

Housing Demand for the Far West Side

February 8, 2005

Yesterday, New York City officials claimed that developing the western portion of the MTA's Hudson Rail Yards for housing would jeopardize the City's larger plans to develop thousands of units of housing throughout the larger Hudson Yards district. By implication, the comments disputed the conclusions of RPA's December 2004 report, "Urban Development Alternatives for the Hudson Rail Yards." RPA studied the City's assumptions underlying this claim, found in their December 2003 document, "Request for Proposals: Financing of the Hudson Yards Project by the Hudson Yards Corporation," and presents the following response.

The City's analysis rests primarily on the assumption that residential demand for the entire Far West Side district will only support about 600 units of new housing (600,000 square feet) per year through 2029. This conclusion is based on dubious assumptions that greatly underestimate the residential capacity of the district.

The thrust of the City's argument is that any development on the Western Yards through 2029 would not result in any additional housing but would only substitute for development that would have taken place elsewhere in the district. This "zero sum" assumption is based on a demand forecast produced by Economics Research Associates (ERA) and Cushman & Wakefield (C&W). However, there are several reasons why it is more reasonable to conclude that the district can absorb a much higher rate of residential development, and that residential development of the Western Yards would enhance redevelopment elsewhere in the district.

First, population and household forecasts have generally increased since ERA/C&W conducted their analysis. The forecast projected a total of 40,480 new households in Manhattan between 2005 and 2025. By comparison, the more recent population forecast by the New York Metropolitan Transportation Council (NYMTC) indicates approximately 56,000 new households in Manhattan over the same period.¹ Growing optimism stems from both recent data and anecdotal evidence indicating that the strong residential market noted in the demand forecast has gained additional momentum. For example, actual units built in Manhattan in 2002 were much stronger than the forecast predicted, and both the tremendous run-up in housing prices and the number of new residential projects over the last three years indicate that demand has grown.² While the current surge cannot continue indefinitely, there are a number of reasons, including sustained immigration, low crime rates and a growing number of stable and revitalized neighborhoods, to be confident that the long-term outlook for residential demand is the strongest that it has been in decades.

¹ NYMTC's latest forecast, completed in summer 2004, projects population growth of 111,200. Using the 2000 ratio of two persons per household, this represents 55,600 additional households.

² As measured by Certificates of Occupancy, 7,800 new units were completed in Manhattan in 2002, the last year available, compared to the approximately 5,500 indicated by charts in the ERA/C&W study.

More importantly, the City's demand forecast assumes that none of the actions planned for the Far West Side, from the rezoning to the #7 subway extension, will increase Manhattan's total residential development or the district's share of new units in Manhattan over the next quarter century. The forecast projects a demand for 626 new units per year for the Hudson Yards district by assuming that its share of new residential construction for 2005 to 2025 would be the same as its share from 1998-2001 (10.4%). It is far more likely that the rezoning by itself will increase both the amount of new residential development that will take place in Manhattan and the district's share of that growth. In fact, the large number of new residential projects either in construction or planned for the West Side, such as the 900 additional units on Twelfth Avenue and 42nd Street when Two River Place opens later this year, indicate rapid residential development even before the rezoning is put into effect. With the addition of the #7 extension and anticipated improvements in parks and schools, residential development in the district is sure to increase further.

It is true that much of the new development on the western edge of Manhattan is along strong residential corridors—23rd, 42nd, 57th. However, the 32nd-34th Street corridor has the same potential, if not more. Anchored by the transportation hub of Penn Station and Moynihan Station on the east and Hudson River Park and an appealing waterfront community over the Yards, the area could become one of the more desirable residential locations in the city.

While it would be overstating the case to say that there is an insatiable demand for housing in New York, the constraints on supply are clearly a far greater long-term problem than limited demand. Vacancy rates have not exceeded 5.5% for rental housing and 3.3% for owner-occupied housing in New York City in any year since at least 1986, and remain low in spite of several years of strong residential development. A shortage of readily developable sites is a major reason that supply has been unable to keep up with demand, a problem that development over the Hudson Yards will help to relieve.

The assumption that development on the Western Yards would cannibalize development elsewhere in the district also discounts the symbiotic relationship between waterfront and inland development. To some extent, these areas represent different environments and will appeal to residents that have different priorities for views, access, scale and other factors. By providing a wider variety of housing options, the district will appeal to a larger number of potential residents. This could hasten the development of amenities and services needed to expand existing neighborhoods and create new ones. Battery Park City (BPC) and Lower Manhattan provide a good example of this effect. Far from inhibiting residential development in Tribeca and the Financial District, BPC helped to create a critical mass of residents that made Lower Manhattan the fastest growing residential community in Manhattan in the 1990s.

For all of these reasons, it is reasonable to conclude that the district has the capacity to attract 500 units per year to the waterfront site on the Western Yards, in addition to the 600 units projected for the rest of the district. In fact, some developers have advised that a faster build-out, up to 1,000 units per year on the site, would be easily achievable.

Prepared by Chris Jones, Vice President for Research, with the assistance of Petra Todorovich, Associate Planner