

MAKING THE RENT

2016



TENANT CONDITIONS IN NEW YORK CITY'S CHANGING NEIGHBORHOODS

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by Tom Waters and
Victor Bach
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MAKING THE RENT 2016: TENANT CONDITIONS IN NEW YORK CITY'S CHANGING NEIGHBORHOODS



The Community Service Society of New York (CSS) is an informed, independent, and unwavering voice for positive action representing low-income New Yorkers. CSS addresses the root causes of economic disparity through research, advocacy, and innovative program models that strengthen and benefit all New Yorkers.

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Introduction

In good economic times and bad, New Yorkers find their rent growing far faster than their income. Those with incomes less than twice the poverty threshold are hit the hardest, both because their incomes have been stagnant and because they lack any cushion to absorb the impact of rising rents. Whether they live in gentrifying neighborhoods or not, these low-income New Yorkers have seen a decline in living standards, as their inflation-adjusted income left over after rent declined during both the economic boom and bust and has recovered only partially in the past three years.

This severe and ongoing affordability crisis stems from a complex of several forces: rental market trends that are transforming neighborhoods and the city as a whole, stagnating incomes for all but the highest-earning 20 percent of the city, and the failure of local and state mechanisms intended to protect tenants from disproportionate displacement pressures. The city's stock

of privately owned housing subsidized through Mitchell-Lama and federal Department of Housing and Urban Development programs continues to erode. The new housing produced through the federal Low Income Housing Tax Credit is poorly targeted to the households with the greatest housing needs. The public housing stock is not decreasing in size, but it is deteriorating in quality. And the city's system of rent control and rent stabilization is not only permitting too many apartments to be deregulated but also allowing rents to rise to increasingly unaffordable levels for apartments that remain regulated.

In this report, we examine the relationship between local and citywide factors in driving rent increases. We document the widening gap between rent and income for tenants at a wide range of income levels, along with an apparently related surge in overcrowding. And we dissect the mechanisms that have allowed rents to reach such unaffordable levels in all parts of the city.



Summary of key conclusions

- Rents in New York City have persistently risen faster than incomes since 2002, and households with the lowest incomes have fallen behind the most. For the bottom 20 percent of the population, rents have risen 30 percent faster than income. As a result, the median amount of income that low-income tenants in the private unassisted market retain after paying rent was 8 percent lower in 2014 than it was in 2005, after adjusting for inflation.
- Low-income tenant households in the unassisted market have also become significantly more overcrowded since 2008, probably as a result of doubling up or taking on additional household members in response to unaffordable rents. This crowding imposes hardships and could signal increased risk of homelessness.
- This pattern of hardship is partly driven by changes in specific neighborhoods, with rents rising fastest in neighborhoods in Upper Manhattan, brownstone Brooklyn, and Western Queens—a rapidly changing inner ring surrounding the city’s high-income core. But rents and rent burdens are also rising fast in less centrally located neighborhoods where far more of the city’s low-income people live. In addition to being concerned about gentrification and the market effects of local redevelopment, we should also be concerned that the city as a whole is losing its ability to accommodate the housing needs of low-income people.
- Rent regulation is the major source of housing for low-income New Yorkers, and it provides a small but significant improvement in affordability for them, in addition to the benefits of a secure tenancy. But this protection is being undermined by rent increases on regulated apartments far in excess of the rate of inflation.
- The largest contributor to rent increases in rent-stabilized apartments is the statutory vacancy allowance or “eviction bonus” that allows an automatic increase of about 20 percent when an apartment becomes vacant and turns over to a new tenant. This mechanism explains 49 percent of the citywide total increase in stabilized rents above inflation.
- The second-largest contributor to rising rents is the increases allowed on renewal of rent-stabilized leases by the Rent Guidelines Board, accounting for 27 percent of the citywide total increase, and 37 percent in low-income areas.
- The vacancy allowance is also contributing to the spread of “preferential rent” leases, which specify one rent level to be paid during the term of the lease along with a higher level that can become the basis for the rent charged upon lease renewal. This undermines the protection of rent stabilization by allowing large increases from the so-called “preferential” rent to the higher one (plus any further increase allowed by the Rent Guidelines Board) at the conclusion of the lease term.

The city’s system of rent control and rent stabilization is not only permitting too many apartments to be deregulated but also allowing rents to rise to increasingly unaffordable levels for apartments that remain regulated.

Policy recommendations

These trends call for action both from the New York City Rent Guidelines Board and from the New York State Legislature and Governor.

- The Rent Guidelines Board should take the economic situation of tenants into account in setting limits on rent increases on lease renewals of rent-stabilized apartments. The two most recent decisions of the board appear to do this, breaking with the usual previous practice, and the board should continue to follow this policy in the future.
- The New York State Legislature and Governor should act to eliminate the “eviction bonus.”
- The New York State Legislature and Governor should act to require that landlords offer rent-stabilized tenants renewal leases at rents based on the rent actually paid by the tenant under the previous lease, not a higher registered rent



Neighborhood change amid a citywide crisis

New York City is in the midst of a socio-economic transformation that is visiting severe hardship on the city's low-income residents. Eight years after the financial crisis of 2008, rent still consumes a median of 49 percent of income for households with incomes below twice the federal poverty line, a historically high level. In part, this reflects the fact that incomes for the lower 60 percent of the city's households have still not recovered from the crash. But more than anything, it reflects the fact that rents have risen relentlessly, well above the rate of inflation, during boom, crash, and recovery alike.

Public discussion of this affordability crisis has recently focused on change at the neighborhood level. There are many reasons for this focus, including the conspicuous signs of gentrification in many neighborhoods across the city, the current policy focus on neighborhood rezoning, and the rising importance of neighborhood-based organizations within the city's housing movement. And the focus on neighborhood change does indeed capture important aspects of the crisis. The rate of increase of rents does vary by neighborhood, and some of the neighborhoods with the highest rates of increase are the same ones undergoing local redevelopment and highly visible social change, like Bedford Stuyvesant and Central Harlem.

