

Real Estate Forefront

Emerging Developments in the NYC Marketplace, #19

The Downside To Manhattan's New Development: Not Enough Schools to House the Growth in Population

March 2012



Real estate investment services

The tremendous development in New York City over the last decade has utterly transformed a number of neighborhoods in that more families are staying in the City instead of moving to the suburbs as had been the trend in previous decades. As a result, the population of those under 18 has surged over the last decade. This demographic shift is evident not only in the proliferation of stroller traffic and the change in retail offerings, but in school enrollment and overcrowding.

In recent years, a number of private schools have added buildings and capacity to accommodate the growth in population, and a look at the City's public schools shows that enrollment has soared at elementary and middle schools in neighborhoods where new developments are most concentrated. Yet in most of these neighborhoods, the City's response to this growth has been either slow or non-existent; that is, the City has built some new schools to accommodate growth but not until long after capacity in the existing schools was exceeded.

The enclosed report takes a look at three Manhattan neighborhoods: Lower Manhattan, the Upper West Side and Midtown West. First, we tally the growth in housing units and estimate the new school seats required by the new construction using the rule-of-thumb multiplier issued by City planning officials. Then we analyze the City's response to the growth in population.

- In Lower Manhattan, the School Construction Authority¹ (SCA) has built more schools, but generally after the existing schools grew beyond capacity.
- On the Upper West Side where overcrowding has been an issue for a number of years, the Department of Education (DOE) has reconfigured a number of schools, rezoned boundaries and/or squeezed students into music and art rooms, but they have not built any new schools.
- In Midtown West where plans for Hudson Yards include more than 5,000 new housing units, the City has no plans for a new school other than the one that is being built to replace the school that was torn down to build "Gotham West"² and one to be housed in the former St. Michael's Academy that the city has leased from the Archdiocese. With the new housing planned, these schools will not house nearly enough seats for the estimated new families coming to the area.

The general conclusion one can draw from the enclosed analysis is that City planners allowed for more development without considering the impact on school enrollment until it was far too late. While the media has covered this story for a number of years, it appears that the City has expressed no immediate plans to build enough new school seats in Midtown West or the Upper West Side and likely elsewhere despite the expected growth of units in these areas.

Periodically, the Mayor's Office of Environmental Coordination releases a City Environmental Quality Review ("CEQR") Technical Manual³ that stipulates that city officials plan for 12 new elementary school seats, 4 new middle school seats and 6 new high school seats for every 100 new housing units built when assessing the impact of new housing on a neighborhood. In other words, the City government acknowledges that new housing generates demand for more school seats. Yet the analysis below suggests that the guidelines in this manual are not being followed.

¹ The SCA is responsible for all capital projects for public schools in New York City.

² The Gotham Organization tore down an elementary school and is building a new one on its full-block, 1,240-unit new housing complex at 11th Avenue and West 44th street.

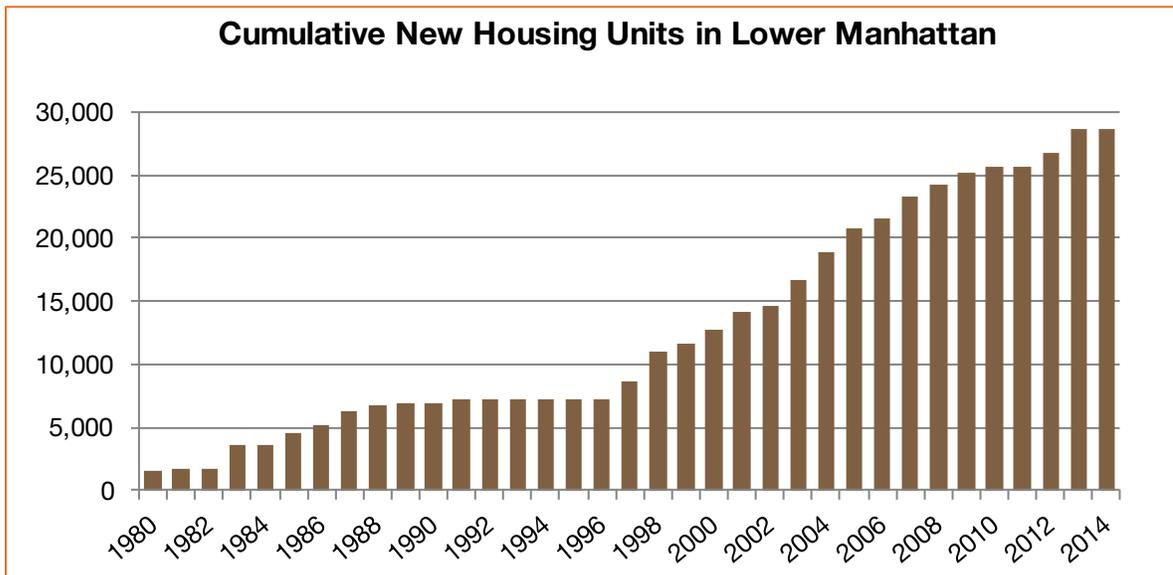
³ The first manual was released in 1993, updates were released in 2001, 2010 and 2012. The manual is written to "assist City agencies, project sponsors, and the public in conducting environmental reviews subject to the CEQR." This manual includes assessing the "indirect effects" of construction including the impact on population growth and new schools needed.

