RENTS THROUGH THE ROOF!

A Statistical Analysis of Unaffordable Rents in New York City

New York City Comptroller
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The New York City Comptroller, an independently elected official, is the Chief Financial Officer of the City of New York. The mission of the office is to ensure the financial health of New York City by advising the Mayor, the City Council, and the public of the City's financial condition. The Comptroller also makes recommendations on City programs and operations, fiscal policies, and financial transactions. In addition, the Comptroller manages the assets of the five New York City Pension Funds, performs budgetary analysis, audits City agencies, registers proposed contracts, etc. His office employs a workforce of more than 700 professional staff members. These employees include accountants, attorneys, computer analysts, economists, engineers, budget, financial and investment analysts, claim specialists, and researchers in addition to clerical and administrative support staff.

Introduction

This study provides a snapshot of the current state of housing affordability in New York City, and in particular, the rental housing market. Sixty-eight percent of New Yorkers rent their homes compared to 33 percent nationwide. Recent reports and newly released data from the 2011 New York City Housing and Vacancy Survey (NYCHVS) have focused attention on the continuing upward trend in rents in the City and the difficulty of finding available housing. According to the survey, rental vacancies in New York City remain near three percent compared to a national average approaching ten percent.[1]

As this study will show, along with low income households, middle income households (those with annual incomes between $35,000 and $75,000),[2] are also being significantly affected by the escalating cost of housing. The decline in affordability has been particularly severe during the past decade from 2000 to 2010. In fact, the impact on middle income households is far greater in New York City than in most other parts of the nation. Middle income households in New York City are almost 50 percent more likely to be burdened by high housing costs than other households in the U.S. While housing policies have provided some safety net for low income households, the most recent data underscores an urgent need to implement and expand policy to focus on the housing needs of middle income households as well.

No doubt, the strength of New York City's housing market is in part a reflection of the long-term strength of local demand for housing. It is also a testament to the City's ability to continue to attract residents and workers who are willing to pay a premium to enjoy the many benefits of living in New York. Adding to this sustained pressure in the rental market is the difficulty in obtaining financing for home purchases which has caused homeownership rates in New York City to decline from the most recent high of 34 percent in 2008 to 32 percent in 2011.[3] This demand, coupled with the limits on growth that a dense city like New York faces, contribute to the underlying strength in the rental housing market.

At the same time, diminishing availability of affordable housing in the face of continued strong demand highlights a policy failure to address this growing need. One of the stated goals of the current Mayoral administration is to increase the supply of affordable housing units under its New Housing Marketplace Plan (Plan), which calls for targeted increases in the construction and preservation of affordable residential units. A recent study of this Plan, conducted by the New York City Independent Budget Office (IBO),[4] concluded that while

1 *This analysis focuses on the rental market. Although housing affordability is also an issue for homeowners, the impact on renters is more evident and, as stated, renters comprise the majority of households in New York City. Vacancy data is derived from the 2011 New York City Housing and Vacancy Survey (NYCHVS) which shows that New York City's extremely low vacancy rate of 3 percent has remained constant between 2002 and 2011 notwithstanding a net increase of nearly 88,000 residential units of inventory over the same period. More recently, as reported in the August 8, 2012* Wall Street Journal*, Citi Habitats, a New York City brokerage firm that publishes apartment vacancy statistics yearly, estimates that the City's vacancy rate was 1 percent compared to 2.6 percent in 2002.*

2 *In this report, the term middle income households includes those at the lower range of the $35,000 income bracket that are sometimes referred to as "moderate" income. See page 5 for exact definitions of low, middle, and high income.*

3 *2011 New York City Housing and Vacancy Survey (NYCHVS). The NYCHVS is the most extensive survey of housing conditions in the City and is conducted every three years to comply with New York State's and New York City's rent regulation laws. The Census Bureau has conducted the survey for the City since 1965. The 2011 NYCHVS is the 15th such survey.*

4 *"The Mayor's New Housing Marketplace Plan: Recession, Funding Shifts, and Changing Goals Mean Fewer New Apartments Likely to Be Built," New York City Independent Budget Office, June 2012.*

the plan was generally on pace, particularly with respect to preservation of units, the proposed targets for construction of new affordable housing units were not likely to be met by the end of the Mayor's tenure. These shortcomings were most apparent with respect to middle income families. The study also notes that rehabilitation projects often have shorter periods of regulated affordability than newly constructed units. The failure to provide new units is in part due to weakness in the economy and more restrictive lending policies, but is also a result of the administration's own policy changes and increased emphasis on preservation. Compounding these shortfalls are recent announcements that proposed plans to build new affordable housing units in some of the largest redevelopment projects in the City, notably Willets Point in Queens and Atlantic Yards in Brooklyn, will likely be delayed.

