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*An Analysis of the Erie County
Housing Market*

Center for Urban Studies

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An Analysis of the Erie County Housing Market



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Executive Summary

A growing body of research indicates that housing and neighborhood choice is directly affected by life cycle changes in household structure, marital status, and the presence and age of children. These choices are increasingly played out on a regional stage, with buyers and renters selecting from a variety of housing and neighborhood options. The decline of central city neighborhoods across the country reflects their inability to compete for residents with newer developments in the suburbs. In order to formulate strategies to encourage growth that benefits both cities and suburbs, policy makers must understand the dynamics of household change and housing supply at the regional level.

Housing Demand

- Demographic trends affecting housing demand in Erie County are currently working against the City of Buffalo. As baby boomers move into their peak earning years (35 to 54) and their own families grow, the demand for housing at the upper end of the market will increase. Both in terms of existing housing and new construction, the balance of the 1990s and beginning of the next decade will be driven by boomers seeking to upgrade. With an aging housing stock and little land available for new construction, the city is poorly positioned to compete for this segment of the market. It will be necessary to take advantage of the preferences of other age groups to create niche markets for its housing and neighborhoods.
- The city has been relatively successful in attracting households headed by persons between 18 and 34, and should focus on this market segment. Unfortunately, this age group is currently being filled by members of the baby bust generation, and will be far smaller in size than the cohort that preceded it.
- The city must recognize that it is competing for a limited share of households with neighborhoods throughout the region. City leaders should take an active role in developing both neighborhoods and housing products that will allow it to compete more effectively in segments that are driving the demand market. Continuing to concentrate on households at the lower end of the income spectrum will only widen the gap that presently exists between the city and its suburbs, and be counterproductive to efforts aimed at attracting middle and upper income households.

Housing Supply

- All indicators of housing supply point towards the continuing rise of the outer suburbs at the expense of the city and the inner suburbs. The city was unable to capture a significant share of the new housing being built - both owner and renter occupied - when its prime cohorts were driving the market. It will be much more difficult for the city to attract a substantial share of the growing markets over the next decade, since they will be dominated by higher end developments and upgrading by current home owners moving into their prime earning years.
- Although the trends behind the recent population decline in the region are slowing, the city's aging housing stock will remain a factor in preventing its population from stabilizing. The costs of deferred maintenance and modernization must often be factored in when purchasing a home in the city. Yet with residents of the city continuing to lose ground economically, both in absolute terms and relative to suburban residents, it is less likely that the resources for such investments will be available.

The city's primary vehicles for both new construction and the rehabilitation of existing housing - federal and state aid - will be unable to provide as strong a stimulus in the future as they have in the past.

- For the city to compete in this changing market, it must focus efforts on improvements to both its housing stock and the surrounding neighborhoods. Residential choice will increasingly be an issue of the "bundle of services" that comes with the purchase or rental of a housing unit. While the city must address deficiencies in the quality of its housing stock, related to both its age and functional obsolescence, its neighborhoods are also subject to the affects of time and changing tastes. Only through a comprehensive approach to neighborhood development will the city be able to compete on a regional level.

Targeting Market Segments

- Even if the city is able to retain the same share of households in the age groups it is most competitive in (under 25 and 25 to 34), it will still lose almost 8,600 households within these groups between 1990 and 2000. The rapidly declining numbers of households being formed in these age groups dictate that an even greater percentage will need to be attracted just to maintain a stable base. Given the shifts that are occurring in the housing supply in Erie County, this will be difficult to accomplish. With new construction taking place in the outer suburbs, and drawing households in the 35 to 54 year age groups from the city and inner suburbs, the housing choices available to the younger age groups will be greatly expanded.
- The city must become more competitive among households at the higher income levels of its target market segments. If the city continues to lose these households to the suburbs, its ability to raise sufficient revenues to deliver municipal services will be severely impaired. The movement of the middle class to the suburbs will not be reversed without a well conceived and effectively executed strategy by the city. Although needs far exceed resources, continuing to ignore neighborhoods that could compete for middle-income households with the right combination of incentives will only compound problems over time.

Recommendations

- Continuing with "business as usual" will condemn the City of Buffalo to devastation. Without bold, innovative, and highly imaginative programs, the city will not be able to compete with the suburbs. If this happens, the city will become a repository for the region's poor. Three initiatives are proposed to assist the city in developing regionally competitive housing and neighborhoods:

Rethinking urban neighborhoods

Buffalo currently functions within a physical framework that was developed in a different era. To successfully compete with newer developments throughout the metropolitan region, the city's housing and neighborhoods must be able to offer services and amenities consistent with those in the suburbs. This will require rethinking the urban neighborhood and how it can support contemporary lifestyles. The University at Buffalo, through its programs in architecture, planning, urban design, and public policy, is able to lend its expertise to this issue, in cooperation with city officials.

Graduate students working under select faculty can develop both a theoretical framework as well as practical approaches for specific city neighborhoods.

