is most dramatic in the Bronx and Brooklyn. The Bronx, large portions of which had been devastated by arson, disinvestment, and abandonment in the late 1970s and early 1980s, saw the number of units in vacant buildings plummet from 22,596 in 1986 to 4,832 in 1997, a 78 percent decrease. In Brooklyn, the drop was 48 percent, from 31,731 to 16,392 (see figure 2).

Behind much of the decrease in vacant buildings are the city's gut rehab programs. Unlike other large cities such as Chicago, Cleveland, and Detroit, which have demolished much of their vacant housing stock, New York tore down relatively few residential buildings during the 1980s and 1990s, doing so mostly in emergency situations. Whenever possible, New York has gut-rehabilitated vacant city-owned buildings. Several programs fund the renovation of vacant buildings under city and private ownership. Table 5 displays the number of city-funded "gut starts," along with the net change in units in vacant buildings in the city's five boroughs during the 1986–97 period. In the Bronx and Brooklyn, gut starts almost match the net decline of units in vacant buildings. In Manhattan, however, the 16,340 gut starts far exceed the 7,564 net decrease in units in vacant buildings, indicating that many occupied buildings were vacated while other vacant buildings were gut rehabilitated and reoccupied. In any case, without the city's gut rehabilitation programs, many more neighborhoods would still confront widespread housing abandonment today.

Figure 2. Units in Vacant Buildings, 1986 to 1997

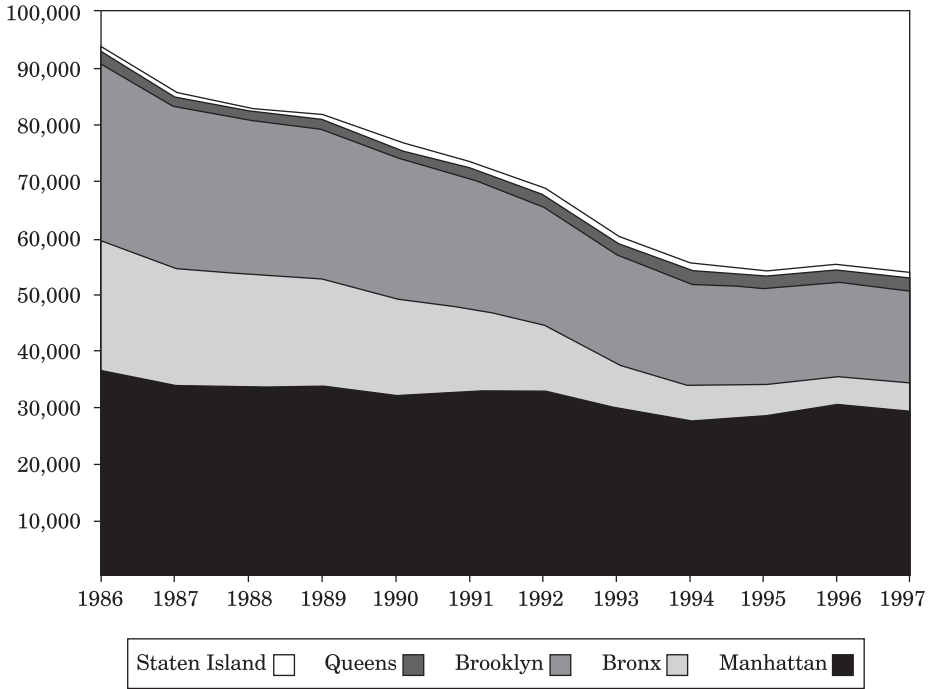


Table 5. City-Funded Gut-Rehabilitation Starts and Decrease in Units in Vacant Buildings, 1986 to 1997

	Gut Starts, July 1986–May 1997	Decrease in Units in Vacant Buildings, 1986–1997	Gut Starts as Percent Decrease in Vacant Units
Manhattan	16,340	7,564	216
Bronx	16,448	17,764	93
Brooklyn	10,107	15,338	66
Queens	94	-303	-31
Staten Island	88	-200	-44

Source: City of New York Department of City Planning and City of New York Department of Housing Preservation and Development, unpublished data.

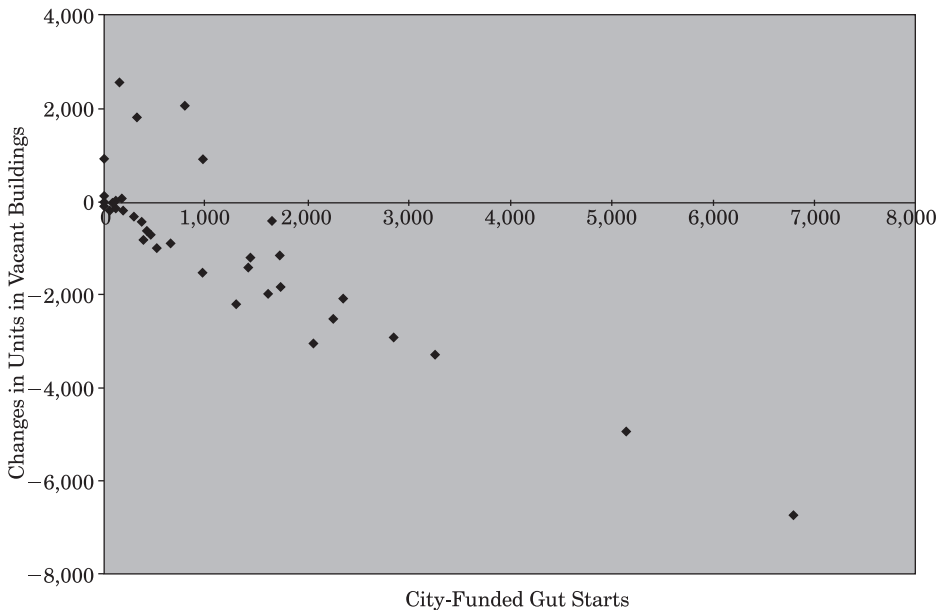
At the neighborhood level, figure 3 shows a nearly one-to-one relationship between the number of city-funded gut starts and the reduction of units in vacant buildings. Using the 42 community districts in Manhattan, Bronx, and Brooklyn as the unit of analysis,⁵

⁵ The community district data presented in figure 3 and subsequent graphs are based on a different data source, also provided by HPD. The units and dollar commitment data used for the citywide economic analysis do not indicate the geo-

it graphs the number of gut starts from 1987 through May 1997 and the change in the number of units in vacant buildings. Only 3 of the 25 community districts with more than 200 gut starts registered any increases in vacant-building units. The correlation between the two variables is highly linear, with a coefficient of -0.878 ($p = 0.000$).