But the current emphasis on gentrification and redevelopment should not blind us to the intensifying rent pressures experienced in a wide variety of places. An increasing number of low-income, unassisted tenants are paying more than half their income in rent in most parts of the city, including gentrifying neighborhoods in Brownstone Brooklyn and Upper Manhattan, historic high-income areas of Manhattan, and persistent poverty centers in central Brooklyn and the central Bronx, as seen in Map 1.

Changes in New York City neighborhoods are linked to an overall pattern of change in the city's economy, in which service and technology industries that employ a mix of high-wage and low-wage workers are growing and manufacturing and other industries that employ middle-wage workers are declining. Meanwhile, the city's population has grown by 21 percent since 1980 and is projected by the Department of City Planning to grow by

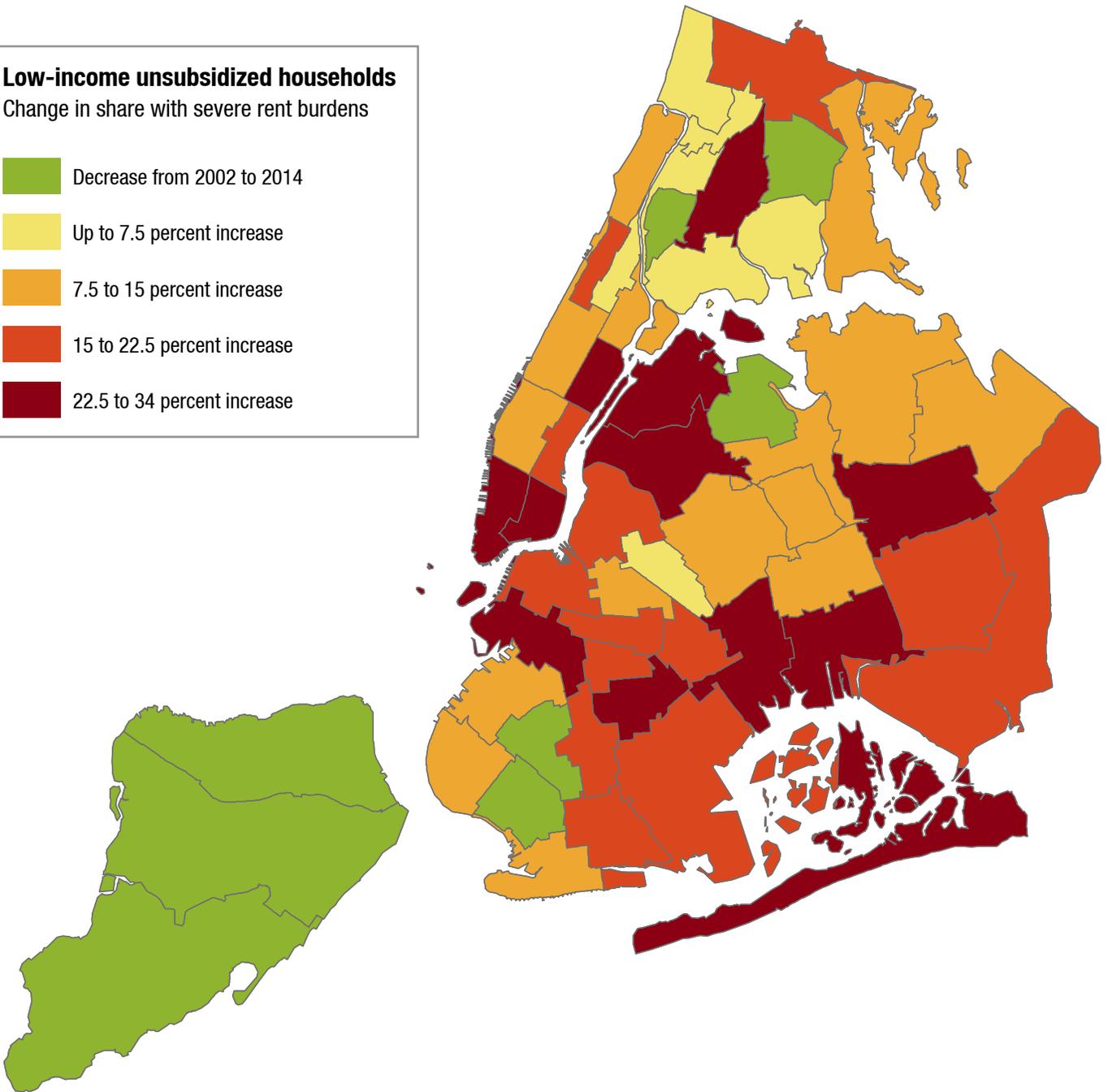
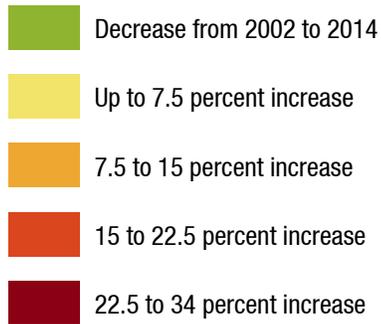
An increasing number of low-income, unassisted tenants are paying more than half their income in rent in most parts of the city.

another 5 percent to 9 million by 2040. This combination leads to increased inequality of incomes and increased housing demand, including robust demand for centrally located housing from high earners. As a result, median incomes in centrally located neighborhoods are rising rapidly, as shown in Figure 1 (page 6). The income figures come from the New York City Housing and Vacancy Survey, and average commute times come from the American Community Survey. The geographic areas used in this survey are "subborough areas" defined by the U.S. Census Bureau. Note that the lower-income Manhattan neighborhoods (except Washington Heights) have large amounts of public and subsidized housing, which helps explain their relatively low median incomes—and relatively slow change in income—despite their central locations. The social makeup of the unsubsidized portions of these communities are changing more rapidly than the graph seems to show.

