2005 overview

The Furman Center is pleased to present the 2005 edition of the State of New York City's Housing and Neighborhoods (*State of the City Report*, for short). Every year the Furman Center compiles statistics on housing, demographics and quality of life in New York City's neighborhoods from a variety of sources. The data is made available in full through our online data service, the New York City Housing and Neighborhood Information System, NYCHANIS.com.

For the past five years, the Furman Center also has published the data in yearly editions of the State of the City Report. Because NYCHANIS provides data on more than 1800 different measures, the published report was becoming increasingly unwieldy, and we feared the volume of information might divert readers from the important insights the data provides about trends and future challenges. Accordingly, this edition streamlines the presentation to focus attention on the critical data that reveals how the City, its five boroughs, and its 59 community districts, have fared in recent years. It shows how each of the City's neighborhoods is progressing, both in absolute terms and in relation to other areas of the City. It provides the first independent analysis of the just released results of the 2005 Housing and Vacancy Survey. Finally, it adds a chapter analyzing how the affordability and availability of housing have changed between 2002 and 2005.

The new format and the analysis provided in the pages that follow reveal two important trends:

One: In the past three years, the combination of falling real incomes and rising rents has significantly increased the burden housing costs impose upon the City's households, especially those households earning incomes paid to the workforce that staff the City's police, fire and other basic services.

In the three years between 2002 and 2005, the median monthly rent for unsubsidized apartments in the City increased by 20 percent. *Even after adjusting for inflation, the median monthly rent increased by more than 8 percent.* But the citywide median income fell by 6.3 percent, again adjusted for inflation, during those three years. The combination of decreasing real income and increasing real rents (not to mention other rising housing costs, such as heating bills), left individuals and families in a serious bind: the median share of income spent on rent by New York City renters rose from 28.6 percent in 2002 to 31.2 percent in 2005, surpassing the 30 percent threshold that is commonly considered the maximum burden households should bear. Among unsubsidized, low-income renters, the median share of income spent on rent rose to over 50 percent in 2005, up from 43.9 percent in 2002.

The number of rental units available at rents affordable to low and moderate income households in the City fell significantly in just three years. The number of units available for less than $600 per month (in 2005 dollars), for example, fell by 11 percent; the number of units available at rents between $600 and $799 fell 17.6 percent.

To assess what the rise in rents and the decrease in the number of rental units available at lower rents means for residents of the City, it is helpful to look at the number of housing units that households with modest incomes could afford (i.e., that require less than 30 percent of the household's gross income). To rent an apartment for $600, a household would have to make nearly $24,000 (just under 60 percent of the City's median income in 2005). The number of units available at rents that would qualify as affordable for such a household fell by 91,652 units between 2002 and 2005.[1] That is a drop of almost 15 percent, in just three years. The drop leaves only 26 percent of the City's housing units affordable to such households.

Similarly, to rent an apartment for $800, a household would need to earn $32,000 (almost 80 percent of the City's median income in 2005). The number of rental units affordable to households earning 80 percent of the City's median income fell by almost 205,000 units in the last three years. Although 58 percent of the City's rental housing was affordable to such a household in 2002, only 48 percent of the rental stock was affordable to that same household in 2005. To put those numbers in perspective, the City's firefighters currently earn $32,740 in starting salary.[2]

Two: Home values are appreciating rapidly, and homeownership rates are up, but more lending is at subprime rates.

The median price of condominiums sold in the City rose 12 percent between 2002 and 2004, reaching $430,000 in 2004. The average sales price per unit of 2 to 4 family homes rose even more rapidly, increasing by 34 percent over this two-year period. Housing appreciation obviously is a significant benefit to existing homeowners. The downside of rising home prices is that they may make homeownership difficult for more households. Nonetheless, the rate of homeownership continued to rise in recent years -- from 32.7 in 2002 to 33.3 percent in 2005.

Other promising signs include: the rate of notices of foreclosure issued fell slightly citywide between 2002 and 2004, and the percent of properties with tax delinquencies of more than one year dropped significantly during that period. The warning sign, though, is that the percentage of home purchase loans that were subprime more than doubled between 2002 and 2004. While subprime lending may allow borrowers with imperfect credit records to gain access to financing, some subset of these subprime loans are predatory and force borrowers to pay unreasonably high interest rates, making them far more vulnerable to foreclosure risk. In 14 community districts, over 30 percent of all home purchase loans were subprime in 2005, and in two, the share of refinance loans that were subprime was *fifty* percent or higher.

The rental affordability problem

The drop in the availability of affordable rental housing should be viewed in the context of several other trends:

- The decline in rental units available at rates affordable to households with modest incomes occurred despite a record increase in levels of residential construction. During the 2002 to 2005 period, housing production accelerated and population growth slowed down, so that housing stock grew almost three times faster than housing demand (average annual increase in stock was 14,100 units, compared to a 4,800 unit increase in demand).

- While the new construction added to the rental stock, that stock shifted significantly up-market. The number of units available at rents of less than $1,000 (in 2005 constant dollars) fell by 156,833 between 2002 and 2005, the number rented for $1,400 or more grew by 63,187 – an increase of almost 25 percent.

- Between 2002 and 2005, the number of rental units in the City grew by only 0.4 percent, while the number of condos and other owned units grew by 3.5 percent.

