Flexibility and Conversions in New York City’s Housing Stock: Building for an Era of Rapid Change

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Uncertainty of 21st Century

- September 11, 2001
  
- 2001: Mortgage crisis
  
- 2007
  
- 2010: Superstorm Sandy
  
- 2012
  
- 2020: COVID-19
Rising Vacancies in Manhattan Office Sector

Historical Average = 9.6%

Source: Cushman and Wakefield
Average market value change
All office properties, by borough

Sources: New York City Department of Finance (DOF), NYU Furman Center
## Hotel Occupancy Rates Well Below Average

### Top 25: Best and Worst

Top 25 Markets, R3 February 2022, by RevPAR % chg. to 2019

<table>
<thead>
<tr>
<th>Market</th>
<th>Occupancy</th>
<th>RevPAR % chg. 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norfolk/Virginia Beach, VA</td>
<td>48.5%</td>
<td>18%</td>
</tr>
<tr>
<td>Tampa, FL</td>
<td>72.2%</td>
<td>16%</td>
</tr>
<tr>
<td>Miami, FL</td>
<td>74.6%</td>
<td>15%</td>
</tr>
<tr>
<td>Phoenix, AZ</td>
<td>67.6%</td>
<td>8%</td>
</tr>
<tr>
<td>New Orleans, LA</td>
<td>55.7%</td>
<td>-4%</td>
</tr>
<tr>
<td>New York, NY</td>
<td>56.3%</td>
<td>-27%</td>
</tr>
<tr>
<td>Minneapolis, MN</td>
<td>39.8%</td>
<td>-28%</td>
</tr>
<tr>
<td>Washington, DC</td>
<td>42.5%</td>
<td>-31%</td>
</tr>
<tr>
<td>Seattle, WA</td>
<td>48.9%</td>
<td>-31%</td>
</tr>
<tr>
<td>San Francisco/San Mateo, CA</td>
<td>46.6%</td>
<td>-59%</td>
</tr>
</tbody>
</table>

Source: STR. © 2022 CoStar Group
Secular Decline in Retail Rents in Midtown

5th Ave (42nd St. - 49th St.)
Average/Median PPSF

Source: REBNY
Rebounding Prices/Rents in Residential Sector

Source: StreetEasy
Potential Value of Conversions

- Compared to new construction, conversions can
  - Take less time
  - Cost less money
  - Produce lower environmental impact
  - Provoke less NIMBY opposition

- Can create vibrant, mixed-use districts
Potential Scope for Conversions in NYC

- How much commercial space is there in NYC?
- Where is the commercial space in NYC?
Total building area by type

- Residential: 65%
- Office: 12%
- Hotel: 2%
- Retail: 5%
- Storage, factory, and other commercial: 16%

Sources: NYC Department of City Planning (DCP) MapPluto 21v4, NYU Furman
How many units could conversions produce?

- Assuming 10% of office/hotel space was converted:
  - ~75,000 new homes
  - 2 percent increase in city’s housing stock
  - 3-4 times the average annual number of homes produced in last decade
Total office area by borough

- Manhattan: 71%
- Brooklyn: 13%
- Queens: 7%
- Bronx: 7%
- Staten Island: 2%

Sources: NYC Department of City Planning (DCP) MapPluto 21v4, NYU Furman
Total hotel area by borough

Manhattan 77%
Queens 12%
Brooklyn 8%
Bronx 2%
Staten Island 1%

Sources: NYC Department of City Planning (DCP) MapPluto 21v4, NYU Furman Center
## Conversions from 2012-2020

**New Units by Initial Occupancy Type (2012 - 2020)**

Net change in class A units across job filings where occupancy changes to residential

<table>
<thead>
<tr>
<th>Job Type</th>
<th>Initial Occupancy</th>
<th>Proposed Occupancy</th>
<th>Units, Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alteration</td>
<td>Commercial</td>
<td>Residential</td>
<td>5,850</td>
</tr>
<tr>
<td>Alteration</td>
<td>Unknown/Miscellaneous</td>
<td>Residential</td>
<td>2,355</td>
</tr>
<tr>
<td>Alteration</td>
<td>Educational/Institutional</td>
<td>Residential</td>
<td>720</td>
</tr>
<tr>
<td>Alteration</td>
<td>Industrial</td>
<td>Residential</td>
<td>549</td>
</tr>
<tr>
<td>Alteration</td>
<td>Storage</td>
<td>Residential</td>
<td>511</td>
</tr>
<tr>
<td>Alteration</td>
<td>Hotel</td>
<td>Residential</td>
<td>14</td>
</tr>
<tr>
<td>New Building</td>
<td>Empty Site</td>
<td>Residential</td>
<td>139,848</td>
</tr>
</tbody>
</table>

*Sources: New York City Department of City Planning (DCP) Housing Database 2020, NYU Furman Center*
Regulatory Barriers to Conversions

- Use regulations – e.g. Can’t convert hotels in manufacturing districts to residential
- Different bulk regulations – e.g. Commercial uses allowed to have shallower rear yards
- Density regulations – e.g. Hotels have too many separate units/sf
- Building Code – e.g. Upgrades triggered by change of use, esp. accessibility
Design/Cost Barriers to Conversion

- Hotels: Adding kitchens to each unit?
- Offices:
  - Different plumbing/electric connections
  - Deep floorplates make bedroom window requirements challenging
Barriers to Affordable Housing

- Commercial properties concentrated in high-cost CBDs
- Slow speed of affordable housing transactions may miss post-COVID window of opportunity
- Large floorplate offices better suited for large unit size
- Usual barriers: Need for subsidy, political opposition, etc.
Demographics of Financial District

<table>
<thead>
<tr>
<th>Indicator</th>
<th>City</th>
<th>Financial District</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent Asian</td>
<td>14.0%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Percent Black</td>
<td>21.8%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Percent Hispanic</td>
<td>29.1%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Percent other</td>
<td>3.0%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Percent white</td>
<td>32.1%</td>
<td>67.5%</td>
</tr>
<tr>
<td>Median Household Income</td>
<td>63,998</td>
<td>165,145</td>
</tr>
<tr>
<td>Percent college educated</td>
<td>15.6%</td>
<td>35.8%</td>
</tr>
<tr>
<td>Poverty rate</td>
<td>17.6%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

7 The Financial District includes census tracts 001300, 001501, 001502, 000700, 000900

Sources: American Community Survey 5-year Estimates (2019), NYU Furman Center
Policy Solutions

- Reduce distinctions between short-term and long-term uses
- Allow more pathways to compliance
- Rethink the separation of uses
- Consider easing normal procedural protections
- Introduce subsidy to encourage conversions to affordable housing
Conclusions

- Paper focuses on how a more flexible approach to the use and regulation of buildings can help city adapt to post-pandemic economy
  - Nimble conversions can help to create more housing and, with subsidies, potentially create more affordable homes

- But flexibility can be valuable more generally
  - Climate change
This research has been prepared by a Center affiliated with New York University School of Law and Wagner Graduate School of Public Service, but does not purport to present the schools’ institutional views, if any.