MAP 1: INCREASING SHARE OF UNASSISTED LOW-INCOME TENANTS PAYING MORE THAN HALF THEIR INCOME IN RENT

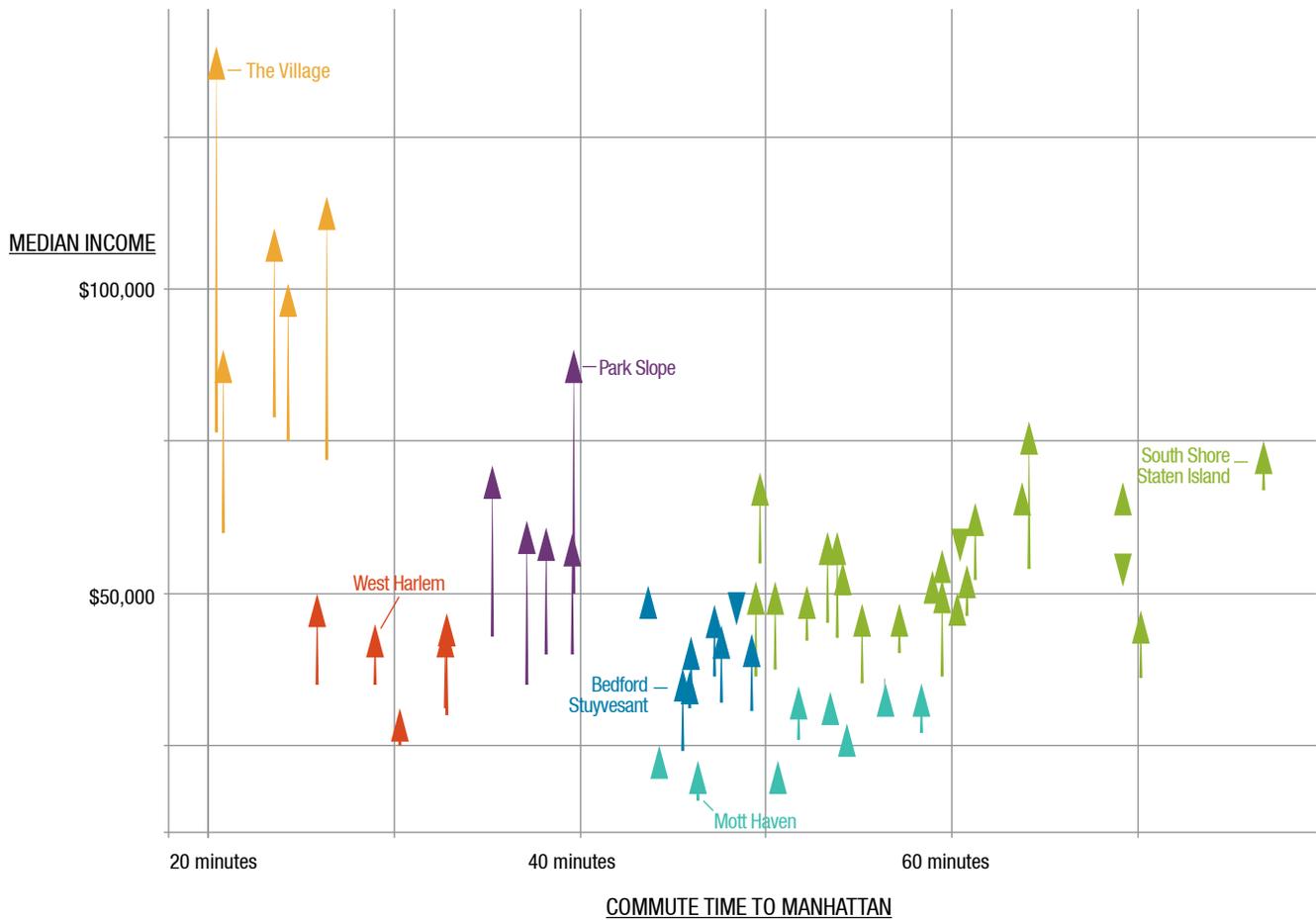
Low-income unsubsidized households

Change in share with severe rent burdens



Source: CSS analysis of U.S. Census Bureau, New York City Housing and Vacancy Survey, 2002 and 2014.

FIGURE 1: MEDIAN INCOME FOR NEW YORK CITY NEIGHBORHOODS IN 2002 AND 2014 WITH AVERAGE COMMUTE TIME TO MANHATTAN. Arrowheads indicate 2014 income and tails indicate 2002 income.



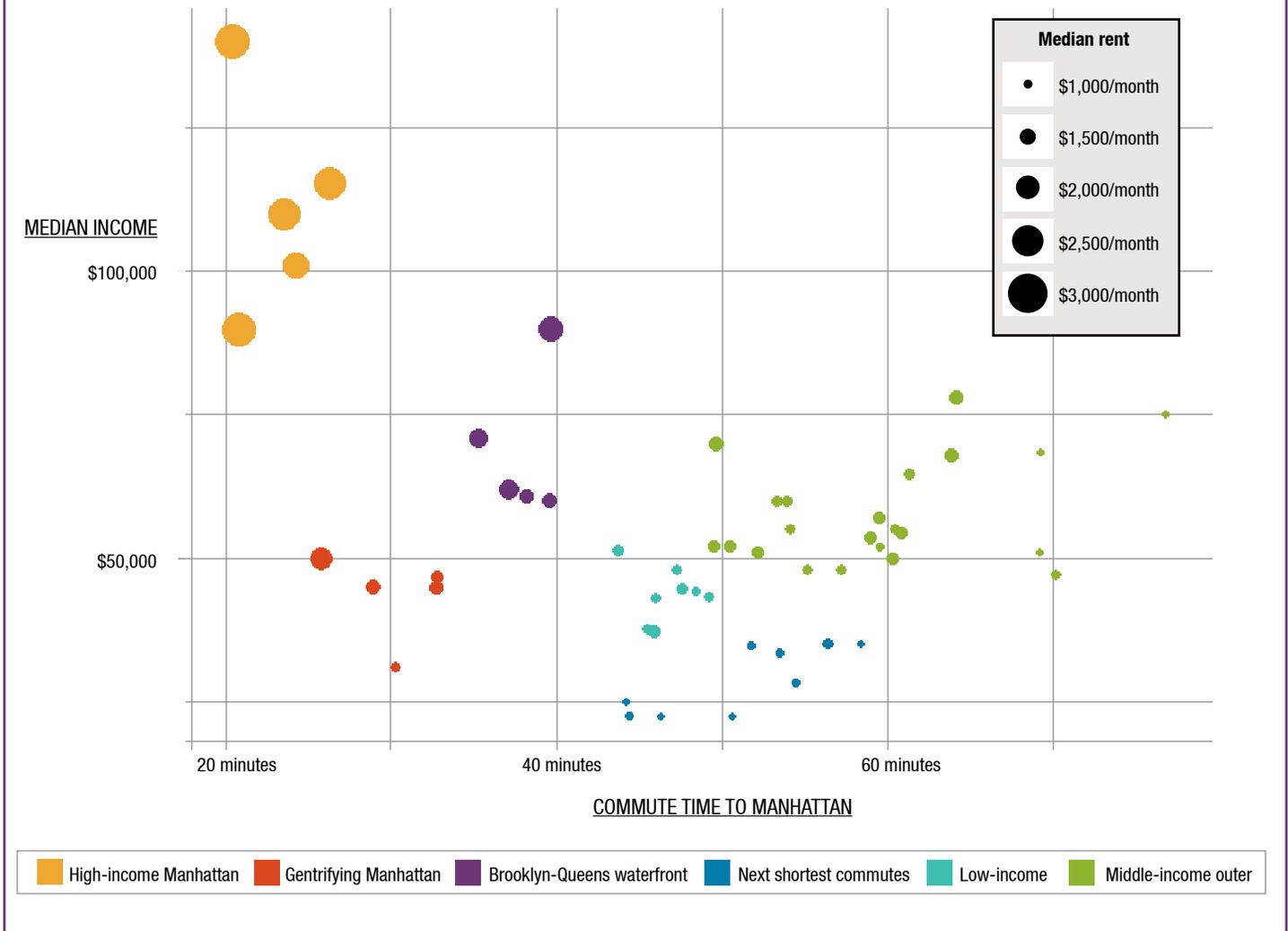
■ High-income Manhattan
 ■ Gentrifying Manhattan
 ■ Brooklyn-Queens waterfront
 ■ Next shortest commutes
 ■ Low-income
 ■ Middle-income outer

