RECENT HOMEOWNERSHIP TRENDS IN NEW YORK CITY

Homeownership brings substantial financial benefits to many American families. Homeowners enjoy sizeable tax deductions and homeownership enables families to accumulate wealth if home values increase over time. Research suggests that homeownership benefits not only individual owners, but also entire communities—increased rates of homeownership may help promote neighborhood stability and, because homeowners have more incentive than renters to maintain and improve their property, homeownership may improve the physical quality of a neighborhood as a whole.[1]

The homeownership rate in New York City is half that of the nation's rate.

Despite this, less than a third of New Yorkers own their homes, giving the City the lowest rate of homeownership of any major city in the country. There are several factors that may contribute to New York City's low rate of homeownership. To begin with, high housing costs in the City make it extremely difficult for even middle-income households to become new homeowners. Second, nearly two-thirds of the housing units in New York are in multifamily buildings, which are more likely to be rental properties than other building types. In addition, New York City has long served as a gateway city for immigrants who may have less access to financing or who may plan to reside in the City for a relatively short period of time. New York City also is seen as a haven for younger workers and students, who are less likely to take on the long-term responsibilities of homeownership.

1 See, e.g., DiPasquale & Glaeser 1999; Ellen, Susin, Schwartz, & Schill 2002; Green & White 1997.

To overcome these challenges, the City has committed to promoting homeownership through several public-private initiatives over the past several decades. For example, the New York City Housing Partnership was launched in the early 1980s to construct owner-occupied units affordable to the middle-class on vacant, City-owned lots. More recently, Mayor Bloomberg announced the goal of creating or preserving almost 50,000 units of affordable owner-occupied housing by 2013 through his New Housing Marketplace Plan. The City's Department of Housing Preservation and Development also assists middle- and low-income first-time homebuyers with down payments through its HomeFirst program.

In this chapter, we use data from the U.S. Census Bureau's American Community Survey (ACS) and the New York City Housing and Vacancy Survey (HVS), as well as extensive home sales data provided by the New York City Department of Finance to assess recent trends in the demographics, costs, and affordability of homeownership in New York City. We start by placing New York City in context, comparing the City to the rest of the country and to other large cities on key homeownership indicators. Second, we examine how the costs of homeownership differ for New Yorkers of various races, ethnicities, and income levels. Finally, we estimate the changes in the affordability of purchasing a home in New York City between 2000 and 2005, by analyzing trends in income, interest rates, and sale prices.

Homeownership in New York City Compared to National Trends and Other Major Cities

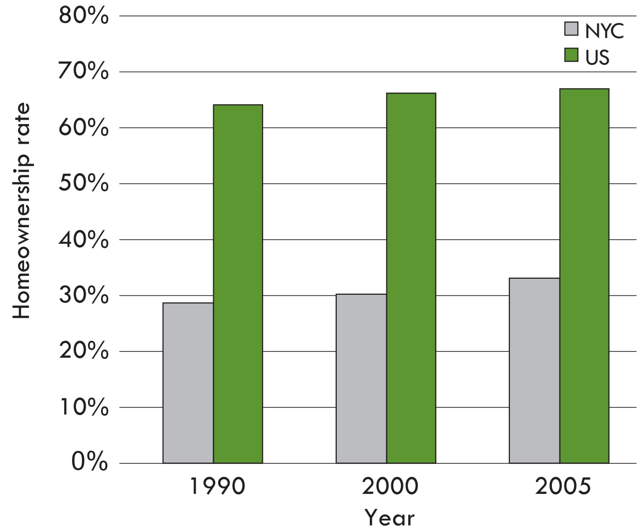
It is difficult to compare New York City's housing market to the rest of nation, given the City's size, density, access to public transportation, cultural amenities and a variety of other historical factors. Yet it is instructive to make some comparisons to place local trends in a larger context. This section compares homeownership in New York City to nationwide trends and to the trends in other large cities.

Rates of Homeownership

As shown in **Figure 1**, New Yorkers are on average less than half as likely to own their homes as all Americans. While homeownership has been trending up in the City (increasing over 4 percentage points between 1990 and 2005), New Yorkers still have much lower rates of homeownership than the rest of the country: 33 percent compared to 67 percent nationwide.

