Executive Summary

In 2001, Furman Center founder Michael Schill released the first edition of *The State of New York City's Housing and Neighborhoods* as a way of making the "enormous amount of data regarding housing and neighborhood conditions in New York" the Furman Center had accumulated helpful to "the wide variety of community groups, academics, civic organizations, government agencies and businesses who need the data to understand their communities' needs and to design, target and evaluate programs to address those needs." Much has changed over the last ten years. It is much easier to share data, and there is also a lot more data to share. Over time, the report has become more than a simple repository of data. We now view it as a medium through which the Furman Center can investigate new data, describe and contextualize current trends, and start conversations about the policy issues that affect New York City.

Last year's report examined New York City's unique stock of multi-family rental housing and how it has been affected by the economic downturn. Because property taxes are one of the major expenses owners of that stock face, this year we focus on the city's property tax system. We explore its structure and the factors behind its unequal distribution across different types of properties and the different people who live in them. Our other features review changes in the racial and ethnic makeup of New York City's neighborhoods, examine recent trends in mortgage lending, and compare New York City's federally-subsidized housing stock to that in other U.S. cities.

Distribution of the Burden of New York City's Property Tax

The property tax is New York City's single largest source of revenue. In the 2011 fiscal year, the city collected nearly $17 billion from property owners, representing 27 percent of all city revenues. Starting on page 7, we examine how properties are assessed under the city's current property tax system, and show that the property tax burden is not distributed equally across all types of property.

One- to three-family homes, which are categorized as "Class 1" properties, are taxed at the lowest effective tax rate. The other three property classes, which include large apartment buildings (Class 2), utilities (Class 3), and commercial properties (Class 4), are taxed at a higher effective tax rate and bear a disproportionate share of the tax burden. In fact, the effective tax rate for Class 2 properties is five times the effective rate for Class 1 properties, and New York City has the second highest apartment building property tax rate of the 50 largest U.S. cities, but ranks 44th for its rates for one- to three-family homes. We explain the reasons for the disparity between the treatment of the different property types, which are rooted in the historical development of New York's property tax system, but which may persist in part because the system is so hard to understand, or because many renters assume that landlords—rather than renters—bear the entire burden of the property tax.

In order to make the assessment process clearer, our analysis includes a hypothetical case study of a New Yorker who owns a single-family townhouse in Brooklyn Heights (Class 1) and an income-generating rental property in Harlem (Class 2). The case study reveals that differences in abatements, exceptions, and valuation result in very different effective tax rates for different property types. In this example, the Class 1 property pays an effective tax rate of 1.1 percent while the Class 2 rental property pays 4.8 percent.

For Class 2 properties, the higher property taxes likely are indirectly passed on to the renters either in the form of higher rents or in cutbacks to building maintenance and repairs. This means that the property tax effectively requires renters to subsidize owners, even though the demographic and socioeconomic characteristics of the two groups suggest that renters already are having a harder time meeting their housing costs.

The Changing Racial and Ethnic Makeup of New York City Neighborhoods

Although New York City is one of the most diverse cities in the nation, its individual neighborhoods have historically been less diverse than the city as a whole. Over the past two decades, however, New York City's neighborhoods have become increasingly integrated. In 2010, 28 percent of New York City's census tracts were racially integrated—at least 20 percent of their residents are white and at least 20 percent identify as another racial/

ethnic category (black, Hispanic, or Asian)—compared with 38 percent of tracts in 1990.

Starting on page 29, we explore the changing racial and ethnic makeup of New York City neighborhoods. New York City has seen a marked increase in integration over the past two decades. In 2010, 32 percent of New York City's white residents lived in integrated neighborhoods compared with only about 20 percent in 1990. However, nearly half of the city's neighborhoods were still dominated by one racial or ethnic group in 2010. Nearly 60 percent of all white New Yorkers live in majority white neighborhoods, while about 47 percent of black New Yorkers and 17 percent of Hispanic New Yorkers live in majority black and majority Hispanic neighborhoods, respectively. Asians are far more likely to live in a white-Asian neighborhood than a majority Asian neighborhood: around 32 percent compared to 13 percent.

Overall, we find that New York's white, black, and Hispanic residents have become less concentrated over the last 20 years while the concentration of the city's Asian population has increased in the past decade.

The State of Mortgage Lending in New York City

Since 2006, the collapse of the housing market and financial crisis have led to sharp declines in home sales and mortgage lending throughout the United States, especially to black and Hispanic homebuyers and in low- and moderate-income (LMI) neighborhoods, which are defined as census tracts with a median family income less than 80 percent of the metropolitan area's median family income. In New York City, the number of home purchase loans originated in 2010 increased 11 percent over 2009, interrupting what had been a steady downward trend in annual lending since 2005. In The State of Mortgage Lending In New York City (page 35), we use data from the Home Mortgage Disclosure Act to analyze lending activity in New York City and the United States in 2010—the most recent year for which data are available—as well as trends in lending to LMI neighborhoods and racial disparities in lending.