Source: CSS analysis of U.S. Census Bureau, New York City Housing and Vacancy Survey, 2002 and 2014.

Rents in private-market housing in New York City are closely related to both neighborhood median income and centrality of location, as seen in Figure 2. The medians displayed in this figure describe rents on rent-stabilized, rent-controlled, and unregulated apartments that have turned over to new tenant households in the five and half

years prior to the New York City Housing and Vacancy Survey being taken in mid-2014. Using these rents enables us to filter out the influence of the lower rents paid by longstanding tenants and approximate the current state of the market.

FIGURE 2: MEDIAN RENTS ON PRIVATE-MARKET APARTMENTS ARE INFLUENCED BOTH BY NEIGHBORHOOD INCOMES AND BY CENTRAL LOCATION



Source: CSS analysis of U.S. Census Bureau, New York City Housing and Vacancy Survey, 2002 and 2014.

The rate of change in private-market rents is also influenced by both neighborhood income and centrality, except that the fastest increases are seen in neighborhoods that are a little lower in income and a little less central than the ones with the highest absolute level of rent, as seen in Figure 3 (page 9). The highest increases are seen in lower-income parts of Manhattan plus the Brooklyn and Queens

neighborhoods along the East River facing Manhattan—familiar examples of gentrification. And high increases are also seen in some poorer neighborhoods that represent the next phase of gentrification, such as Bedford-Stuyvesant, Bushwick, Flatbush, and Crown Heights. This pattern illustrates the reasons for the recent focus on gentrification in housing policy discussion.

MAP 2: NEIGHBORHOOD CATEGORIES BASED ON MEDIAN INCOME AND CENTRAL LOCATION

Neighborhood Categories

- High-income Manhattan
- Gentrifying Manhattan
- Brooklyn-Queens waterfront
- Next shortest commutes
- Low-income
- Middle-income outer