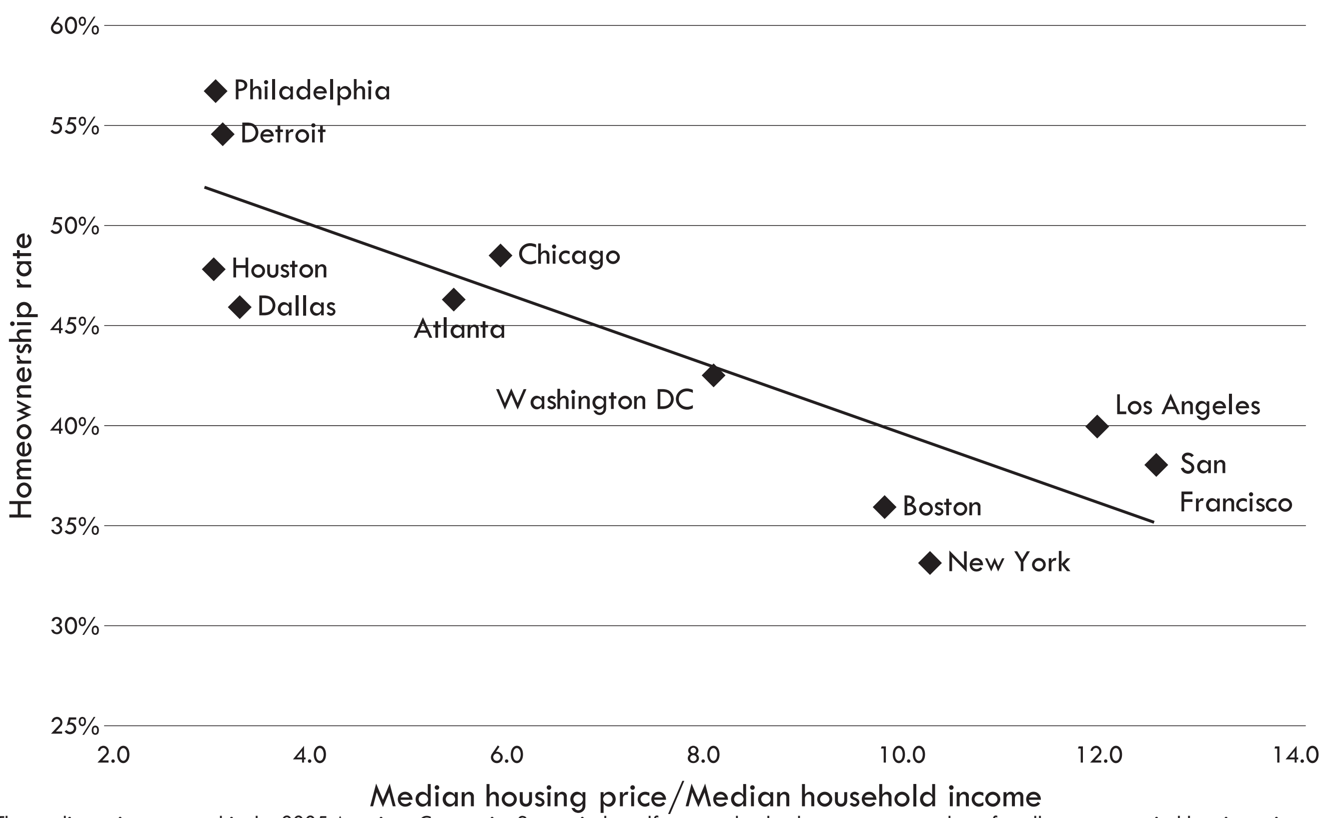
New York City also has the lowest homeownership rate among the country's most populous cities. **Figure 2** shows the rates of homeownership in major U.S. cities, and compares these rates to the ratio of median home price to median household income for each city. This graph demonstrates the correlation between rates of homeownership and the relative affordability of the housing stock. As might be expected, cities that have high median housing prices relative to median incomes have lower rates of homeownership. Interestingly, even though Los Angeles and San Francisco have higher housing prices relative to income, New York City trails their rates of homeownership by five to seven percentage points.

Figure 1. Homeownership Rates in NYC and US, 1990-2005



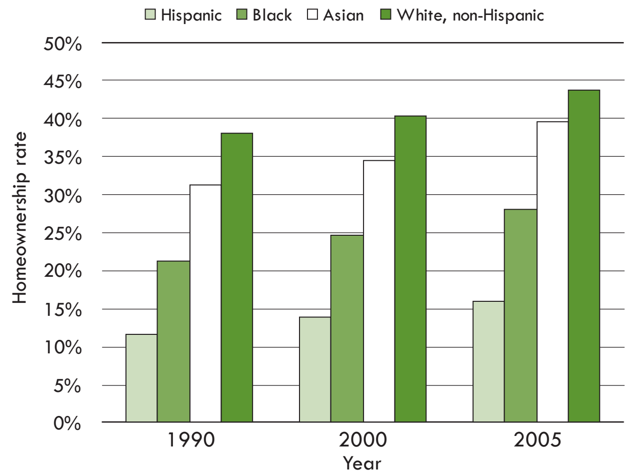
Source: Census 1990 and 2000; ACS 2005

Figure 2. Correlation of Tenure with Relative Housing Affordability in 11 Large US Cities, 2005



The median price reported in the 2005 American Community Survey is the self-assessed value by survey respondents for all owner-occupied housing units.
Source: ACS 2005

Figure 3. Changes in Homeownership Rates in NYC by Race & Ethnicity, 1990-2005

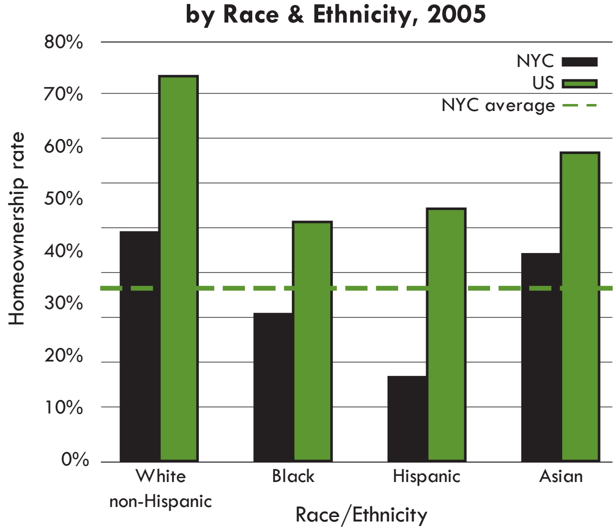


Source: Census 1990 and 2000; ACS 2005

Rates of Homeownership by Race and Ethnicity

All racial and ethnic groups in New York City have experienced gains in homeownership over the past 15 years, as seen in **Figure 3**. While non-Hispanic whites are still more likely to own their homes than any other racial or ethnic group, Asians now trail the white homeownership rate in the City by only about four percentage points.[2] This gap—the smallest of any ethnic group—is consistent with national patterns; Asians also have the highest rates of homeownership among non-whites nationally[3].

