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Where Development Falls Short of Demand

The NYUSPS Urban Lab at the Schack Institute of Real Estate develops new understanding of the economic and real estate trends that are shaping our cities.

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SCHACK INSTITUTE OF REAL ESTATE | NYUSPS URBAN LAB

Where Development Falls Short of Demand

While urban development is often characterized as a war between hungry developers and heroic neighborhood activists, the reality is far more complicated. Despite reasonable concerns about the impact of new development, including congestion, reduced parking, environmental damage, and a diminished community aesthetic, expanding a city's housing supply is often critical to its affordability and economic success.

The NIMBY Challenge

In recent years, outspoken NIMBY ("not in my backyard") residents have pioneered large-scale attempts to halt urban construction. These efforts were put to the test last year in Los Angeles, where a ballot measure sought to instate a two-year moratorium on development projects. According to a recent study by Paavo Monkkonen and Michael Manville at UCLA, this kind of local opposition is the biggest obstacle to modern housing development—even more so than physical or geographic constraints.

But while NIMBYs have a considerable impact on neighborhood development, their criticism is not always founded. After surveying more than 1,300 adults in L.A. County, Monkkonen and Manville discovered that opposition to new development increased by 20 percentage points when respondents learned that a developer would earn a sizable profit. This led the authors to conclude that "opposition to housing might be motivated not by residents' fears of their own losses, but resentment of others' gains." Indeed, 44 percent of respondents who were against developments in their own neighborhood were either indifferent to or willing to support developments in another community.

Hostility toward development has serious consequences for urban real estate markets. As the need for urban housing continues to rise, so too have housing prices across major cities like Seattle, Boston, and San Francisco. Now more than ever, cities have become contested areas for space, with countless low-income residents being pushed out to the urban—and even suburban—peripheries due to competitive demand. Often, these displaced residents are critical service workers who keep our urban communities running, such as policeman, firefighters, and teachers.

In addition to displacing residents, halting new construction transfers the burden of development to areas outside the urban core, which are less equipped to handle the economic, social, and environmental effects. In fact, research suggests that inhibiting development in popular neighborhoods may increase gentrification, racial and economic segregation, and carbon emissions in other areas of a city. In this way, NIMBYs are engaged in a self-fulfilling prophecy: By warding off new construction, they make room for the very issues they set out to avoid.

Pressured Real Estate Markets

Many economists argue that cities can address these concerns by expanding their existing housing supplies. But not all cities grapple with the same dilemmas. To figure out which areas are struggling to keep up with housing demand, we looked at 2016 data for population growth and housing affordability.

The table below shows the ten large metropolitan areas (those with more than one million residents) with the highest shares of population growth from 2012 to 2016. The list consists mostly of second-tier metros in the Sunbelt, Rustbelt, Texas, and North Carolina. Charlotte ranks highest, with a population growth of 34.8 percent, followed by Nashville and Austin, whose populations grew by more than 12 percent from 2012 to 2016.

Large Metros with the Most Population Growth

RANK	METRO	FIVE-YEAR POPULATION GROWTH[1]
1	Charlotte	34.8%
2	Nashville	12.5%
3	Austin	12.2%
4	Indianapolis	11.9%
5	Raleigh	9.6%
6	Houston	8.7%
7	Dallas	8.7%
8	San Antonio	8.5%
9	Orlando	8.4%
10	Columbus, OH	8.4%

[1]U.S. Census American Community Survey 2012-2016

Rising housing prices place yet another strain on urban development. One of the most accurate ways to determine a metro's housing affordability is to look at its median multiple, or ratio of median housing prices to median household income. The following table shows the ten large metros with the highest median multiples (i.e. the least affordable housing markets).

This time, large metros like San Jose, L.A., San Francisco, Miami, and New York top the list. But a few smaller metros, including Seattle, Portland, and Denver, also make the top ten, suggesting that housing affordability is not only the province of dense gateway cities.

