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THE GROWING GAP:

New York City's Housing Affordability Challenge

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TABLE OF CONTENTS

Executive Summary.....	1
I. Introduction.....	3
II. New York City’s Housing in the Bloomberg Era.....	4
The Cost of Housing.....	4
Housing Affordability.....	8
Homelessness.....	12
III. Why Has New York City’s Housing Grown So Expensive?.....	15
Gentrification.....	16
Rent Regulation.....	18
Population Growth and Housing Supply.....	23
IV. Conclusion: Housing Priorities for Post-Bloomberg New York.....	25
Acknowledgements.....	28

TABLES AND FIGURES

Table 1: Changes in Rent and Home Values, 2000-2012

Table 2: Distribution of Inflation –Adjusted Rents in New York City

Table 3: Changes in Household Incomes, 2000-2012

Table 4: Income Distribution of NYC Households, 2000-2012

Table 5: Rent-to-Income Ratios for NYC Renters by Household Income Category, 2000 and 2012

Table 6: Change in Households Earning \$100,000 and Over and Change in Rents, 2000-2012

Table 7: Hypothetical Rent Growth, 2000-2014

Table 8: Longevity of New York City’s Rent Stabilized Housing Stock

Table 9: Average Stabilized Rents from 2002 – 2011

Table 10: Average Market Rate Rents from 2002-2011

Figure 1: Shelter Cost Inflation in the United States and the New York Metropolitan Area, 2000-2013

Figure 2: Number of Regulated and Unregulated Apartments by Rent Category, 2011

Figure 3: Growth in Shelter Population and Shelter Stays

Figure 4: Youth Shelter Populations

Figure 5: Rent Stabilization – Additions and Subtractions

Figure 6: Deregulation Breakdowns by Year

EXECUTIVE SUMMARY

For a century and a half New York City has been a national laboratory for innovative and expansive affordable housing policies – from the Tenement House Laws of the late 19th and early 20th century, to the development of the nation’s largest public housing system in the 1930s, to the sweeping community development efforts of the 1980s and beyond.

But just as New York’s housing environment has continually evolved, so has the depth and complexity of its affordable housing challenge – a challenge that today is marked by an evaporation of low-rent housing, record homelessness, an increasingly aged building stock, and rapid shifts in the city’s economic and demographic landscape.

The figures in this report, published by New York City Comptroller Scott M. Stringer, tell a sobering story—of stagnant incomes, rising rents, and a deepening affordability crunch, especially for the working poor and others at the lower end of the income spectrum. This financial squeeze comes despite significant housing investments during the 12 years of the Bloomberg mayoralty.

From 2000 to 2012, this report found:

- **Median apartment rents in New York City rose by 75 percent, compared to 44 percent in the rest of the U.S.** Over the same period, real incomes of New Yorkers declined as the nation struggled to emerge from two recessions.
- Housing affordability—as defined by rent-to-income ratios—decreased for renters in every income group during this period, **with the harshest consequences for poor and working class New Yorkers earning less than \$40,000 a year.**
- There was a dramatic shift in the distribution of affordable apartments, with a **loss of approximately 400,000 apartments renting for \$1,000 or less.** This shift helped to drive the inflation-adjusted median rent from \$839 in 2000 to \$1,100 in 2012, a 31.1% increase. In some neighborhoods – among them Williamsburg, Greenpoint, Ft. Greene and Bushwick in Brooklyn, average real rents increased 50 percent or more over the 12-year period.
- **The elderly and working poor are making up a growing portion of low-income households,** with 40 percent of the increase tied to households in which the head is 60 years or older.
- In 2000, renters earning between \$20,000 and \$40,000 in inflation-adjusted dollars were dedicating an average of **33 percent** of their income to rental costs. Twelve years later that average jumped to **41 percent.** Their housing circumstances became more precarious even though their labor force participation rates soared.

It is clear that affordable housing remains one of New York City’s most pressing needs. Mayor de Blasio has laid out a goal of creating or preserving 200,000 units of affordable housing over a 10-year period, an ambitious increase over the 165,000 units pledged under Mayor Bloomberg’s 12-year New Housing Marketplace Plan.

Now, with the winding down of one major housing initiative and the launching of another, it is appropriate to take stock of the City’s housing circumstances, to evaluate the changes that have taken place in the city’s housing ecology, and to outline strategies for future housing investment that are informed by the city’s evolving housing landscape.

This report provides critical data to help policymakers align resources with needs, so that limited dollars can be targeted effectively and taxpayers assured of the greatest possible return on their investment. It is intended as a resource to help guide the City's affordable housing agenda and offers the following guidelines:

- 1. Alleviate the crushing affordability squeeze on working families.** Working families at the bottom end of the ladder – those making less than \$40,000 a year -- have seen their incomes stagnate, while the supply of rental apartments affordable to them is rapidly evaporating. Programs need to be geared to the specific income needs of this burgeoning group.
- 2. Invest in the stability and preservation of the New York City Housing Authority.** The intensity of the City's low-income housing situation reinforces the essential civic role played by NYCHA, as well as the need for greater investment in public housing by every level of government. The costs of rehabilitating NYCHA's housing stock are estimated at less than one-third the costs of replacing it.
- 3. Adopt a new mix of policies to reverse the alarming increase in homelessness.** The city's shelter population currently stands at more than 52,000, including over 22,000 children – an historic high. It is clear that a new mix of policies is needed to minimize the human and budgetary costs of a shelter system bursting at the seams.
- 4. Repair the rent regulation system.** New York's rent regulated housing stock is losing covered units at a faster rate than they are being replaced. As a result, one of the City's greatest housing challenges in the next decade will be stemming unwarranted attrition from the regulatory system and replenishing the pipeline of rent regulated housing – either through the preservation of existing housing stock or through new construction.
- 5. Address the special housing needs of the elderly and disabled.** The demographic shift in the City's low-income population towards the elderly will only grow as more Baby Boomers reach retirement age, suggesting that their housing needs should be carefully considered. Many of them are homeowners, and may need specialized services that allow them to remain in their homes as they age.

In the end, New York's position among global cities will be defined in large part by its ability to maintain diverse neighborhoods, and to attract and retain talent from around the world. A comprehensive plan that provides safe, affordable housing at all levels of the economic spectrum is not just important to the city's future, it is essential.

I. Introduction

In June, 1920, Walter Stabler, Comptroller of the Metropolitan Life Insurance Company and a member of Mayor John Hylan's Housing Conference Committee, proclaimed, "We are approaching a crisis in the housing situation. Unless radical action is taken, something drastic will happen."¹

At that time, New York City's perceived housing crisis was a result of the economic disruptions that followed World War I, and radical action was indeed taken. Later that year New York State adopted an early version of rent control and the City launched its first experiment with tax-subsidized housing construction. Because of—or perhaps in spite of—State and City housing policies, new housing construction in the 1920s exceeded 700,000 dwelling units,² by far the biggest housing boom the city ever experienced.

Yet, despite the 1920s' astounding surge in housing construction, by the mid-1930s tenants, landlords and public officials were once again referring to a crisis in the city's housing conditions.³ In fact, although the most urgent concerns have shifted over time, there has rarely been a period in the past century when New York City's housing market seemed to be serving adequately the needs of the city's residents.

Each Mayor during the past century has needed, in his turn, to redirect and retarget the City's housing effort to a different mix of pressing needs. Fiorello La Guardia and William O'Dwyer responded to a "low-rent housing crisis" with public housing and slum clearance; Mayors Wagner and Lindsay oversaw the massive Mitchell-Lama program that addressed the growing obsolescence of the city's housing stock in an era of rapid suburbanization. Ed Koch was confronted by a tide of housing abandonment; his administration's innovations to stem disinvestment and rebuild devastated communities were continued

1 "Need \$560,000,000 For Housing Crisis," New York Times, June 17, 1920.

2 Historical data courtesy of New York City Rent Guidelines Board.

3 "Tenement Owners Threaten Evictions," New York Times, February 1, 1937.

and refined under Mayors Dinkins and Giuliani.

By the time Mayor Bloomberg took office, the concern of advocates, policy makers, and the public had shifted to housing affordability and its inverse, homelessness. The city's economic rejuvenation in the 1990s contributed to an increase in the median rent that outpaced the national increase by about 15 percent, reinforcing the perception that the city's middle class was being squeezed between rising rents and stagnant incomes.⁴ Moreover, individual and family homelessness, which had emerged as a paramount civic issue in the 1980s, developed into a chronic strain on the City's budget and conscience.

Mayor Bloomberg responded to the affordability problem with his New Housing Marketplace initiative (NHMP). When announcing the program at a gathering of the New York Housing Conference in late 2002, the new Mayor justified the initiative by emphasizing the importance of affordable housing to the city's economic future. "Without these homes and neighborhoods, New York will lose these people—and lose its future. That's why affordable housing is fundamental to our long-term economic prosperity," the Mayor said in reference to the "safe and stable neighborhoods" the program would nurture.⁵

The Mayor initially promised a \$3-billion, 5-year plan to build 27,000 new affordable housing units and to preserve an additional 38,000 affordable units; the plan was eventually scaled up to 53,000 new construction units and 112,000 preserved units through 2014. Widely viewed as a laudable commitment to affordable housing, the NHMP is expected to reach its goal of creating and preserving 165,000 units of affordable housing by June 2014. Ultimately, execution of the plan required an investment of \$23.6 billion, of which \$5.3 billion were City funds and \$18.3 billion were leveraged from other public and private sources.⁶

4 From 1990 to 2000, the median rent increased 44 percent while the median renter income increased 28 percent.

5 "Housing Plan for New York City's 21st Century Neighborhoods," speech of Mayor Michael J. Bloomberg at New York Housing Conference/National Housing Conference 29th Annual Luncheon, December 10, 2002.
<http://www.gothamgazette.com/index.php/government/1481-mayor-michael-r-bloomberg-announces-housing-plan-for-new-york-citys-21st-century-neighborhoods>.

6 The New Housing Marketplace Plan 2003-2014. NYC Department

II. New York City's Housing in the Bloomberg Era

Nevertheless, the targeting of the plan and other housing policies of the Bloomberg Administration were not without their critics.⁷ Furthermore, according to a public opinion poll conducted in August 2013, 65 percent of New Yorkers felt that housing had become less affordable since Michael Bloomberg became mayor and 85 percent felt New York City was becoming too expensive for people like them to live in.⁸

During the mayoral election of 2013, candidate Bill de Blasio pledged to pursue an even more aggressive approach than the NHMP – the creation or preservation of 200,000 units of affordable housing over a ten year period. After his election he reiterated that goal and when announcing his appointment of Vicki Been as Commissioner of the Department of Housing Preservation and Development (HPD)⁹, Mayor de Blasio pledged: “We’re going to take a new approach to this crisis that holds nothing back. . . every decision we make will focus on maximizing the affordability of our neighborhoods.”

At a point in time when one massive housing investment effort is winding down and another is being designed, it is appropriate to take stock of the city’s housing circumstances, to evaluate the changes that have taken place in the city’s housing landscape, and to identify the most urgent housing needs we now face. That is the purpose of this report. The history of New York City’s housing programs shows a continual adaptation of its strategies in response to a constant evolution of its needs. The more clearly those needs can be defined, the more efficiently techniques can be designed to address them.

of Housing Preservation and Development.
<http://www.nyc.gov/html/hpd/downloads/pdf/HPD-Annual-2013-FINAL.pdf>

⁷ State of the City’s Homeless 2014. Coalition for the Homeless, March 14, 2014.

⁸ “New Yorkers’ Views on Their Mayor and His Programs.” New York Times, August 16, 2013.

⁹ The Mayor also appointed Carl Weisbrod as Chairperson of the City Planning Commission and Director of the Department of City Planning, Gilbert Taylor as Commissioner of the Department of Homeless Services, Shola Olatoye as Chair of the New York City Housing Authority, Gary D. Rodney as President of the Housing Development Corporation, and Alicia Glen as Deputy Mayor for Housing and Economic Development.