Surveying resident attitudes

In order to develop successful urban neighborhoods, it is critical to know the market and the direction in which it is moving. Demographic data offers a rough outline of the trends that will shape the region's future, but it cannot provide the details regarding residential choice. Without a clear understanding of the issues that are leading people to choose suburban locations over urban ones, it will not be possible for the city to develop an effective strategy for improving its housing and neighborhoods. A region-wide survey of attitudes on neighborhood choice and the locational decision-making process is a key component of the effort to make Buffalo's neighborhoods competitive.



Marketing city neighborhoods

Even the hottest new subdivisions do not sell themselves; they are extensively marketed. Unfortunately, there is currently no mechanism in place to provide a similar service for city neighborhoods. A marketing strategy based upon the efforts to re-think city neighborhoods should be developed. Disseminating information that provides a fresh outlook on Buffalo's neighborhoods will force both residents and outsiders to reassess their conceptions of the city. Data obtained through the regional survey will allow the marketing strategy to target issues critical to neighborhood attractiveness.

Introduction

Neighborhood growth - whether it takes place in cities or suburbs - is the result of a competitive struggle among neighborhoods within a metropolitan region. The decline of urban neighborhoods across the country is a reflection of their inability to compete for residents with newer developments in the suburbs. In order to formulate strategies to encourage growth that benefits both central cities and their surrounding suburbs, policy makers must understand the regional dynamics of housing demand and supply.

A growing body of research indicates that housing and neighborhood choice is directly affected by life cycle changes in household structure, marital status, and the presence and age of children. These choices are increasingly played out on a regional stage, with buyers and renters selecting from a variety of housing and neighborhood options. This paper examines the housing market in Erie County, and identifies the issues that must be resolved if the City of Buffalo is to successfully compete for middle-income households at the regional level.

Although the county is not experiencing population growth, it is undergoing significant demographic changes, and there is considerable movement among residents. It is critical to understand these changes and their impacts on the demand for housing in the region. These shifts mean that neighborhoods throughout the county are in a fierce competitive struggle for a limited pool of residents. For the City of Buffalo to be successful in this environment, a detailed understanding of the housing market is essential.

The balance of this paper is divided into four sections. The first examines trends affecting housing demand, and provides a demographic portrait of the county. The second looks at housing supply, including recent shifts in the location of new housing being built. The third identifies market segments that the city is potentially competitive in, and that it may be able to become truly competitive in with a targeted strategy. The final section presents conclusions and recommendations for taking this research to the next level.

Housing Demand

Housing demand within a market is a function of two factors: the number of persons living within the market, and the ways in which those persons form households. Although the population of the United States grew by over 20 percent between 1970 and 1990, this growth was not evenly distributed. The Northeast and Midwest regions of the country each increased by less than one percent, while the South and West grew by almost 40 percent. During the same period, New York State saw its population decline approximately one percent, while Erie County suffered a 13 percent loss (Figure 1).

If the county is further divided between the City of Buffalo and its suburbs, population shifts come into clearer focus. The city lost almost three of every ten residents between 1970 and 1990, accounting for 93 percent of the decline in the county. Yet the fact that the suburbs have also lost population is significant. Between 1970 and 1980 the suburbs added just under 7,000 residents; but from 1980 to 1990 they lost over 17,000 residents. Although this decline represents only two percent of the total suburban population, it reverses a pattern of growth dating back to the turn of the century.

Based upon recent demographic trends, the Center for Urban Studies estimates that the population of Erie County will decline slightly between 1990 and 2000, to approximately 955,000 residents. The county will continue to lose population due to out-migration and natural aging, but these de-

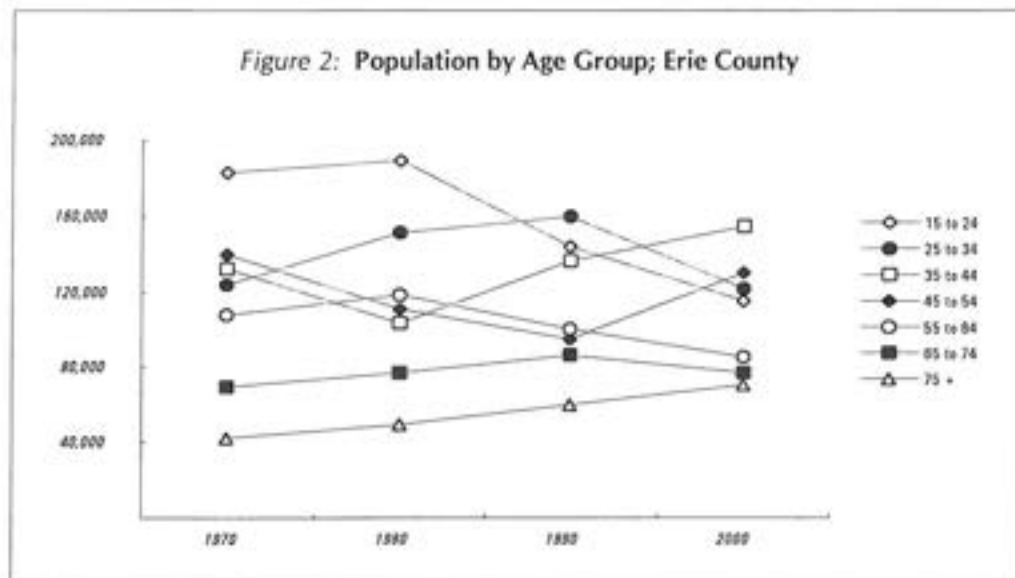
creases will level off because of the smaller number of persons in the years of greatest mobility (18 to 35). The population losses experienced among adults will largely be offset by increases in the number of children under 18 years of age.