Large Metros with the Least Affordable Housing Markets[1]

RANK	METRO	MEDIAN MULTIPLE
1	San Jose	9.6
2	Los Angeles	9.3
3	San Francisco	9.2
4	San Diego	8.6
5	Miami	6.1
6	New York	5.7
7	Riverside	5.6
8	Seattle	5.5
9	Portland	5.5
10	Denver	5.4

[1]Demographia 2016

For the most part, metros with less affordable housing are witnessing minimal population growth and vice versa. Those areas experiencing the most population growth are up-and-coming metros in Texas and North Carolina, while the least affordable metros are major cities whose populations once grew at stunning rates around the turn of the millennium. If second-tier cities cannot expand their housing stock to accommodate new residents, they may soon undergo the same affordability crisis that is playing out in L.A. and San Francisco.

Improving Density

To determine which cities are not building fast enough to keep up with demand, we examined the permit codes for multifamily buildings (those with five or more units). This allows us to hone in on developments that are critical to densification and affordability, as opposed to single-family buildings, which have very little impact on a metro's ability to meet housing demand. Other forms of development, such as duplexes or three- and four-person units, comprise a relatively minute share of a metro's housing stock.

Our analysis examines four metrics related to multifamily building permits: the relative share, total number of permits, average annual growth, and number of permits added for each new resident from 2013 to 2017. The following table shows how the fastest-growing metros fare according to these metrics.

On the one hand, metros like San Antonio, Dallas, and Nashville are densifying quite rapidly. From 2013 to 2017, San Antonio's share of multifamily permits grew by more than 590 percent annually, despite seeing minimal development in years prior. Of the ten fastest-growing large metros, Dallas boasts the highest share of multifamily permits: 43.7 percent, or around 27,000 in total. Austin is close behind with four in ten multifamily permits, but its multifamily permit growth is nearly a third of the rate of its population growth.

On the other hand, much of the permit growth in metros like Houston, Orlando, and Indianapolis stems from single-family buildings as opposed to large-scale construction. While Indianapolis and Orlando have seen a significant share of multifamily permits per new resident, their annual growth and shares of multifamily permits are far behind that of other large metros.

Of the ten fastest-growing metros, Columbus boasts the largest share of multifamily permits, but one of the lowest shares of multifamily permits per new resident, suggesting that it, too, has had trouble densifying. Meanwhile, Houston has the lowest multifamily permit growth of any large metro in the U.S., having experienced a decline of 15.3 percent. As of 2017, multifamily permits made up just 13.5 percent of the metro's total permit share—a sign that Houston may be developing outside of its urban core.

New Development: Metros with the Most Population Growth[1]

METRO	SHARE OF MULTIFAMILY PERMITS[2]	TOTAL MULTIFAMILY PERMITS[3]	MULTIFAMILY PERMITS (AVERAGE ANNUAL GROWTH)[4]	MULTIFAMILY PERMITS PER NEW RESIDENT[5]
Charlotte	34.2%	7,337	11.2%	0.06
Nashville	33.7%	6,499	18.4%	0.08
Austin	40.4%	10,428	0.9%	0.16
Indianapolis	21.5%	1,742	-6.8%	0.20
Raleigh	23.9%	3,396	1.8%	0.14
Houston	13.5%	5,763	-15.3%	0.04
Dallas	43.7%	26,995	15.3%	0.11
San Antonio	36.9%	4,611	591.1%	0.10
Orlando	22.3%	4,341	-1.1%	0.18
Columbus, OH	50.7%	4,445	1.7%	0.07

[1]Metros are ranked by the growth of their populations from 2012 to 2016.
[2]U.S. Census Building Permit Survey 2017
[3]U.S. Census Building Permit Survey 2017
[4]U.S. Census Building Permit Survey 2013-2017
[5]U.S. Census American Community Survey 2016; U.S. Census Building Permit Survey 2013-2017

We now turn to development among metros with the least affordable housing markets. While they still struggle to meet the demands of new residents, both New York and San Francisco lead the pack in terms of their growth and share of multifamily permits. Of the ten least affordable metros, New York has the highest share of multifamily permits (73.1 percent) and the sharpest annual multifamily permit growth (25.3 percent). By contrast, Seattle has experienced moderate growth, but has the largest share of multifamily permits per new resident.