The delay in bringing new affordable housing to the market raises concerns as higher housing costs continue to impact an increasing number of City households. In addition to delays and failures on the part of local policies to address the needs of middle income households, federal programs that are targeted primarily at low income households have been ineffective in addressing housing affordability for middle income families in New York City. Opportunities to change and broaden federal policies could provide benefits to more City households, as would a more aggressive implementation of local policies, like those envisioned under the City's Plan.

Background

Housing affordability is an important issue affecting the everyday lives of New York City's population, and the availability of adequate housing is critical to attract new workers and retain a stable tenancy base. Research, including a recent study by the New England Policy Center at the Federal Reserve, provides consistent evidence that a dearth of affordable housing lowers potential growth in local employment.[5] While it is not altogether surprising that City tenants have been burdened with significantly higher housing costs than the rest of the nation (Chart 6),[6] recent data points to a continued decrease in affordability. This raises questions about long-term growth prospects in the City and the impact that these high costs impose on households.

5 *Ritashree Chakrabarti and Junfu Zhang "Unaffordable Housing and Local Employment Growth", New England Public Policy Center of the Federal Reserve Bank of Boston, June 2010. The study controls for other factors, in addition to housing costs, that contribute to economic growth.*

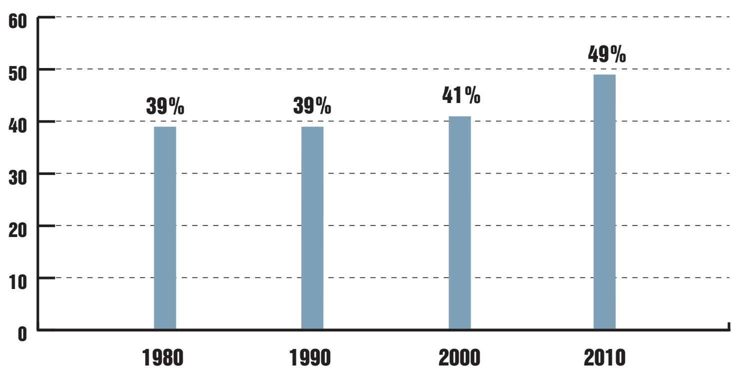
6 *This is due to important drivers that include the City's density and the scarcity of land and room to expand, and the burgeoning demand for rental residences.*

The percentage of New York City households that pay more than 30 percent of their income on rent has increased by 20 percent from 2000 to 2010.

A necessary starting point in the analysis of rental housing affordability is to define the meaning of affordability more precisely. While several studies focus on the absolute cost of renting, a more relevant measure of affordability is the relation of rent to income, since a given rent is more or less affordable depending on one's income. Many measures of affordability, including those adopted by most federal programs administered by the U.S. Department of Housing and Urban Development (HUD), focus on rent-to-income ratios. Additionally, a threshold ratio of rent-to-income of 30 percent is defined by HUD as the level where housing costs become a significant burden, or, alternatively, the level at which housing becomes generally unaffordable.[7] Similarly, underwriting standards for residential loans typically use a 30 percent benchmark of housing expenses to income as an indicator of financing feasibility. This benchmark takes into account the average spending patterns of households considering other necessary expenditures such as food, health, education, etc.

Using this definition of affordability, Chart 1 summarizes data demonstrating that housing has become increasingly unaffordable in New York City over the past three decades.[8] It shows that the percentage of New York City households that pay more than 30 percent of their income on rent[9] has increased significantly, from 39 percent in 1980 to 49 percent most recently in 2010, with almost all of the increase occurring during the last ten years.