Figure 1: Population Change

	1970	1980	1990	Change: 1970 to 1990	
				Number	Percent
United States	203,212,000	225,234,000	249,633,000	46,421,000	23
New York State	18,237,000	17,356,000	17,890,000	(247,000)	(1)
Erie County	1,113,500	1,015,500	968,500	(145,000)	(13)
City of Buffalo	462,800	357,900	328,100	(134,700)	(29)
Suburbs	650,700	657,600	640,400	(10,300)	(2)

Age groups projected to increase between 1990 and 2000 are 35 to 44, 45 to 54, and 75 and over (Figure 2). These first two groups represent the "baby boom" generation, persons born between 1946 and 1965. As this cohort ages, it continues to create a bulge in the age structure of the population. Projected decreases among 15 to 24 and 25 to 34 year olds are the result of the "baby bust" generation moving into those years; while declines in 55 to 64 and 65 to 74 year olds are due to the historically low birth rates during the years of the Great Depression and World War II.

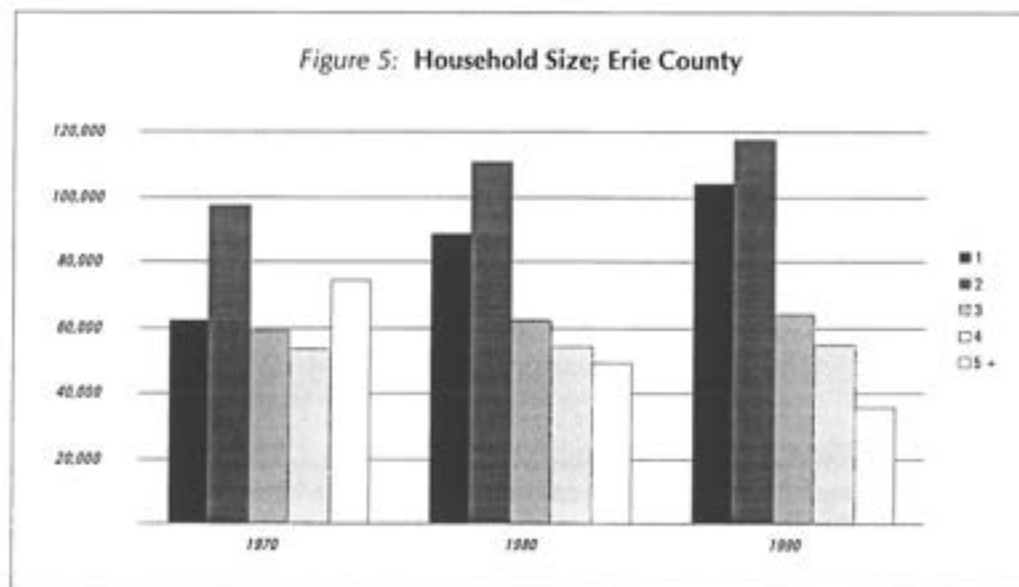
Figure 2: Population by Age Group; Erie County



As they have since childhood, baby boomers will continue to drive the housing market - both nationally and locally. From the explosive growth of the suburbs in the 1950s, to the "back-to-the-city" gentrification movement of the 1970s, to the tightening home ownership market in the 1980s, the sheer size of this cohort has exerted a dominant influence on housing demand (Figure 3). Erie

Household growth during a period of population loss is due to a combination of factors: unprecedented numbers of young adults forming and maintaining their own households, while postponing both marriage and childbearing; rising divorce levels across all age groups; and increasing life spans and the ability of the elderly to live independently longer. However, there is evidence that these trends have peaked. The massive household formation of the baby boomers during the 1970s and 1980s is now complete, and the baby bust generation will start far fewer households. National data indicate that divorce rates have stabilized, and trends show a leveling off in the number of persons moving into retirement over the next 15 years. Increases in the 65 to 74 year age group will not occur locally until after 2010, when the first baby boomers begin to retire.

The combination of a declining population spread out over an increasing number of households has resulted in a drop in average household size in Erie County (Figure 5). Between 1970 and 1990, growth ranging from two to 62 percent occurred in the number of households with up to four members; while households with 5 or more members declined by over 50 percent. In 1970, households with 5 or more persons were the second most frequent household size, but by 1990 these households had fallen to least frequent. The county is now dominated by small households, with almost 60 percent consisting of one or two persons.