In the analysis herein, we compare the required new elementary and middle school seats generated by newly built or converted construction⁴ to enrollment statistics⁵ and the City’s school capacity numbers⁶. Our findings show that the CEQR multiplier of 0.16 (=0.12 elementary + 0.04 middle)⁷ school seats per new housing unit is accurate: the increase in enrollment from 2006 through 2011 in these neighborhoods was consistent with the growth in housing units, but in many cases the City did not respond appropriately.

Lower Manhattan

Prior to the 1980s, there was so little population in Lower Manhattan that a school had not been built until 1976 when Independence Plaza was opened in Tribeca on Greenwich Street. This first school, P.S. 234⁸, had seats for 150 students. In 1983, the first of many Battery Park City towers opened with more than 1,700 units. The development in Battery Park City would continue, spanning the next two decades.

As shown in the table below, the growth of Battery Park City together with the conversion of loft buildings in Tribeca and the residential conversion of old office buildings surrounding Wall Street created thousands of new housing units starting in the mid 1980s which then accelerated in 1998 and continues today.



Source: Eastern Consolidated, CoStar, Property Shark and NYC Department of Buildings

When the population started to swell in Lower Manhattan in the mid 1980s, the City built a new P.S. 234 with 846 seats that opened in 1988. Ten years later, the City built P.S. 89 in Battery Park City that was capable of housing 512 students.

As shown in the chart below, by 2006 total enrollment in Lower Manhattan exceeded capacity, but the City did not build another school until 2009 when the SCA built P.S./I.S. 276 also in Battery Park City and started P.S. 397 at the Tweed Building that was later moved into the new Beekman Tower at 12 Spruce Street. The City is in the process of building a sixth school in the former Peck Slip post office that will have 712 seats and is planned to open in September of this year.

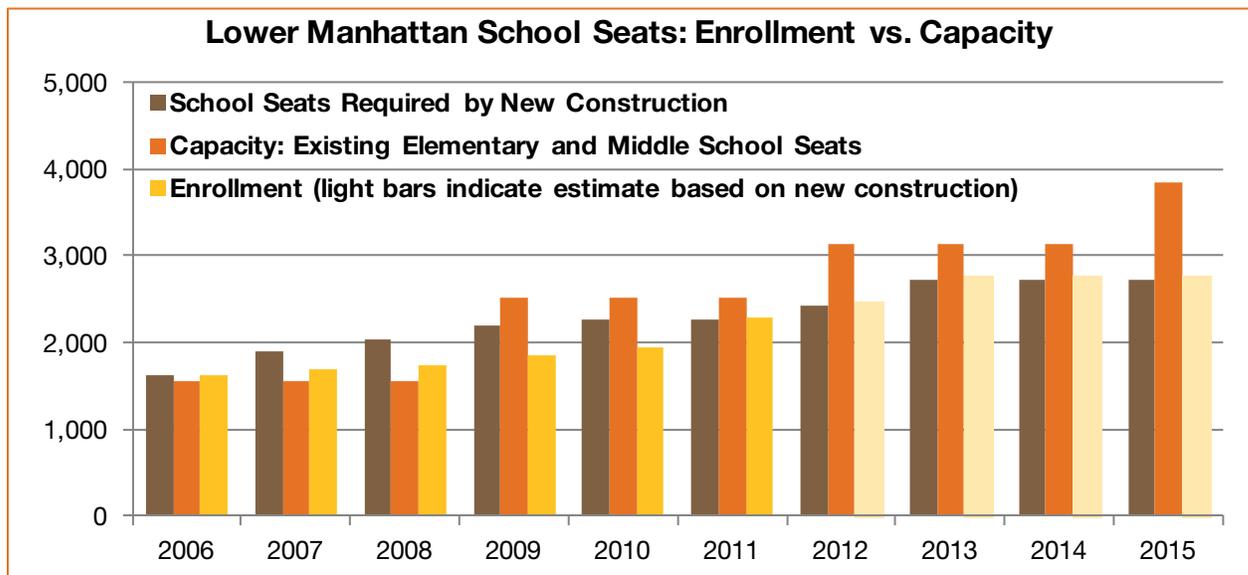
⁴ The earliest reliable enrollment statistics only go back as far as 2006. For this analysis we set the baseline seats from new construction at the level of 2006 enrollment and calculated the growth going forward using the formula of seats required = new units x 0.16.