Chart 1: Percentage of New Yorkers Paying Unaffordable Rents



Source: U.S. Census Bureau 1980-2010

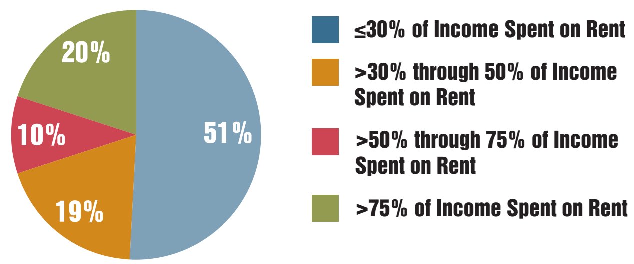
7 In the following pages the term unaffordable is used to define housing costs that exceed 30 percent of income.

8 The most recent 2010 data from the U.S. Census Bureau is presented as part of the American Community Survey of Households ("ACS"), a survey of households conducted across the nation. In addition to this data, which is available for all geographic areas in the nation, a more limited and separate survey of housing is conducted for New York City as part of the New York City Housing and Vacancy Survey discussed in further detail below. Data for Charts 1-4 are tabulated from the Furman Center for Real Estate and Urban Policy, "State of New York City's Subsidized Housing: 2011."

9 In this report, rents refer to gross rents which include rents as well as other housing costs such as utilities.

A more detailed analysis of the 2010 data as shown in Chart 2 reveals that almost 30 percent of all households spent more than 50 percent of their income on rent, a level that is considered by HUD to reflect a severe housing burden, and nearly 20 percent of all households in the City spent more than 75 percent of their income on rent.

Chart 2: Percentage of Income Spent on Rent by New Yorkers



Source: 2010 U.S. Census Bureau

As shown in Chart 3, this decrease in affordability reflects a continued increase in rents that have almost doubled (adjusting for inflation) from a median of $628 in 1980 to over $1,000 in 2010. In contrast, the median household income in 2010 was only 25 percent higher than in 1980.

Chart 3: Median Contract Rents and Income

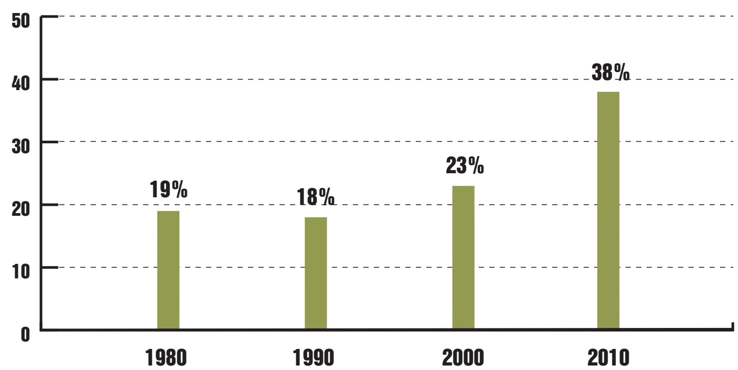
	1980	1990	2000	2010
Median Contract Rent (2010$)	$ 628	$ 779	$ 853	$ 1,004
Median Household Income (2010$)	$40,645	$51,865	$50,539	$50,886

Source: U.S. Census Bureau 1980-2010

Another measure of the decreasing trend in rental housing affordability is presented in Chart 4, which shows the percentage of all residential rental units that are unaffordable to households earning the New York City median income.[10] As indicated in Chart 4, the percentage of apartments that were affordable for a household that earned the median income in New York City remained around 20 percent from 1980 to 2000 but by 2010 almost 40 percent of all rental units had become unaffordable to a household earning the median income.

10 *Median income here is based on the U.S Census Bureau, as distinct from HUD's definition of Local Area Median Income.*

Chart 4: Percentage of Rental Units Unaffordable to New Yorkers Earning the Median Income



Source: U.S. Census Bureau, 1980-2010.

The percentage of apartments that are unaffordable to a household earning the median income has jumped dramatically since 2000.

This trend of decreasing rental housing affordability has been highlighted in numerous reports[11] on the City's housing market and is further evidenced in the 2011 NYCHVS, the most extensive survey of residential rental housing conditions in the City, sponsored by the New York City Department of Housing Preservation (HPD). Although the full results of the 2011 NYCHVS have yet to be released, rental burdens for New York City households were the at the highest level in the survey's history. Among the preliminary findings of the 2011 NYCHVS, the median gross rent-to-income ratio was 33.8 percent in 2011, an all-time high, and nearly one in three households reported spending more than 50 percent of their income on rent.