Vacant lots. New York's housing programs also contributed to a reduction in the amount of vacant land. The two largest new construction programs, the New York City Housing Partnership's New Homes Program and Nehemiah, produced new one-, two-, and sometimes three-family homes on vacant city-owned land. From

Figure 3. City-Funded Gut Starts and Change in Units in Vacant Buildings in the Bronx, Brooklyn, and Manhattan, by Community District, 1987 to 1997



Source: City of New York, Department of Housing Preservation and Development and City of New York, Department of City Planning, unpublished data.

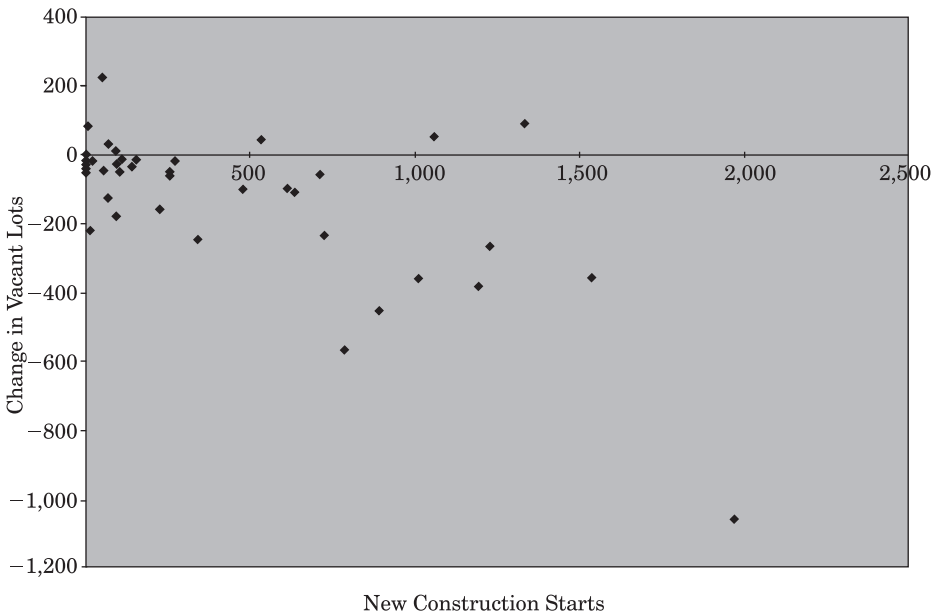
graphic location of the housing investment. For this, the study used data on housing starts provided by HPD for each program and each community district. While this second data source shows the location of housing investments, it does not report the cost or subsidy involved and therefore could not be used for the citywide economic analysis. The two data sets are broadly consistent, especially for basic types of construction. Both report similar figures for the number of units receiving gut and moderate rehabilitation. The biggest difference is that the housing starts data set includes federal and state housing programs, such as the federal Section 202 and 811 programs for older and disabled people.

1985 to 1996, the number of vacant lots in the city as a whole declined by 21 percent. Outside of Staten Island, which has attracted most of the city's new market-rate construction of one- to three-family homes, the largest decreases in vacant land occurred in the Bronx and Brooklyn. These two boroughs account for 71 percent of all city-funded new construction starts since 1986. At the neighborhood level, figure 4 shows that the community districts in the Bronx, Brooklyn, and Manhattan with the most city-funded new construction starts saw the largest reductions in vacant land. The correlation between city-funded housing starts and change in vacant land is -0.653 ($p = 0.000$). Of the 14 community districts in the three boroughs that posted decreases of 100 or more vacant lots, all but one (Bronx Community District 12) had city-funded new construction.

Economic impacts

Housing investment has long been considered a key economic stimulus. For much of the past century, national, state, and local governments have used housing subsidies and investment incentives to

Figure 4. City-Funded New Construction and Change in Vacant Land in the Bronx, Brooklyn, and Manhattan, by Community District, 1987 to 1997



Source: City of New York, Department of Housing Preservation and Development and City of New York, Department of City Planning, unpublished data.

spur economic growth and recovery. Any housing investment on the scale of New York City's housing programs is bound to generate a substantial multiplier effect (Schwartz 1997). However, the economic benefits of these programs may not be contained within the neighborhoods that receive the housing investment. Economic benefits operate at a citywide or regional level, not necessarily at the neighborhood level, since construction and household expenditures do not remain exclusively, or primarily, within the neighborhoods of the housing development.

This section examines some of the local economic effects of the city's housing programs. Unlike the analysis so far, which has included all 42 community districts in Manhattan, the Bronx, and Brooklyn, the focus here is on selected districts within the three boroughs that saw large amounts of city housing investment. The study areas are Manhattan Community District 10 (Central Harlem), Community Districts 3 and 6 of the South Bronx, and Brooklyn Community Districts 4, 5, and 16, which encompass such low-income neighborhoods as Bedford-Stuyvesant, Bushwick, Ocean Hill, Brownsville, East New York, and Cypress Hills. Together, these districts received nearly 8,000 units of city-funded new construction, more than 14,000 units of gut rehab, and more than 15,000 units of mod rehab from 1987 to 1997. This analysis is based on interviews with non-profit and for-profit housing developers and managers, business owners, representatives of merchant associations, and neighborhood planners. It also draws on employment and establishment data for the ZIP codes that encompass the three targeted areas.⁶

Direct effects. Some neighborhood residents are employed to construct and maintain city-financed housing. General contractors and some of their subcontractors often hire neighborhood residents (frequently unskilled laborers rather than skilled tradespeople) to work on the construction and renovation of city-funded projects. However, some community development groups help contractors hire qualified workers of all skill levels from the neighborhood. For example, the Ocean Hill-Brownsville Tenants Association, which has built and rehabilitated more than 2,000 housing units in Brooklyn, requires that 30 to 40 percent of the value of all its construction contracts remain in the neighborhood. To achieve this goal, the group's construction subsidiary may work as a subcontractor, but increasingly it refers contractors to neighborhood residents with appropriate experience and skills in the construction trades, such as tapers,

⁶ The following analysis of housing and economic development derives largely from research conducted by the author in 1997 for LISC. The project was based on telephone and in-person interviews with nonprofit and for-profit housing developers, community district officials, business improvement district representatives, and leaders of neighborhood merchant associations. The research also included an analysis of unpublished employment and establishment data for selected ZIP code areas provided by the New York State Department of Labor. See Schwartz (1997).

roofers, and painters (Abdur Rahman Farrakhan, executive director, Ocean Hill-Brownsville Tenants Association, interview, June 1997). The organization provides technical assistance to help these residents establish themselves as professional subcontractors. Similarly, the Bronx community development organization, MBD Community Housing Corporation, maintains a job bank of neighborhood residents interested in working in construction and other industries (Ralph Porter, executive director, MBD Community Housing, telephone interview, July 1997). Likewise, the Neighborhood Entrepreneurs Program, which transfers clusters of occupied and vacant city-owned buildings to neighborhood-based businesses, also encourages contractors to hire building and other neighborhood residents.