⁵ School enrollment data for 2006 through 2011 is from the DOE’s Comprehensive Education Plan database.

⁶ Capacity figures are from the DOE’s “Enrollment, Capacity and Utilization Report” also referred to as the “Blue Book.”

⁷ Because the City’s high school enrollment is not based on geography, we did not include high schools in this analysis, although it can just as well be argued that the City has not built enough new high school seats for the population growth.

⁸ This school now houses P.S. 150.

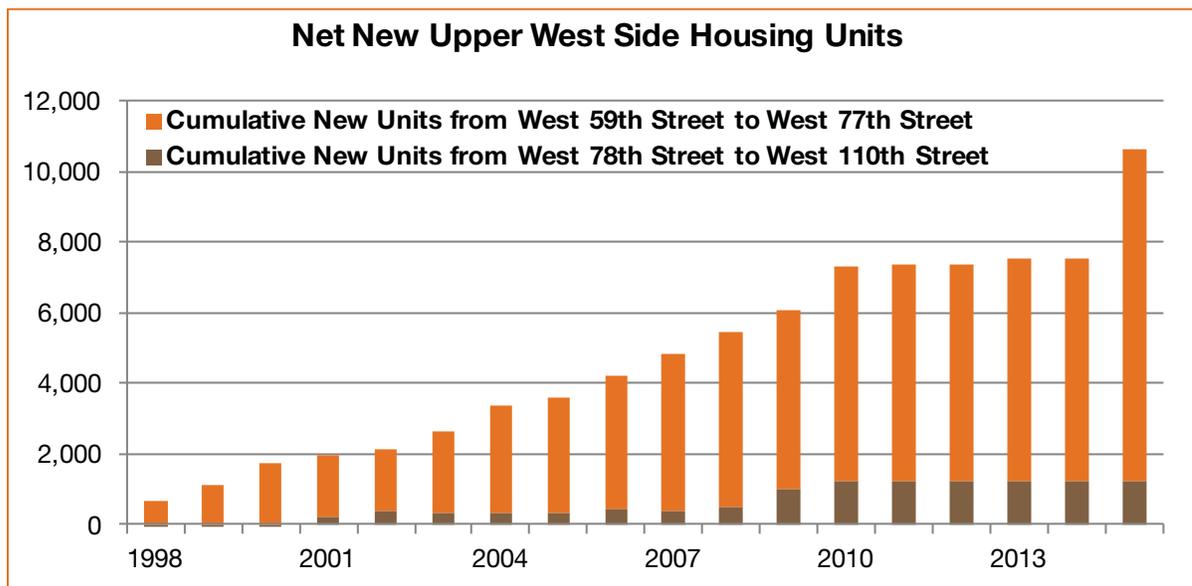


Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Buildings and NYC Department of Education

As shown above, from 2006 through 2008 the existing Lower Manhattan schools were operating beyond capacity. At every stage of development, the City eventually responded to the growth in new housing in Lower Manhattan with the construction of as many as five new elementary and middle schools but most of these schools were over-enrolled within a few years. The construction of the new Peck Slip school will have room for the current enrollment, but the growth in housing suggests that this school too will fill up within a few years.