Data and Comparisons

In this study we expand on the findings of these reports and analyze in greater detail how affordability differs for tenant households at different income levels. This provides a timely snapshot of the extent to which the lack of rental housing affordability in New York City extends beyond low income households and highlights the need for policy to address middle income households as well. For the purposes of this study, the income thresholds used are based on information available in the 2010 American Community Survey.[12]

Gross household income of less than $35,000 is used to define Low Income Households; income of $35,000 to $74,999 defines Middle Income Households; and $75,000 or greater measures High Income Households.[13]

Furthermore, we compare housing affordability in New York City, and within the five boroughs, to the nation as a whole. While recognizing the unique characteristics of the City's

11 New York City Rent Guidelines Board report "2012 Income and Affordability Study," and the Furman Center for Real Estate and Urban Policy, " State of New York City's Subsidized Housing: 2011" also highlight this trend.

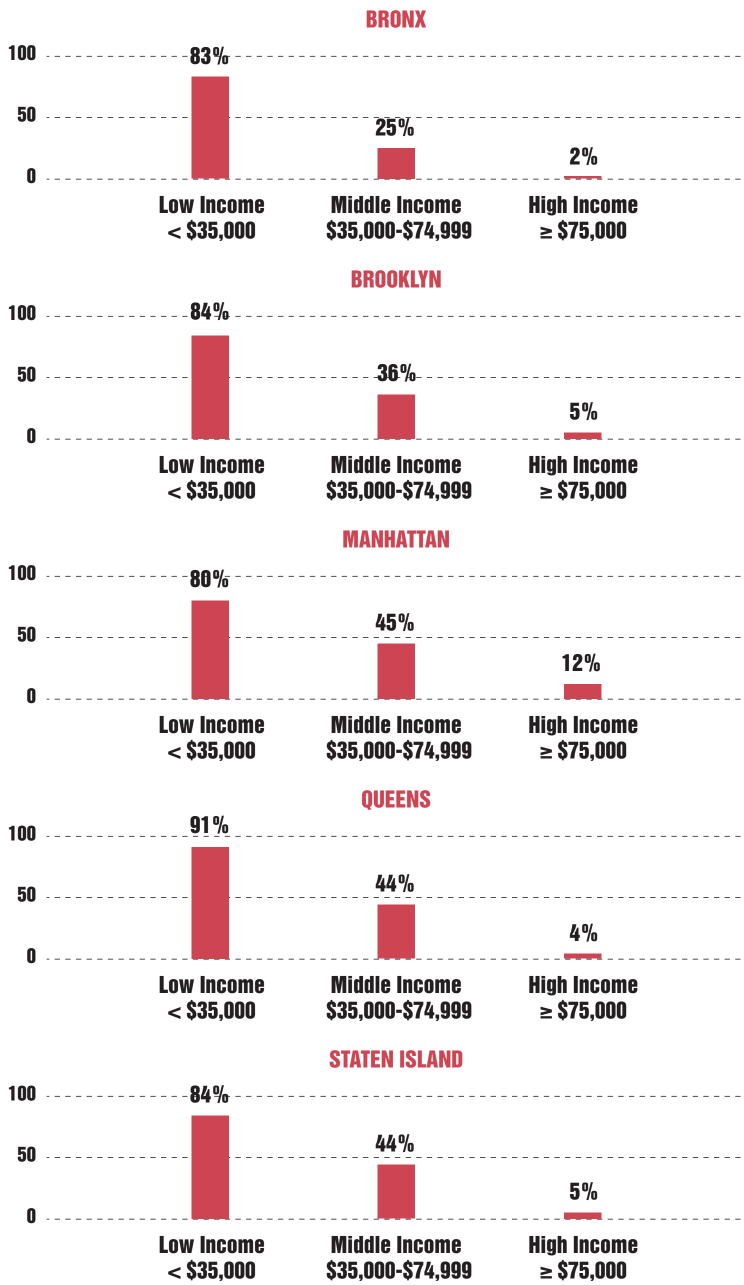
12 The income thresholds are derived from table S2503 of the 2006-2010 American Community Survey. This includes all sources of income including government subsidies received by households.