The Cost of Housing

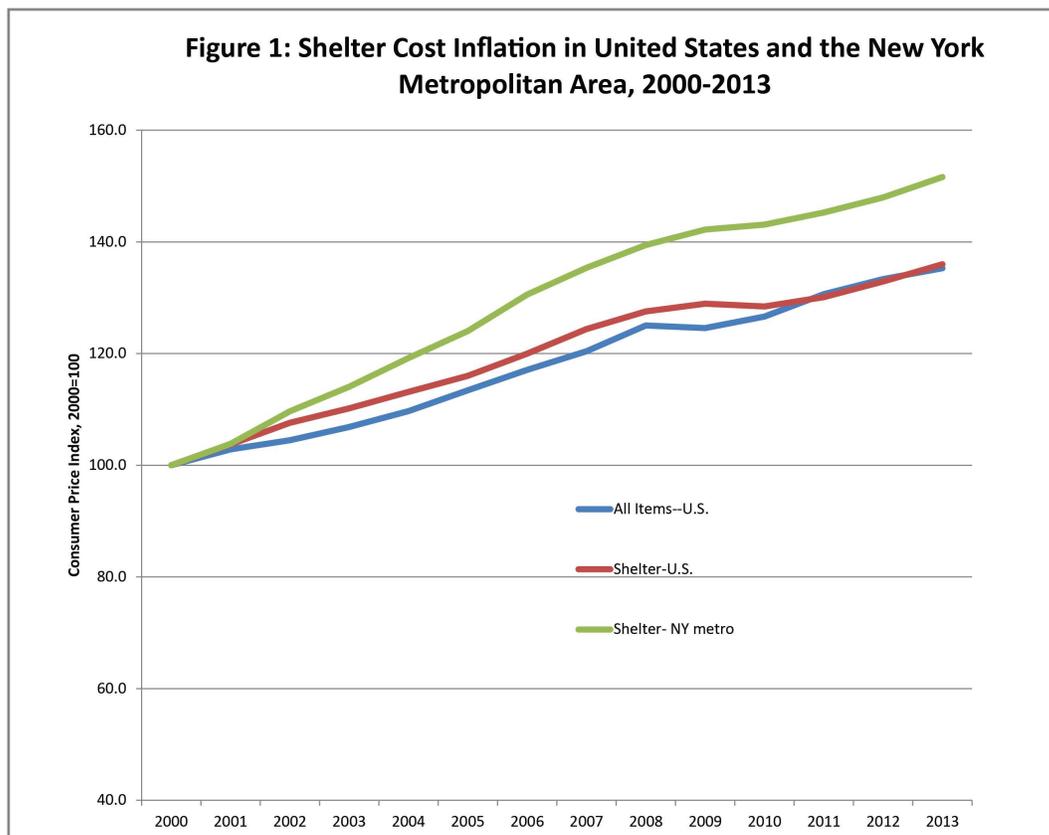
Even though consumer price inflation has been relatively modest in the 21st Century, it is understandable that most New Yorkers would perceive housing—as well as most other goods and services—as becoming more expensive. Between 2000 and 2013 national consumer prices for all items rose by about 35 percent, but by 41 percent in the New York metropolitan area. Moreover, the relative increase in the New York metropolitan area’s cost of living has been primarily driven by housing costs, which increased, according to the Bureau of Labor Statistics (BLS), by 45 percent, compared to a 34 percent national increase. Figure 1 shows the increase in the “Shelter”¹⁰ component of the Consumer Price Index (CPI) for the nation and for the New York metropolitan area since 2000. Although the familiar CPI shows clearly that housing in the New York region has grown more expensive relative to housing nationally during the period that spans Michael Bloomberg’s mayoralty, the BLS data has some important limitations. In particular, it is available only for the New York metropolitan area as a whole and its measure of ownership housing costs, while economically sound, does not directly measure home prices. Fortunately, there are other good sources of data that allow for a more granular analysis of regional housing prices.¹¹

Using the decennial U.S. Census and the annual American Community Survey (ACS), it is possible to confirm that housing costs rose faster in the New York metropolitan area from 2000 to 2012, and also that they rose faster in New York City than in the New York metropolitan area as a whole. (Table 1) Between 2000 and 2012 median apartment rents in New York City rose by 75

¹⁰ The shelter component excludes household fuel, utilities and furnishings.

¹¹ The CPI uses an “owners’ equivalent rent” measure of home costs.

percent, compared to 69 percent in the New York metropolitan area as a whole and 44 percent in the rest of the United States. Moreover, the faster rate of rent growth in the New York metro area was entirely due to rent increases in New York City; the median apartment rent in the metro area outside of the city grew by only 43 percent, nearly identical to the national increase. A similar pattern is evident when rents are measured by their average, although the gap in the rate of growth is not as large.



Within the city, rents grew fastest in Brooklyn, where the average monthly rent increased by 77 percent between 2000 and 2012. Although the highest average rents are found in Manhattan and the lowest in the Bronx, they increased by a nearly identical 65 percent between 2000 and 2012. Average rents in Queens and Staten Island grew somewhat more slowly, increasing by 63 percent and 55 percent, respectively.

“Between 2000 and 2012 median apartment rents in New York City rose by 75 percent, compared to 69 percent in the New York metropolitan area as a whole and 44 percent in the rest of the United States.”

At the turn of the century, rents in New York City with the exception of Manhattan were generally lower than rents in the surrounding parts of the metropolitan area. That was still true in 2012, but average rent growth of 69 percent in the outer boroughs closed the gap with many surrounding areas. Rents increased by 55 percent in northern New Jersey, by 54 percent in Nassau-Suffolk, by 51 percent in the northern New York suburbs, and by 44 percent in southwestern Connecticut. By 2012, Long Island remained the priciest rental market outside of Manhattan, but the average rent

in Queens had risen above those of the northern New York suburbs and southwestern Connecticut. Insofar as all of the metropolitan area counties serve, with a greater or lesser degree of commuting convenience, a common labor market, the relative rise of rents in the boroughs indicates some shift in residential preferences towards city living.

Census and ACS data also provide a vivid picture of how the distribution of rents in the city changed during the Bloomberg era. Table 2

compares the distribution of contract rents in 2000 to the distribution in 2012, with the 2000 rent values adjusted to 2012 dollars using the national CPI.¹²

The data show a dramatic upward shift of the city’s rent distribution during the 12-year period, with a

¹² Although calculations from ACS microdata samples yield precise estimates they should not be taken too literally. For example, the margin of error on the total number of NYC housing units in 2012 is +/-3,249, meaning that there is a 90% probability that the true number lies within that distance of the estimate.

Table 1:
Changes in Rent and Home Values, 2000-2012
New York City, New York Metropolitan Area,
and United States

	2000	2012	% Change
	(dollars)	(dollars)	(%)
Median Rent			
NYC	630	1,100	74.6
NY Metro area	650	1,100	69.2
Outside NYC	700	1,000	42.9
Rest of U.S.	480	690	43.8
Average Rent			
NYC	698	1,167	67.2
NY Metro area	708	1,144	61.6
Outside NYC	723	1,110	53.5
Rest of U.S.	515	773	50.1
Median Home Value			
NYC	225,000	450,000	100.0
NY Metro area	225,000	375,000	66.7
Outside NYC	187,500	350,000	86.7
Rest of U.S.	112,500	160,000	42.2
Average Home Value			
NYC	272,203	620,096	127.8
NY Metro area	256,041	489,107	91.0
Outside NYC	250,995	446,630	77.9
Rest of U.S.	144,486	227,987	57.8

Source: NYC Comptroller's Office from Census Bureau microdata

loss of approximately 400,000 apartments renting for \$1,000 or less (in 2012 dollars) and a corresponding gain in the number of apartments renting for more than \$1,000 per month. Moreover, the shift was not due to a small real increase in rents pushing many apartments over an arbitrary \$1,000/month threshold; the \$601 to \$800 apartment category declined by a whopping 240,000 units while the largest gain was in the number of apartments renting for \$1,201 to \$1,600. That shift drove the median city rent, in constant dollars, from \$839 in 2000 to \$1,100 in 2012.

The rise in the city's median real rent over the 12-year period may reflect, in part, the City's own community development efforts. By improving neighborhood conditions throughout the five boroughs, the City may have reduced the number of private apartments that rent at a discount because of undesirable neighborhood environments. Statistical measures of the dispersion of individual apartment

Table 2:
Distribution of Inflation-Adjusted Rents in New York City
 (based on 2000 rents adjusted to 2012 dollars using national CPI)

Rent Category	2000		2012		Net Change
	Number	Percent	Number	Percent	
Up to \$200	140,484	6.7	130,846	6.2	-9,638
\$201 to \$400	189,413	9.0	158,815	7.5	-30,598
\$401 to \$600	211,808	10.1	139,326	6.6	-72,482
\$601 to \$800	466,324	22.1	225,164	10.7	-241,160
\$801 to \$1,000	434,199	20.6	387,947	18.4	-46,252
\$1,001 to \$1,200	277,703	13.2	290,046	13.8	12,343
\$1,201 to \$1,400	114,622	5.4	211,519	10.1	96,897
\$1,401 to \$1,600	94,792	4.5	180,016	8.6	85,224
\$1,601 to \$1,800	27,400	1.3	94,265	4.5	66,865
\$1,801 to \$2,000	41,499	2.0	68,461	3.3	26,962
\$2,001 to \$2,200	14,794	0.7	41,798	2.0	27,004
\$2,201 to \$2,400	5,183	0.2	37,654	1.8	32,471
\$2,401 & over	89,080	4.2	138,744	6.6	49,664
Total	2,107,301	100.0	2,104,601	100.0	-2,700

Source: NYC Comptroller's Office from Census Bureau microdata

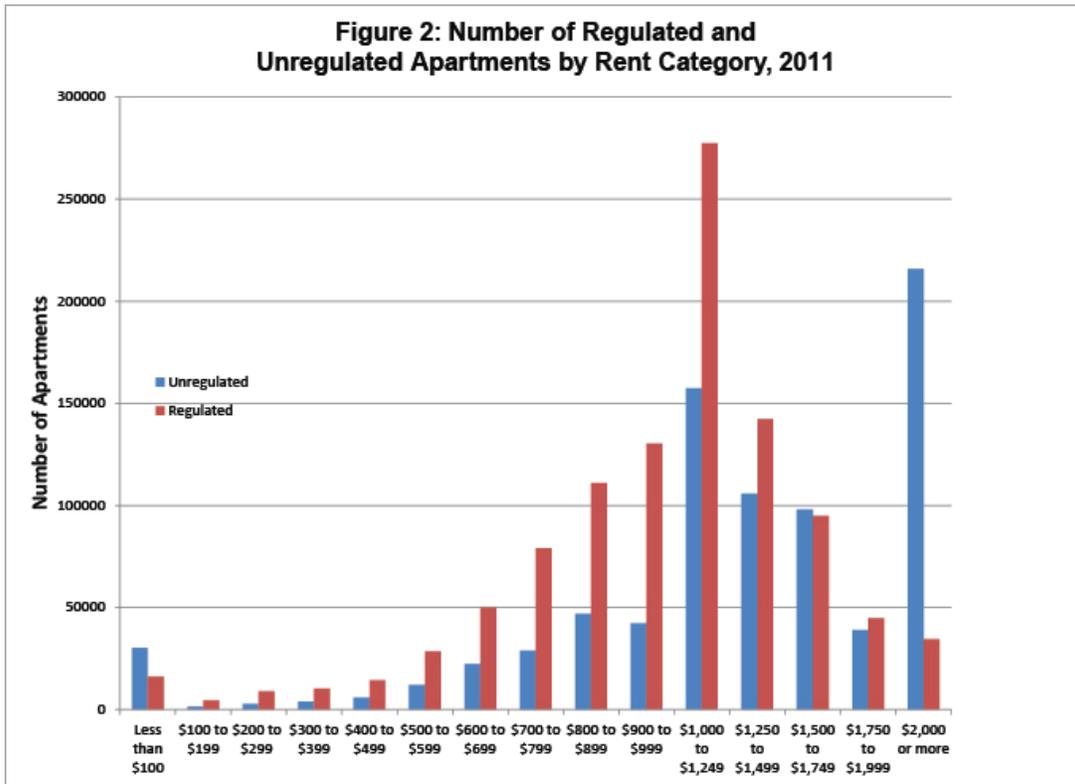
“A dramatic upward shift of the city’s rent distribution during the 12-year period, with a loss of approximately 400,000 apartments renting for \$1,000 or less (in 2012 dollars) and a corresponding gain in the number of apartments renting for more than \$1,000 per month.”

rents and of average rents among neighborhoods show a slight evening-out of rent levels throughout the city during the period studied.

Of course, New York City’s apartment rental market is the product of a complex interplay of regulated, unregulated, and subsidized housing units. According to the 2011 New York City Housing and Vacancy Survey (HVS),¹³ 55 percent of all

¹³ Data from the HVS are not strictly comparable to those from the decennial Census and ACS. More detailed tables from the 2011 HVS are available at <http://www.census.gov/housing/nychvs/> and a careful comparison of HVS and ACS data is provided in 2005 American Community Survey: A Comparison of Data on Selected Characteristics from the 2005 New York City Housing and Vacancy

Figure 2: Number of Regulated and Unregulated Apartments by Rent Category, 2011



apartments in the city renting for less than \$500 per month were public housing units or apartments in other government-assisted housing developments. (Figure 2) Conversely, 58 percent of apartments renting for \$1,250 or more were in the private,

the presence of a large, rent-regulated housing sector causes rents in the non-regulated sector to be higher than they otherwise would be, but there is no convincing empirical evidence on that point.

“55 percent of all apartments in the city renting for less than \$500 per month were public housing units or apartments in other government-assisted housing developments.”

unregulated sector. The middle rent levels are dominated by private, rent-regulated apartments.¹⁴

While most New York City households rent their homes, approximately one million own their cooperative apartments, condominiums, or conventional houses. Also, many renters aspire to own their own homes and many eventually do. Consequently, the price of owner-occupied housing is also an important indicator of the adequacy of the city’s housing options.