Figure 4. Homeownership Rates in NYC and US by Race & Ethnicity, 2005



Source: ACS 2005

Figure 4 compares homeownership rates across ethnic groups in New York City and the rest of the country. Non-Hispanic whites and Asians in New York City both experience rates of homeownership above the City's average, 44 percent and 40 percent respectively (but far below the national average). Homeownership rates for black New Yorkers, though below the City average, have climbed consistently since 1990, from 21 percent to 28 percent in 2005. Moreover, the difference between national and New York City homeownership rates is smaller for blacks than for any other ethnic group.

Hispanic New Yorkers, however, have had a different experience in the housing market. While homeownership rates for Hispanics have outpaced those of blacks nationally,[4] the Hispanic community lags far behind all other groups in New York City. With a homeownership rate of 16 percent, Hispanic New Yorkers are only half as likely to own their homes as the average New Yorker, and one third as likely to be homeowners as Hispanics in the rest of the country. Even compared to Hispanic rates of homeownership in the country's other large urban centers, the Hispanic homeownership rates in New York City are very low, as shown in Appendix Table A.1.[5]

Hispanic New Yorkers are half as likely to be homeowners as the average New Yorker.

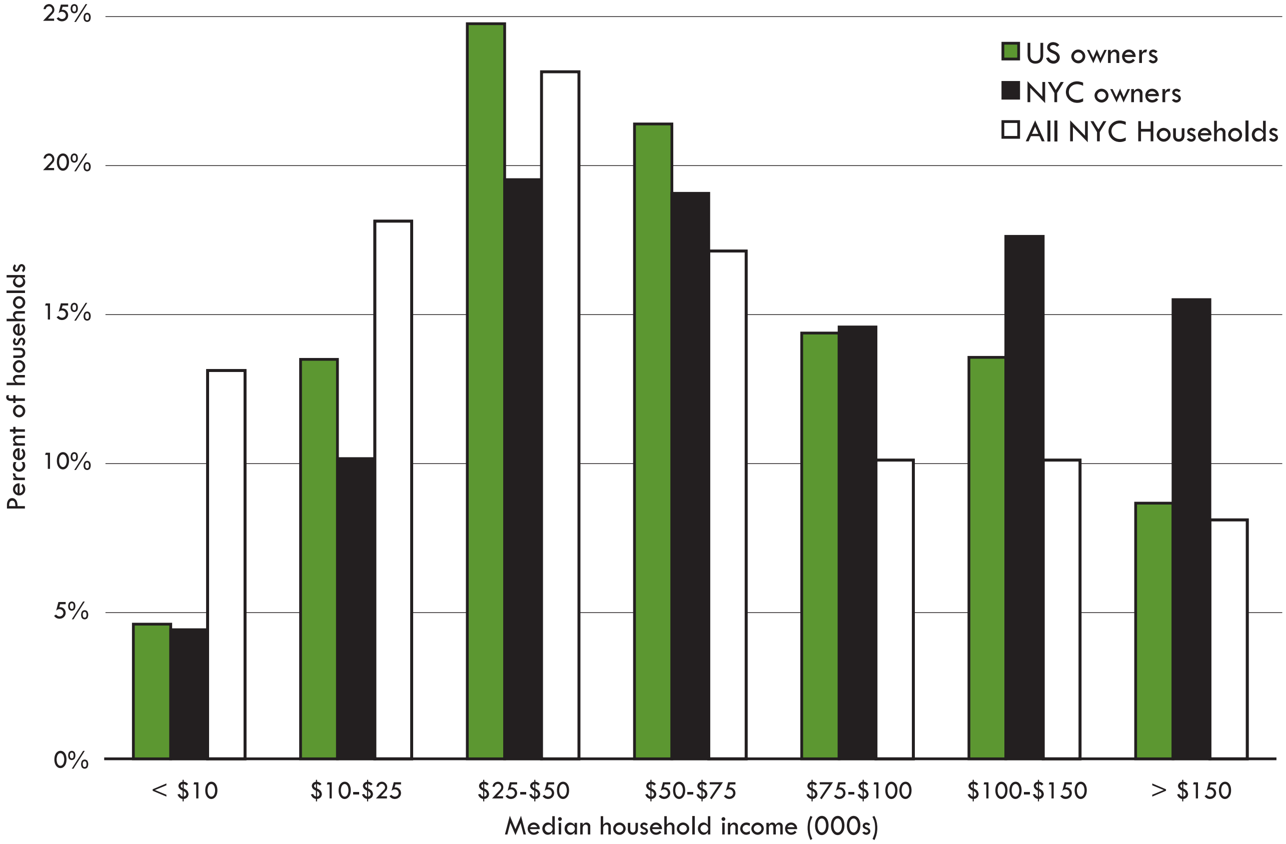
2 All race categories referenced in this chapter are those used in the United States Census' 2005 American Community Survey (ACS).

3 According to the ACS, 59.0 percent of Asian households nationwide were homeowners in 2005, compared to 73.7 percent for white households.

4 According to the ACS, the national Hispanic homeownership rate rose from 42.2 percent in 1990 to 48.3 percent in 2005; the national rate for blacks rose from 43.8 percent in 1990 to 45.8 percent in 2005.