One metro exhibiting a surprising level of densification is San Jose. Despite being traditionally sprawling and suburban in nature, San Jose boasts nearly seven in ten multifamily permits, and an annual multifamily permit growth of around 10 percent. Like San Francisco, however, San Jose's total number of multifamily building permits is lackluster: around 5,800, compared to more than 36,000 in New York and around 16,000 in Seattle.

Other metros like Denver and Miami have seen moderate levels of densification. While six out of ten permits in Miami are multifamily, these permits grew just 5.3 percent annually from 2013 to 2017. Though Denver has a similar number of multifamily permits (around 11,000), these permits make up only half of its total share.

For the most part, the worst overall performances come from three Southern California metros: L.A., Riverside, and San Diego. Although L.A. distributed nearly 19,000 multifamily permits in 2017, the metro saw the slowest growth of multifamily permits from 2013 to 2017. Riverside, on the other hand, witnessed significant growth during this time frame, but ranks last on three out of four metrics. As a predominantly suburban metro, Riverside likely saw an increase in multifamily permit growth due to residents being pushed out of L.A. and other pricier California markets.

New Development: Metros with the Least Affordable Housing Markets

METRO	SHARE OF MULTIFAMILY PERMITS[2]	TOTAL MULTIFAMILY PERMITS[3]	MULTIFAMILY PERMITS (AVERAGE ANNUAL GROWTH)[4]	MULTIFAMILY PERMITS PER NEW RESIDENT[5]
San Jose	68.5%	5,865	9.9%	0.17
Los Angeles	60.3%	18,821	4.8%	0.13
San Francisco	70.7%	11,887	15.5%	0.16
San Diego	54.7%	5,695	7.1%	0.28
Miami	64.2%	12,385	5.3%	0.08
New York	73.1%	36,469	25.3%	0.08
Riverside	24.6%	3,443	13.8%	0.04
Seattle	59.6%	16,315	13.1%	0.43
Portland	58.6%	9,979	15.2%	0.17
Denver	50.0%	11,277	9.4%	0.21

[1]Metros are ranked by the affordability of their housing markets in 2016.
[2]U.S. Census Building Permit Survey 2017
[3]U.S. Census Building Permit Survey 2017
[4]U.S. Census Building Permit Survey 2013-2017
[5]U.S. Census American Community Survey 2016; U.S. Census Building Permit Survey 2013-2017

Jumpstarting New Development

While there are many ways to quantify the relationship between growth and affordability in cities, our data reveals an interesting pattern: Metros with dense housing supplies are better equipped to handle demand, regardless of their affordability or population growth. This explains why more sprawling metros like L.A., San Diego, Houston, and Orlando struggle to accommodate residents, while dense metros like New York, San Francisco, and Nashville are meeting their citizens' affordability needs.

So, what can sprawling cities do to jumpstart new development?

According to economist Edward Glaeser, housing prices are higher in cities where the housing supply is highly regulated. Rather than turning to impact fees, exactions, or inclusionary zoning as solutions for making real estate more affordable, cities should consider the long-term benefits of having taxpayers absorb the cost of new construction. While this solution is all but guaranteed to anger local NIMBYs, who are hard-bent on protecting their communities from higher fees, it may ultimately make cities more inclusive for all residents. As Monkkonen and Manville put it, "For better or worse, private development today is the only viable path toward new housing, and the failure to build new housing has devastating consequences for low-income people in expensive markets."

Author Bio

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An anchor of real estate academia's engagement with industry, the Institute is home to the REIT Center, the Center for the Sustainable Built Environment (SBE), and the newly established Urban Lab. In addition, the Institute hosts national industry events, including annual conferences on real estate capital markets and the REIT sector. Under the direction of the Schack Institute's faculty members, ongoing applied research at the Institute spans an exceptional range of issues in real estate development and investment, urban economics, and market structure and regulation. For more information about the NYUSPS Schack Institute of Real Estate, visit **sps.nyu.edu/schack**.

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