The most sophisticated, recent econometric study of New York City’s rent regulations found that rent regulations reduced monthly rents by an average of \$458 in regulated apartments in 2008, but that the effect was unevenly distributed throughout the city, with an average effect ranging from \$829 per month in Manhattan to \$195 per month in the Bronx.¹⁵ There has long been a controversy about whether

ACS data indicate that the price of the city’s owner-occupied housing rose even faster, in absolute and relative terms, than did rental housing prices during the 12-year period. According to the ACS, between 2000 and 2012 the average New York City owner-occupied home rose in value by 128 percent, compared to a 91 percent increase in overall New York metro area home values and to a 58 percent increase in the rest of the United States.

¹⁶Consequently, over the 12-year period the average

Survey, U.S. Census Bureau. http://www.census.gov/acs/www/Downloads/library/2008/2008_Callis_01.pdf

¹⁴ For these purposes, regulated apartments include those under Rent Control, Rent Stabilization, and the Mitchell-Lama program.

¹⁵ Rent Regulation: Beyond the Rhetoric. Citizens Budget Commission, 2010. http://www.cbcny.org/sites/default/files/REPORT_RentReg_06022010.pdf

¹⁶ The owner-occupied home values in the Census and ACS are self-reported by the questionnaire respondents. Technical research on self-reported home values finds that respondents report home

value of a home in the city rose approximately 28 percent relative to homes in the rest of the metropolitan area and by 44 percent relative to homes in the rest of the United States.

Another source of owner-occupied home price data, the well-known Case-Shiller Home Price Index, is available only on a metropolitan area basis. The index shows an 11 percent increase in New York metropolitan area home prices relative to the 20-city national average between the beginning of 2000 and the end of 2012, compared to the 21 percent relative gain shown by the ACS data. There are a number of technical reasons why the precise changes shown by these two measures might diverge, but in any case they are in agreement that metropolitan area home prices rose relative to national prices during the period. The Case-Shiller measure shows a narrowing of the gap in 2013, due to the strong rebound of national housing prices.

“Between 2000 and 2012 the average New York City owner-occupied home rose in value by 128 percent, compared to a 91 percent increase in overall New York metro area home values and to a 58 percent increase in the rest of the United States.”

The ACS data is in close agreement with the City’s own Finance Department. Finance Department assessments of the average market value of New York City 1-, 2- and 3-family homes and condominiums grew by 123 percent between fiscal years 2001 and 2013. Finance Department data on the median sales prices of 1-, 2- and 3-family homes in the city over this period also correspond well.¹⁷

In the case of ownership housing, however, the purchase price of a home is not the same as the ownership cost, since heating costs, water and sewer charges, maintenance costs, and real estate taxes, which are typically paid by renters in their contract rents, must be paid for separately by homeowners. Most importantly, debt service on a mortgage must also be paid, and the interest rate on available

mortgage loans is often a critical consideration in a home purchase. The steep decline in mortgage rates during the past decade mitigated—and in fact was partially responsible for—the large increase in home prices.

For example, a New York City homebuyer purchasing a median-priced 1-family home in the city in 2000, with an 80 percent loan-to-value ratio, would have incurred a monthly mortgage cost of \$1,238. A homebuyer purchasing a median-priced home in 2012 would have incurred a monthly mortgage payment of \$1,466.¹⁸ Although the median sales price increased by 90 percent over that time, the effective carrying cost of the home purchase (excluding taxes and other operating expenses) increased by only about 18 percent. In fact, most New York City homeowners who purchased their homes in 2000 or earlier have probably lowered their carrying costs during the intervening years by refinancing their mortgages. In the above example, the buyer of the median-priced home in 2000 could have lowered their monthly mortgage cost to about \$770 if they refinanced in 2012.

Housing Affordability

The cost of housing is one indicator of the adequacy of the city’s housing supply, but it necessarily must be evaluated against the level and trend of household incomes to determine affordability. The correlation between area household incomes and housing prices is one of the strongest empirical relationships in real estate economics.

Table 3 summarizes changes in all household and renter household incomes for New York City, the New York metropolitan area, and the United States between 2000

values reasonably accurately. See, for example: Brain Bucks and Karen Pence, Do Homeowners Know Their House Values and Mortgage Terms? Federal Reserve Board of Governors, 2006.

¹⁷ Annual Report on the New York City Property Tax, fiscal years 2001-2013. New York City Department of Finance.

¹⁸ The median sales price was \$209,900 in FY2001 and \$400,000 in FY2012, according to DOF’s Annual Report on the Real Property Tax. Monthly mortgage calculations were based on Freddie Mac’s Primary Mortgage Market Survey annual averages for 30-year, fixed rate mortgages for the respective years.

and 2012. The generally weak economic conditions, and the high and persistent unemployment after the financial crisis of 2008, allowed the median household income nationwide to rise by only 24 percent during the period, well below the 35 percent increase in consumer prices, leading to a 6 percent decrease in the national median income over the 12-year period.

Income growth, measured by either the median or the mean, was significantly stronger in New York City and its metropolitan area than in the rest of the nation. Median household income in the New York metropolitan area rose by 30.8 percent from 2000 to 2012, easily out-pacing the increase of 23.5 percent experienced in the rest of the country. Furthermore, the median income of city residents rose even more, by 33.3 percent. Unfortunately, because metropolitan area price growth exceeded the national inflation rate by about 0.3 percentage points annually, the median real income of New

York City households declined¹⁹ by 4.8 percent. Movements in mean and median income levels are instructive but can mask more complicated trends and crosscurrents. Table 4 shows the number of total NYC households by income category for 2000 and 2012. For comparability, year 2000 incomes were adjusted to 2012 price levels.

The table shows that there was considerable growth in the number of New York City households in three distinct income categories during the period. The greatest growth was in the two lowest income categories, and especially of those households in the \$20,000 to \$40,000 income band. There was also considerable growth in the number of households in the middle-income band of \$80,000 to \$160,000, and in the upper-middle band between \$200,000 and \$300,000. However, those three growing

Table 3
Changes in Household Incomes, 2000-2012
New York City, New York Metropolitan Area,
and United States

All Households	2000	2012	% Change
Median Income	(dollars)	(dollars)	(%)
NYC	38,100	50,800	33.3
NY Metro area	52,000	68,000	30.8
Outside NYC	61,000	79,400	30.2
Rest of U.S.	40,500	50,000	23.5
Average Income			
NYC	57,487	77,060	34.0
NY Metro area	73,628	97,641	32.6
Outside NYC	82,901	109,721	32.4
Rest of U.S.	54,459	69,797	28.2
Renters only			
Median Income			
NYC	30,000	38,000	26.7
NY Metro area	32,500	39,000	20.0
Outside NYC	36,000	40,000	11.1
Rest of U.S.	26,200	30,000	14.5
Average Income			
NYC	44,652	58,756	31.6
NY Metro area	45,674	58,112	27.2
Outside NYC	46,980	57,260	21.9
Rest of U.S.	34,772	42,064	21.0

Source: NYC Comptroller's Office from Census Bureau microdata

Table 4
Income Distribution of NYC Households, 2000 -2012
In Constant 2012 Dollars

All NYC Households	2000		2012		Net Change
	HH Income	Number	Percent	Number	
less than \$20,000	718,052	23.8	734,728	23.8	16,676
\$20,001 to \$40,000	546,038	18.1	581,304	18.8	35,266
\$40,001 to \$60,000	476,161	15.8	458,081	14.8	-18,080
\$60,001 to \$80,000	363,574	12.1	353,016	11.4	-10,558
\$80,001 to \$100,000	248,827	8.3	252,421	8.2	3,594
\$100,001 to \$120,000	167,388	5.6	179,215	5.8	11,827
\$120,001 to \$140,000	123,958	4.1	134,262	4.4	10,304
\$140,001 to \$160,000	80,887	2.7	89,733	2.9	8,846
\$160,001 to \$180,000	61,807	2.1	60,355	2.0	-1,452
\$180,001 to \$200,000	50,309	1.7	45,618	1.5	-4,691
\$200,001 to \$300,000	83,985	2.8	105,533	3.4	21,548
\$300,001 & above	95,018	3.2	91,541	3.0	-3,477
Total	3,016,004	100.0	3,085,807	100.0	69,803

Source: NYC Comptroller's Office from Census Bureau microdata

¹⁹ Regional incomes can be deflated using either the national or metropolitan CPI, depending on the analytical purposes to which the calculations are being put. If the NYC median income is deflated using the national CPI, there was virtually no change in the real median income of city households over the period.

income groups were separated by large income ranges in which the number of households declined, notably those between \$40,000 and \$80,000 annual income and between \$160,000 and \$200,000 annual income.²⁰

“(From 2000 – 2012) there was a dramatic shift in the city’s low income population toward elderly and working poor households. 40 percent of the increase in low-income households over the period were households in which the head was over 60 years old...low-income homeowners represented more than 60 percent of the increase in low-income households.”

All told, the number of households earning \$140,000 or more grew by about 20,000, or by 1,700 per year, during the 12-year period. During the same period, the city added about 52,000 low-income households, a rate of increase of 4,300 per year. Further analysis of Census and ACS microdata indicates that about 40 percent of the increase in low-income households over the period were households in which the head was over 60 years old,²¹ suggesting that much of the low-income growth was demographically driven and that the housing implications may not be straightforward. In fact, low-income homeowners represented more than 60 percent of the increase in low-income households. Despite the growth in the retirement-age low-income population, however,

²⁰ Recipients of Census and ACS questionnaires are required by law to comply with the surveys, but there is no legal sanction if a respondent household misreports its income. Consequently, it is useful to compare the data presented here with those from the New York State Personal Income Tax files. Those files for 2000 through 2011 show the number of New York City resident PIT filers growing much faster than the number of households estimated from Census Bureau data. There are a number of possible reasons for the numbers to differ aside from reporting errors. The number of PIT filers in each income category (measured by inflation-adjusted federal Adjusted Gross Income) increased; however, the relative increases by income category roughly correspond to the changes in the income distribution as discussed above.

²¹ More detailed tabulations of renter and owner incomes and characteristics of the city’s low-income population can be found on the Comptroller’s website, www.comptroller.nyc.gov

the number of low-income households headed by an employed or unemployed head increased by about 120,000, while the number headed by an individual not in the labor force declined by about 70,000. During the period under consideration, there was a dramatic shift in the city’s low income population toward elderly and working poor households.

As we have detailed in the preceding pages, New York City experienced a significant rise in inflation-adjusted rents during the 2000 to 2012 period while real incomes stagnated. Moreover, the distribution of apartment rents in the city shifted dramatically away from apartments in the \$400 to \$1,000 per month range (in constant 2012 dollars) at the same time there was a substantial increase in the number of city households earning between \$20,000 and \$40,000 annually—the very households that would require apartments between \$400 and \$1,000 in order to maintain reasonable housing cost budgets. In addition, there was a further diminution of the number of private apartments renting below \$600 per month and affordable to households with even lower incomes; approximately 60 percent of the remaining apartments renting for cash rents under \$600 per month are public or publicly-assisted units.²² As a result of these factors, the rent-to-income ratios of low-income New Yorkers have shown an alarming spike.

Table 5 shows the average contract rent-to-income ratio for all U.S. renters and for New York City renters in inflation-adjusted income categories. The table shows that rent-to-income ratios in New York City are three to four percentage points higher than those nationally at virtually all income levels, but that the biggest gap is among renters earning \$20,001 to \$40,000 annually. While the national average rent-to-income ratio was 30.0 percent in 2012, it was 41.4 percent for New Yorkers in that income band. For renters earning \$20,000 or less, the rent-to-income ratios in New York City are obviously untenable, and are quickly becoming so nationally as well. The housing circumstances of those low-income households—of which New

²² Excluding apartments occupied for no cash rent, which are usually occupied by building maintenance workers or by relatives of the property owner.

Table 5
Rent-to-Income Ratios for US and NYC Renters
by Household Income Category, 2000 vs. 2012

HH Income (\$2012)	Average Rent-to-Income Ratio			
	2000		2012	
	US	NYC	US	NYC
	(percent)		(percent)	
\$20,000 or less	55.2	68.7	58.7	68.0
\$20,001 to \$40,000	26.0	33.2	30.0	41.4
\$40,001 to \$60,000	18.1	22.2	20.9	27.8
\$60,001 to \$80,000	14.5	17.5	17.1	22.7
\$80,001 to \$100,000	12.5	14.1	15.1	19.5
\$100,001 to \$120,000	11.4	13.1	14.0	16.9
\$120,001 to \$140,000	10.5	12.4	13.0	15.7
\$140,001 to \$160,000	9.6	11.5	12.1	15.3
\$160,001 to \$180,000	9.2	11.2	11.4	13.5
\$180,001 to \$200,000	8.5	10.4	13.5	13.5
\$200,001 to \$300,000	7.2	8.7	9.3	12.0
\$300,001 & above	3.9	5.2	5.5	5.9
All Renter Households	29.3	35.6	34.7	39.4

Source: NYC Comptroller's Office from Census Bureau microdata

York City has some 630,000—must be considered extremely precarious unless they are receiving non-cash public subsidies or are already in subsidized housing.