Upper West Side

The chart below shows how rapidly the housing stock⁹ on the Upper West Side grew, especially from West 59th Street to West 77th Street.



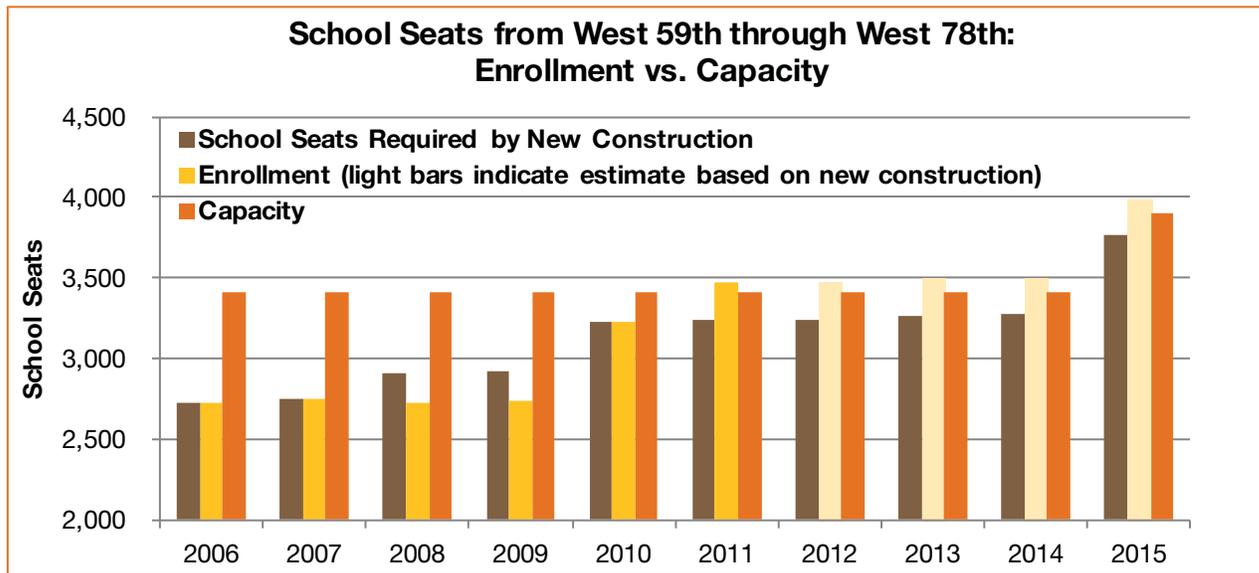
Source: Eastern Consolidated, CoStar, Property Shark and NYC Department of Buildings

⁹Includes the loss of units from brownstone conversions.

The Upper West Side differs from Lower Manhattan in that it has had an existing base of schools. In fact, most of these schools had excess capacity through the 1990s and early 2000s such that it opened its doors to students living outside of its zone or “catchment” via a lottery conducted by the Department of Education.

With the stunning growth in both housing and population in the early 2000s, however, the lotteries at most schools were shuttered by 2009 as many could not even accommodate their own zoned students. In fact, starting in 2009, many schools in the southern end of Community District 7¹⁰ had to create waiting lists as the number of kindergarten applicants far exceeded their capacity.

The chart below shows how enrollment at the four schools from West 59th to West 78th Streets increased by 741 students from 2006 through 2011.



Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Buildings and NYC Department of Education

According to the DOE's capacity statistics in its annual “Blue Book” utilization report, total capacity at the eight schools housed in four school buildings from West 59th to West 78th Street is 3,408, yet enrollment last year was 3,468, exceeding capacity by 60. Note the brown bars in the chart above show how enrollment would have grown had it followed the 0.16 rule-of-thumb multiplier. In fact, *enrollment exceeded this rate of growth*.