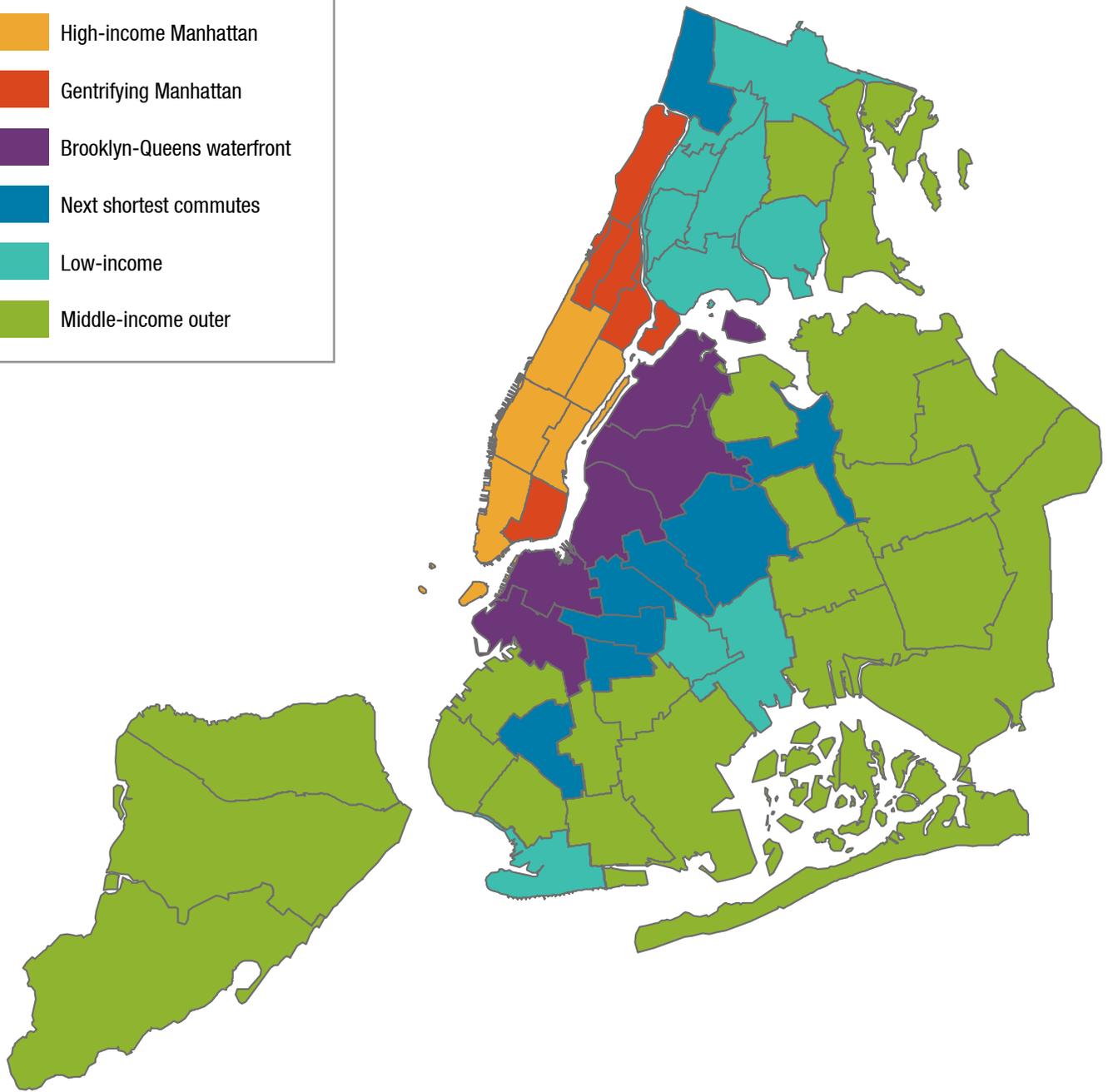
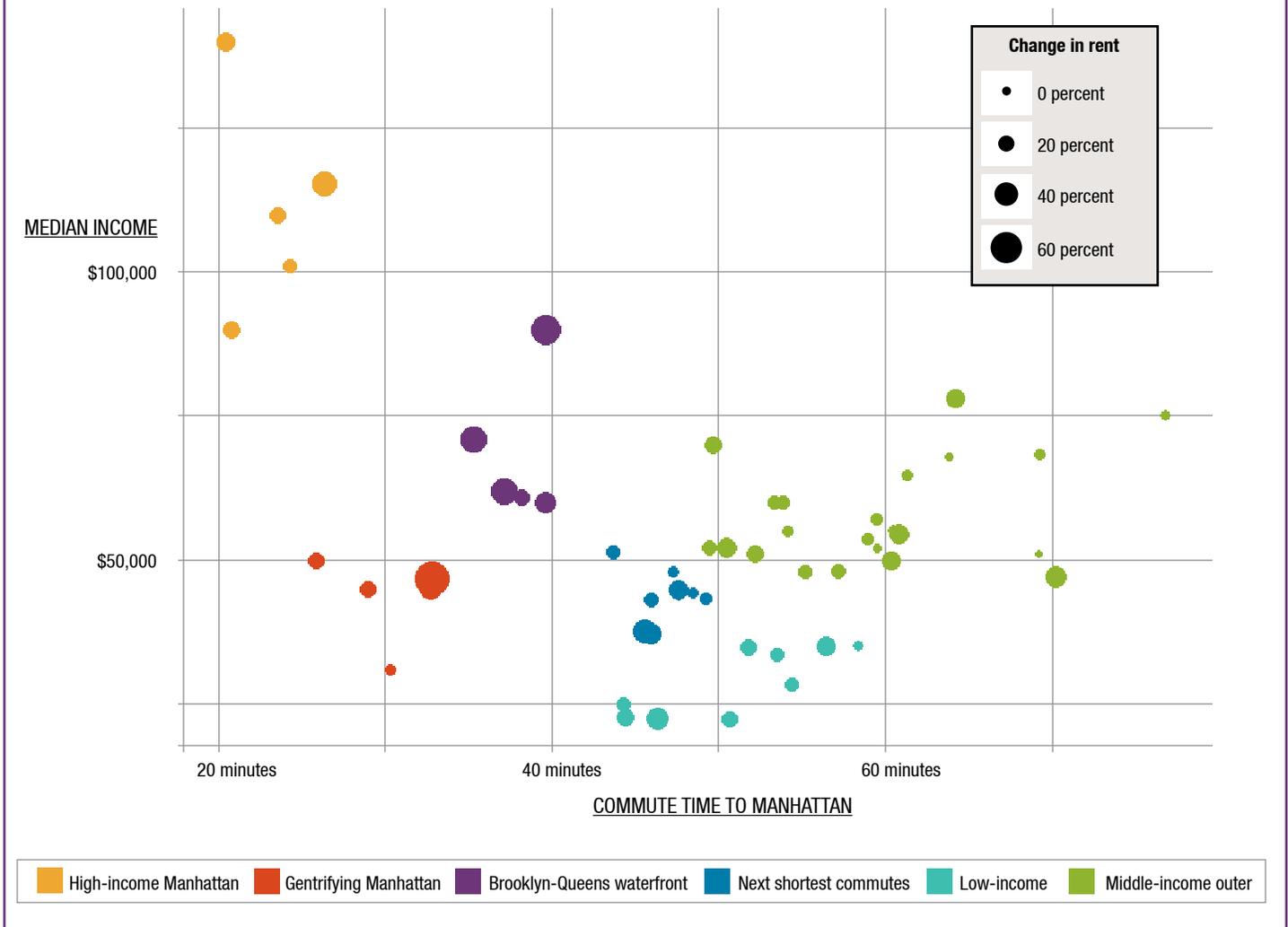


FIGURE 3: THE BIGGEST INCREASES IN INFLATION-ADJUSTED MEDIAN RENT FROM 2002 TO 2014 ARE FOUND IN LESS CENTRAL, LOWER-INCOME NEIGHBORHOODS THAN THOSE WITH THE HIGHEST 2014 RENTS



Source: CSS analysis of U.S. Census Bureau, New York City Housing and Vacancy Survey, 2002 and 2014.

Gentrification is clearly not the complete story, however. Rent increases well above the rate of inflation are seen in some of the poorest places in the city, such as Mott Haven and University Heights in the Bronx. This is important because most unassisted low-income New Yorkers (those in private-market housing without a Section 8 voucher) do not live in either the city's high-income core or its conspicuously gentrifying areas. Only 6 percent live in the high-income core and 16 percent in the rest of Manhattan or the East River-facing areas of Brooklyn and Queens.