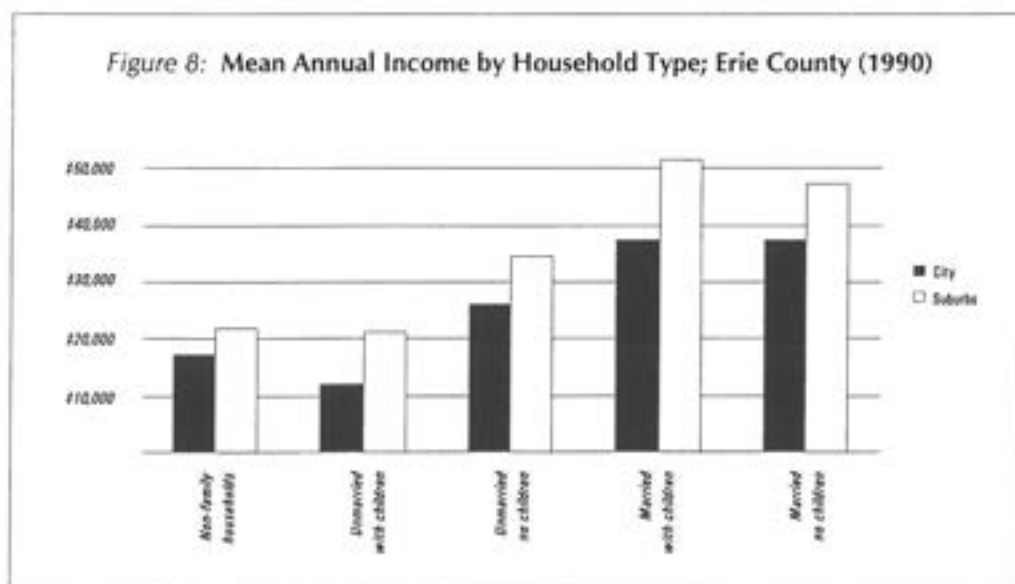
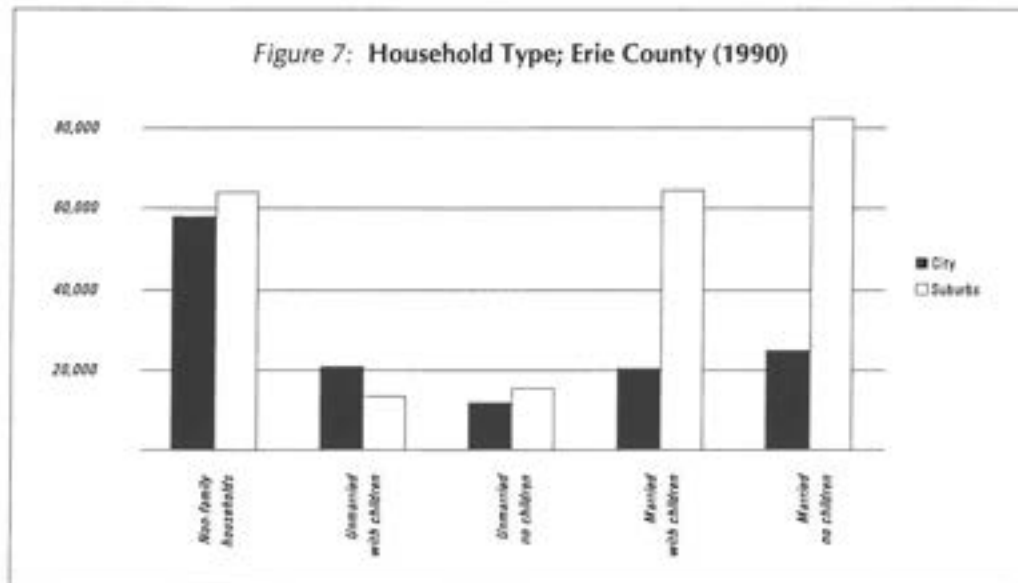


In a region experiencing overall population decline, relatively stagnant household growth, and a continuing population shift from the city to the suburbs, an understanding of the demand market for housing is critical. Although the city and suburbs are both losing population, there is still growth with respect to certain household types and age groups.