Some general contractors hired to work on city-funded projects follow a general policy of hiring a minimum percentage of their workers from the community. For example, a Manhattan-based general contractor that has worked for nonprofit housing groups in the East New York section of Brooklyn and other low-income neighborhoods, states that it hires 50 percent of its general-contractor labor from the neighborhood surrounding its projects and requires its subcontractors to hire no fewer than 20 percent of their workers from the neighborhood as well. Other contractors interviewed for this study also make a point of hiring local residents, but not to this extent.

Neighborhood residents make up a much higher percentage of the people hired to maintain and manage city-funded housing. The nonprofit and for-profit managers of city-funded housing interviewed for this study reported that 90 to 100 percent of all building superintendents and porters were originally neighborhood residents (including superintendents before they moved into the apartments that come with their jobs). On average, one superintendent or porter is required for every 30 multifamily housing units. Thus, every 90 units of new housing creates three building maintenance jobs—almost all of which go to neighborhood residents. Altogether, the 36,225 units of new rental housing created with city assistance generated more than 1,200 building maintenance jobs for neighborhood residents.

Sponsors and managers of city-funded housing also hire residents to fill property management positions, although they account for relatively few jobs. About half the property managers of the organizations interviewed for this study were reported to be neighborhood residents. If, as a rule of thumb, one property manager is needed for every 300 housing units, one neighborhood resident would be hired for every 600 units of new housing under management. Thus, the 36,225 new rental housing units produced with city assistance also yield about 60 property management positions for neighborhood residents.

Indirect effects on commercial activity. Housing development may engender commercial revitalization through the consumer spending of new households and through more general improvements in an area's appearance and public safety. Employment data for ZIP codes within the three areas show trends in commercial activity. The New York Department of Labor provided unpublished raw data for the third quarter of 1989 (the first year for which ZIP code data were available) and 1996 (the most recent year available) for the 18 ZIP codes that encompass the three study areas. The data include private sector employment covered by unemployment insurance.

Considering that New York's economy was in the doldrums for most of the period, the selected neighborhoods performed surprisingly well overall. Total employment rose by 10.9 percent and the number of establishments increased by 12.6 percent. Thirteen of the 18 ZIP codes posted employment growth, while 5 lost employment. By contrast, total private sector employment in New York City as a whole declined by 6 percent during the period.

Due to disclosure problems, employment data were not consistently available for individual industries. However, changes in the number of establishments can help gauge general trends in business activity, since an increase would suggest the opening of new businesses within the community. It is interesting to note that the bulk of the ZIP codes' establishment growth occurred in industries oriented to local consumer markets. Whereas such goods-producing industries as manufacturing lost scores of establishments, service-producing industries saw substantial growth. For example, all ZIP codes except one lost manufacturing establishments, but every ZIP code gained new establishments in finance, insurance, and real estate (FIRE). Altogether, the 18 ZIP codes posted a 69 percent increase in FIRE establishments (644), most of which consisted of small real estate offices. Service establishments increased by 19 percent during the period. Much of the growth here originated from personal service businesses. Most of the FIRE and services businesses in the selected ZIP codes cater to local demand. Thus, these increases in total establishments may indicate that the market is responding to the growing purchasing power of neighborhood residents.

Retail trade also serves local residents. Changes in retail activity can often reveal shifts in local demographic and consumer patterns. However, this industry's growth is more uneven than services and FIRE. One-third of the 18 ZIP codes lost retail establishments during the study period. Retailing also became less diverse in most of the communities. Only one retail category—food stores—posted substantial increases. Establishments in other retail industries either held steady or declined. The biggest loss was in the miscellaneous retail category, which lost nearly 20 percent and declined in all but

three ZIP codes. Other retail industries that lost establishments are general merchandise, furniture and home furnishings, and auto dealers and gas stations.

The retail data suggest that the market has not responded fully to the growth in consumer purchasing power engendered by New York's housing programs. Interviews with community board managers, community development corporation directors, business owners, representatives of merchant associations, and others confirm the uneven and relatively weak commercial development of these neighborhoods. The key findings are as follows:

1. Business perception of the South Bronx, Central Brooklyn, and to a lesser extent Harlem is lagging behind the neighborhoods' redevelopment. Businesses and investors still view these areas as zones of devastation. As a result, it is extremely difficult to attract mainstream retailers and other businesses. Building owners, including the developers of new housing, have difficulty attracting desirable commercial tenants for their storefronts. CDC directors complain that the only businesses that express interest in leasing their commercial space are small grocery stores (known as "bodegas"), which are ubiquitous in many low-income neighborhoods. Commercial strips lack prominent national and regional chains or franchises and are dominated by discount stores. Harlem has recently shown more success in attracting brand name retailers than the South Bronx and Central Brooklyn.⁷
2. A few major retail companies, notably Pathmark supermarkets and Rite Aid drug stores, have moved aggressively into New York's inner-city neighborhoods, recognizing that they present an untapped market. Pathmark has worked with several community groups in developing new shopping centers in which it is the anchor (in Harlem, Bedford-Stuyvesant, and Newark's Central Ward). In the South Bronx, it is working with MBD Community Housing Corporation, a community-based nonprofit, to develop a 132,000-square-foot shopping center with a 59,000-square-foot Pathmark. Executives from Pathmark and Rite Aid say that the amount of new housing in an area is less significant in selecting sites for new stores than the absence of widespread abandonment and dilapidation. By transforming the physical landscape, New York's housing programs helped neighborhoods attract new businesses.