Far more (37 percent) live in low-income neighborhoods further from Manhattan, including persistently poor places like University Heights as well as places that might be considered the next wave of gentrification such as Bedford-Stuyvesant. Rents are rising rapidly there too. And more still (41 percent) live in more middle-income neighborhoods, including places like Jackson Heights and Elmhurst where incomes are rising as well as those like Flushing and Bay Ridge that are more static.

One hypothesis is that the changes in the gentrifying areas could be helping to cause the changes in neighborhoods further removed from Manhattan, as households displaced from one place drive increased demand in another one. This makes sense given New York's overall population growth. In many cities, households that leave gentrifying neighborhoods are likely to move to poor and declining places where local population is actually decreasing. But in New York, most poor neighborhoods are seeing considerable increases in population. In three of New York's poorest 15 Census-defined subborough areas, population declined by 1 or 2 percent from 2002 to 2014, but in six of the others, population increased by up to 9 percent, and in another six, it increased by between 13 and 23 percent. These population increases reflect the city's success in halting decline and the large number of people moving to New York, especially from overseas, but even if they result from good things, they make it highly plausible that the city's changing geography is intensifying demand pressure on housing everywhere.

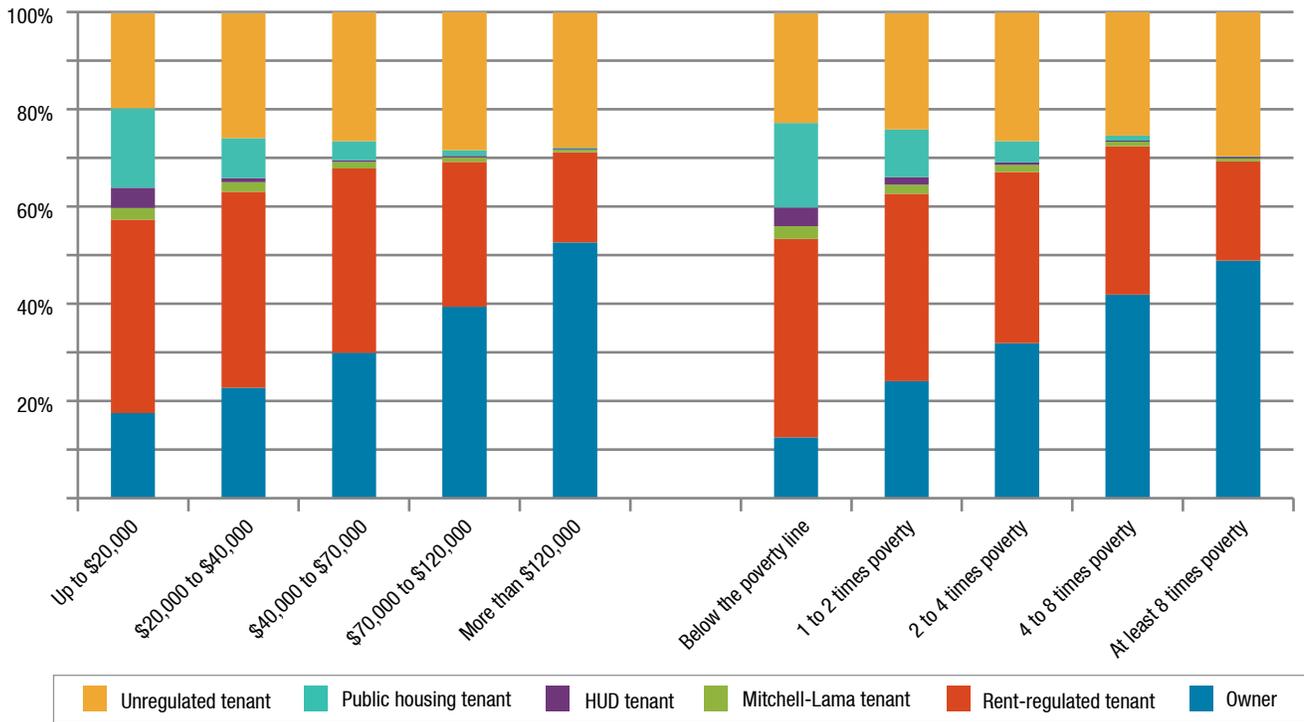
Housing policy must also be considered in explaining the city's housing affordability crisis. The severe hardships facing 3 million low-income New Yorkers should not be seen as the price of success in growing the city's economy. Instead, they should be seen as the price of failure of policies that should have shared the benefits of that growth widely.

Rent and income trends, 2002 to 2014

Although New York City is accurately described as a city of renters, its housing system does vary considerably by income. A slim majority of households in the top quintile (20 percent) of the income distribution own their houses, coops, or condos, compared to only 17 percent of the bottom quintile. The share of households in some form of public or subsidized housing falls from 23 percent for the bottom quintile of the income distribution to 6 percent for the middle quintile to a negligible amount for the top quintile. The benefits of rent regulation are spread more broadly, though most concentrated in the lower 80 percent of the income distribution. This makes sense given that rent regulation is not a true affordable housing program but rather a system of protections for tenants in a historically tight housing market that would create an extreme power imbalance between landlords and tenants in the absence of a regulatory response. Nevertheless, regulated apartments are still the largest source of housing for New York's more than 1 million low-income households with incomes below twice the federal poverty threshold (about \$38,150 for a family of three). And rent regulation does provide a small but important affordability benefit to regulated low-income tenants, enabling them to pay a lower share of their income on rent than do unregulated low-income tenants.



FIGURE 4: NEW YORK CITY HOUSEHOLDS BY INCOME AND HOUSING TYPE



Source: CSS analysis of New York City Housing and Vacancy Survey 2014.

Figure 4 shows the share of households in the city by housing type and income, using two approaches to categorizing incomes. On the left it shows the shares of various housing types for five equal-sized groups of households or quintiles, ranging from the 20 percent with the lowest income to the 20 percent with the highest income. On the right it shows the shares for five groups defined by multiples of the federal poverty threshold.