13 These measures vary from HUD's definitions, which are defined with respect to a local Area Median Income (AMI). AMI definitions vary by markets identified by their geographic location. Because this study compares New York to the U.S., a single HUD measure of low, middle, and high income could not be used for comparing these markets. Data for New York City based on alternative HUD definitions of low, middle, and high income, which also take into account household size,show a similar trend in declining affordability as evidenced using the definitions of low, middle, and high income used here.

housing market, this analysis provides a useful comparison of the relative severity of housing affordability, highlighting the increased housing needs of middle income households in the City relative to the rest of the nation. Data pertaining to the five boroughs is shown in Chart 5 while aggregate data for New York City and the U.S. as a whole is shown in Chart 6.

Chart 5: Percent of Households Paying Unaffordable Rents

New York City Boroughs



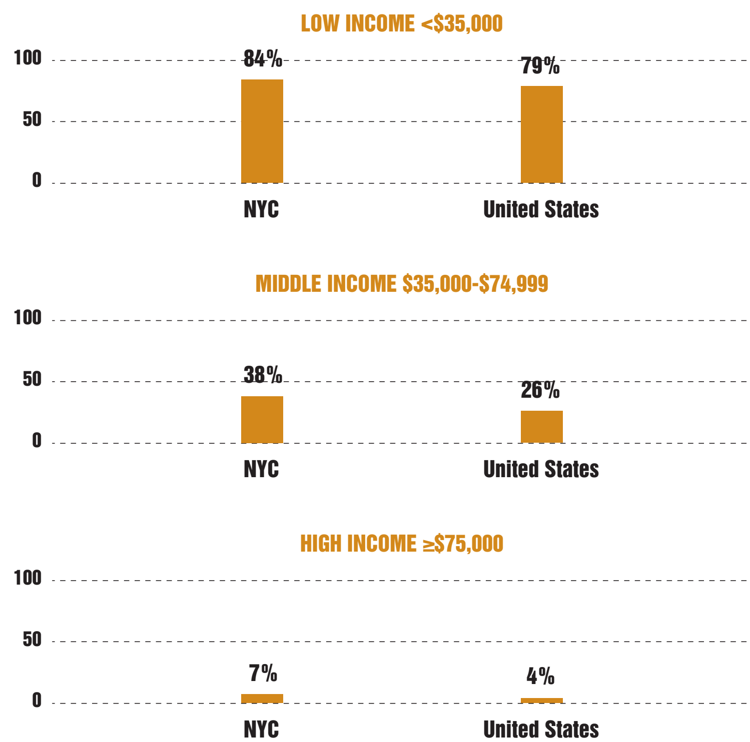
Source: 2010 American Community Survey (Low, Middle, and High Income Households may not add to 100% due to non-reporting. Data are estimates subject to sampling errors).

Cross Income Analysis

Low Income Households

Not surprisingly, low income households face the greatest housing affordability burden in New York City and the U.S. Approximately 84 percent of low income household renters in the City report that they pay more than 30 percent[14] of their income on housing which is slightly higher when compared to the nation as a whole as shown in Chart 6. With the exception of Queens, at the high end, with 91 percent, and Manhattan, at the low end, with 80 percent,[15] the variation in affordability among the remaining boroughs is relatively minor. The Bronx and Brooklyn, however, have a greater share of low income households than the remaining boroughs. (Appendix 1)

Chart 6: Percent of Households that Pay More than 30 Percent of Income on Rent by Income Level New York City vs. U.S.



Source: 2010 American Community Survey.

Middle Income Households

At middle income levels, New York City households face significantly higher housing cost burdens compared to their counterparts in the U.S. The share of New York City households that pay more than 30 percent of their income on rent is 38 percent compared to only 26 percent in the nation.

Within the boroughs, the impact is highest in Manhattan, Queens, and Staten Island, where more than 44 percent of all middle income households face unaffordable rental costs,

14 *These costs also include out-of-pocket expenses, as many low income families also receive rent subsidy payments.*

15 *Manhattan has a higher share of rent regulated apartments, 64 percent, versus 50 percent in Queens. An overview of rent regulation and its impact in the five boroughs is provided on page 8.*

a rate that is nearly twice as high as the national average. Households in Brooklyn also face higher burdens than their counterparts in the nation, while the burden for households in the Bronx is in line with the nation.

High Income Households

New York City households at higher levels of income ($75,000 and above) face a greater burden compared to their counterparts in the U.S. The difference, however, is due almost exclusively to Manhattan where more than 11 percent of high income households are still burdened by high housing costs compared to 4 percent nationally. Housing costs burdens for households in this income bracket in the other boroughs are more in line with the nation.