The table also shows that rent-to-income ratios increased for renters in every income group, both nationally and in New York City, between 2000 and 2012. That is undoubtedly a reflection of the real income decline that

American workers experienced during the period. The national average increased more than the New York City average because more American households slid down the income ladder, but the increase was greater in New York City for most income bands. The biggest relative increase was, again, in the \$20,001 to \$40,000 income band. Average rent ratios for households in that income category increased four percentage points nationally, but by 8.2 percentage points in New York City.

“The biggest relative increase in rent-to-income ratios was in the \$20,001 to \$40,000 income band. Average rent ratios for households in that income category increase four percentage points nationally, but by 8.2 percentage points in New York City.”

The deterioration of housing affordability for low-income New Yorkers displayed above is based on the ratio of contract rents to household money income, a measure that is useful for evaluating the “fundamentals” of housing affordability in the city. Many low-income families, however, do not pay the entirety of their rental costs out-of-pocket; various rent subsidies make some nominally untenable rent-to-income ratios economically sustainable for their recipients. There are also some non-cash income supplements, such as food stamps and Medicaid, that raise the effective income of low-income families.

The most important non-cash rent subsidy for tenants in private housing is the federal Section 8 program. In Fiscal Year 2013 about 129,000 city households utilized Section 8 certificates and vouchers administered by the New York City Housing Authority (NYCHA) and the Department of Housing Preservation and Development, compared to approximately 102,000 in Fiscal Year 2001. The growth in the number of households utilizing Section 8 vouchers actually exceeded the growth in the number of low-income renter households in the city since 2000, but the increase was small relative

to the loss of low-cost apartments. A variety of other rent supplements are also provided since 2000, including Jiggets rent supplements, Housing Stability Plus supplements, Family Eviction Prevention supplements, and the like.

Unlike the American Community Survey, the New York City Housing and Vacancy Survey asks respondents the amount of rent they pay out-of-pocket, as well as their contract rent, and the type of rent subsidy they receive if any. The HVS data indicate that rent subsidies reduce the amount of cash rent renters earning \$20,000 or less pay by about \$200 per month, on average, and by about \$100 per month for renters earning between \$20,000 and \$40,000. Of course, renters actually receiving subsidies have their rents reduced by much more

than the average, while others receive no rent subsidy. Rent subsidies lower the number of very low income households (earning \$20,000 or less) who pay more than 50 percent of their income in rent from 500,000 to 383,000.

Homelessness

It is well established that homelessness is a multidimensional problem not solely attributable to housing market conditions. Unemployment, ill health, domestic violence, mental illness and substance abuse can all contribute to an individual or family's housing instability.²³ But all of those circumstances are more challenging when there is a mismatch between a household's income and its housing needs. Consequently, the incidence of homelessness can be considered a fundamental indicator of the city's housing conditions. For example, the structural housing conditions of a city, including the availability of low-rent housing and per-capita spending on residential beds and mental health care in supportive housing settings have both been statistically associated with homelessness rates.²⁴

Pursuant to a 1981 consent decree, New York City must provide shelter to every eligible individual or family that seeks it.²⁵ Since 1981, when there were an estimated 36,000 homeless individuals, the City's homeless population has fluctuated somewhat but ultimately it has risen.²⁶ As of March 20, 2014 the shelter population in New York City was 52,267, including over 22,000 children.²⁷

23 Mental Illness and Homelessness. National Coalition for the Homeless. July 2009.; Fazel, Hlosla, Doll and Geddes (2008): "The Prevalence of Mental Disorders among the Homeless in Western Countries: Systematic Review and Meta-Regression Analysis," PLOS Medicine, December 2, 2009; Fischer and Breakey (2002): "The epidemiology of alcohol, drug, and mental disorders among homeless persons," American Psychologist, 1991 46(11); .Koegel, Burnam and Farr (1988): "The prevalence of specific psychiatric disorders among homeless individuals in the inner city of Los Angeles", Archives of General Psychiatry, 45(12); Baker, Cook and Norris (2003): "Domestic Violence and Housing Problems: A Contextual Analysis of Women's Help-seeking, Received Informal Support, and Formal System Response," Violence Against Women, vol. 9, no. 7;.

24 Elliott & Krivo. "Structural Determinants of Homelessness in the United States." Social Problems (February 1991).

25 Callahan v. Carey. New York State Supreme Court, consent decree (1981).

26 "Wanderers Find Shelter and a New Life," New York Times, April 21, 1981.

27 Testimony before the New York City Council General Welfare

These historic highs in homelessness are not part of a nationwide trend, as HUD Secretary Shaun Donovan noted, saying "the trend that is happening in New York City is not happening in lots of cities around the country".²⁸ Indeed, as HUD's Annual Homeless Assessment Report indicates, nationwide homelessness has declined nine percent since 2007, yet New York City continues to register troubling gains in homeless populations.²⁹

The Coalition for the Homeless, an advocacy and service organization dedicated to assisting homeless populations in New York City, has gathered data published by the New York City Department of Homeless Services (DHS) from January 2002 through November 2013 to track fluctuations in shelter populations and the length of shelter stays for families.

"As of March 20, 2014 the shelter population in New York City was 52,267, including over 22,000 children. These historic highs in homelessness are not part of a nationwide trend."

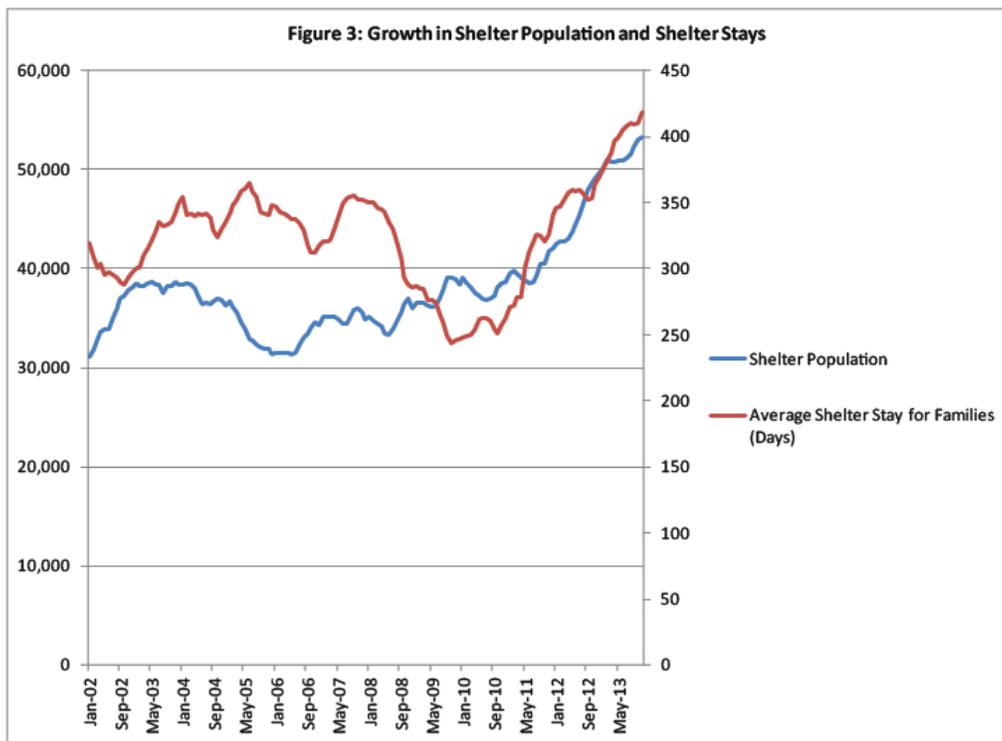
At its lowest point during a transition in mayoral administrations in January 2002, the City's shelter population was 31,063. In the subsequent sixteen months the shelter population increased by 24 percent to 38,662 in May 2003 before dropping to 31,350 in May 2006. Over the next six years, shelter populations steadily grew reaching 42,805 in February 2012. This period marked a turning point for the City's shelters with the discontinuation of the Advantage program and the unfortunately coincident advent of the Great Recession.

The Advantage program was launched in 2007 and was jointly funded by the City and the State. Advantage was available for up to two years and

Committee. March 24, 2014.

28 Donovan, Shaun. Interview with Matthew Cooper. The Atlantic Energy and Infrastructure Super Summit. December 12, 2013.

29 The 2013 Annual Homeless Assessment Report to Congress. U.S. Department of Housing and Urban Development. <https://www.onecpd.info/resources/documents/AHAR-2013-Part1.pdf>



came in four different formats: Work Advantage, Fixed Income Advantage, Children Advantage and Short-Term Advantage. Work Advantage, the most common variant, provided rental subsidies to families that had been in shelter for 90 days and to single adults who had been in shelter for at least 180 days out of the previous year. The working poor were targeted for inclusion in the Work Advantage program with participant requirements that included at least 20 hours of work per week and incomes below 150 percent of the federal poverty level. Fixed Income and Children Advantage were targeted to specific populations such as veterans and children with special needs and Short-Term Advantage was targeted to families with income between 150 percent and 200 percent of the federal poverty level. Thus, as a result of their specialized parameters, these programs were used to a lesser extent than Work Advantage and in some cases required a direct referral from the Human Resources Administration or the Administration for Children’s Services.³⁰

Following a cut in State funding and a prolonged legal battle, the Department of Homeless Services ended

its Advantage program in February 2012.³¹ In the twenty-one months that followed some 49.4 percent of families enrolled in the Advantage program returned to the shelter system.³² By November 2013, shelter populations surged to 53,270 – an increase of over 70 percent over the course of the Bloomberg administration. In addition, the average length of shelter stays for families increased over this same period from 319 days in January 2002 to 419 days in November 2013. Figure 3 illustrates those two trends.

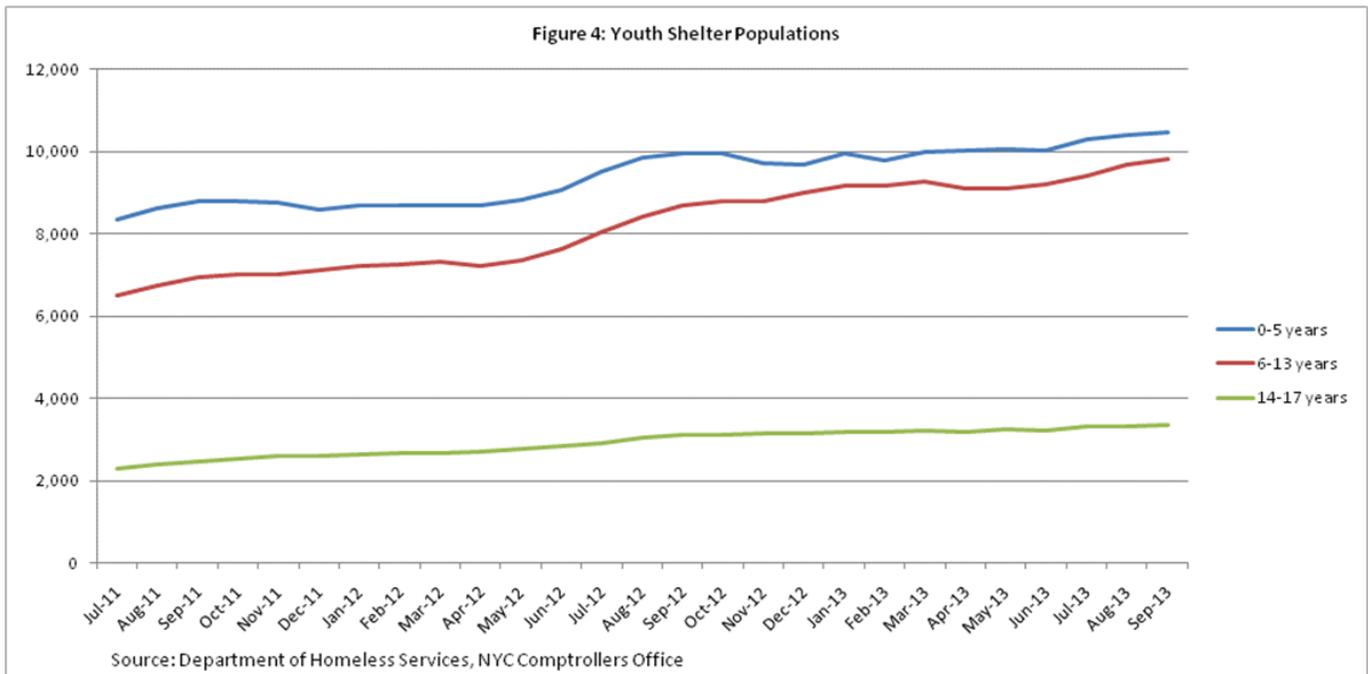
The Department of Homeless Services posts a series of “critical activity reports” which provide data on permanent placements and other exits from the shelter system from Fiscal Year 2002 – Fiscal Year 2011. Data is broken down into three categories – single adults, family services and adult services. The adult services category was established in Fiscal Year 2010, so data in that category is limited.