5 For example, in Chicago the Hispanic homeownership rate is 45.3 percent, or almost three-times the rate in New York. The literature examining differences in homeownership rates by race and ethnicity, other than the gap between whites and blacks, is quite thin. The few existing studies (for example, Coulson 1999; Wachter and Megbolugbe 1992; Painter, Yang and Yu 2003) indicate several factors that may influence differences in tenure, including age distribution, income and educational

Figure 5. Income Distribution of Homeowners in NYC & US, 2005



Source: ACS 2005

attainment, immigrant and citizenship status, length of time in the U.S. and national origin. Preliminary comparisons of the characteristics of Hispanic populations in New York and Chicago reveal only small differences by age, education and immigrant status, according to the 2005 ACS, and those differences generally would favor higher homeownership by Hispanics in New York (i.e., Hispanics in New York are, on average, older, more educated, and less likely to be foreign born). Differences in the income distribution could contribute to differences in tenure; despite having similar median incomes, Hispanics in Chicago are more likely to be in the middle to upper-middle income bracket ($50,000 – $100,000). But by far the most striking divergence between Hispanic populations in the two cities is country of origin; roughly 73 percent of Hispanics in Chicago are of Mexican origin, compared to 11 percent in New York, while Hispanic New Yorkers are predominately Puerto Rican (35 percent) and Dominican (24 percent). According to a study by Borjas (2002), national origin of immigrants is one of the most significant determinants of homeownership. The relationship between all these traits and tenure rates is too complex to be explored in greater detail in this report, but is an important area for future research, particularly given the size and diversity of New York City's immigrant population.

Income Breakdown of Homeowners in New York City

Homeowners in New York City are significantly more affluent than homeowners in the rest of the country: in 2005, the median income of New York City's homeowners, $71,012, was 23 percent higher than the median income of homeowners in the rest of the country ($57,843), and 63 percent higher than the median income for all households in New York City ($43,434)[6].

But the median does not tell the whole story. **Figure 5**, which shows the income distribution of homeowners in New York City compared to the country as a whole and to all New York City households, offers a more complete picture. Unlike the national income distribution of homeowners, which rises close to the median and falls off at higher levels of income, New York City homeowners are

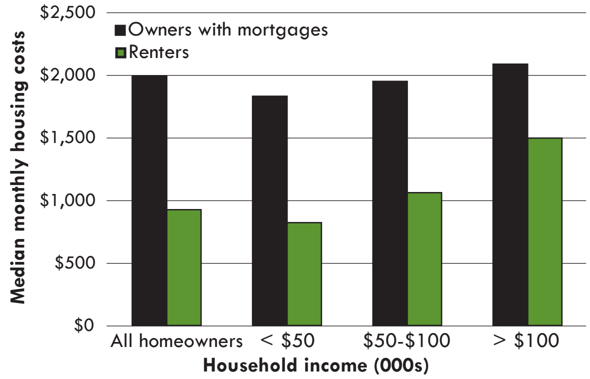
6 Throughout this chapter, we refer to figures for New York City itself, not the metropolitan region, unless otherwise indicated. The median income for the New York Metro Area (which includes Northern New Jersey and Long Island) is $56,120, significantly higher than the city's median income.

heavily concentrated in the upper income brackets. One third of the City's homeowners earn more than $100,000 per year, compared to only 22 percent at the national level. This does not reflect the income distribution for all New York households, since only 17 percent of all households earn more than $100,000 a year. The data suggest that homeownership in New York City is less of a middle-class reality than in the rest of the country.

The Cost of Homeownership: How Are Current New York City Homeowners Faring?

Despite having very diverse incomes, homeowners with outstanding mortgages in New York City incur relatively consistent housing costs—that is to say, the dollar amount of housing costs for the lowest income homeowners is not that different from the housing costs of higher income homeowners.[7] The result is simple: low-income homeowners pay a much higher percent of their income on housing than higher-income households. Black, Asian and Hispanic homeowners also pay a higher share of their income on housing costs than non-Hispanic whites. In this section, we use data from the New York Housing and Vacancy Survey (HVS) to explore the financial situation of current New York City homeowners with outstanding mortgages[8]; greater detail on the methodology used in these calculations is provided in Appendix A.[9]

Figure 6. Monthly Housing Costs in NYC by Tenure, 2005



Source: Furman Center calculations using HVS 2005

Three quarters of low-income homeowners pay more than half their income on housing costs.

Figure 6 shows the median monthly housing costs for homeowners with outstanding mortgages and renters not receiving direct government subsidies at different income levels. Homeowners at all income levels spend significantly more on

7 In this section, we analyze the size and distribution of housing costs for New York City homeowners with outstanding mortgages. Since mortgage payments are the largest component of housing costs, we exclude homeowners who do not have mortgages (i.e. own their homes free and clear). Nearly 40 percent of the homeowners surveyed in the 2005 HVS report owning their homes outright; these households are typically older and more likely to be non-Hispanic whites than homeowners with mortgages. While we have limited information on housing costs for owners without mortgages (property taxes, insurance and utilities), we assume that their total monthly housing costs are lower. However, they also have lower median incomes, so it is unclear whether they face similar cost-to-income ratios; further research on this question is left for a future date. We calculate housing costs for homeowners with mortgages as total monthly expenditures on mortgage payments, real estate taxes, fire and liability insurance, condominium or maintenance fees, and utility payments (electric, gas, water, sewer and other). We exclude survey respondents who do not report the amount of any housing costs or live in cooperatives.