Changes in household structure

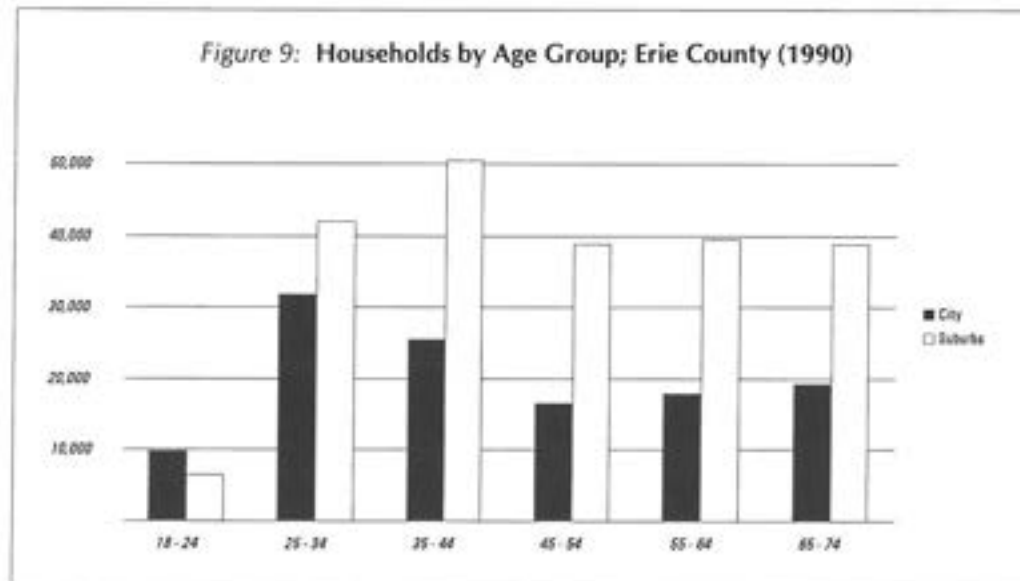
Mirroring national trends, non-family households - defined as one or more unrelated persons sharing living quarters - have recently shown the greatest increases in Erie County (Figure 6). Between 1970 and 1990, the number of non-family households increased by 72 percent, with the highest rates of growth among non-elderly households of two or more persons, and single person elderly households. These increases can be attributed to a rise in unmarried persons living together, and the growing

under 18 (largely headed by females) each had annual incomes well below all other types of households, a pattern that was consistent in both the city and suburbs. The highest incomes were found among married couples with children under 18, and married couples without children. For all household types, the incomes of suburban households were significantly higher than those of their city counterparts.



Changes in age structure

Another way to aggregate households for analysis is by the age of the householder (defined as the person who completes the census questionnaire). This allows comparisons to be made regarding the relative attractiveness of the city and suburbs to households at different stages of the life cycle (Figure 9). When broken down by age group, the city has higher than average numbers of households headed by 18 to 24 and 25 to 34 year olds. Among households headed by 18 to 24 year olds, 60 percent are located in the city, as are 43 percent of those headed by 25 to 34 year olds. Even though each group will decrease in size between 1990 and 2000, they continue to represent key market segments in which the city must remain competitive. Among households headed by persons 35 years and older, two-thirds are located in the suburbs.



Median incomes by age group show a gradual increase to a peak during the years between 45 and 54 (Figure 10). This indicates that affordability may serve as an effective barrier to housing and neighborhood choice, particularly for 18 to 24 year olds, where median incomes in 1989 ranged from \$10,000 in the city to \$19,300 in the suburbs. Although incomes are lowest within this age group, it is also a period of rapid growth. Among 25 to 34 year olds, median incomes more than double in both the city and suburbs to \$20,100 and \$39,400, respectively. Across all age groups, the differences between median incomes in the city and suburbs are more pronounced than the geographic differences based on household structure.

Home ownership rates are also lowest among households headed by 18 to 24 and 25 to 34 year olds, but as with income, these periods are when the movement from renters to owners is greatest (Figure 11). Home ownership levels in the county climb from 11 percent between ages 18 and 24, to 44 percent between ages 25 and 34, to 68 percent between ages 35 and 44. Still, the city's home ownership rate is at least 20 percentage points below that of the suburbs in all age groups. The city's highest rates are among older residents; but the impacts of its inability to attract younger, more mobile residents will be felt in the near future, as households in the older age groups decline in number.

Figure 10: Median Household Income by Age Group; Erie County (1990)

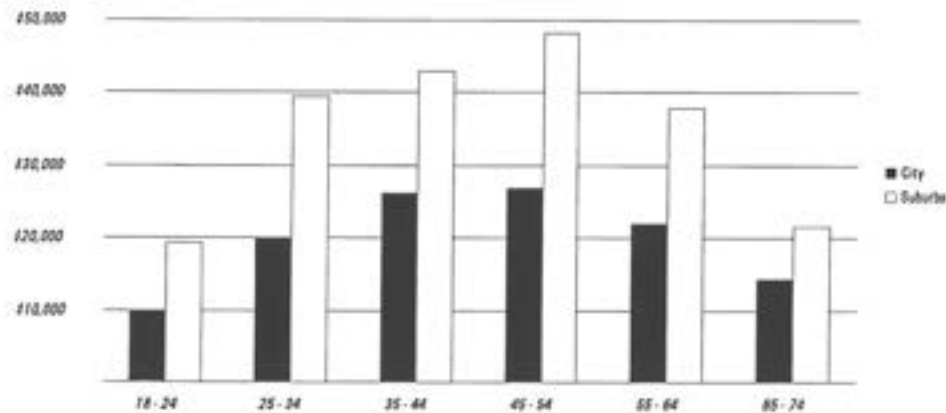
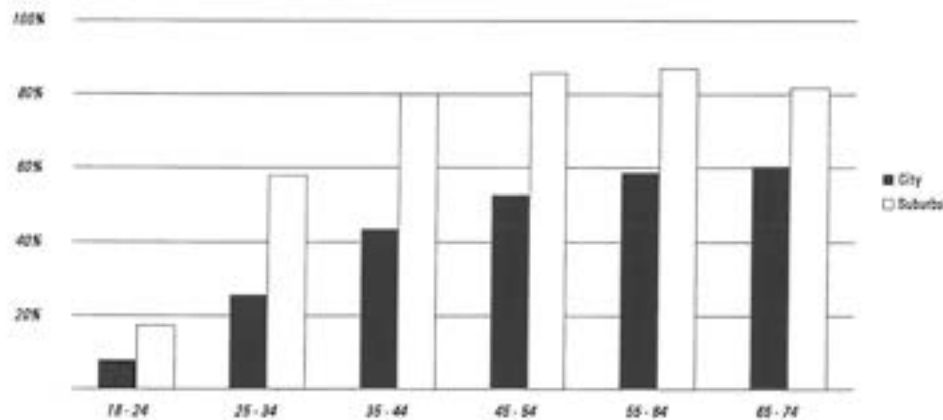