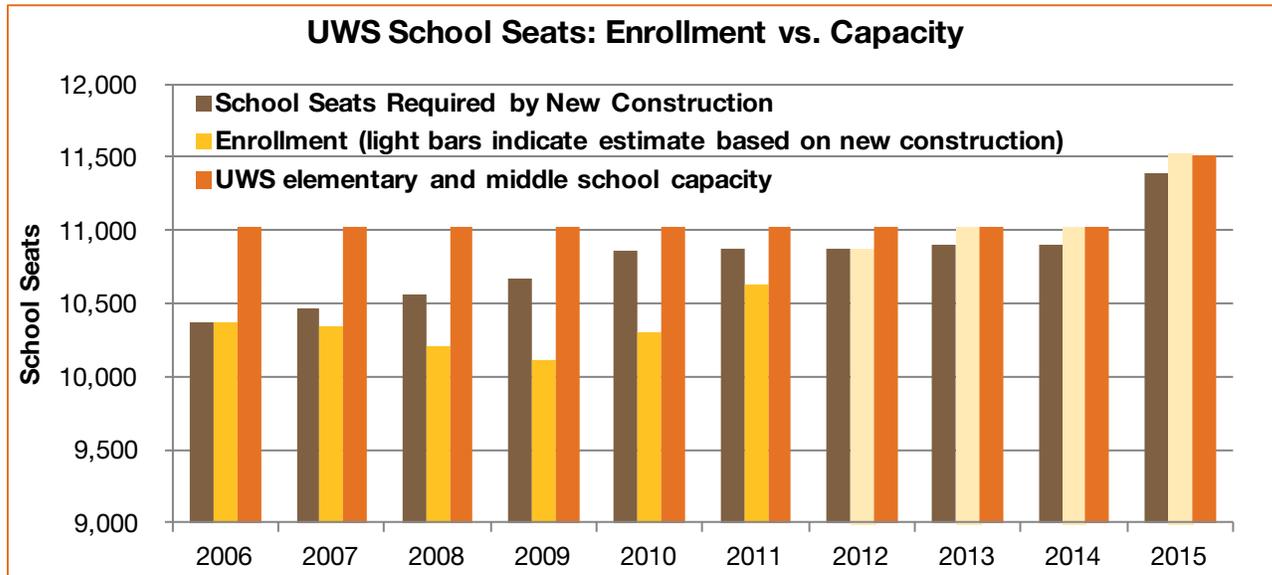
There are plans underway for a new school at the Extell development in Riverside South that will accommodate 488 students¹². It is scheduled to open in 2016. However, Extell's plans also include 2,500 new housing units in the full-block development on West End Avenue between West 60th and 61st Streets. On the next two blocks, Glenwood Management has plans to build two new residential buildings with 600 total new units. *Applying the 0.16 multiplier to the 3,100 new housing units to be built by Glenwood and Extell yields 495 new required school seats— more than is planned at the new school. In other words, the new school will likely be overcrowded upon its completion.*

¹⁰ Community District 7 extends from most of West 59th to West 110th Streets.

¹¹ Students attending the local middle schools can live anywhere in District 3 (West 59th to West 123rd Streets)

¹² As part of its development agreement, the Extell Development Company agreed to build the “core and shell” of this new school—P.S./I.S. 342 -- that will house kindergarteners through 8th graders.

For all Upper West Side schools, enrollment in 2010-2011 was 10,627, below total capacity of 11,020. The chart below shows how enrollment at Upper West Side schools actually declined from 2006 to 2009 but then soared in the subsequent two years. As in the chart above, total enrollment growth from 2009 to 2011 far outpaced the expected growth generated by the rule-of-thumb multiplier.



Source: Eastern Consolidated, CoStar, Property Shark, NYC Department of Buildings and NYC Department of Education