⁷ This finding mirrors the results of a recent national study by the U.S. Department of Housing and Urban Development on the untapped retail buying power in America's inner cities. See U.S. Department of Housing and Urban Development 1999.

3. Homeowner housing is valued for the stability it brings to communities perhaps more than the consumer expenditures it engenders. Several respondents stressed that homeowners tend to demand and receive improved public services, including police protection and sanitation. As a result, areas with new homeowner housing tend to be safer and cleaner than before. Improved public safety, it was repeatedly emphasized, is crucial for commercial revitalization.
4. A number of long-time business owners in the target neighborhoods have started to upgrade their inventories and remodel their shops in response to the development of nearby homeowner housing.
5. Commercial districts in these inner-city neighborhoods will never return to the glory days of the 1950s, no matter how much housing is developed. Too much has changed. First, even with new housing development, the population density, and thus aggregate income, is much lower than before. Second, more residents, including virtually all homeowners, have automobiles, giving them more options for shopping. Third, retailing has been transformed since the 1950s, with neighborhood-based merchants of comparison goods now competing with regional malls and specialty discounters.

Public assistance and public safety

Housing policy has many objectives, not all of which concern the improvement of the housing stock. This section takes a speculative look at two aspects of community development that are potentially influenced by housing development and rehabilitation—welfare dependency⁸ and crime. The following discussion, based on correlations between city-funded housing starts and change in welfare rolls and felony complaints in the 42 community districts of the Bronx, Brooklyn, and Manhattan, is far more speculative and tentative than the preceding analysis of land use and economic changes. The results are limited by the absence of additional independent variables and by the large size of most community districts. Nevertheless, they do provide a basis for further research and analysis.

Welfare dependency and crime both decreased markedly during the period covered by the plan. In 1986, 1.3 million New Yorkers re-

⁸ The public assistance data analyzed in this article cover the former Aid to Families with Dependent Children Program; its successor created by the federal welfare reform legislation of 1996, Temporary Assistance for Needy Families; and Home Relief. The data do not cover Supplemental Social Security.

ceived public assistance. This number dropped to 859,000 in 1992, rose to 941,900 in 1996—when the Clinton administration and Congress instituted fundamental welfare reform—but then fell to 817,000 by the end of 1997 (Poverty and Progress 1998). As it did in most major cities, crime also fell sharply in New York City during this period. The city as a whole registered 32 percent fewer felony complaints in 1995 than it did in 1986. Crimes against property decreased by 35 percent and crimes against people by 21 percent. Most of these decreases occurred after 1990, the peak year for felony complaints. Braconi and Morse (1998) report that by 1996 crime in New York City had reached a 27-year low.

As would be expected given their indirect relationships, correlations between housing development and absolute change in welfare dependency and crime are substantially weaker than was the case with land use. Looking first at public assistance in the 1986–97 period, the correlation with city-funded housing starts is stronger with new construction (-0.503 , $p = 0.001$) and gut rehab (-0.471 , $p = 0.002$) than for mod rehab (-0.306 , $p = 0.048$), although the latter is still significant.⁹ Similar coefficients result when housing starts are correlated with percentage change in welfare rolls. Given the income requirements for the city's housing programs, low-income neighborhoods with large infusions of new housing—new construction especially, but also gut rehab—should see some increase in overall income.¹⁰ However, it is not clear why they should see larger reductions in their welfare population than other neighborhoods with less city housing investment, since new construction and gut rehab programs rarely displaced existing households (with the occasional but contentious exception of squatters living in condemned buildings). Perhaps city-funded improvement in the housing stock helps make the surrounding neighborhood more appealing

⁹ Since a large number of New Yorkers left the welfare rolls after the enactment of federal welfare reform in 1996, it is important to consider the correlation between city-funded housing starts and change in public assistance rolls for the period preceding the reform. The following correlations pertain to the 1986–1996 period. New construction: $r = -0.425$ ($p = 0.005$); gut rehab: $r = -0.3949$ ($p = 0.009$); mod rehab: $r = -.1718$ ($p = 0.276$). City-funded new construction and gut rehab post significant but somewhat weaker correlations with change in public assistance. Unlike the 1986–97 period, mod rehab's correlation is not significant.

¹⁰ As discussed earlier, residents of housing built through the city's new construction programs tend to be in the moderate- and middle-income categories. New York's gut rehab programs serve a poorer population, comprised mostly of low-income households. However, the income cutoff for the low-income category, at 50 percent of the New York metropolitan area's median income (\$24,500 for a family of four in 1997) is significantly higher than the poverty line and is far above the maximum public assistance benefit for a family of four. Several of the city's gut rehab programs also serve homeless families, virtually all of whom receive public assistance. HPD has provided these families with Section 8 certificates or vouchers.

for a wider range of households, thus inducing more competition for housing that had been held by families on public assistance. The weaker statistical association between mod rehab and change in public assistance may be explained in part by the fact that most of the city's mod rehab programs focus on occupied housing, and therefore do not cause much change in household composition. However, by improving overall living conditions, mod rehab may help make it possible for parents to seek employment (Bratt and Keyes 1997).

The connection between public safety and housing investment was examined by comparing the change in felony complaints in the 42 community districts of Manhattan, the Bronx, and Brooklyn with the number of city-funded housing starts. Crime data are from INFOSHARE, a statistical database and software program for New York City, and cover the 1986–1995 period. The only significant correlations involved city-funded gut rehab and felonies against people (-0.337 , $p = 0.029$). No other significant correlations between different types of housing development and different categories of felony complaints emerged. Apparently, the rehabilitation and repopulation of vacant buildings improves public safety more than other types of housing development; conversely, walking by swaths of vacant buildings appears more dangerous than passing by vacant lots or substandard occupied housing. However, any analysis of crime and housing at the community district level can be no more than suggestive since crime reductions could be occurring some distance from a community district's new or improved housing. A finer geographic scale is required for a more definitive analysis of crime and housing.