The most recent survey evidence from 2014 shows that conditions for tenants remain dire, despite the fact that employment has finally recovered from the financial crisis of 2008 and the subsequent recession. The city's unemployment rate dipped below 7 percent in 2014 and 6 percent in 2015 and stands at 5.5 percent as of March 2016. But even as unemployment finally declines, most income gains have gone to the highest earners. Low-

and middle-income New Yorkers, including most rent-stabilized tenants, are still being left behind. Figure 5 shows changes in inflation-adjusted income for the same five income quintiles used in Figure 4. They show that as of 2014, incomes for the lower 60 percent of New York City households had not returned to their levels of 2008. Figure 6 shows that rents have continued to rise rapidly for households at all incomes.

These broad economic trends are the main drivers of rent burdens and other housing hardships for New York's low-income tenants. They have caused rent burdens to remain at historically high levels for tenants in both rent-regulated and unregulated private-market housing. They also provide the most likely explanation for a sharp increase in crowding among private-market tenants who do not have a Section 8 voucher.

FIGURE 5: CHANGES IN REAL MEAN INCOME FOR NEW YORK CITY HOUSEHOLDS BY INCOME QUINTILE, 2002 TO 2014

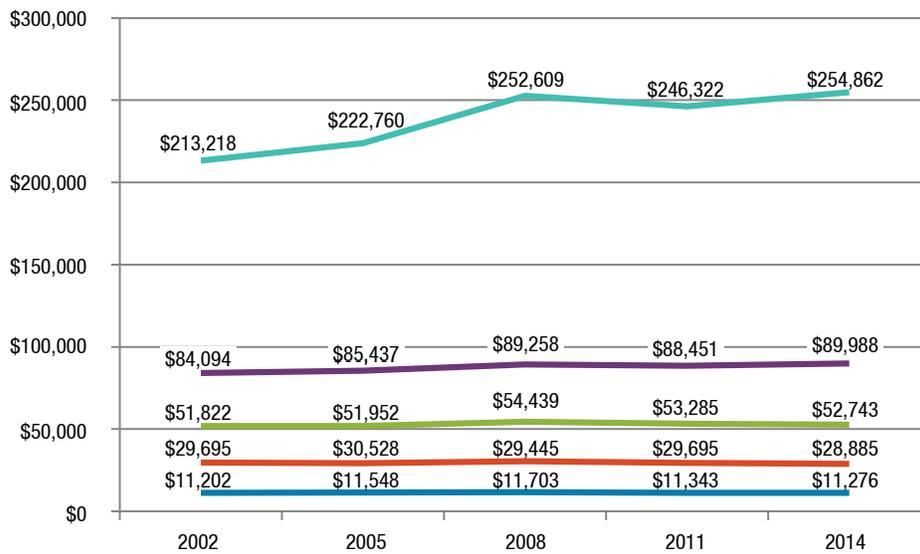
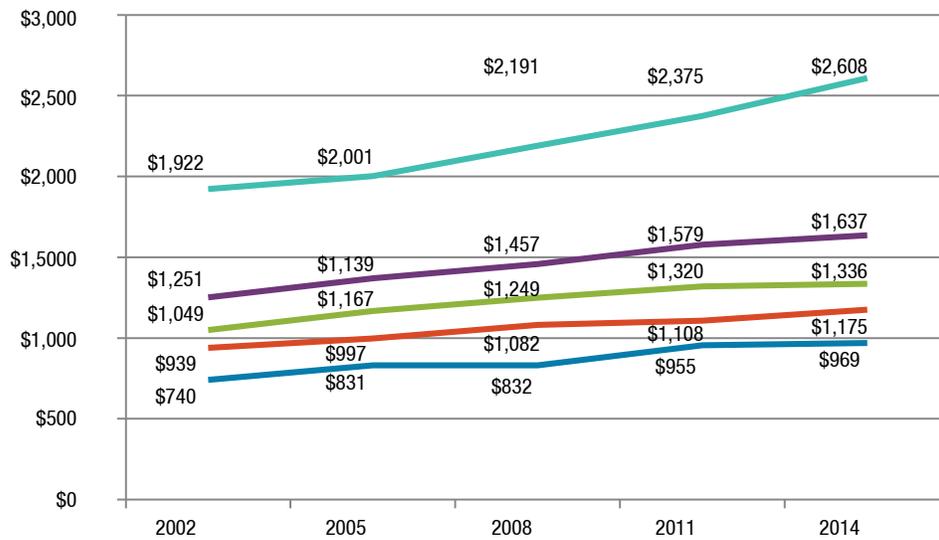