From July 2001 – June 2011, the City placed 145,682 shelter dwellers in permanent housing or other

³⁰ New York City Department of Homeless Services. Advantage Fact Sheets. <http://bit.ly/1gWYUKT>

³¹ New Destiny, a non-profit provider of housing for victims of domestic violence, provides a detailed summary of the legal proceedings surrounding the Advantage program with links to relevant court documents: <http://www.newdestinyhousing.org/get-help/advantage-ny>

³² The Revolving Door Keeps Spinning. Coalition for the Homeless. December 28, 2013.



situations, a monthly average of 1,214. The most widely used placement vehicle for the Department of Homeless Services was the Advantage program. During its lifespan, the variants of the Advantage program were responsible for 22,675 permanent housing placements, with Work Advantage responsible for the majority of the Advantage placements.

Among the least utilized vehicles for shelter placements were the New York City Housing Authority and the Department of Housing Preservation and Development. During the ten year period for which data is available, only 6.9 percent of all placements were reported at these two agencies with only 2,051 HPD placements and 8,061 NYCHA placements.

NYCHA shelter placements averaged 106 per month for families in shelter from FY 2001 to FY 2006. However, following a change in housing policy, those placements dropped precipitously, to about 11 per month. The high water mark for NYCHA shelter placements was 343 shelter dwellers in August 2005. However, after September 2006 that figure never went above 60 in any given month and lingered in the single digits and teens for much of

“NYCHA shelter placements averaged 106 per month for families in shelter from FY 2001 to FY 2006. However, following a change in housing policy those placements dropped precipitously, to about 11 per month.”

FY 2009 through FY 2011.

A recent surge in the youth shelter population is among the most troubling of the City’s homelessness trends. Data published by the Department of Homeless Services reveals steady upward increases in child and adolescent shelter populations from July 2011 to September 2013. During this time period, the number of children age 5 and under in homeless shelters increased by over 25 percent, children ages 6-13 increased by over 50 percent and children ages 14-17 increased by over 47 percent.³³

Figure 4 illustrates increases in youth shelter populations from July 2011 through September 2013.

In addition to the City’s shelter census, the prevalence of street homelessness is another

indicator that the Department of Homeless Services routinely tabulates. Since 2005, the Department of Homeless Services has conducted an annual homeless population outreach estimate known as the HOPE survey. The survey is usually conducted each January with the cooperation of thousands of volunteers and its results provide a snapshot of street homelessness during the winter months.

³³ <http://www.nyc.gov/html/dhs/html/communications/stats.shtml>

III. Why Has New York City's Housing Grown So Expensive?

Street homelessness recorded by the HOPE survey peaked at 4,395 in 2005; hit a low of 2,328 in 2009 and most recently rose back up to 3,180 in 2013.³⁴ Although the unsheltered surface area population had decreased dramatically from 3,550 in 2005 to 1,339 in 2013, unsheltered subway populations have increased by over 117 percent during this same time period.

Manhattan consistently registers the highest street homelessness results. A research team that examined the methodology of the HOPE survey has speculated that because Manhattan's buildings are often directly adjacent to sidewalks with restricted access to areas behind buildings, there are fewer opportunities to shelter in the types of discreet areas that are available in the other boroughs.³⁵

As homelessness has expanded in New York City, so too has the budget for homeless services. According to the City's FY03 Adopted Budget, the City's expense budget for the Department of Homeless Services was over \$535.8 million in FY02.³⁶ Since that time, the agency's operating budget has grown at a pace well above the rate of price inflation; the Office of Management and Budget forecasts over \$1.04 billion in spending for the Department of Homeless Services by the conclusion of FY14 and the Mayor's Preliminary Budget calls for some \$981.6 million in FY15.³⁷ The average annual cost to shelter a family in one of the City's 167 family shelters is \$34,573.³⁸

Clearly, a renewed commitment is necessary to alleviate the City's mounting homelessness problem. Housing policy measures that have been proposed in the past to mitigate homelessness include: liberalizing access to public housing for families and individuals in shelters, establishing new rental voucher programs, expanding permanent housing production for the homeless, and placing a heavier emphasis on low-income housing preservation and homelessness prevention services. All of those options merit consideration.

³⁴ <https://a071-hope.nyc.gov/hope/statistics.aspx>

³⁵ <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2446453/>

³⁶ http://www.nyc.gov/html/omb/downloads/pdf/erc7_02b.pdf

³⁷ <http://www.nyc.gov/html/omb/html/publications/projections.shtml?45>

³⁸ http://comptroller.nyc.gov/wp-content/uploads/2013/07/20130509_NYC_RentalSubsidyProgram_v12.pdf

The indicators of New York's housing trends presented in the preceding section of this report suggest that, even after the Bloomberg Administration's substantial investment in affordable housing, the city's housing conditions remain problematic. Some concerns—such as a middle-tier housing stock that falls short of modern American standards—are competitively important but long-term in nature.³⁹ Others—such as a growing homeless shelter population that cannot continue on its current trajectory—are urgent. But the overriding development in the city's housing picture has been the significant upward shift in the city's apartment rent distribution, as reflected by a median rent that has increased by 31 percent in real terms in just 12 years.

As previously noted, it is a truism of urban real estate that metropolitan income growth is one of the drivers of metropolitan housing price growth. Yet, the city's recent housing cost inflation has come during a period of notably stagnant real income growth. This section explores several possible explanations for that troubling inconsistency.

Gentrification

Gentrification is one of the most controversial processes in the modern urban environment, partly because it is poorly defined and poorly understood. In this discussion we use the term in only one of its limited meanings: a growth in the number of middle- or high-income households in a neighborhood or the city as a whole. The increase could come from a number of sources—through migration from other parts of the country or from abroad, from the shifting

³⁹ Relative to other parts of the United States, New Yorkers generally enjoy fewer housing amenities and live in more compact dwellings. Only one in four New Yorkers live in homes with more than one bathroom and nearly two thirds of New Yorkers live in homes with two bedrooms or less. In comparison, approximately 65 percent of American homes come equipped with more than one bathroom and/or more than two bedrooms. Appliances such as washing machines and clothes dryers, dishwashers and in-sink garbage disposers – common amenities in most American homes – are rare luxuries in the typical New York City dwelling.

of resident households from one neighborhood to another, or endogenously, resulting from the upward economic mobility of the city or neighborhood's resident population.

It is reasonable to expect that if the number of middle- or high-income households in a neighborhood increases, so will average rents and home prices. New housing development, typically of a higher quality and higher cost than the existing housing stock, will usually become more viable and common. There will be more competition for existing housing units and more income available to monetize that competition. Also, existing housing may command higher prices simply because a proliferation of retail services and other neighborhood improvements make the neighborhood more valued by renters and homebuyers.

It has already been noted in this report that New York City as a whole has been “gentrifying,” but at a rate much slower than commonly perceived. According to ACS data, the number of high-income households (over \$160,000 in 2012 dollars) increased by only about 12,000 over the 12-year period, a small change in representation in a city with over 3 million households.⁴⁰ Overall, that

40 The New York State personal income tax files show faster growth, but overall a fewer number, in that income group for the 2000 to 2011 period. The data are not necessarily inconsistent, insofar as the ACS

income group grew from 9.65 percent of the city's households to 9.82 percent over the period.

Few New York City households earning \$100,000 annually would consider themselves “high income,” but according to conventional standards of housing affordability they would be expected to spend up to \$2,500 per month on rent. When we expand our consideration to households able to realistically spend that much on rent, high-income household growth is found to be somewhat more rapid; the number of city households earning \$100,000 or more in inflation-

“The number of high-income households (over \$160,000 in 2012 dollars) increased by only about 12,000 over the 12-year period, a small change in representation in a city with over 3 million households.”

adjusted dollars grew by about 43,000, or by about 3,600 per year. Even that number, however, is far less than the net increase in the city's housing supply over the period. Furthermore, nearly 60 percent of the additional households earning

\$100,000 or more were homeowners. The increase in renter households earning \$100,000 or more was only about 19,000 over the whole period, or about 1,600 per year. It is difficult to see how that relatively small increase in the number of mid- and high-income renters could result in the disappearance of nearly 400,000 affordable apartments (those renting for under \$1,000 per month).

While gentrification of the city's household distribution was an unlikely cause of rent inflation citywide during the Bloomberg era, the evidence at the borough and neighborhood level is more convincing. During the 12-

data is collected on a household basis while the unit of observation in the tax files is “tax filer.” In 2011, 6.1 percent of NYC resident income tax filers reported federal adjusted gross incomes of \$160,000 or more.

Table 6
Change in Households Earning Over \$100,000 in 2012 Dollars and Change in Real Rents, 2000-2012

Neighborhood	HHs>\$100,000			Real Average Rent		
	2000	2012	Net Change	2000	2012	% Change
Chelsea/Clinton/Midtown	25,770	36,461	10,691	1,456	1,864	28.0
Brooklyn Heights/Fort Greene	12,730	22,401	9,671	933	1,474	58.0
Williamsburg/Greenpoint	5,794	13,389	7,595	737	1,297	76.1
Greenwich Village/Financial District	31,050	38,270	7,220	1,651	2,096	27.0
Park Slope/Carroll Gardens	15,493	20,864	5,371	1,183	1,634	38.1
Astoria	12,069	17,126	5,057	882	1,185	34.4
Lower East Side/Chinatown	9,791	14,007	4,216	864	1,234	42.8
Central Harlem	3,873	7,779	3,906	585	853	45.7

	HHs>\$100,000			Real Average Rent		
	2000	2012	Net Change	2000	2012	% Change
North Crown Heights	5,806	9,431	3,625	725	1,028	41.7
East Harlem	4,174	7,645	3,471	658	952	44.6
Rockaways	6,191	9,324	3,133	716	895	25.0
Bedford Stuyvesant	4,119	6,724	2,605	627	921	46.8
Bushwick	2,673	4,788	2,115	684	1,028	50.3
Sunnyside/Woodside	8,678	10,672	1,994	943	1,323	40.4
Throgs Neck/Co-op City	9,984	11,890	1,906	831	942	13.4
Forest Hills/Rego Park	13,829	15,534	1,705	1,100	1,243	12.9
Sunset Park	6,490	8,006	1,516	829	1,093	31.8
Hillcrest/Fresh Meadows	14,833	16,013	1,180	981	1,134	15.5
Upper West Side	47,645	48,803	1,158	1,442	1,640	13.8
North Shore SI	14,632	15,683	1,051	782	902	15.4
Morningside Heights/Hamilton Hts	7,880	8,835	955	818	1,198	46.5
Washington Heights/Inwood	8,468	9,260	792	751	945	25.8
Kew Gardens/Woodhaven	9,183	9,919	736	945	1,214	28.6
Flatlands/Canarsie	17,423	18,014	591	900	1,027	14.1
Brownsville/Oceanhill	2,667	3,251	584	596	829	39.0
Highbridge/S Concourse	2,160	2,671	511	671	824	22.8
Mid-Island SI	15,743	16,249	506	859	886	3.2
East New York/Starret City	4,751	5,169	418	721	857	18.9
Jamaica	13,214	13,571	357	835	1,024	22.6
Morrisiana/East Tremont	2,150	2,477	327	557	711	27.7
Coney Island	4,917	5,212	295	696	743	6.8
Bensonhurst	11,013	11,293	280	845	1,010	19.6
South Shore SI	21,065	21,214	149	876	1,059	20.9
Stuyvesant Town/Turtle Bay	38,928	38,938	10	1,707	2,016	18.1
Borough Park	8,452	8,297	-155	867	1,073	23.8
Pelham Parkway	7,505	7,313	-192	814	1,004	23.3
Middle Village/Ridgewood	12,216	11,965	-251	872	1,057	21.3
Mott Haven/Hunts Point	2,443	2,163	-280	491	689	40.4
Jackson Heights	9,415	8,937	-478	936	1,152	23.0
Sheepshead Bay/Gravesend	12,585	12,098	-487	836	989	18.2
Riverdale/Kingsbridge	9,929	9,429	-500	933	1,108	18.8
University Heights/Fordham	2,593	2,076	-517	671	857	27.7
Soundview/Parkchester	6,424	5,844	-580	722	869	20.3
Bay Ridge	12,397	11,691	-706	914	1,148	25.5
Howard Beach/S Ozone Park	9,804	8,922	-882	955	1,217	27.5
Flatbush	9,682	8,751	-931	818	995	21.6
East Flatbush	7,478	6,450	-1,028	841	962	14.4
Bayside/Little Neck	15,582	14,405	-1,177	1,145	1,309	14.3
Kingsbridge Heights/Mosholu	4,080	2,859	-1,221	763	968	26.9
Elmhurst/Corona	7,404	6,132	-1,272	950	1,172	23.4
South Crown Heights	4,891	3,536	-1,355	784	963	22.9
Bellrose/Rosedale	20,135	18,549	-1,586	1,022	1,201	17.6
Upper East Side	61,070	59,330	-1,740	1,709	1,834	7.3
Williamsbridge/Baychester	9,014	6,736	-2,278	817	980	20.0
Flushing/Whitestone	21,542	18,686	-2,856	1,020	1,125	10.3

Source: NYC Comptroller's Office from Census Bureau microdata

year period, Brooklyn gained about 28,000 mid- and high-income households and Manhattan gained about 21,500 such households; all of the other boroughs saw the number of their resident households earning \$100,000 or more decline. It may not be coincidental that Brooklyn experienced the largest increase in average rents while Queens and Staten Island the lowest.