8 Renters' housing costs are calculated as the amount of out-of-pocket rent plus the amount of utilities. We exclude respondents who report occupying their unit rent-free, those who do not report any of the housing cost components, those who report paying more out-of-pocket rent than the contract rent, and those who report no out-of-pocket rent. We also exclude renters in units receiving federal or local subsidies but include rent controlled and stabilized units.

9 Although the HVS surveys households in all five boroughs, our findings on homeowners are primarily drawn from owners in the Bronx, Brooklyn, Queens and Staten Island. Manhattan has a relatively small proportion of homeowners, and many of those included in the survey were excluded from our calculations because they do not report the amount of their mortgage payments. Since housing in Manhattan tends to be more expensive than in the outer boroughs, the relatively small number of reporting homeowners in Manhattan may result in an underestimate of housing costs for homeowners with outstanding mortgages for the entire city.

Table 1. Homeownership Cost Burdens in NYC by Race & Ethnicity, 2005

	Median annual income	Median monthly housing costs	Median monthly costs/Income	Percent cost burdened	Percent severely cost burdened
All homeowners	$83,631	$1,990	27%	44%	23%
White, non-Hispanic	$95,485	$1,870	24%	35%	17%
Black, non-Hispanic	$74,707	$1,991	31%	52%	26%
Hispanic	$82,626	$2,065	28%	47%	23%
Asian	$79,895	$2,194	31%	52%	35%

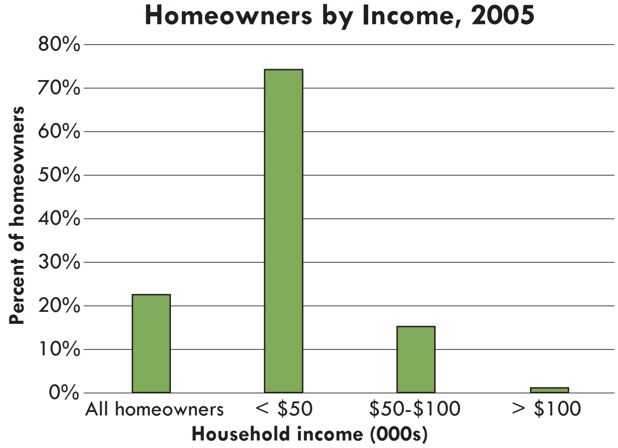
Monthly housing costs and cost burdens were calculated for each individual household; columns 2 and 3 show the medians for all homeowners with outstanding mortgages reporting housing costs.

Source: Furman Center calculations using HVS 2005

housing costs than renters, but the difference is particularly striking when comparing low-income homeowners to low-income renters. Homeowners earning less than $50,000 spend two-and-a-half times as much on out-of-pocket housing costs as low-income renters ($1,828 to $820 respectively). Of course, homeowners receive some additional financial benefits, specifically the possibility of accumulating equity through appreciation and the deductibility of mortgage interest payments and property taxes from federally taxable income. We cannot estimate the value of these benefits for current New York City homeowners.

One measure of the financial well-being of homeowners frequently used by government agencies and housing advocates is the ratio of housing costs to income. The U.S. Department of Housing and Urban Development (HUD) defines households who pay more than 30 percent of their monthly income on housing as "cost-burdened," while households paying more than 50 percent of their income are "severely cost burdened." **Figure 7** shows the percentage of homeowners with outstanding mortgages at each income bracket who are severely cost burdened in New York City, using these definitions. As the figure shows, three quarters of homeowners with outstanding mortgages who earn less than $50,000 a year spend more than half of their income on housing costs, leaving these households with a median residual income of only $621.[10]

Figure 7. Severely Cost-Burdened NYC Homeowners by Income, 2005



Source: Furman Center calculations using HVS 2005

While it is not entirely surprising that low-income homeowners are more likely to be overly burdened by housing costs than higher-income homeowners, the variation in housing costs and cost burdens by race and ethnicity is perhaps less expected. As **Table 1** shows, the median cost burden for all homeowners with mortgages is 27 percent, roughly equal to the 30 percent standard recommended by HUD. However, white homeowners on average pay a smaller share of their income on housing costs and are less likely to be cost burdened. Non-white homeowners are more likely to pay over 50 percent of their income on housing; approximately one quarter of Hispanics and blacks and one third of Asians are severely cost burdened, as compared to 17 percent of whites.

10 Some critics of the 30 percent standard point out that households may choose to pay a higher share of income in order to achieve better quality housing units or neighborhoods, and advocate using residual income to identify households whose income after housing costs is insufficient to purchase other necessities, such as food, health care, education and transportation. However, there is no consensus among researchers on the appropriate amount of residual income, either for the nation as a whole or for given geographic areas. Residual incomes for all income groups for both owners and renters are detailed in Appendix Table A.2.

Table 2. Average Loan Terms for NYC Homeowners by Race, Ethnicity & Income, 2005

	Loan -to-Value Ratio	Current interest rate
Homeowners with outstanding loans	81%	6.23%
White, non-Hispanic	78%	5.97%
Black, non-Hispanic	88%	6.60%
Asian	79%	6.24%
Hispanic	80%	6.49%
Income < $50k	82%	6.45%
Income $50-100k	82%	6.30%
Income > $100k	79%	6.05%

Source: Furman Center calculations using HVS 2005

Some of the difference in cost burdens by race and ethnicity is attributable to average differences in income across groups, as shown in Column 1. Another factor that could affect differences in monthly housing costs is the relative cost of credit imposed by loan terms. As **Table 2** describes, white homeowners in New York City tend to have lower average loan-to-value ratios at the time of purchase (78 percent for whites compared to 88 percent for blacks), perhaps because whites are able to make larger down payments. Non-white homeowners also appear to pay higher interest rates, on average, than their white counterparts—blacks pay an average interest rate of 6.60 percent and Hispanics pay an average rate of 6.49 percent, compared to an average rate of 5.97 percent for non-Hispanic whites. Lower-income homeowners also tend to pay higher than average interest rates. These differences likely reflect a variety of factors, including legitimate differences based upon variation in credit histories and credit scores. But the differences also may reflect discrimination and the prevalence of predatory lending in low-income and minority neighborhoods.