The Bronx presents a particularly vivid example of the potential impact of New York's housing investment on welfare dependency and crime. This borough was the first to see a large amount of housing development under the plan, and the great bulk of this activity took place in the six community districts that comprise the South Bronx. Table 6 shows public assistance rolls in the Bronx's 12 community districts for 1986, 1996, and 1997, one year after federal welfare reform was enacted. Bronx Community Districts 1 through 6 (the South Bronx) collectively received more than 22,000 city-funded housing starts for new construction or gut rehab from 1987 to 1997, compared with 1,484 starts in the rest of the borough. Public assistance rolls in the South Bronx dropped by 22,411 (12.4 percent) in the 1986–97 period, as each district decreased its caseload. By contrast, Bronx Community Districts 7 through 12 experienced an *increase* of 4,443 in their population on public assistance. Looking at the 1986–96 period preceding implementation of the 1996 federal welfare reform law, welfare rolls in the South Bronx fell by 3.5 percent, compared with an increase of 19.4 percent in the Bronx's other community districts. A similar pattern is visible with

Table 6. Public Assistance Rolls and City-Funded Housing Starts for New Construction and Gut Rehabilitation: Bronx Community Districts, 1986 to 1997

Community District	Total Starts (New Construction and Gut Rehabilitation)	Public Assistance			Change 1986-96		Change 1996-97		Change 1986-97	
		1986	1996	1997	Total	Percent	Total	Percent	Total	Percent
1	3,266	31,071	29,370	28,181	-1,701	-5.5	-1,189	-4.0	-2,890	-9.3
2	2,644	15,921	15,517	13,781	-404	-2.5	-1,736	-11.2	-2,140	-13.4
3	4,723	22,449	23,226	21,362	777	3.5	-1,864	-8.0	-1,087	-4.8
4	5,892	42,166	41,555	36,770	-611	-1.4	-4,785	-11.5	-5,396	-12.8
5	3,570	44,960	41,388	37,029	-3,572	-7.9	-4,359	-10.5	-7,931	-17.6
6	2,302	24,208	23,456	21,241	-752	-3.1	-2,215	-9.4	-2,967	-12.3
Total	22,397	180,775	174,512	158,364	-6,263	-3.5	-16,148	-9.3	-22,411	-12.4
7	222	29,870	32,031	28,250	2,161	7.2	-3,781	-11.8	-1,620	-5.4
8	142	6,877	7,771	6,686	894	13.0	-1,085	-14.0	-191	-2.8
9	536	29,110	34,045	30,184	4,935	17.0	-3,861	-11.3	1,074	3.7
10	224	3,104	3,939	3,348	835	26.9	-591	-15.0	244	7.9
11	319	6,321	9,757	8,523	3,436	54.4	-1,234	-12.6	2,202	34.8
12	41	11,501	16,046	14,235	4,545	39.5	-1,811	-11.3	2,734	23.8
Total	1,484	86,783	103,589	91,226	16,806	19.4	-12,363	-11.9	4,443	5.1
Bronx total	23,881	267,558	278,101	249,590	10,543	3.9	-28,511	-10.3	-17,968	-6.7

Source: City of New York, Department of Housing Preservation and Development, unpublished data, and INFOSHARE.

felony complaints (see table 7). The community districts of the South Bronx registered decreases in crimes against persons and property (17.5 percent and 28.6 percent, respectively), while four of the six community districts in the northern Bronx saw *increases* in crimes against persons.

Summing up the impacts

This section has examined the effects of the city's housing investments from several perspectives. The impact is most pronounced with regard to land use patterns, especially the striking reduction in vacant buildings and empty lots. The findings are more uneven in terms of the housing investment's connection to welfare dependency and public safety. The correlations between city-funded housing starts and change in welfare rolls and felony complaints are statistically significant but weaker than those involving vacant buildings and land. However, the geographic unit for this analysis—the 42 community districts in Manhattan, the Bronx, and Brooklyn—may be too large to discern the full effects of housing improvements on welfare dependency and public safety. New York's community districts have an average population of about 120,000—more than the city of New Haven, CT. If the social impacts of housing improvements are highly localized, and limited to new or renovated buildings and perhaps their immediate surroundings, they would not necessarily be reflected in community district trends. A more appropriate unit of analysis would be the census tract or block group, which would also allow for more sophisticated statistical analysis because of the increased number of observations. Unfortunately, crime and housing-start data are not readily available at this geographic level. (Census tract data are available for housing stock variables and welfare rolls but not for felony complaints; city-funded housing start data would need to be converted from street addresses or tax blocks to census tracts.)

The preceding discussion also points to mixed results regarding the economic impacts of New York's housing programs. However, the economic benefits are muted in many of the neighborhoods that received much of the investment. It has proven especially difficult to attract mainstream retailers to these neighborhoods, a priority for several current initiatives in New York City.

Finally, it must not be forgotten that most of New York's housing investments took place in the city's poorest neighborhoods, which continue to have high levels of poverty. For example, the South Bronx received nearly one-third of all city-funded housing starts, yet it remains one of the poorest areas in New York and the nation (it contains the poorest congressional district in the United States).

**Table 7. Felony Complaints against Persons and Property and City-Funded Housing Starts:
Bronx Community Districts, 1986 to 1995**

Community District	Total Starts 1986-97	Crimes against Persons, 1986-96			Crimes against Property, 1986-96				
		1986	1996	Total Change	Percent Change	1986	1996	Total Change	Percent Change
1	4,758	2,893	1,907	-986	-34.1	5,376	3,879	-1,497	-27.8
2	4,136	1,357	1,185	-172	-12.7	3,270	2,204	-1,066	-32.6
3	6,487	1,927	1,725	-202	-10.5	3,216	2,341	-875	-27.2
4	7,587	3,264	2,907	-357	-10.9	7,557	5,227	-2,330	-30.8
5	9,114	3,276	2,775	-501	-15.3	6,691	5,112	-1,579	-23.6
6	7,424	1,767	1,448	-319	-18.1	4,265	2,927	-1,338	-31.4
Total	39,506	14,484	11,947	-2,537	-17.5	30,375	21,690	-8,685	-28.6
7	3,772	2,156	1,930	-226	-10.5	6,417	4,895	-1,522	-23.7
8	2,994	732	626	-106	-14.5	4,077	3,204	-873	-21.4
9	3,089	2,470	2,595	125	5.1	7,431	5,704	-1,727	-23.2
10	2,041	629	717	88	14.0	3,596	3,028	-568	-15.8
11	875	746	945	199	26.7	4,243	3,560	-683	-16.1
12	1,861	1,482	1,918	436	29.4	4,845	4,789	-56	-1.2
Total	14,632	8,215	8,731	516	6.3	30,609	25,180	-5,429	-17.7
Bronx total	54,138	22,699	20,678	-2,021	-8.9	60,984	46,870	-14,114	-23.1

Source: City of New York, Department of Housing Preservation and Development, unpublished data, and INFOSHARE.