In contrast to New York City's 11 percent gain, the total number of mortgages issued in the United States fell by 10 percent between 2009 and 2010. The increase in home purchase loan origination between 2009 and 2010 in New York City was concentrated in Manhattan and Brooklyn, where lending increased by 30 and 20 percent respectively. However, the number of home purchase loans originated in 2010 (27,000) still remained lower than the number originated in 2007 and 2008, and much lower than the numbers originated during housing boom years from 2004 to 2006.

The number of homebuyers taking out mortgages in LMI neighborhoods in New York City rose from 4,957 to 6,042, a 22 percent increase, between 2009 and 2010. This accounts for much of the increase in home purchase lending during that period. Lending to LMI borrowers in New York City has experienced a sustained rebound, bringing the number of loans issued to this group closer to pre-recession levels. In contrast, lending to LMI homebuyers in the U.S. as a whole declined in 2010, perhaps because of the expiration of the federal First-Time Homebuyer Tax Credit program which was used more widely in other parts of the country than it was in New York City.

The Furman Center analysis also finds that the number of loans issued to white, black, and Hispanic borrowers in New York City all increased in 2010, while lending to Asian homebuyers decreased slightly. By contrast, lending to borrowers of all races decreased in 2010 in the nation as a whole. Loans backed by Federal Housing Administration (FHA), Veteran's Administration (VA), and Farm Services Administration and Rural Housing Servicers (collectively known as FHA/VA-backed) have grown dramatically in New York City, although the overall share of homebuyers using FHA/VA-backed loans is much lower in New York City than in the rest of the country. FHA/VA-backed loans in New York City grew from less than one percent of all loans in 2007 to 21 percent in 2010. The increase was particularly pronounced for black and Hispanic borrowers.

Subsidized Housing: A Cross-City Comparison

New York City has more federally-subsidized housing than any of the four next largest cities in the country. In addition, a higher share of the city's housing stock is federally-subsidized than in the other cities. This difference is driven primarily by the city's large stock of public housing: in 2008, almost 180,000 units were in public housing developments, about 150,000 more units than in Philadelphia, the city with the next highest number. Other federal programs that have financed affordable units include the Project-based Section 8 program and the Low Income Housing Tax Credit (LIHTC) program. Starting on page 41, we compare the scale of these three subsidized portfolios across the five most populous U.S. cities: New York City, Los Angeles, Chicago, Houston, and Philadelphia.

Dating back to 1935, public housing is the oldest form of federal rental housing support in the United States. The federal government no longer funds the development of new public housing units, however, and existing units are managed by local housing authorities. In New York City, five percent of all housing units are in public housing developments; Philadelphia has the next highest share of public housing, at just over two percent of housing units in 2008, while Houston has the lowest, with less than half of one percent. Although other cities have demolished public housing units in the past two decades, New York City has not reduced its stock. Demand for public housing units in New York remains high, evidenced by the low vacancy rate and long waiting lists.

The share of rental housing subsidized through Project-based Section 8, which provides a direct rental subsidy to private owners, is more similar across the five cities. Chicago has the highest share of Project-based Section 8 units (1.8 percent), while Houston has the lowest at 0.6 percent. The share of rental units subsidized through the Project-based Section 8 program in New York is 1.5 percent. Currently, the LIHTC program is the primary source of financing for new place-based affordable housing in the country. It provides a mechanism for developers of affordable housing to sell tax credits to investors who wish to decrease their tax liabilities. While Houston has the largest share of LIHTC units, use of the program is fairly even among the cities.

Among the five cities, New York has been particularly active in supplementing the federal programs with local (city and state) funds in order to support subsidized housing. In addition to these subsidized units, more than one million units, or roughly 47 percent of all the city's rental housing units, are rent-regulated in New York City.

New York City: Rising or Falling?

New York City ended 2011 in an uncertain situation. On the one hand, the total number of foreclosure notices declined for the second straight year and the number of properties becoming bank-owned fell by about 80 percent. On the other hand, prices have continued to decline for single family and 2–4 family properties. There is also ample evidence that the recession continues to burden New York City residents. Poverty rates have increased, especially for children, and the median household income has declined since 2009. The unemployment rate reached 11.2 percent in 2011, up from 8.4 percent in 2005.

The number of units authorized by residential building permits issued citywide increased between 2010 and 2011, though the number remained lower than it was in 2009, let alone in 2005 when there were ten times as many units authorized. The number of units receiving certificates of occupancy fell from about 15,000 in 2010 to less than 6,500 last year, though this is likely the result of less construction activity over the last few years and not strictly indicative of conditions in 2011.

While the recession has been difficult for many households, the city has seen many improvements since 2000. Between 2000 and 2010, the poverty rate declined by a percentage point, crime fell by about 36 percent, and health and educational outcomes improved. An important exception to these trends is median household income, which was virtually stagnant between 2000 and 2010.