The data presented in this section describe considerable variation in the financial strain borne by New York City homeowners. Despite the high absolute cost of housing in New York, on average, current homeowners face housing costs roughly in line with HUD's 30 percent rule, the national standard of affordability. However, homeowners with incomes less than $50,000 are very likely to be paying more than 50 percent of their income on housing costs.

Changes in Affordability of Homeownership in New York City, 2000-2005

The previous section examined what current homeowners pay for housing; a distinct but related concern is whether households who do not currently own a home in New York City (renters or in-migrants from outside the City) can afford to purchase one. In this section we use detailed data on the prices of all home sales[11] in New York City from 2000 to 2005 to determine the share of sales that would have been affordable to a typical New York household.[12] We find that less than 10 percent of homes sold between 2000 and 2005 were affordable to households earning the City's median income. Further, the share of home sales that are affordable has been declining over time, due to rapid increases in housing prices and stagnating incomes.

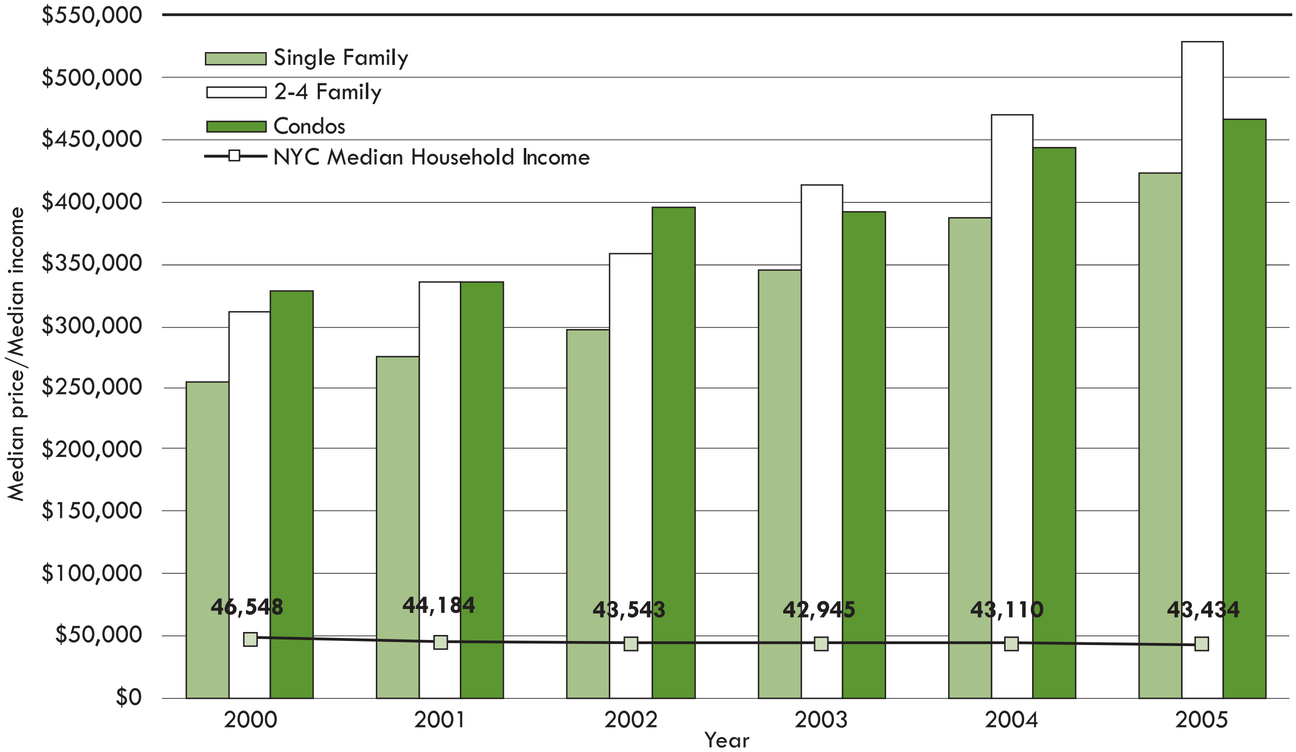
We calculate the affordability of the owner-occupied housing stock in New York City by two different methods, both of which use data on sales prices from recent transactions.[13]

11 Price data in this section reflect sales of single-family homes, 2-4 family buildings, and condominiums. We exclude cooperatives from our analysis due to lack of data on sale prices on individual units. All prices and incomes in this section are shown as constant 2005 dollars, adjusted for inflation using the CPI-All Urban Consumers for New York-Northern New Jersey-Long Island region.

12 Median incomes are calculated for all New York City households. As discussed earlier in this chapter, median incomes for New York City renters are significantly lower than those for homeowners (for example, the median income for renters was $33,119 in 2005, compared to $71,012 for homeowners). In this section, we use the median income of all New York City households in each year as a proxy for the median income of all potential homebuyers, since both renters and existing owners might choose to purchase homes on the market in any given year.