Although the South Bronx posted substantial decreases in welfare dependency and felony complaints since the plan began in 1986 (see tables 6 and 7), in absolute terms they remain substantially higher than other New York City neighborhoods. South Bronx residents continue to struggle with high levels of unemployment, weak schools, and poor health (Braconi and Morse 1998). Housing investments have helped stabilize low-income communities, but more still needs to be done.

New York City housing policy at the crossroads

New York City's housing policy is at a critical juncture. In the 13 years since its inception, the plan has produced and rehabilitated more than 150,000 units of housing and in so doing has helped transform and stabilize many communities. Yet housing problems remain severe. In 1996, nearly one-quarter of the city's households confronted a severe housing affordability problem (spent at least 50 percent of their income on rent) or lived in physically deficient housing (Schill and Scafidi 1997). However, the city is unlikely to continue down the path it has followed since 1986. The city's limited capital budget must address other pressing needs, including school construction and infrastructure improvement. Moreover, two pillars of the city's housing programs—*in rem* property and Section 8—have been eroded.

Depletion of in rem housing

Much of the city's housing investment targeted city-owned properties acquired through tax foreclosure. Vacant buildings were rehabilitated and reoccupied, and occupied buildings were renovated. Several city programs transferred city-owned properties to non-profit community-based organizations, tenant co-ops, and private for-profit developers. Besides reducing (or eliminating) land-acquisition costs, *in rem* housing enabled developers to realize substantial cost savings from economies of scale made possible by the spatial concentration of city-owned vacant buildings and lots within certain neighborhoods. Perhaps most important, by using *in rem* property, the city avoided the locational conflicts and resultant delays that so often plague the siting of subsidized housing developments.

The supply of city-owned property is now nearly depleted. At the beginning of fiscal year 1999, the number of units in vacant city-owned buildings stood at 7,630, down from 17,265 in 1993 and more than 53,000 in 1986. About 17,940 units of occupied housing remain under city ownership and management, down from more than 41,000 in 1993. According to the Mayor's Management Report,

“[T]his is the lowest number of [occupied *in rem*] units since HPD assumed management of *in rem* residential property in 1978” (City of New York 1999, 77). New York’s current Ten-Year Capital Strategy for fiscal years 1998 to 2007 aims to eliminate the current inventory of city owned occupied housing by fiscal year 2007 and vacant housing by fiscal year 2005 (City of New York 1997).

Behind this decrease in city-owned property is the continued transfer of properties to nonprofit and for-profit entities, combined with the city’s decision in 1993 to stop foreclosing on tax delinquent property. The Dinkins administration first delayed borough-wide property vestings in 1993, and the Guiliani administration announced a moratorium on *in rem* foreclosures in 1995 (Braconi 1999). In 1997, the city started to sell tax liens on tax-delinquent properties. These sales are limited

to commercial, utility, and high-end residential properties that offer good prospects for repayment and hence would be marketable to investors. Economical marginal residential properties [are] channeled through the conventional foreclosure process, but [are] deeded to third-party for-profit or nonprofit owners rather than to the city. The city . . . consequently stop[s] taking residential properties into its direct ownership (except for unusually deteriorated or unmanageable buildings), hence circumventing its intricate land-use rules and blunting political pressures that have constrained disposition policy (Braconi 1999, 110)

In addition to transferring tax-delinquent properties to nonprofit and for-profit organizations, the city provides financial assistance for necessary repairs and capital improvements.¹¹

The depletion of *in rem* housing is a sign of progress and of new challenges ahead. It signifies the restoration and reoccupancy of thousands of housing units that had been abandoned by private owners. It also means that the city must find new ways of siting and financing housing development in the future, since it will no longer be so able to provide land and structures to developers at nominal cost.

End of Section 8

New York City made tenant-based Section 8 certificates and vouchers an integral element of several programs. Although Section 8 certificates and vouchers are tenant-based federal housing subsidies, the city managed to use them as *de facto* operating subsidies for some of the projects it helped finance. While the New York City Housing Authority runs the city’s (and nation’s) largest Section 8

¹¹ See Oser (1999) for a recent account of the city’s new approach.

program, the U.S. Department of Housing and Urban Development (HUD) also allocated a smaller number of certificates and vouchers to HPD. The city used them to enable formerly homeless individuals and families to occupy rehabilitated housing. For example, 30 percent of the housing built under the LISC/Enterprise Tax Credit Program was reserved for the homeless, virtually all of whom were given Section 8 subsidies. The city's SRO Loan Program for homeless individuals provided nearly every occupant with a Section 8 subsidy.

Section 8 was also integral to the city's programs for renovating occupied, privately owned housing. Tenants unable to afford rents that must be increased to amortize city-subsidized capital improvements were provided Section 8 certificates or vouchers to prevent their displacement. The CPC, which has collaborated with HPD in providing financing for several key rehabilitation programs, estimates that 20 percent of the residents in the buildings it financed receive Section 8 subsidies (Community Preservation Corporation 1998). In short, several programs were predicated on the Section 8's availability for at least some tenants.

Section 8 was crucial for several reasons. Most obviously, it stabilizes the rent roll by keeping recipients' out-of-pocket rent expenses fixed at 30 percent of income. Less widely appreciated, the fair market rent (FMR) for Section 8 certificates and vouchers greatly exceeds the rent that most low-income households can afford and what most city housing programs will allow. For example, the 1996 monthly FMR for New York City was \$817, substantially higher than the typical \$475 rent for two-bedroom units in developments underwritten by the LISC/Enterprise Foundation Tax Credit Program. Thus, the presence of Section 8 tenants increases a development's rent roll, enabling the owner to better maintain the property, provide additional services, build up reserves, and tolerate higher operating costs and/or vacancy and arrearage losses (Schwartz and Vidal 1999).¹²

The federal government did not issue new Section 8 subsidies from fiscal years 1995 through 1998. During this period, the city managed to recycle certificates and vouchers when recipients no longer qualified, died, moved out of the city, or entered a nursing home. On

¹² While Section 8 certificates pay FMR, the rents provided by Section 8 vouchers are usually less. They are established by a payment standard set by local public housing authorities as a percentage of the FMR. In New York City, the voucher payment standard is 80 percent of FMR. It should also be noted that HUD requires that the rents landlords charge to Section 8 recipients be in line with market rents in the surrounding neighborhood. However, HUD waives this requirement for tax credit housing and, apparently, for housing developed under other HPD programs.

average, about 5,000 certificates and vouchers are recycled every year, representing about 6 percent of the total number of certificates and vouchers in circulation. However, for several years the federal government curtailed the reuse of tenant-based Section 8 subsidies by requiring local governments to retain all returned certificates and vouchers for a minimum of three months. In fiscal year 1999, the federal government permitted the issuance of new Section 8 certificates (mostly for welfare-to-work programs) and allowed local governments to reissue existing certificates without delay. While these changes are certainly welcome, it remains to be seen whether New York City will again be able to integrate tenant-based housing subsidies into its production programs.