The effects of a reshuffling of the city residential patterns on the rental market can be seen even more at the neighborhood level.

Just five sub-borough areas had a net change in households earning \$100,000 or more of over 40,000, compared to a change for the city as a whole of 43,000. Overall, 33 sub-borough areas had an increase in mid- and high-income households while 21 sub-borough areas lost such households between 2000 and 2012. As can be easily seen from Table 6, there was a high correlation⁴¹ between a neighborhood's gain in households earning \$100,000 or more and the percentage change in its average rent level.

The neighborhood data suggests that there is a positive correlation between the increase in the number of middle- and high-income households residing in a neighborhood and the rate of increase in real average rents. However, every New York City neighborhoods that saw a decrease in the number of households earning \$100,000 or more nevertheless experienced an increase in real average rents between 2000 and 2012, ranging from 7 percent (Upper East Side) to 40 percent (Mott Haven/Hunts Point). No New York City sub-borough area witnessed a decrease in real average rents during the 12-year period. The implication is that while gentrification may have played a role in raising rent levels in some neighborhoods, there were other factors at work that were putting pressure on rent levels citywide.

⁴¹ The correlation coefficient between the two change variables is +.62.

Rent Regulation

New York City has a rent regulation system that shields covered tenants from extreme rent shocks and provides crucial protections that facilitate tenant longevity in their homes during times of housing emergency. New York's rent regulations are enabled by the 1969 Rent Stabilization Law which is subject to renewal every three years in order to determine if a housing emergency remains in effect.⁴²

*“No New York City sub-borough area witnessed a decrease in real average rents during the 12-year period”
(from 2000 – 2012).*

New York City's vacancy rate is arguably the most important statistic tracked by the Housing and Vacancy Survey. A vacancy rate below 5 percent legally defines

a “housing emergency” which enables the City's rent regulation laws.⁴³ According to the most recent HVS report, the vacancy rate in New York City in 2011 was 3.12 percent, an increase from a citywide vacancy rate of 2.94 percent in 2002.⁴⁴ The vacancy rate reported in the 2011 HVS triggered a three year renewal of rent regulations that was signed into law by Mayor Bloomberg on March 26, 2012.⁴⁵

According to the 2011 HVS report, 45.7 percent of renter households in New York City are rent stabilized, 1.8 percent are rent controlled, 8.8 percent live in public housing and 38.6 percent live in unregulated or “market rate” rental units.⁴⁶

⁴² “The New York Rent Stabilization Law of 1969”. Columbia Law Review. (January 1970).

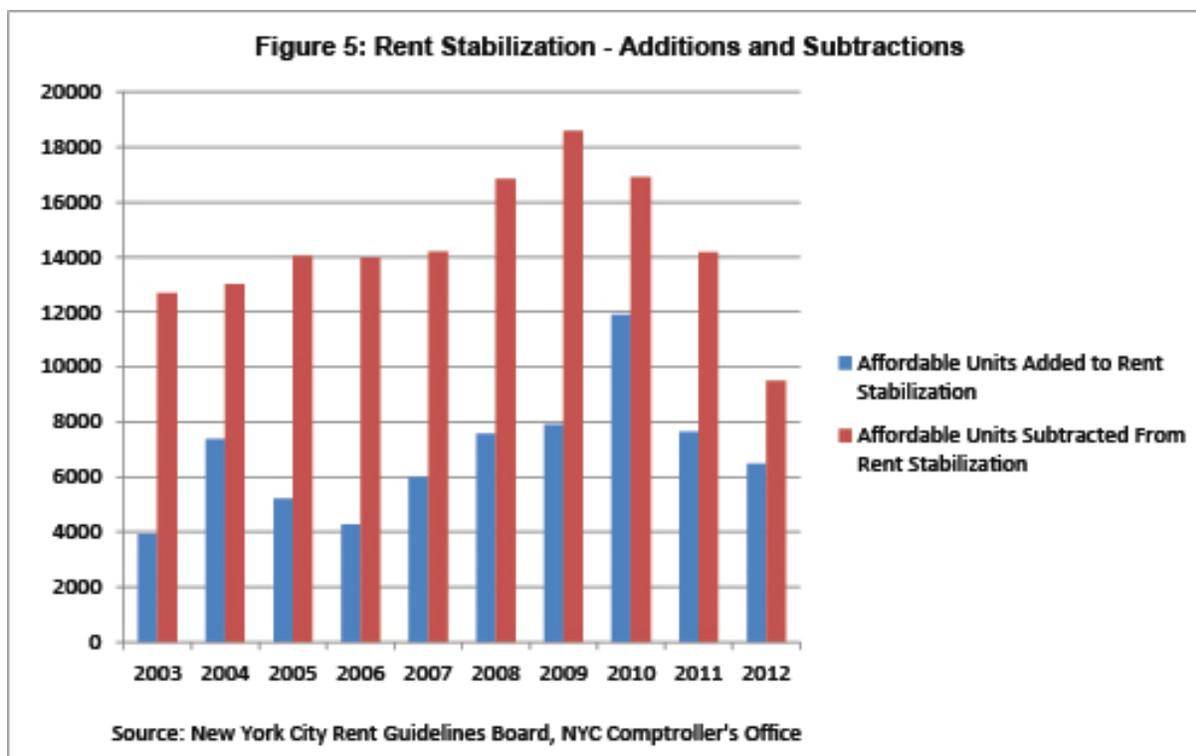
⁴³ The 2011 HVS report noted that vacancy rates in New York City increased for units in high rent categories and decreased for units in low rent categories. The 2011 HVS report observed “a pervasive shortage of available vacant units for rents of less than \$1,000 in the City and the shortage of those available for less than \$800 was appallingly acute”. That conclusion aligns with the findings of this report, which also details a dramatic tightening of the housing supply for low income residents.

⁴⁴ According to HVS data, the number of vacant units in New York City gradually increased over the last four Housing and Vacancy Survey's. After a rise of 9.6 percent from 2002 – 2005, the total number of vacant units remained stable until 2011, when the total number of vacant units increased once again. Most notably, from 2008 to 2011, the number of vacant units not available for rent or sale grew by 19.6 percent.

⁴⁵ Mayor Bloomberg Signs Legislation Extending the Rent Stabilization Law through April 2015. Press Release 107-12. March 26, 2012.

⁴⁶ The Rent Guidelines Board provides detailed explains of the distinction between rent control and rent stabilization on their website

Figure 5 illustrates the attrition of affordable housing units from the rent stabilization system over the course of the last decade.



The remaining renters in New York City are spread across other affordable housing programs, including Mitchell-Lama housing, In Rem housing, regulated lofts and other housing regulated by the U.S. Department of Housing and Urban Development.

The New York City Rent Guidelines Board (RGB) sets rent adjustments for the City's rent regulated housing stock. Each year, the RGB convenes for a series of meetings to review and deliberate the findings contained in annual research reports on housing conditions and receive testimony on current housing conditions from tenants, owners and other concerned New Yorkers. Following these meetings, the RGB agrees upon a certain percentage increase for rents in the City's rent regulated apartments.

The costs and benefits of rent regulation in New York City has been a topic of intense civic debate for many years. A 2010 analysis, based largely on data from the 2008 HVS, was published by the Citizens Budget Commission (CBC) and provides the most recent reputable estimates of the effects of

regulation.⁴⁷ The CBC found that 86 percent of the monetary benefits go to households with incomes less than \$100,000. The report estimated that rent-regulated tenants in Manhattan realize average discounts amounting to \$9,954 per year. However, in the other boroughs where regulated rents more closely align with unregulated rents, the report found lesser discounts for rent regulated tenants. Tables 9 and 10,⁴⁸ which appear later in this report suggest that rent regulated tenants in the Bronx and Queens realize the smallest discounts. The CBC also attributes a \$283 million decrease in property tax revenue to the City's rent regulation regime and uses maintenance deficiency data from the HVS to show that rent regulations may discourage necessary building maintenance, especially large building-wide major capital improvements.

Data published by the New York City Rent Guidelines Board shows that from 1994 to 2012 New York City

at: http://www.nycrgb.org/html/glossary_defs.html#rentcontrol and http://www.nycrgb.org/html/glossary_defs.html#rentstab

47 The Rent Guidelines Board provides detailed explains of the distinction between rent control and rent stabilization on their website at: http://www.nycrgb.org/html/glossary_defs.html#rentcontrol and http://www.nycrgb.org/html/glossary_defs.html#rentstab

48 This refers to "average stabilized rents from 2002 – 2011" and "average market rate rents from 2002 – 2011" on page 15.

added 144,113 new rent stabilized units and lost 249,355 rent stabilized units – a net loss of 105,242 regulated housing units. Some 10,126 additions to the City’s rent stabilized housing stock over this time period came from Mitchell-Lama buyouts. These additions are the result of a 1991 regulation which stipulated that rental units in developments that leave the Mitchell-Lama program would be subject to rent stabilization laws.⁴⁹ Additionally, another 37,383 additions were the result of conversions from rent control to rent stabilization.

Thus, nearly one third of rent stabilized apartment gains from 1994 through 2012 were achieved by shifting the classification of certain housing units. After accounting for this regulatory shifting, the true increase in affordable apartments through the rent stabilization system is 96,604 units – a net loss of 152,751 affordable housing units in New York City’s rent stabilization system from 1994-2012.

Of the 144,113 units that were added to the rent stabilized housing stock from 1994-2012, the majority were the result of tax incentive programs. Among the largest generators of new rent stabilized housing was the 421-a property tax exemption⁵⁰ and the 420-c tax incentive for low income housing developed by non-profit corporations⁵¹ which accounted for 36.9 percent and 26 percent of new rent stabilized units respectively. Among the units that were subtracted from rent stabilization over the last decade, high-rent vacancy deregulation and high-

rent high-income deregulation accounted for 74 percent of rent stabilized apartment losses.

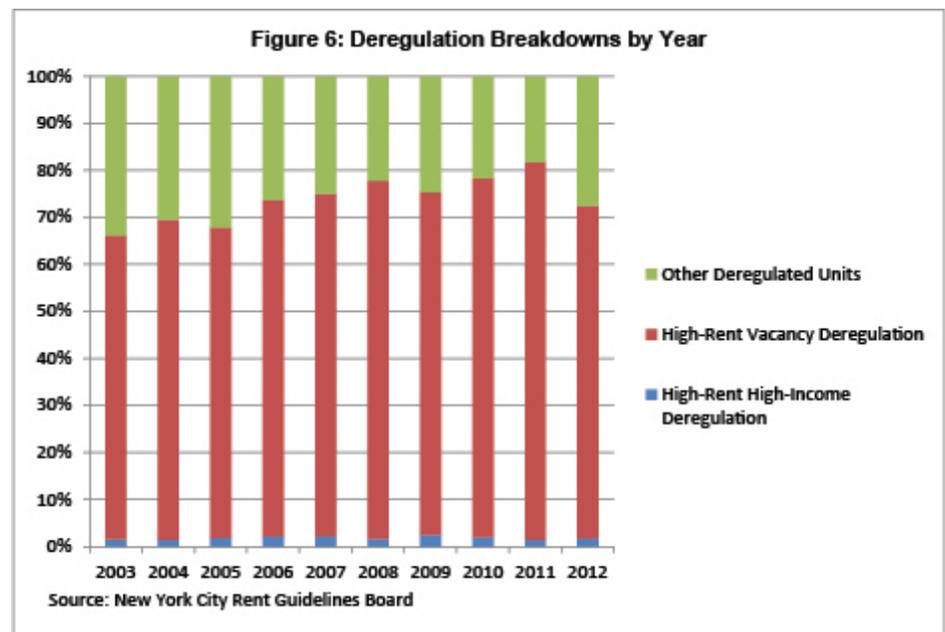
High-rent vacancy deregulation occurs when a tenant moves out of a rent stabilized apartment where the maximum legal rent is greater than or equal to \$2,500. High-rent high-income deregulation occurs when the maximum legal rent at a rent stabilized apartment is greater than or equal to \$2,500 and when the total annual federal adjusted gross income of the current tenant household exceeds \$200,000 for two consecutive years. Prior to a strengthening of the

New York State rent laws with the passage of the Rent Act on June 24, 2011⁵², the lower thresholds outlined in the Rent Regulation Reform Act of 1997⁵³ prevailed.

Other losses of affordable housing units from the City’s rent stabilized housing stock can be attributed to co-op and condo conversions, the expiration

“(There was) a net loss of 152,751 affordable housing units in New York City’s rent stabilization system from 1994-2012.”

Figure 6 illustrates the large role played by vacancy deregulation in recent losses to the City’s rent stabilized housing stock.