13 Many studies of housing markets rely on self-assessed values of owner-occupied housing from the census or similar surveys. By using actual sales prices, our method provides two advantages over

Figure 8. Household Income vs Housing Prices in NYC, 2000-2005 (in 2005 dollars)



All incomes and costs are shown as constant 2005 dollars, adjusted for inflation using the CPI-All Urban Consumers for New York-Northern New Jersey-Long Island region.

Source: Furman Center calculations using data from NYC Department of Finance, Census 2000, and ACS 2001-2005

First, we examine the ratio of median housing prices to median incomes; if households are expected to spend no more than 30 percent of their monthly income on housing costs, they generally can afford to purchase a home that costs roughly 2.5 times their annual income.[14] However, this is a somewhat crude measure of affordability, because it does not take into account variations in down payments and financing terms that vary over time, mainly as a result of interest rate changes. Thus we also estimate affordability more precisely by calculating the share of recent home sales that were affordable to households at various income levels, using data on actual sales prices, area median income, annual interest rates, and standard assumptions about mortgage loan terms.[15] Both measures are calculated using data on property sales in New York City provided by the City's Department of Finance and median incomes taken from the American Community Survey. Data on effective annual interest rates are from the Federal Housing Finance Board. The methodology for both

In recent years, home prices in New York City have risen rapidly while incomes have stagnated.

self-assessed values. First, observed sales prices more accurately measure the market value of housing units than either self-assessments or appraisals. Second, using sales data allows us to focus on the prices of units actually transacted, rather than estimates for the entire stock. If units that sell in a given period differ qualitatively from units that do not, using values for the entire stock may bias the results. To determine whether the units that sold during our period were representative of the stock as a whole, we compared the building age, structure type and value of units that transacted between 2000 and 2005 to the all owner-occupied units in 2005. The comparison did not reveal substantial differences in unit characteristics and suggests that the changes in price are not driven by sample bias.

14 See, e.g., American Bar Association 2004 for a description of this familiar "rule of thumb" measure.

15 We follow the assumptions used by National Association of Realtors (NAR) for their Housing Affordability Index—i.e., that homebuyers can afford a maximum monthly payment of 25 percent of pre-tax income, make a 20 percent initial down payment, and obtain a 30-year fixed rate mortgage with monthly payments at the prevailing effective interest rate. See National Association of Realtors, Methodology for the Housing Affordability Index, available at http://www.realtor.org/Reserach.nsf/Pages/HAmeth.

measures is described in greater detail in the Appendix.

Table 3. Affordable Sales in NYC by Household Income, 2000-2005

Year	Effective Interest Rate	NYC Median Income	Median Sale Price	Percent of Sales Affordable by Percent of Median Household Income: 80%	100%	120%
2000	7.99	$46,548	$285,805	4.9%	10.7%	21.5%
2001	7.04	$44,184	$309,767	4.2%	9.1%	18.5%
2002	6.45	$43,543	$335,451	8.2%	13.4%	20.6%
2003	5.62	$42,945	$384,019	5.6%	9.3%	15.3%
2004	5.68	$43,110	$439,399	3.1%	4.5%	7.5%
2005	5.7	$43,434	$480,000	3.5%	4.6%	6.7%
5yr. Avg.	6.41	$43,961	$372,407	4.9%	8.6%	15.0%

Includes sales of single-family, condominium and 2-4 unit buildings. For 2-4 unit buildings, income is recalculated to include NYC median income plus estimated rental income for units not inhabited by the owner, as described in the appendix. All dollar amounts are reported in constant 2005 dollars.

Source: Furman Center calculations using data for NYC Department of Finance, ACS and Federal Housing Finance Board

Housing Price Appreciation and Income Trends

Home prices in New York City have escalated rapidly in recent years, with the average real annual appreciation rate between 2000 and 2005 exceeding 10 percent, more than three times the City's annual average of 3 percent in the 25 years prior to 2000. Today, home prices for all housing types in New York City have reached record highs, with a median sale price of $480,000 citywide in 2005, up from $285,805 in 2000; after adjusting for inflation, this represents a 68 percent increase in only five years. Interestingly, the building class experiencing the highest price appreciation from 2000 to 2005 is 2-4 family buildings; after adjusting for inflation, the median price for 2-4 family buildings increased by 70 percent over this period. At the same time, the median income for New York City households stagnated in real terms between 2000 and 2005, averaging approximately $44,000 per year during this period (see **Figure 8**).

As a result of these trends, the median price-to-median income ratio in New York City has swelled from an already high 6.1 in 2000 to 11.1 in 2005. This figure is more than four times greater than the 2.5 affordability threshold discussed above, and far above both nationwide and metro-area ratios during the same period.[16]

Although as noted earlier in **Table 1**, the median income to housing cost ratio for New Yorkers is 27 percent, that figure represents the financial situation of current New York City homeowners, some of whom bought when prices were much lower. The price-to-income ratio shown by **Figure 8** is a better gauge of the hurdle faced by prospective buyers. The numbers shown reveal that few New Yorkers will be able to purchase a home without significantly exceeding either the 2.5 price-to-income ratio or the 30 percent monthly housing cost standards advocated by HUD. In the following section, we calculate how many homes that sold recently would have been affordable to prospective purchasers without exceeding standard cost burdens.