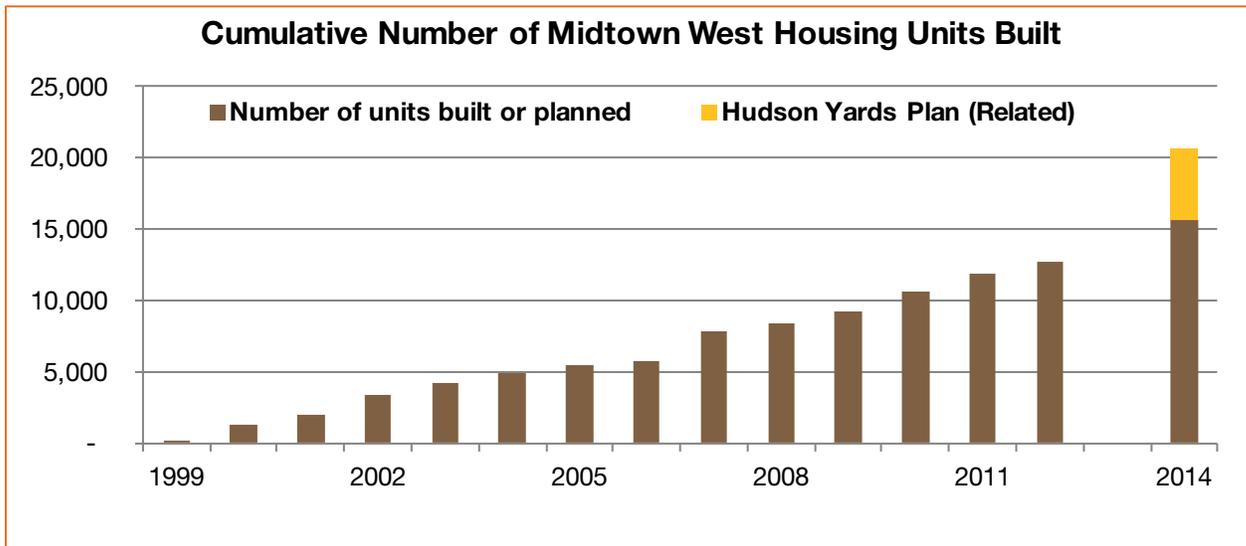
In all likelihood enrollment will likely climbed to more than 10,800 this year (2011-2012), based on recent growth rates, and will exceed capacity in the next year or two. What is clear is that total enrollment will still exceed capacity by 2015. Moreover, in eight elementary schools in Community District 7 capacity has been exceeded for two years or more including two at the southern end of District 3.

Note in all of the charts above how enrollment either tracked the rule-of-thumb multiplier of 0.16 new seats required per new unit or exceeded it. In other words, the planning guidelines published by City officials are accurate, they are simply not being followed. And these charts do not include high school seats. It is safe to say that the City is not building enough high schools as well.

Indeed the overcrowding story has been told in the media countless times and in many different neighborhoods in the City. One would assume that after a few years, the City would have learned that housing generates school-age population growth and that they need to plan accordingly, but the situation in Midtown West /Hudson Yards suggests otherwise.

Midtown West

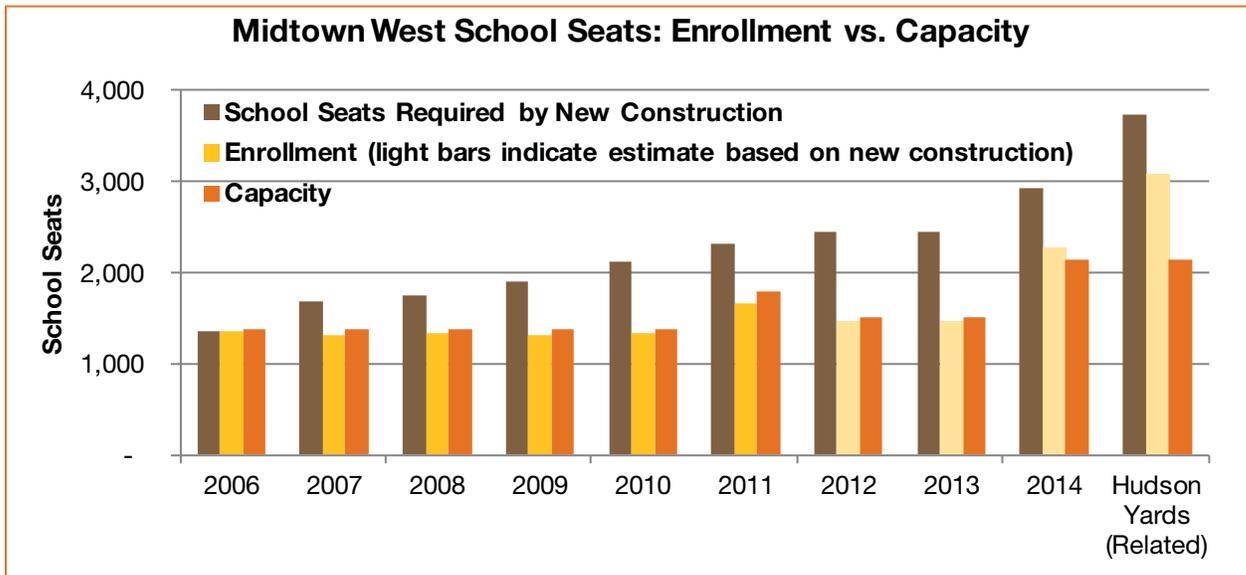
Over the last decade, Midtown West has also seen its share of new housing. From 2000 through 2011, 42 new residential towers were built with more than 13 million square feet of space and 12,000 new units in the area from West 30th Street through West 58th Streets west of Fifth Avenue.