49 New York State Homes and Community Renewal. About the Mitchell-Lama Housing Program.

50 New York City Department of Housing Preservation and Development. 421-a Tax Incentives. <http://www.nyc.gov/html/hpd/html/developers/421a.shtml>

51 New York City Department of Housing Preservation and Development. 420-c Tax Incentives. <http://www.nyc.gov/html/hpd/html/developers/420c.shtml>

52 New York State Assembly. Assembly Bill A08518. <http://bit.ly/1hP4tzL>

53 Rents greater than or equal to \$2,000 and household income of \$175,000 or more. New York State Homes and Community Renewal. Summary of the Rent Reform Act of 1997. <http://www.nyscr.org/Rent/inforent.htm>

of 421-a and J-51 tax incentives, substantial rehabilitations and commercial or professional conversions.

The RGB also publishes data on rent stabilized losses by borough. Over the last decade, 69.2 percent of the City’s rent stabilized housing losses were in the Borough of Manhattan. Brooklyn and Queens lost rent stabilized apartments at similar rates with 14 percent and 13 percent of New York City’s rent stabilized attrition originating in those boroughs, respectively. Rent stabilized housing decreases were relatively low in the City’s other two boroughs – with 3.3 percent of the City’s losses in the Bronx and 0.5 percent in Staten Island. Following the passage of the Affordable Housing Act, losses to the City’s rent stabilized housing stock dropped in all five boroughs. For example, in the Borough of Manhattan the average number of rent stabilized units lost was 7,865 from 2003 – 2010. In 2011 and 2012, that average fell to 5,468, a decrease of over 30 percent.

In order to provide an easily understandable illustration of how increases to rent stabilized leases compound and impact tenants over time, a hypothetical rent was calculated using the RGB’s one- and two-year rent increases from 2000 to the present. To keep the calculation simple, it is assumed that this hypothetical rent commenced on January 1, 2000 and that the tenant in this hypothetical apartment has remained in her unit since that time.

The starting point for this hypothetical scenario is a rent of \$697.67 which was the average New York City rent at that time according to the 2000 Census. Because rent stabilized tenants have a right to a one year or a two year lease, both scenarios were calculated. Additionally, in order to capture some of upward pressure on rents that

result from the factors described in the previous paragraph, calculations were made based on the average increase in legal rents that are registered each year with the New York State Division of Housing and Community Renewal (DHCR).

Table 7 below illustrates the steady growth of this hypothetical rent.

**Table 7
Hypothetical Rent Growth, 2000 - 2014**

Year	1 Year Increase (%)	Rent (\$)	2 Year Increase (%)	Rent (\$)	DHCR Rent Growth (%)	Rent (\$)
2000	-----	697.67	-----	697.67	-----	697.67
2001	4.00	725.58	-----	697.67	5.30	734.65
2002	4.00	754.60	6.00	739.53	4.40	766.97
2003	2.00	769.69	-----	739.53	6.90	819.89
2004	4.50	804.33	7.50	794.99	1.60	833.01
2005	3.50	832.48	-----	795.00	5.80	881.32
2006	2.75	855.37	5.50	838.72	7.20	944.78
2007	4.25	891.73	-----	838.72	6.00	1001.47
2008	3.00	918.48	5.75	886.95	5.90	1060.55
2009	4.50	959.81	-----	886.95	5.40	1117.82
2010	3.00	988.60	6.00	940.16	5.40	1178.19
2011	2.25	1010.85	-----	940.16	1.20	1192.32
2012	3.75	1048.75	7.25	1008.32	-----	-----
2013	2.00	1069.73	-----	1008.33	-----	-----
2014	4.00	1112.52	7.75	1086.47	-----	-----

Source: Rent Guidelines Board, NYC Comptroller’s Office

“Over the last decade, 69.2 percent of the City’s rent stabilized housing losses were in the Borough of Manhattan.”

As is evident from Table 7, actual increases in stabilized rents, represented on the right hand side of the table in the DHCR rent growth columns, generally increased at a faster annual rate than the nominal increases permitted by the RGB. This is because calculations that solely rely on rent increases passed by the RGB do not account for the possibility of major capital improvement (MCI) rent increases and individual apartment improvement (IAI) rent increases to improve physical housing conditions⁵⁴ or vacancy

⁵⁴ The Comptroller’s Office evaluated changes in physical housing conditions using data from the 2002 HVS and the 2011 HVS. Incidents of heat breakdowns, cracks and holes in walls, holes in floors and interior water leaks were among the building deficiencies that were examined. In general, the physical condition of the City’s rent stabilized and market rate housing stock remained constant during the period, with only marginal increases and decreases in the five categories that were examined. The higher prevalence of building deficiencies in rent stabilized apartments relative to market rate apartments aligns with the findings of the 2010 Citizens Budget

rent increases that are permitted when tenant turnover occurs.

The DHCR rent growth figures in Table 7 reflect the maximum legal rent rolls that building owners report to DHCR each year. Increases in this category that exceed the RGB percentage increases are presumably attributable to the three types of rent increases detailed in the paragraph above.⁵⁵ Disparities in the rates of increase indicate that the rent stabilization system is significantly more permissive to rent increases than it may appear when RGB increases are taken solely at face value. Comprehensive data from DHCR on MCI and IAI rent increases are not publicly available, which prohibits an empirical analysis into the impacts of these rent increases on the City’s rent stabilized housing stock. However, anecdotal evidence from affordable housing advocacy organizations⁵⁶ and allegations made in a series of recent judicial proceedings⁵⁷ suggest that there is a perception of fraudulent activity associated with MCI and IAI rent increases.

DHCR has taken some recent steps to address potential fraud through its newly established Tenant Protection Unit. One prominent action taken by this new unit included audits of owners who filed for Individual Apartment Improvement rent increases in 2012.⁵⁸ These audits resulted in the re-stabilization of 28,000 previously deregulated apartments and a total return of over \$200,000 to tenants who were unknowingly overcharged.⁵⁹

To gain a better understanding of the longevity of

New York City’s remaining rent stabilized housing units, the future attrition of existing housing units from the rent stabilized housing stock was calculated using a one year rent increase of 3.4%.⁶⁰ Of particular note, the passage of the Affordable Housing Act of 2011 will help to ensure that over 28,000 homes that were on the brink of destabilization will remain rent regulated for up to 7-11 additional years.

**Table 8
Longevity of New York City’s Rent Stabilized Housing Stock**

Rent	Number of units	Years to destabilization	% of Rent Stabilized Housing Stock
\$800 – \$899	101,486	35-31 years	10.70%
\$900 – \$999	122,179	31-28 years	12.90%
\$1,000-\$1,249	263,560	28-21 years	27.80%
\$1,250-\$1,499	133,306	21-16 years	14.10%
\$1,500-\$1,749	89,454	16-11 years	9.40%
\$1,750-\$1,999	28,345	11-7 years	4.40%

Source: New York City Rent Guidelines Board, NYC Comptroller’s Office

Table 8 shows the projected longevity of New York City’s rent stabilized housing stock.⁶¹

The attrition projections in Table 8 cover some 80 percent of rent stabilized apartments in New York City. The conclusion can be drawn that some 80 percent of the remaining rent stabilized housing stock could remain in place over the next two decades if rent increases approved by the RGB adhere to historical norms. However, Table 8 is also a stark reminder of the incentives that apartment owners have to layer major capital improvement (MCI) rent increases and individual apartment improvement (IAI) rent increases into their rent rolls.

MCI rent increases can occur when a building owner makes improvements to building systems such as boilers, elevators, electrical wiring or roofs. The amount of an MCI rent increase is based on the cost of the improvement and can equal up to 6 percent of

Commission study cited earlier in this report.

55 Programmatic details for Major Capital Improvement Rent Increases, Individual Apartment Rent Increases and Vacancy Rent Increases are included in these respective links: <http://www.nyshcr.org/Rent/factsheets/orafac24.pdf>
<http://www.nyshcr.org/Rent/factsheets/orafac12.htm>
<http://www.nyshcr.org/Rent/factsheets/orafac5.htm>

56 “The \$20,000 Stove: How Fraudulent Rent Increases Undermine New York’s Affordable Housing.” Association for Neighborhood Housing and Development. (January 2009)

57 Estis & Turkel. “DHCR’s Major Capital Improvement Policy Upheld.” New York Law Journal, March 7, 2012.

58 DHCR Tenant Protection Unit Major Initiatives: <http://www.nyshcr.org/Rent/TenantProtectionUnit/tpu-units-and-initiatives.htm#IAIA>

59 “Governor Cuomo Announces Settlement Curtailing Immigrant Tenant Harassment to Ensure Fair and Safe Communities for New York City Renters.” Press Release, January 15, 2014.

60 3.4% is the average one year rent increase passed by the Rent Guidelines Board from 1988 – 2013. Like Table XYZ, major capital improvement rent increases, individual apartment improvement rent increases and tenant turnover were not factored into these calculations.

61 The homes in Table XYZ represent 79.3% of New York City’s rent stabilized apartment stock.

a tenant's rent each year.⁶² IAI rent increases reflect increased services, new equipment or improvements to an individual apartment. In buildings of 35 units or more, the amount of an IAI rent increase is 1/60th of the cost of the improvement. In smaller sized buildings the IAI increase is 1/40th of the cost.

Tenants and housing activists have suggested that some unscrupulous apartment owners have abused MCI and IAI rent increases. In an effort to combat abuses, a tenant protection unit was established within the DHCR in 2012. Since that time, random audits requiring selected apartment owners to produce proof of building improvements have resulted in refunds totaling over \$220,000 to rent stabilized tenants whose rents were improperly increased.⁶³

One other factor that can impact the attrition projections made in this report is the vacancy lease rent increase. When a rent stabilized tenant vacates an apartment, an increase of 18 percent for one year leases and 20 percent for two year leases can be levied on the maximum legal rent paid by the previous tenant. The vacancy lease rent increase is only permitted once each year but it nonetheless results in a strong tenant turnover incentive in rent stabilized apartments.

Average rent stabilized and non-regulated rents were calculated citywide and for each borough using data from the last four Housing and Vacancy Survey's in order to track the rate at which rents in these two categories has increased over time.

Overall, from 2002 to 2011, non-regulated or market rate rents increased at a faster pace than rent stabilized rents, with the two rising at 56 percent and 43 percent, respectively. However, the citywide pattern did not always hold true at the borough level. For example, rent stabilized rents in Manhattan increased by 42 percent during this time frame while market rents increased by just 22 percent. In the Bronx, Brooklyn, Queens and Staten

Island, stabilized and market rate rents increased at similar percentages.

Population Growth and Housing Supply

Urban land theory predicts that population growth in an urban area will cause housing prices to increase. The price increases are a necessary lubricant to growth; without them, there is no incentive for property owners to shift existing land uses to new housing supply—by converting commercial uses to residential, by converting lower-density residential to higher-density, or by restoring brownfields to habitability. However, the degree to which population growth causes a rise in housing prices depends on a multitude of local characteristics, including the natural and built geography, the regulatory climate, and the composition of the population growth.

Tracking the growth of the city's population is a difficult task, and official Census Bureau counts are almost surely understated.⁶⁴ Nevertheless, the basic dynamic of the city's population growth has been established for several decades: a large annual outflow of residents to the rest of the United States (including the surrounding suburbs), offset by a natural demographic increase (an excess of births over deaths) and by immigration from abroad. However, during the past few years there has been an important change in the population flows, with an apparent slow-down in domestic out-migration and a pick-up in domestic in-migration.⁶⁵

Although the city is estimated to have gained

“From 2002 to 2011, non-regulated or market rate rents increased at a faster pace than rent stabilized rents, with the two rising at 56 percent and 43 percent, respectively.”

62 <http://www.nyshcr.org/Rent/factsheets/orafac24.htm>

63 <http://www.governor.ny.gov/press/02042014-rent-stabilization-rolls>

64 There have been considerable improvements in Census procedures since the 1990 Census and the counts in subsequent Census are considered to be more accurate. There have also been some technical difficulties with the Census counts and the ACS surveys which are benchmarked to them, affecting the pattern of recorded growth from 2000 to 2010 to 2013. See Joseph J. Salvo and Arun Peter Lobo, "Misclassifying New York's Hidden Units as Vacant in 2010: Lessons Gleaned for the 2020 Census," Population Research Policy Review (2103), 32:729-751. Also, <http://www.nyc.gov/html/dcp/html/census/popcur.shtml>

65 "Population Growth in New York City Is Reversing Decades-Old Trend, Estimates Show," New York Times, March 27, 2014

Table 9 below details average stabilized rents from 2002 – 2011.

**Table 9:
Average Stabilized Rents from 2002 - 2011**

	NYC	Bronx	Brooklyn	Manhattan	Queens	Staten Island
2002	\$795.44	\$775.81	\$775.70	\$803.85	\$782.81	\$779.17
2005	\$908.98	\$880.23	\$881.41	\$915.07	\$891.06	\$882.68
2008	\$1,006.10	\$963.05	\$962.72	\$1,016.71	\$979.81	\$965.95
2011	\$1,139.07	\$1,091.35	\$1,105.38	\$1,140.62	\$1,104.83	\$1,096.89

Source: New York City Housing and Vacancy Survey

Table 10 below details average market rate rents from 2002 – 2011.