Figure 11: Homeownership Rates by Age Group; Erie County (1990)



Key points: housing demand

- The demographic trends affecting housing demand in Erie County are currently working against the City of Buffalo. As baby boomers move into their peak earning years (35 to 54) and their own families grow, the demand for housing at the upper end of the market will increase. Both in terms of existing housing and new construction, the balance of the 1990s and early years of the next decade will be driven by boomers seeking to upgrade.
- With an aging housing stock and little land available for new construction, the city is poorly positioned to compete for this segment of the market. It may be possible, however, to take advantage of the preferences of other age groups to create niche markets for its housing and neighborhoods.

- The city has been relatively successful at attracting households headed by persons between 18 and 34, and should continue to target this market segment. Unfortunately, this age group is currently being filled by members of the baby bust generation, and will be far smaller in size than the cohort that preceded it.
- Further complicating this matter is the fact that an increasing number of young adults have grown up in the suburbs, and lack any direct experience of cities and urban neighborhoods. How this will affect housing choice is uncertain, but it may make attracting and retaining younger households even more difficult for the city.
- The city must recognize that it is competing for a limited share of households with neighborhoods throughout the metropolitan region. City leaders must take an active role in developing both neighborhoods and housing products that will allow it to compete more effectively in those segments that are driving the demand market.
- Continuing to rely on its documented attractiveness to households at the lower end of the income spectrum will only serve to widen the gap that presently exists between the city and suburbs, and make the future development of the region as an economically and socially integrated entity even more difficult.

Housing Supply

While household growth stimulates housing construction on a regional level, housing construction captures growth (or in the case of Western New York, prevents further erosion of the population base) at the local level. An analysis of the housing supply in Erie County clearly indicates the trends that are underway in the city and its suburbs.