The loss of new federal Section 8 subsidies forced the city and its institutional partners to devise new strategies for financing affordable housing. For example, it changed its use of the Low-Income Housing Tax Credit. Instead of using tax credits to finance construction and other hard costs, the city is now using them to capitalize operating reserves for new projects. Essentially a sinking fund, these reserves pay the difference between a unit's operating costs and the rent low-income residents can afford to pay. Previously, these residents would have received Section 8 subsidies. The use of tax credits to fund operating reserves enables the city to continue providing affordable housing for the poor, but it means that other funds must be found to pay for the development costs previously covered by the tax credit. Unless additional capital dollars are allocated, it means less housing development in the future, especially for low-income households.

Need for new directions

Having nearly exhausted the supply of tax-foreclosed housing and with no new tenant-based Section 8 allocations on the horizon, New York City must look for new ways to address its housing needs. New construction and gut rehab are almost certain to diminish, and an increasing share of what gets built is likely to be moderate- and middle-income housing, requiring less subsidy per unit. The city may issue bonds to finance new construction on the dwindling supply of city-owned land¹³ and the few remaining urban renewal sites. Also, the city and state's "80/20" bond finance programs are gener-

¹³ The diminishing inventory of vacant city-owned buildings has led to heightened conflicts over the use of city-owned land. The city's plans to build affordable housing on city-owned lots often comes at the expense of community gardens. In 1996, the city evicted gardeners from 50 city-owned lots that community residents had for years used as gardens. In 1998, to the consternation of advocates for gardens and open space, the city shifted control of several hundred community gardens (Martin 1998).

ating substantial amounts of mixed income housing in Manhattan, where 20 percent of the units in market-rate luxury housing are reserved for low-income households (Schwartz and Tajbakhsh 1997). Congress is also considering legislation that would increase the annual allocations of Low-Income Housing Tax Credits, which should generate a modest increase in production. While new development of low-income housing will doubtless continue, if at a subdued pace, the city is likely to put increased emphasis on preserving its housing investments of the 1980s and 1990s. With more than 150,000 units of housing built, rebuilt, and renovated, the city must attend to their continued viability. Several challenges, including welfare reform, rising water and sewer rates, and rising property tax assessments, stand in the way.

Protecting New York's housing investments

Most residents of city-funded housing have low incomes. A significant percentage, ranging from 30 percent to 100 percent in some programs, are formerly homeless; virtually all of them receive public assistance. Welfare reform initiated by the federal Personal Responsibility and Work Opportunity Act of 1996 could strain the financial viability of this housing. Hardest hit are housing projects (SROs) developed for homeless individuals, most of whom receive Home Relief (now called Safety Net Assistance), food stamps, and sometimes Supplemental Social Security. The welfare law, as adopted in New York State, limits their lifetime eligibility for cash benefits to two years. Without Section 8 or other subsidies, these people face severe hardships in paying their rent. As noted above, the city and its institutional partners have responded by establishing operating reserves that will supplement resident rent payments.

Formerly homeless families housed in city-funded projects almost always received Aid to Families with Dependent Children (now Temporary Assistance for Needy Families) and Section 8. Welfare reform now limits the time they can receive public assistance to five years. However, the availability of Section 8 will cushion the loss of income resulting from benefit reduction or termination.

Welfare reform is likely to reduce the cash flow for city-funded housing and for unsubsidized low-income housing as well. This problem will no doubt be exacerbated once the economy cycles downward. As it stands, city-funded developments already face rising operating costs, especially from water and sewer rates and property taxes. Water and sewer costs have risen tenfold since 1986. Low-income housing is hit hardest by these increases, since the plumbing tends to be old and water is used more extensively, partly

because the housing is occupied more hours during the day, and more days during the year, than is the case with middle-income housing (Community Preservation Corporation 1998; “Water and Sewer Taxes” 1998; “Waterworld” 1998). Since 1992, the city has provided owners of multifamily rental buildings with six or more units with temporary relief from rising water and sewer fees through a series of measures that give owners the option of being billed at a flat rate per unit and by capping metered water consumption fees at \$500 per unit. Nevertheless, the city must find a permanent mechanism to finance its escalating water and sewer costs in a way that does not unduly burden low-income housing (“Waterworld” 1998).

Rising property taxes pose another problem. The largest increases in property tax assessments have taken place in low-income neighborhoods, the very places that saw major infusions of city housing investments. According to a 1995 report by the Rent Guidelines Board, real estate taxes for rent-stabilized buildings increased by 7 to 10 percent from fiscal years 1994 to 1995 in several low-income neighborhoods of the South Bronx and Central Brooklyn. By contrast real estate taxes rose by only 0.5 percent in Manhattan (City of New York, Rent Guidelines Board 1995). Some city-funded developments receive tax abatements and thus are not burdened by these increases. However, other city-funded buildings, especially occupied former *in rem* buildings that underwent mod rehab, are taxed, often at high assessments. Other low-income buildings that did not receive city funding also confront rising tax hikes as a result of the overall improvement in neighborhood housing quality achieved through the city’s investments.

Lessons for other cities

New York is certainly not typical of other U.S. cities. What is barely hinted at in other cities, Saul Bellow once wrote, is condensed and enlarged in New York City (Mollenkopf and Castells 1991). New York’s housing and other policies, therefore, may not always be appropriate for other cities. Housing programs that seem successful in New York City could be ill conceived elsewhere. Programs supporting new construction and gut rehab make sense in places like New York with severe shortages of affordable low-income housing. They could be counterproductive, however, in cities and neighborhoods where population losses leave a trail of vacant housing. For example, in Baltimore, whose population declined by more than 8 percent from 1990 to 1996, the rehabilitation of vacant buildings has drawn households from other buildings, many of which then become vacant (Yeoman 1998). Indeed, a contributing factor behind the South Bronx’s downfall in the 1960s was the opening of the 15,372-

unit Co-op City complex in the northern Bronx. It attracted hundreds of moderate- and middle-income families that until then had remained in the South Bronx despite the devastation wrought by the creation of the Cross-Bronx Expressway (Caro 1998; Rooney 1995).