Rent Regulation in New York City

New York City's rental housing market is subject to local rent regulation laws[1] that have a far greater impact on its overall rental housing stock and that differentiate it from most other markets, which are generally impacted by rent regulation laws only through federal programs administered by HUD.

As a result, in contrast to most other markets in the nation, where the majority of the housing market is unregulated, more than 60 percent of New York City's rental housing stock is subject to some form of rent regulation.[2] There is, however, considerable variation among the five boroughs and among forms of rent regulation. The Bronx and Manhattan have the highest percentage of rent regulated apartments at 80 percent and 64 percent, respectively, while Staten Island has the lowest at 28 percent. The share of rent regulated stock in the remaining boroughs is generally around 50 percent. While the preceding charts do not distinguish household burdens among regulated and unregulated apartments, data from the 2011 NYCHVS indicates a similar overall housing burden for households living in regulated and unregulated apartments.[3]

1 *The New York State laws have been in place since 1951 and superseded federal laws that were established in 1943 as preemptive measures to address anticipated housing shortages after World War II. Los Angeles is the only other city to have rent control laws.*

2 *Data on the City's rent regulated housing stock is available from the NYCHVS and housing supply reports issued by the New York City Rent Guidelines Board.*

3 *For purposes of determining the number of regulated versus unregulated housing, housing units that fall under Federal programs such as Section 8 ,which is means tested and which limits out-of-pocket rental payments for low income families, are also included as part of the regulated housing stock in the Rent Guideline Report.*

Policy Issues

Highlighting the differences in rental affordability among income levels between New York City and the U.S. provides a backdrop against which one can evaluate the effectiveness of current policies and indicates why a uniform federal approach to improving affordability has been less effective in the City.

Historically, federal housing policy has been targeted primarily at improving affordability among low income households. The federal government began building subsidized housing for low income households during the New Deal, from 1933-1936. In the decades since, a complex tangle of federal programs has evolved to tackle the housing needs of low income households.[16] While some federal programs also provide assistance to middle income households, most federal rental programs are still limited to low income families. For instance, the Low Income Housing Tax Credit (LIHTC)[17] provides tax incentives to developers that build affordable housing for low income households and therefore does not provide much support for middle income renter households. Similarly, the Community Reinvestment Act (CRA)[18] encourages banks to provide financing for affordable housing development primarily for low income households.[19] Interestingly, CRA legislation was expanded in 2010 in light of the foreclosure crisis to include middle income homeowners in certain areas deemed to be distressed.[20] The expanded legislation, however, did not cover renters, nor was New York City included as a distressed area. An opportunity to address the needs of middle income renters in the City was missed. One federal program that provides some benefit to middle income households, known as Section 223(f), insures mortgage loans to facilitate the purchase or refinancing of existing multi-family rental housing. This structure results in more favorable interest rates, effectively reducing the cost of rental housing to the tenant. Similarly, federal block grants (Community Development Block Grants) also provide benefits to middle income households, but the majority of federal programs that are available for renters still place income restrictions targeted to low income households.[21]

The focus that many programs still place on low income households is justified by the fact that most of the households impacted by affordability are low income households, even in New York City (see Charts 5 and 6). However, along with low income households there is an increased need to address the almost 40 percent[22] of middle income renter households in New York City that are also impacted by high housing cost burdens.

To this effect, New York City has adopted several programs[23] which provide financing and tax incentives for the development and conservation of housing for middle income households. A recent evaluation of these programs concluded that the administration's own established targets for the construction of new affordable residential units contained in the Plan are not likely to be met. While part of this shortfall can be attributed to the effects of the recent downturn on the housing market and resulting budgetary impacts, the study finds

16 *The assistance provided by these programs fall into three general categories: 1) rent subsidies to households; 2) tax credits to incentivize the construction of affordable housing; and 3) block grants to localities.*

17 *The income thresholds set under LIHTC require that at least 20 percent of the units must be occupied by households with incomes at or below 50 percent of the HUD-determined area median income (AMI) or at least 40 percent of the units must be occupied by households with incomes at or below 60 percent of the HUD-determined AMI. They do not capture most middle income households in the City shown in Chart 5 that earn between $35,000 and $75,000 and therefore fall outside of the 60 percent AMI, or approximately $40,000.*