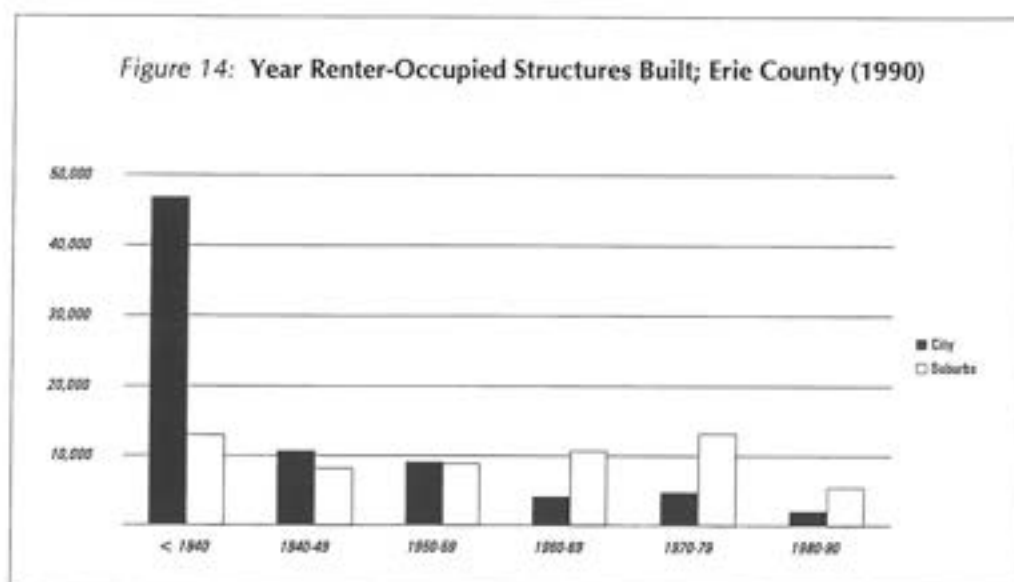
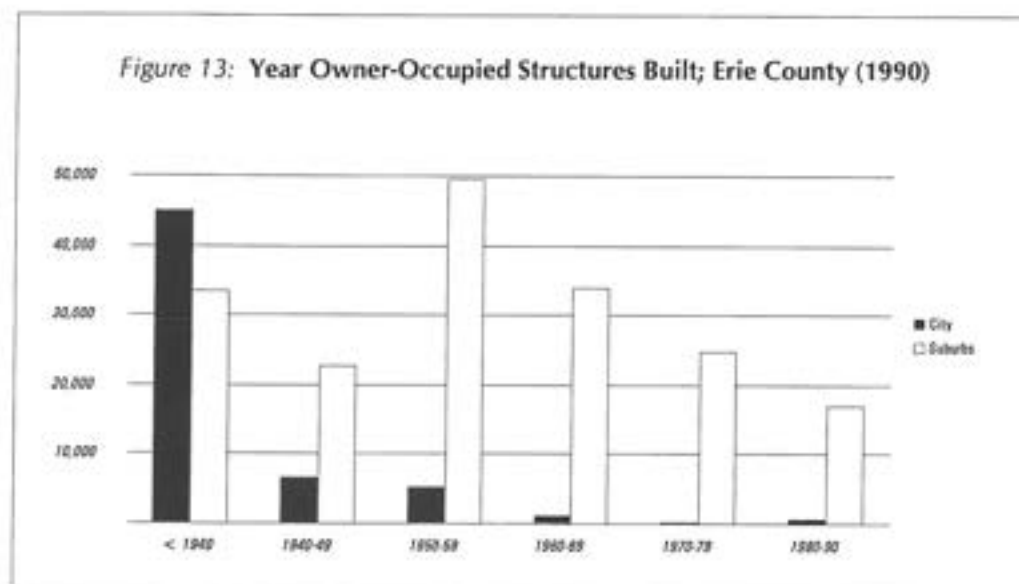
Between 1970 and 1990, the Buffalo lost over 21,000 occupied housing units (Figure 12). During this same period, the suburbs gained almost 38,000 owner occupied units and over 14,000 renter occupied units. The city currently has 57 percent of all rental units in the county (down from 66 percent in 1970), and the suburbs have 75 percent of all owner occupied units (up from 67 percent in

Figure 12: Year-Round Housing Units; Erie County

	1970	1980	1990	Change: 1970 to 1990	
				Number	Percent
County: total	359,400	387,200	402,100	42,700	12
City: owner	69,500	62,700	58,900	(10,600)	(15)
City: renter	88,500	78,200	77,600	(10,900)	(12)
City: vacant	8,200	15,400	15,600	7,600	93
Suburbs: owner	143,600	165,800	181,300	37,700	26
Suburbs: renter	44,900	58,500	59,200	14,300	32
Suburbs: vacant	4,700	6,600	9,300	4,600	98

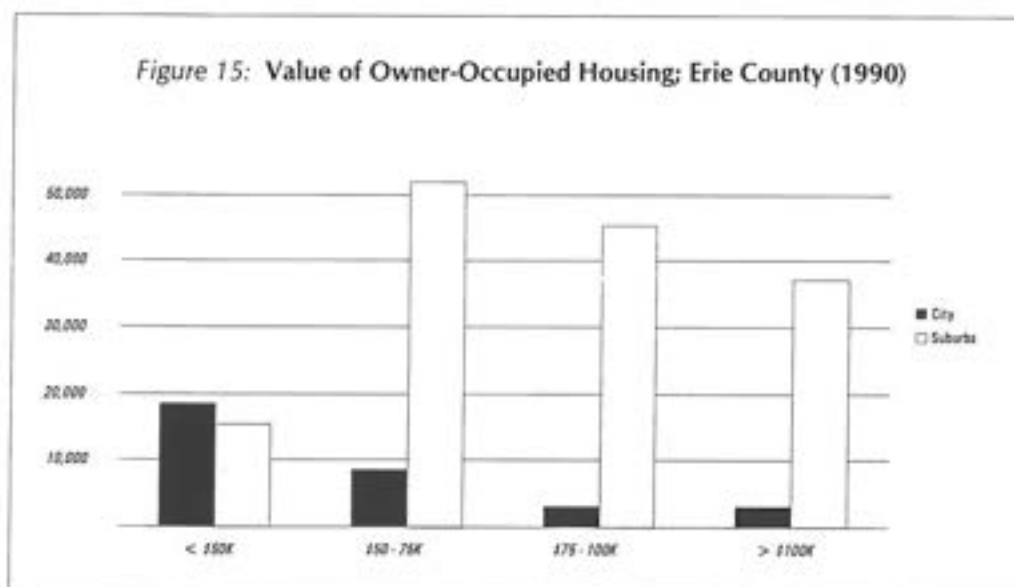
1970). Vacancy rates throughout the county have risen substantially in the past two decades, going from five to ten percent in the city and two to four percent in the suburbs. In 1990, vacancies other than those listed for sale, rent, or seasonal use totaled 6,950 in the city and 2,100 in the county. Of these, 1,750 city properties and 250 suburban properties were identified as boarded up.