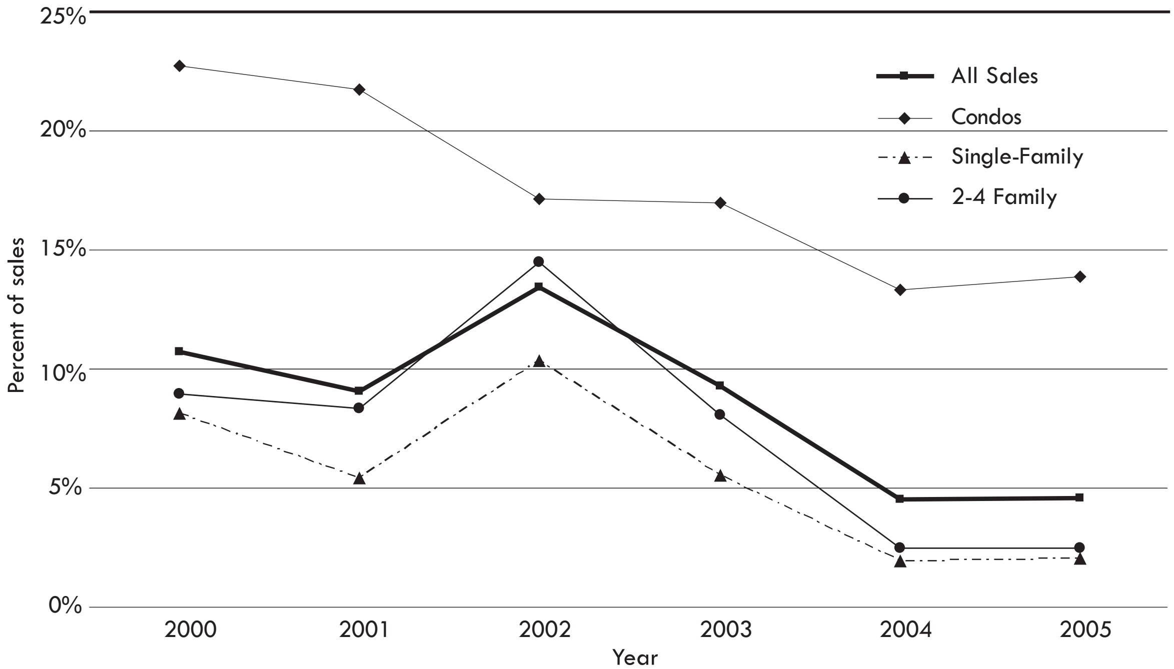
Affordability in Recent Home Sales

As shown in **Table 3**, the percentage of sales affordable to households earning the City median income ($43,434 in 2005) has dropped from nearly 11 percent in 2000 to less than 5 percent in 2005. Even more dramatically, the percentage of sales affordable to households earning 120 percent of the City median income ($52,121 in 2005) has fallen from 22 percent to only 7 percent during this same period, a drop of 15 percentage points in just five years. The drop in affordability is due almost entirely to rising real housing prices in a period when median income was stagnant. While the decline in interest rates helped improve affordability somewhat by lowering financing costs, it was not nearly enough to offset the rapid appreciation of home prices.

The decline in affordability is also apparent across housing types. As shown in **Figure 9**, the affordable share of sales of condominiums, single-family residences, and 2-4 unit buildings dropped significantly

16 See NAR 2006.

Figure 9. Percentage of Home Sales Affordable to Median Income Households by Building Class, 2000-2005



Source: Furman Center calculations using data from NYC Department of Finance, ACS and Federal Housing Finance Board

between 2000 and 2005. While condominium units are still the most affordable option for middle-income homebuyers, the affordable share of condominiums sold dropped the most dramatically during this period, from 23 percent in 2000 to just 14 percent in 2005.

Conclusion

Without a doubt, the housing market in New York City is "hot," with home prices reaching record highs and annual rates of appreciation far exceeding those witnessed in recent decades. Rapidly increasing home prices present a mixed blessing for New York City residents. To the extent that rising prices represent increased demand, they indicate that the City continues to be a very desirable place to live. For existing homeowners, appreciation translates into significant gains in home equity, which can enable homeowners to tap into home equity lines of credit. Of course, rising home prices are good news for homeowners interested in selling their property, especially if they do not plan to buy another property in the City.

But rapid price appreciation without accompanying increases in median incomes presents some serious challenges for New York City. As growth in home prices dramatically outpaces the typical New Yorker's income, renters and new arrivals to the City may find it increasingly difficult to transition to homeownership. Those who do manage to purchase a home may find themselves spending an extremely high proportion of their income servicing their housing debt, with little left over to spend on other necessities or to weather financial shocks, such as unemployment, divorce, or illness. Prospective buyers also may bridge the gap between income and prices by taking out "exotic" mortgages, such as home purchase loans with initially low "teaser rates," counting on the likelihood that their home will continue to appreciate in value and allow them to refinance their mortgages when their interest rates reset. However, if the New York City housing market "cools" or interest rates creep up, these overextended borrowers will be at the greatest risk of default and foreclosure. The Furman Center is currently conducting research on the causes and effects of mortgage distress and foreclosures that will further explore the policy implications of such financing tools.

Although New York's homeownership rate is far below that of the nation and most other large cities, homeownership rates for New Yorkers of all racial and ethnic groups have increased over the past few years. Our analysis indicates that the opportunities and costs of homeownership are not equally shared among New Yorkers—low-income homeowners face extremely high cost burdens, and Hispanic New Yorkers are very unlikely to purchase a home. The dramatic increase in prices the City has experienced over the past five years promises only to accentuate these disparities and may undermine gains in the homeownership rate, making it extremely difficult for low and middle-income New Yorkers to enjoy the benefits of homeownership.

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