Source: Eastern Consolidated, CoStar, Property Shark and NYC Department of Buildings

As the chart above shows, another seven residential buildings are planned for the area that will produce another 3,000 housing units. These seven buildings do not include the Related Company's plan to build 5,000 housing units as part of its \$1.054-billion bid for the development rights¹³ to Hudson Yards. The chart above also does not include another 15,000 housing units proposed in the broader Hudson Yards Master Plan¹⁴.

As shown in the chart below, the current schools have just enough capacity for the current enrollment but this is mainly because one school, P.S. 51, was torn down and its students are getting bussed to a former parochial school on the Upper East Side¹⁵.



Source: Eastern Consolidated, CoStar, Property Shark and NYC Department of Buildings

¹³ Related's plan also includes 4.6 million square feet of commercial office space, retail, a hotel, and cultural and community space in the 26-acre site between 10th and 12th Avenue from West 30th to West 33rd Streets.

¹⁴ This includes 26 million total square feet including housing, office, retail and hotel space. Brookfield Properties, is building "Manhattan West" at 9th Avenue and 33rd Street, a five-acre site, with over 5 million square feet of office and mixed-use development that is not included in this analysis.

¹⁵ The City is re-building P.S. 51 with the help of the Gotham Organization as part of Gotham West – a block-thru development site on West 44th Street between 10th and 11th Avenues that will eventually have 1,240 housing units when completed as well as 630 new school seats.

But a look at the DOE's five-year capital plan shows no other new schools planned for the Midtown West area outside of a new Beacon High School¹⁶ that is to be built across the street from the new P.S. 51.

In September 2010, the DOE leased St. Michael's Academy to house M.S. 260, a middle school that has 256 students. M.S. 260 had been in P.S. 11 on West 21st Street. St. Michael's has capacity for 400 or more students. When M.S. 260 moves to its permanent home in 2014 on East 15th Street, the City plans to retain these seats for a school but has not announced plans for this space.

The concern about a leased facility is that other private institutions with deeper pockets are often in the market for spaces of this size and will compete with the DOE to lease these facilities. The fear is that these institutions will be more willing to pay higher rents and will take this space away from the public schools.

Yet clearly, the above chart shows that enrollment is at capacity now and will only grow more. Similar to the new school at Riverside South, the new P.S. 51 and the school at St. Michael's (assuming it is in elementary or middle school) will likely exceed capacity on the day they open.

Note that the Midtown West school enrollment estimates for 2012 and beyond were conservatively estimated based only on new construction. In reality, the growth in enrollment will likely exceed the estimates shown above.

Conclusion

The analysis above reveals how urgently Midtown West and the Upper West Side need new schools. This micro-analysis shows that the City has not planned properly for the growth in population, a story that can likely be told in other City neighborhoods as well.