**Table 10:
Average Market Rate Rents from 2002 - 2011**

	NYC	Bronx	Brooklyn	Manhattan	Queens	Staten Island
2002	\$1,075.30	\$791.97	\$863.79	\$2,330.62	\$923.67	\$746.42
2005	\$1,256.75	\$985.27	\$996.69	\$2,279.85	\$1,051.43	\$913.20
2008	\$1,523.83	\$1,093.94	\$1,181.10	\$2,687.84	\$1,219.58	\$1,020.57
2011	\$1,677.51	\$1,168.93	\$1,308.62	\$2,851.69	\$1,296.48	\$1,090.82

Source: New York City Housing and Vacancy Survey

61,000 residents in 2013, details of that population increase are not yet available.⁶⁶ From 2000 to 2012, the time-frame evaluated in most of the report, the city’s population increased from 8.01 million to 8.34 million, an increase of about 336,000 residents. That population increase represented about 69,000 households, according to Census Bureau data. The Census Bureau also estimates that the number of total housing units in the city increased by 170,150 but, according to the ACS, the number of occupied housing units increased by only 69,800.

“Approximately one existing housing unit is demolished for every three new units that are built.”

The ACS data consequently implies that the number of vacant apartment increased by more than 106,000, or 59 percent. An analysis by the Department of City Planning (DCP) suggests that the Census Bureau’s estimate of the number of vacant apartments was flawed, and that many of them are occupied.⁶⁷ Nevertheless, it seems reasonable that the city’s total housing supply expanded by about 170,000

66 US Census Bureau. <http://www.census.gov/popest/data/counties/totals/2013/CO-EST2013-03.html>

67 Joseph J. Salvo and Arun Peter Lobo, “Misclassifying New York’s Hidden Units as Vacant in 2010: Lessons Gleaned for the 2020 Census,” Population Research Policy Review (2103), 32:729-751.

during the 2000 to 2012 period, or by more than 5 percent. That figure comports fairly well with the 227,000 new dwelling units completed between 2001 and 2012, according to DCP data compiled from certificates of occupancy. Although the Department of Buildings tracks the number of buildings demolished annually, it does not report the number of dwelling units demolished. A comparison of the available data series implies that approximately one existing housing unit is demolished for every three new units that are built.⁶⁸

Although the construction of new housing units is important to containing housing cost increases, the role of new private construction is often exaggerated or misunderstood. A Comptroller’s Office analysis of recent HPD projects indicates that a reasonable estimate of the total development cost for a new housing unit in the city is around \$375,000.⁶⁹ When long-term financing costs and the developer’s return on investment are factored in, plus typical monthly operating costs, the average new housing unit would need to rent for at least \$2,600 month, even if it received full tax exemption. At conventional measures of affordability, that would require an annual household income of about \$105,000 (roughly corresponding to 135 percent of median family income for a family of three).

Previously in this report, we showed that the number of city households earning \$100,000 or more in inflation-adjusted dollars grew by 43,000, or by

68 While vintage housing and historic neighborhoods can be an urban advantage, an aging and obsolete housing stock is not in general a municipal virtue. According to the 2011 HVS, some 58.3 percent of the City’s occupied and vacant available housing stock was built in the pre-war period before 1947. Indeed, New York City’s housing stock is generally older than the rest of the nation, with some 53.3 percent dwellings constructed before 1950 compared to 41.8 percent in the United States.

69 Using subsidized housing units in this way biases the estimate downward, as subsidized housing usually does not feature luxury finishings and many of the sample projects were built on city-owned or low-cost sites. Many market-rate projects involve total development costs significantly above this figure.

about 3,600 per year, over the 2000 to 2012 period. Given that rate of growth in the city's population that can afford new market-rate housing, it is remarkable that 227,000 new dwelling units were completed during that 12-year period. According to figures published by HPD, the NHMP created about 50,000 of those new units. That both underscores the importance of subsidized affordable housing programs to the growth of the city's housing supply, as well as the implausibility of expecting the private, unsubsidized market to produce new housing supply at a significantly faster rate, regardless of the zoning and other regulatory measures adopted.

IV. Conclusion: Housing Challenges in 21st Century New York

For a century and a half New York City has been the national laboratory for innovation of humane and affordable housing practices. In the late 19th and early 20th centuries its Tenement House Laws established standards for governmental regulation of housing conditions. In the 1920s it pioneered techniques for tax-subsidized affordable housing construction and in the 1930s for building public housing. In the 1960s and 1970s the state-city Mitchell-Lama program became the national template for interest-subsidized affordable housing development. In the 1980s its housing finance professionals were the first to demonstrate the large-scale viability of federal low-income housing tax credits while its housing agency demonstrated the power of comprehensive community redevelopment. In the 1990s, local non-profits proved the value of supportive housing while the City's Housing Development Corporation pioneered new ways to finance the construction and preservation of affordable housing.

Yet, while New York City has repeatedly been the vanguard of affordable housing technique, it has sometimes made damaging blunders in its housing strategies. In the 1950s and 1960s it sought to eliminate Single Room Occupancy hotels, an effort in which it was only too

successful, setting the stage for a burgeoning street homeless population. In the 1970s, it promoted large-scale middle-income housing developments, without proper attention to the collateral effects on an older, financially vulnerable housing stock.

New York City's housing efforts have been most successful when public initiatives have directed sophisticated techniques to well-defined problems as when, for example, development of supportive housing for needy singles improved life for the homeless, mitigated the impact of street homelessness on neighborhoods, and saved taxpayers money. In contrast, a vague sense that housing is too expensive in New York provides little strategic guidance for the design of a multi-billion dollar municipal effort. It is the purpose of this report to help identify, at the conclusion of the Bloomberg Administration's New Housing Marketplace Plan, the city's most pressing housing needs.

Relieve the Affordability Squeeze on Low-income Households

While it is evident that New York City has had a more buoyant economy than many other parts of the country, relative prosperity should not be confused with absolute prosperity. Two tepid expansions, punctuated by a disastrous recession, have left the city's real median household income little changed from what it was at the turn of the century. Meanwhile, there was a dramatic upward shift in the distribution of apartment rents in the city, with the real median rent rising by over 30 percent. Working families in the bottom half of the income distribution have seen their incomes stagnate while the supply of rental apartments affordable to them has evaporated.

Stagnant real incomes and a shift in the rent distribution have caused a sharp increase in the average rent-to-income ratio for the lowest income households. Average rent to income ratios for households earning under \$20,000 stayed essentially constant at an untenable 68% while households

“A Comptroller's Office analysis of recent HPD projects indicates that a reasonable estimate of the total development cost for a new housing unit in the city is around \$375,000.”

earning \$20,000 to \$40,000 saw their average rent-to-income ratio increase from 34 percent to 42 percent.

While New Yorkers at all income levels pay more in rent than their counterparts elsewhere in the country, rent-to-income ratios come into line with standards of affordability once household incomes reach approximately \$40,000 which, for a family of four, corresponds roughly to the HUD income threshold for 50 percent of area median income. For example, in 2012 only about 43 percent of New York City households earning between \$35,000 and \$40,000 had a rent-to-income ratio of 30 percent or less, compared to 62 percent of households earning \$45,000 to \$50,000. Although most New Yorkers probably feel that housing in the city is too expensive, it is primarily those earning under \$40,000 who literally may not be able to find an apartment they can afford.

Stabilize and Preserve Public Housing

The intensity of the City's low-income housing situation reinforces the essential civic role played by the New York City Housing Authority (NYCHA). While the federal government has virtually eliminated funding for new public housing construction, NYCHA has actually become a more important element of the city's housing infrastructure as the number of low-rent private dwellings has diminished. Public housing now accounts for more than half of all apartments in the city renting for \$600 or less.

Unless HPD's programs and other housing subsidies are retargeted to low-income households –only 7.9 percent of new construction units developed by HPD between FY 2009 and FY 2011 were earmarked for those earning up to 40 percent of the area median income⁷⁰ – it is likely that the proportion of low-income New Yorker's housed by NYCHA will only increase in future years.

In recent City Council testimony delivered by Chairwoman Shola Olatoye it was noted that NYCHA needs approximately \$18 billion dollars to

bring all of their developments to a state of good repair.⁷¹ Chairwoman Olatoye's City testimony, together with data on the physical conditions at NYCHA developments,⁷² suggests that public housing in New York City is falling into a pernicious cycle of disrepair. The City has a clear interest in repairing and maintaining public housing units for current and future low-income populations. According to an August, 2013 study prepared for the Housing Authority by HR&A Advisors, the average per-unit cost of rehabilitating a NYCHA unit is \$99,000 while the average cost of replacing a NYCHA unit is \$370,000. HR&A estimates the total cost of rehabilitation at \$12 to \$23 billion compared to an estimated \$47 to \$85 billion cost of replacement.⁷³

Mitigate Homelessness

Like unemployment or poverty, homelessness is a social problem that probably cannot be entirely solved at the municipal level of government. However, there are proven programs and policies that can minimize its incidence, lessen its impact on adults and children, and reduce its various costs to taxpayers. The City can and must adopt a new mix of policies to reverse the alarming increase in its homeless population that has occurred since 2008. It has been long understood that youth homelessness results in negative physical and mental health outcomes, reduces educational achievement and impedes physical and social development.⁷⁴ In addition to increasing the necessity for government funded social service interventions,⁷⁵ these negative consequences impede the development of the city's future workforce and heighten the possibility of chronic homelessness later in life. Housing

71 Testimony before the New York City Council Committee on Public Housing. March 21, 2014.

72 A Comptroller's Office analysis of HVS data found that serious maintenance deficiencies are more common in NYCHA units than in either rent stabilized or unregulated housing units, and that the incidence of serious maintenance deficiencies grew most rapidly in NYCHA units between 2002 and 2011.

73 "Cost of Rehabilitation versus the Cost of Replacement Across NYCHA's Portfolio". HR&A Advisors. August 16, 2013.

74 Rafferty and Shinn, "The Impact of Homelessness on Children" *American Psychologist* (November 1991).

75 Dennis P. Culhane. "The Cost of Homelessness: A Perspective from the United States" *European Journal of Homelessness* (January 2008).

70 Association for Neighborhood Housing and Development. "Real Affordability." February 2013.

homeless families with children could consequently have long-term positive effects on the City's budget, with reduced social service spending across City agencies, including the Department of Education, the Health and Hospitals Corporation and the Department of Corrections. In addition to the clear social benefits of reducing shelter and street homeless populations, a strong body of evidence suggests that economic benefits can be reaped by transitioning homeless individuals into supportive housing by reducing dramatic increases in New York's Medicaid spending.⁷⁶

Repair the Rent Regulation System

New York City's rent regulated housing stock is losing covered units at a faster rate than they are being replaced. As a result, one of the City's most difficult housing challenges in the next decade will be stemming unwarranted attrition from the regulatory system and replenishing the pipeline of rent stabilized housing.

As the City pursues opportunities to preserve rent regulated housing, properties or portfolios that are in financial distress, including over-mortgaged multifamily buildings, should be among the first that are targeted. So too should foreclosed buildings and developments with large rent stabilized populations where there is evidence that owners employed legal and illegal tactics to expedite rent stabilized tenant turnover in order to remove those units from the regulatory system.

State government also has an important role to play in repairing the City's rent regulation system. Audits conducted by Governor Cuomo's recently established Tenant Protection Unit reportedly returned 28,000 units to the rent stabilized rolls earlier this year. This initial success, centered on reviews of applications for individual apartment improvement rent increases, suggests that fraudulent activity may have expedited the loss of an untold number of rent stabilized units from the City's regulatory system. Given the tremendous initial achievements of the Tenant Protection Unit, a continued vigilance on housing fraud by the State may uncover other substantial sources of improper rent increases and

deregulations, returning additional housing back to rent stabilization.

Devise Measures to Cushion the Adverse Effects of Gentrification

Creating a prosperous city necessarily means that the number of middle- and high-income families would grow and the number of poor households would diminish. However, it would be a hollow achievement if that goal were realized simply by attracting affluent migrants while native New Yorkers of modest means are displaced. The research presented in this report indicates that the city is, in fact, adding high-income households, but at a rate too slow to fundamentally affect the balance in the citywide housing market.

However, the Comptroller's research also shows that the residential reshuffling of households and populations is having a dramatic effect on specific neighborhoods, altering their demographics rapidly and inflating housing costs in some of them. Public policies aimed at better harnessing those changes and leveraging them to the benefit of both existing and new residents are possible and necessary.

Address the Special Housing Needs of the Elderly and Disabled

Our research finds that households headed by an individual over 60 years old accounted for 40 percent of the increase of the city's low-income households from 2000 to 2012. The demographic shifts in the city's low-income population towards the elderly, which will only grow more pronounced in coming years, suggest that their specialized housing needs should be carefully considered. Many of them are homeowners, and may need specialized services that allow them to remain in their homes as they age. Others are renters who may find their long-time apartments becoming less affordable as market pressures squeeze against their limited incomes. New York City is woefully behind other areas of the country in providing viable subsidized and market-rate housing options suitable for and affordable to seniors.

⁷⁶ New York State Department of Health. "Medicaid Redesign Team – Affordable Housing Working Group. Final Recommendations". December 6, 2011.

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