Declining city and growing suburban occupancies are partially a function of the wide disparities in age of the housing stock within the two areas. Respondents to the 1990 census reported that over 75 percent of the city's owner occupied housing is 50 years or older; as is 60 percent of its rental stock (Figures 13 and 14). Since 1950, over 90 percent of the owner occupied stock and two-thirds of the renter occupied stock has been built in the suburbs. Almost 25 percent of the suburban rental stock in Erie County was built during the 1970s, a decade that witnessed a nation-wide boom in the construction of suburban rental units.

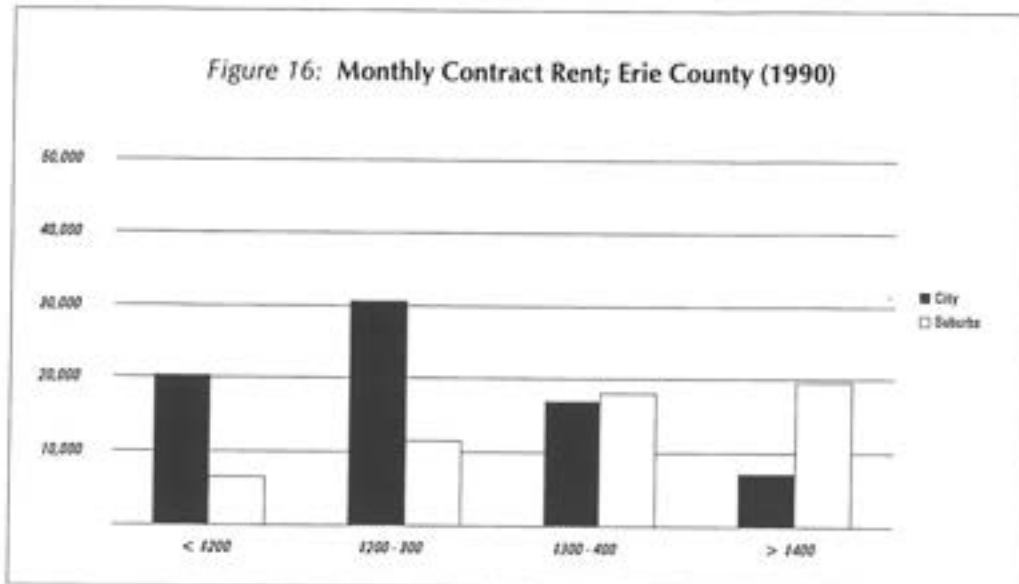


Over half of the rental units in the city are in two-family structures; while in the suburbs, 30 percent of the rental units are doubles and 45 percent are in structures with three to 19 units. These differences reflect the periods in which the housing was built, with recently constructed rental units more likely to be located in apartment complexes, in contrast to the traditional two-family homes dominant in the city. In terms of size, the only significant differences between the city and suburbs are found among two bedroom units, where the suburbs have a higher percentage than the city (53 to 39 percent); and three bedroom units, where the city has a higher percentage than the suburbs (32 to 21 percent). This indicates that the city's rental stock was more likely to have been built for families; while the newer rental units in the suburbs appear designed to attract non-family households.

Housing values and rent levels show significant gaps between the city and suburbs. Less than 20 percent of the city's owner occupied housing stock was valued above the county median (\$74,000) in 1990; while 55 percent of the suburban stock was (Figure 15). The suburbs have over 13 times the number of owner occupied units valued above the median as the city (82,400 to 6,300), and have more units than the city at all values except under \$50,000. Respondents to the 1990 census indicated that the median value of owner occupied housing in the city was \$45,000; while in the suburbs it was \$79,200.



With respect to rentals, only one-third of the units in the city were above the county-wide monthly median of \$292 in 1990; while two-thirds of the suburban units were (Figure 16). At rent levels of \$400 and above, there are almost three times as many units located in the suburbs as in the city (19,700 to 7,200). Although a majority of renters live in the city, the upper end of the market is largely concentrated in the suburbs. In 1990, the median monthly contract rent in the city was \$255; while in the suburbs it was \$355.



Trends in building permits

While census data provides a rough outline concerning the age and value of the existing stock, an examination of building permits issued between 1980 and 1994 for new residential construction allows recent trends affecting the housing supply in Erie County to be more clearly identified. To aid in this analysis, the county has been divided into three sub-markets: the City of Buffalo; the inner suburbs, which includes the City of Tonawanda, Town of Tonawanda, Town of Amherst, Town of Cheektowaga, Town of West Seneca, Town of Orchard Park, Town of Hamburg, and City of Lackawanna; and the outer suburbs, which encompasses the remaining towns in Erie County (Map 1).

During the 1980s, the majority of building permits were issued in the inner suburbs (Figure 17). This was true for both single-family and multi-family housing. The city approved an average of less than