New York City offers a useful model for those states and localities that would benefit from the production of new affordable housing. The city's housing programs have standardized and simplified several aspects of housing finance and development. Outside New York, developers of low- and moderate-income housing, especially nonprofit developers, must almost always assemble multiple sources of financing—7.8 sources on average according to a HUD study of 15 nonprofit-sponsored developments (Goetz 1993; Hebert et al. 1993; Walker 1993). Each deal is therefore extremely complicated and labor intensive. There is little if any continuity from project to project, since each involves a unique blend of funding sources. By providing grants and/or low-interest loans, New York City has greatly simplified the underwriting of affordable housing. Some programs rely exclusively on city funding. Others combine city funds with low-income tax credits or market-rate loans from banks and the CPC. Few city-funded projects require more than two or three funding sources. (It was not easy, however, for the city to arrive at this streamlined approach to housing finance. Orlebeke's account of the New York City Housing Partnership's New Homes Program [1997] shows, for example, how it took several years for the key actors from government and private sector institutions to reach agreement on the program's financing and subsidy structure.)

Besides standardizing development finance, New York's housing programs also provide technical assistance to nonprofit and for-profit developers through the collaboration of such intermediaries as LISC, the Enterprise Foundation, the New York City Housing Partnership, the CPC, and the UHAB. New York's programs may also make it easier for developers of affordable housing to obtain market-rate financing. Since a number of banks routinely make loans for projects developed under these programs, they have a stronger understanding of a project's risks and market potential than would the case if individual developers sought financing for projects devised entirely on their own.

Other elements of New York's plan may be more broadly applicable than its new construction and gut rehab programs. For example, the city's mod rehab programs for occupied, privately owned housing provide low-interest loans for essential capital improvements and have helped preserve thousands of units of affordable housing. With sufficient financial and political resources, other cities and

states could easily adopt these programs to preserve their stock of affordable housing.

More significant from a national perspective than the design of specific housing programs are the institutional partnerships and relationships that were forged and strengthened in carrying out the plan. It is more than a creature of government. Numerous nonprofit and for-profit organizations played key roles in funding, designing, and implementing the plan's housing programs. Moreover, many of these organizations now comprise part of the institutional infrastructure engaged in economic and workforce development, child care, and other arenas in community development. The New York experience shows how local governments can tap the financial, technical-assistance, housing-development, and housing-management resources of nonprofit and for-profit organizations in designing and implementing their own programs. Nonprofit organizations and networks are already integral to the housing, economic development, and social service systems in many states and localities (Goetz 1993; Harrison and Weiss 1998; Koschinsky and Swanstrom 1999; Salamon 1987; Yin 1998). New York illustrates the scale and scope of their potential.

Housing policy cannot be separated from other social and economic policies (Hays 1995). It reflects a government's overall ideological stance toward redistribution and social welfare policy. New York City has long been known for its expansive array of social services and subsidized housing, as well as health care and public universities (Fuchs 1992; Morris 1980). Given the city's exceptional history of social welfare spending, one might reasonably ask whether cities with more austere traditions of social spending—and that would include most of urban America—could ever be expected to emulate New York City housing programs of the 1980s and 1990s.

I think the answer is yes. New York City does not occupy such a unique position on the political landscape that its housing policies lie beyond the reasonable consideration of other states or cities. Although New York is perhaps still regarded as a bastion (vestige?) of 1960s liberalism (Siegel 1997), this image lingers more than two decades after the city's liberal tradition reached its zenith under the Lindsey administration (1965–1973) (Mollenkopf 1992; Morris 1980). New York's government became markedly more progrowth and probusiness, and less redistributive with Koch's election in 1977. It has continued this conservative course through most of the 1990s under Giuliani, with only a slight turn toward liberalism during Mayor Dinkins' term (1989–1993). Indeed, New York's government was probably more conservative than that of most other large cities during this period, in which, as Mollenkopf (1992) points out, minority and neighborhood interests became more salient.

New York City's housing investment took place under three mayors (two Democrats and one Republican) and in times of economic prosperity and distress. The housing plan was born during a period of economic growth, fueled in part by a resurgent stock market in the mid-1980s. However, the city continued to invest hundreds of millions of dollars in affordable housing when the economy experienced a downturn in the late 1980s and early 1990s. New York has sustained its commitment to the plan during the most recent period of economic growth. While the city has cut back the amount of its annual outlays for housing in favor of other capital needs, its housing expenditures still dwarf those of other cities. The continuity of New York City's commitment to the development and preservation of low- and moderate-income housing under different political and economic climates suggests that there is nothing unique to New York City that enables local governments to invest their capital-budget resources in housing, although the sheer scale of the city's investment does reflect New York's position as the nation's largest city.

Finally, New York offers a helpful antidote to the prevailing wisdom, articulated most fully in Paul Peterson's *City Limits* (1981), that it is self-destructive for cities to spend scarce resources on redistributive social programs benefiting low-income residents. Such efforts, goes the argument, merely drain a city's tax base and weaken its competitive position. Instead, cities are advised to focus on economic development and leave redistributive policy to the federal government.

Peter Eisinger, in a recent essay on "City Politics in an Era of Federal Devolution" reaffirms this position:

[T]he absence of a growing stream of federal dollars has meant that city political leaders cannot afford, fiscally or politically, to push an agenda of social and racial reform financed by local taxpayers alone. Nor can municipal leaders find much encouragement for defying these realities: Left to confront the great urban racial economic polarities, few elected officials would be so foolhardy as to risk inevitable failure by initiating solutions based on the modest and limited resources that they themselves can raise. It is far easier—and the outcome more certain—to lower taxes, reduce government employment, and fill potholes. City limits have never been more in evidence. (Eisinger 1998, 322–23)

The New York experience shows that investing municipal resources in affordable housing need not be foolhardy or futile. Although its housing programs are no panacea for the city's problems, they have helped improve the quality of life in many neighborhoods.

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