- The pace of new construction would have to continue to surpass the rate of population growth in the City in order to relieve the pressure on the rental housing market. The City came out of the 1990s with a

1 The U.S. Department of Housing and Urban Development (HUD) and the New York City Housing Preservation and Development (HPD) use a different "area median income" for their calculations about the affordability of housing, defined for the broader metropolitan area and differentiated by household size. Using the HUD/HPD area median income for a 3-person family (the approximate household size in New York City), which was $56,500 in both 2002 and 2005, would show that the number of units affordable for low income households earning 60% of the area median income dropped even more significantly, by 311,278 units. We have used the more conservative estimate based on only the City's median income, which was considerably lower than the broader metropolitan area's median.

2 The source for the firefighters' salary is http://www.nyc.gov/html/fdny/html/community/firefighter_faq.shtml#start_salary.

significant imbalance between the demand for and supply of housing: during that decade, housing demand grew at a rate of 17,800 units annually, while housing stock grew less than half as quickly, at 7,900 per year. Accordingly, construction today must not only meet the needs of any growth in the City's population, but must also catch up from the imbalance of the 1990s.

- We estimate that the difference between the current demand for housing and the current supply was about 100,000 units in 2005. That deficit is large, but if housing production continues at the pace set between 2002 and 2005, and population doesn't grow unexpectedly, that difference will drop significantly in the next few years.

- New housing production does, of course, also have to meet the needs of tomorrow's population, which is predicted to grow by 1.2 million over the next 20 years.[3]

- The decline in units renting at rates affordable to households below the City's median income stemmed primarily from increasing rents for units receiving no subsidies under government housing programs. Although there have been much-publicized losses in the stock of subsidized housing in the past few years, as subsidy periods expired and units converted to rent-regulated or market rents, those losses do not explain the enormous changes in the affordable housing stock since 2002. While the share of all rental units that were subsidized fell from 17 percent to 15 percent since 2002, that accounts for only 38,000 units. The losses in affordable rental stock occurred not just in the subsidized units, therefore, but in the rent-regulated and market-rate units as well.

- The Mayor's ambitious 10-year affordable housing plan, which envisions the construction and preservation of 116,874 rental and 48,158 homeownership units, has to be viewed against the declining numbers of units priced at rent levels affordable to lower and moderate income households. The Mayor has promised to provide 73,335 new rental units by 2013, and to preserve another 43,539 existing rental units during that time. More than two-thirds of the rental units provided under the plan will be targeted to households earning $50,240 or less.

- New construction may not continue at today's record pace. The percentage of the City's buildable land made up of vacant lots fell from 7.5 percent to 6.8 percent between 2003 and 2005. In recent years, the City has rezoned some land for higher density residential development, but it has rezoned many communities for lower density development than previous zoning allowed. Interest rates are an important factor in the level of housing production, and some of the other costs of constructing new housing are rising significantly as a result of growing demand for building materials around the world, and increasing prices for oil and oil-based products.

The City has seen significant improvements in many measures of neighborhood quality, but some neighborhoods are faring better than others.

For the first time, this edition of the State of the City Report ranks the boroughs and the community districts within boroughs by each measure of housing and neighborhood vitality. Those rankings allow users to quickly identify neighborhoods that are gaining or losing ground relative to other areas of the City. Significant improvements in the City's quality of life, such as decreasing crime rates and increasing school performance, are benefiting almost all neighborhoods. Other improvements are not shared as widely.

- The percentage of households living below the poverty line fell slightly for the City as a whole, from 17.5 to 17.3, and many neighborhoods saw decreases in poverty. But 35 neighborhoods saw poverty rates increase.

3 This population growth projection is produced by Urbanomics, a consultant to the New York Metropolitan Transportation Council, and was reported in the *New York Times* story, "Coming Soon, 9 Million Stories in the Crowded City," February 19, 2006 (available at http://www.nytimes.com/2006/02/19/nyregion/19population.html).

- The rental vacancy rate for the City as a whole increased (indicating that the rental market is a little less tight) between 2002 and 2005. Some neighborhoods saw a tightening. For example, neighborhoods throughout the Bronx witnessed a sharp decline in rental vacancy rates in recent years, and although the borough had the second highest vacancy rate in 2002, it now has the lowest vacancy rate in the City.

- The percentage of home purchase and refinancing loans that were subprime increased across the City, but the distribution of subprime lending activity changed significantly over the past three years. Crown Heights, Brooklyn, for example, moved 17 places, going from one of the neighborhoods with a fairly low percentage of subprime home purchase loans in 2002 to one of the neighborhoods with a relatively high percentage in 2005. On the other hand, Greenpoint/Williamsburg, Brooklyn saw a dramatic decline in subprime lending activity, dropping 19 places in the ranking.

- The rate of notices of foreclosure fell for the city as a whole, and some neighborhoods (such as Morrisania/Crotona) saw significant decreases; but some neighborhoods (such as Washington Heights) saw increases.

- The racial diversity index for the City as a whole slightly increased (indicating that the City became more diverse) between 2002 and 2005. Some neighborhoods saw declines in diversity, however. For example, Kingsbridge Heights/Bedford Park and Jackson Heights dropped 10 and 12 places in ranking, respectively.

It is our hope that the changes in this edition of the State of New York City's Housing and Neighborhoods will allow you to see the big picture, spot trouble signs that portend challenges for the future, and see how neighborhoods are faring relative to others in the City. Our goal at the Furman Center is to provide both data and analysis that will help neighborhoods – and the organizations that serve them – more effectively target their efforts to make communities better, to guide public policy regarding housing and land use regulation, and to inform public debate.

We hope you find this edition of the State of the City Report helpful and provocative. Please keep us informed of how you use the report, how you like the changes, and any suggestions you have for further improvement. You can send any comments to furmancenter@nyu.edu.