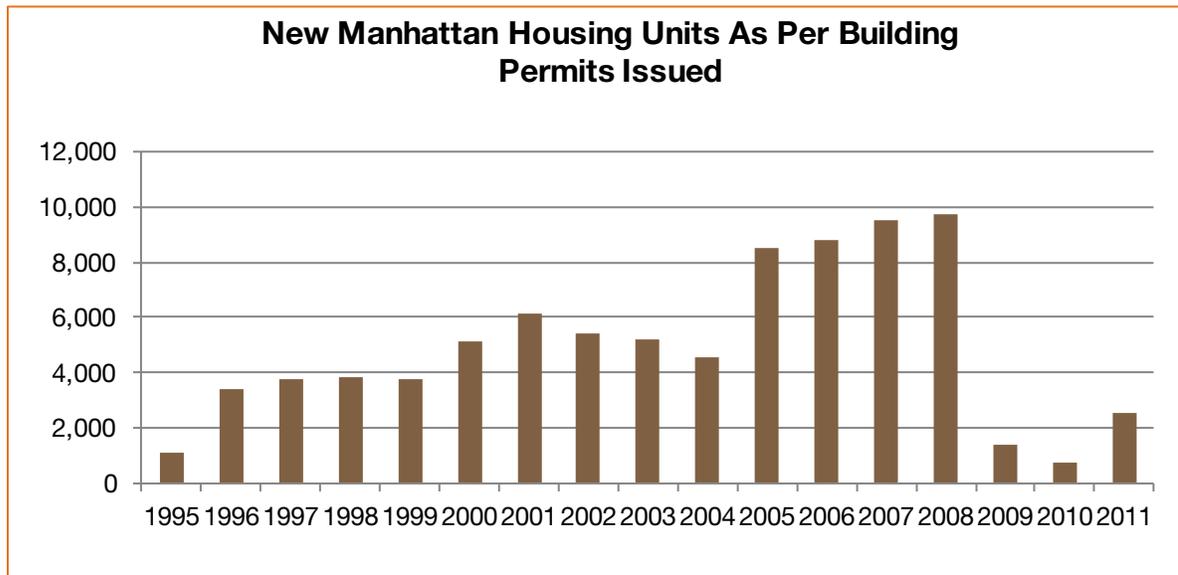
Many planners may have likely thought that those moving into "luxury housing" could afford to and would send their children to private schools. Many likely have, but what a recent New York Times article drew attention to is the fact that many families, regardless of wealth, choose to send their children to public school.

Every year, the media report on a new crop of incoming kindergarten parents worried about whether or not their children will be admitted to their community elementary school. This problem is not going to go away until the City properly accounts for its new housing and builds new schools.

Appendix

The chart below shows how sharply the housing inventory grew over the last decade as the number of new construction permits more than doubled from an average of 3,200 per year in the late 1990s to 7,000 per year in 2000 to 2008.

¹⁶ Beacon High School currently leases space on West 61st Street, and the future status of this leased facility is unclear.



Source: Census Bureau

The chart also shows the abrupt drop-off in permits issued in 2009 and since as the recession has reigned in development activity. A number of construction projects in Manhattan were stalled as a result of the recession but many of them have resumed. Still, determining whether the issued permits yielded completed construction is difficult at the macro level. Therefore, we include the chart above as an illustration of the housing boom in Manhattan but for the purpose of this analysis, we focused on completed construction in the specific neighborhoods.

In 2008, the Office of Manhattan Borough President Scott Stringer released two reports called “Crowded Out” and “Still Crowded Out” that analyzed the impact of new construction on schools. This study that estimated the need for more school seats in every Manhattan community district was based on estimates of new housing using the number of permits issued at the time. While the findings were alarming, the story was not picked up by the media. Given the timing of the report and the subsequent economic recession, many may have assumed that the permits would not translate into new housing. The evidence in this report shows that development in Manhattan remained robust throughout the recession.



Real estate investment services

FOR ADDITIONAL INFORMATION CONTACT:

Barbara Byrne Denham
Chief Economist
Eastern Consolidated
355 Lexington Avenue
New York, NY 10017
T: 646.658.7363
F: 212.499.7718

bdenham@easternconsolidated.com

ABOUT EASTERN CONSOLIDATED

Founded in 1981, Eastern Consolidated is one of the country's preeminent full-service real estate investment services firms, combining an unrivaled expertise in the greater New York marketplace with a worldwide roster of institutional and private investor clients. Over the years, it has been responsible for the acquisition, disposition and finance of all types of properties, including office and apartment buildings, lofts, factories, hotels, shopping centers, commercial and residential development sites, taxpayers, parking garages and lots, retail condominiums and air rights transfers. Visit us at www.easternconsolidated.com.