18 *The CRA program was passed by Congress in 1977 to reduce discriminatory credit practices against low-income neighborhoods, known as redlining.*

19 *While moderate income housing is also included as part of the CRA program, the thresholds used typically fall below the income thresholds used here to define middle income households.*

20 *The geographies are located in Neighborhood Stabilization Program (NSP) target areas that HUD has designated as areas of greatest need. Details on the NSP are available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs/neighborhoodspg.*

21 *A directory and description of federal housing programs is available at http://furmancenter.org/institute/directory/*

22 *This compares to a lower 26 percent rate in the nation.*

23 *These programs include, among others, HPD's New Housing Opportunity Program, the Cornerstone Program, and expanded use of the 421-a program. A comprehensive overview of HPD programs is available at http://www.nyc.gov/html/hpd/html/home/home.shtml.*

that increased emphasis on preservation as opposed to new construction also had a role in explaining the shortfalls. With respect to the construction and preservation of affordable rental housing for moderate to middle income households, the results fell noticeably short of the Plan as shown in Chart 7. [24] The definitions of income shown in Chart 7 are based on HUD definitions of Local Area Median Income. The aggregate of moderate and middle income brackets that are set out in Chart 7 essentially correspond to the definition of middle income used in previous charts and discussions herein.

Chart 7: New York City's New Housing Marketplace Plan: Share of New and Preserved Units, Actual vs. 10-Year Plan

	Original 10 Year Plan	Actual 2004-2011	Revised 2011 Plan
Start Type			
New Construction	56%	35%	36%
Preservation	44%	65%	64%
Affordability			
Low Income(<80% AMI)	68%	83%	76%
Moderate Income(81-120% AMI)	11%	7%	11%
Middle Income(121-180% AMI)	21%	8%	10%
Unrestricted	0%	2%	3%

Sources: IBO; HUD

While the original 10-year Plan called for increases of 11 percent and 21 percent, respectively, in the share of moderate and middle income households, actual results indicated an increase of only seven and eight percent respectively. This shortfall suggests both a need to expand federal policies to target middle income households, in addition to low income households, as well as implementing local policies more aggressively.

The question of which policy options, among the complex tangle of current local and federal policies, is best suited to address this important matter in the most cost effective and timely manner should be the subject of further research. Based on this initial analysis, one policy area that would seem to be particularly cost effective is the expansion of current CRA legislation to encourage lending to develop rental housing for middle income households. As noted in this report a precedent was already set when the CRA was expanded to help middle income homeowners in areas that experienced high foreclosure rates. The additional inclusion of renter households under this program would also seem warranted. Further examination of other local and federal policies might likewise indicate potential changes or suggest new policies that could be implemented to help address the high cost of housing that affects an increasing number of households.

24 *The definitions of income used here, and shown in Chart 7, are based on HUD definitions of Local Area Median Income. In aggregate moderate to middle income definitions used in Chart 7 correspond, approximately to the definition of middle income used in the previous charts.*

Appendix 1

Housing Affordability by Income Levels

	Bronx	Brooklyn	Manhattan	Queens	Staten Island	NYC	U.S.
Median Income All Households	$34,264	$43,567	$64,971	$55,291	$71,084	$50,285	$51,914
Percent of households that rent	79%	70%	77%	55%	30%	67%	33%
Low Income Households: Income Less than $35,000							
% of All Renter Households that are Low Income	55%	47%	35%	38%	44%	43%	49%
% of all Low Income Households Paying >30% of Income on Rent	**83%**	**84%**	**80%**	**91%**	**84%**	**84%**	**79%**
Middle Income Households: Income Between $35,000 and $74,999							
% of All Renter Households that are Middle Income	29%	30%	25%	35%	28%	29%	30%
% of all Middle Income Households Paying >30% of Income on Rent	**25%**	**36%**	**45%**	**44%**	**44%**	**38%**	**26%**
High Income Households: Income $75,000 and Greater							
% of All Renter Households that are High Income	12%	19%	37%	23%	20%	23%	14%
% of all High Income Households Paying >30% of Income on Rent	**2%**	**5%**	**12%**	**4%**	**5.%**	**7%**	**4%**

Source: 2010 American Community Survey (Low, Middle, and High Income Households may not add to 100% due to non-reporting of rent costs or income data. Data are estimates and subject to sampling errors).

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