FIGURE 6: CHANGES IN MEAN RENT FOR NEW YORK CITY HOUSEHOLDS BY INCOME QUINTILE, 2002 TO 2008

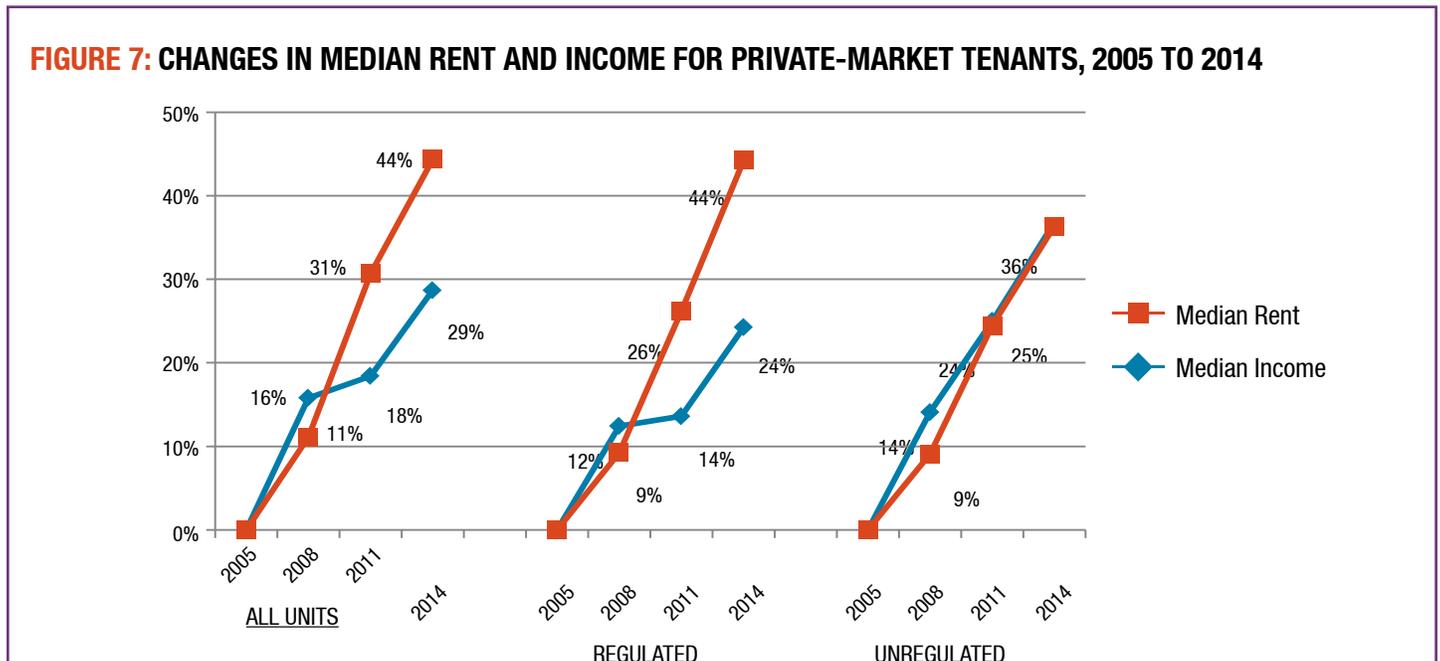


Source: CSS analysis of the U.S. Census Bureau, New York City Housing and Vacancy Survey. Amounts in 2013 dollars.

Incomes, rents, and rent burdens for regulated and unregulated tenants

Because the New York City Housing and Vacancy Survey includes information on the regulatory status of the households in its sample, it enables us to focus directly on rent-regulated and unregulated tenants in the city's private housing market. These are the groups that are most exposed to high rent burdens, because they lack housing subsidies. Figure 7 shows changes in rent and income for these groups from 2005 to 2014, demonstrating how rent has outstripped income for regulated tenants since the

recent economic slowdown, while rent and income have roughly kept pace for unregulated tenants. (Note that as apartments are deregulated under rent-stabilization's vacancy deregulation provision, a portion of the regulated stock moves to the unregulated stock where its rents move to the high end and it is largely occupied by high-income tenants as well. This process also influences the statistics presented in these graphs.)



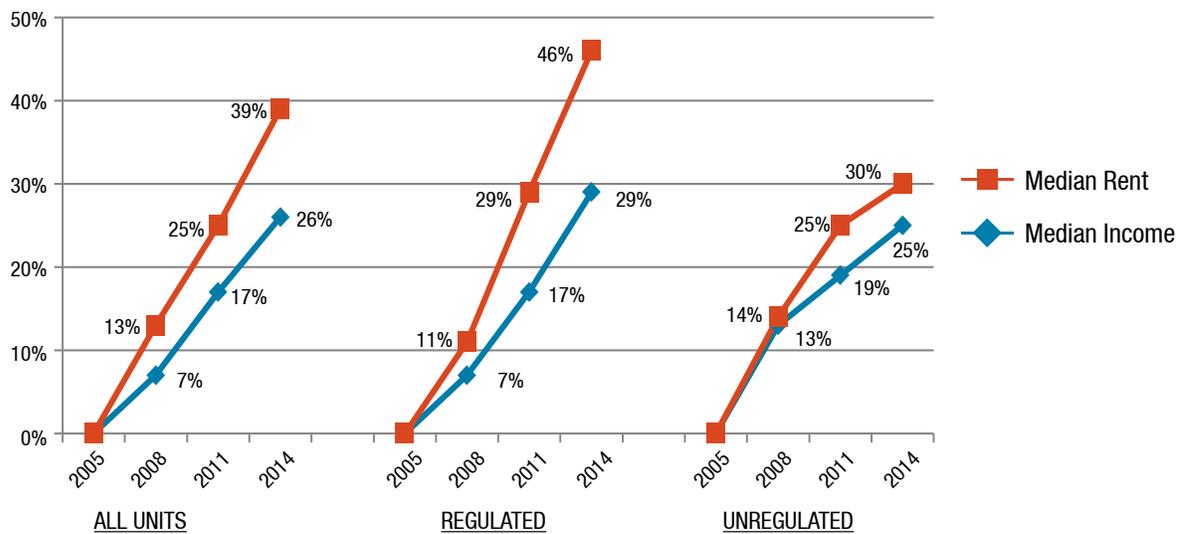
All private rentals	2005	2008	2011	2014
Median annual income	\$38,000	\$44,000	\$45,000	\$48,900
Median monthly rent	\$900	\$1,000	\$1,176	\$1,299
Regulated rentals				
Median annual income	\$33,800	\$38,000	\$38,400	\$42,000
Median monthly rent	\$832	\$909	\$1,050	\$1,200
Unregulated rentals				
Median annual income	\$44,000	\$50,200	\$55,000	\$60,000
Median monthly rent	\$1,100	\$1,200	\$1,369	\$1,500

Source: CSS analysis of the U.S. Census Bureau, New York City Housing and Vacancy Survey. Not adjusted for inflation.

These changes are particularly acute for low-income tenants, defined as those with incomes below twice the federal poverty threshold. Their lower incomes provide less of a cushion against changes in either rent or income, and many of them are also more affected by economic swings because they are more likely to become or remain unemployed than those in higher-income, higher-skilled groups. They are also likely in the best of times to pay rents that are far above the generally recognized affordability

standard of 30 percent of income. Figure 8 shows changes in rent and income for low-income, private-market tenant households only. Rent has outstripped income for both regulated and unregulated tenants, but more so for the regulated ones. Note that unregulated rents began at a higher level than regulated ones in 2005, and then rose more rapidly during the boom years but more slowly during the weak recovery. Incomes followed much the same pattern.

FIGURE 8: CHANGES IN MEDIAN RENT AND INCOME FOR LOW-INCOME, PRIVATE-MARKET TENANTS, 2005 TO 2014



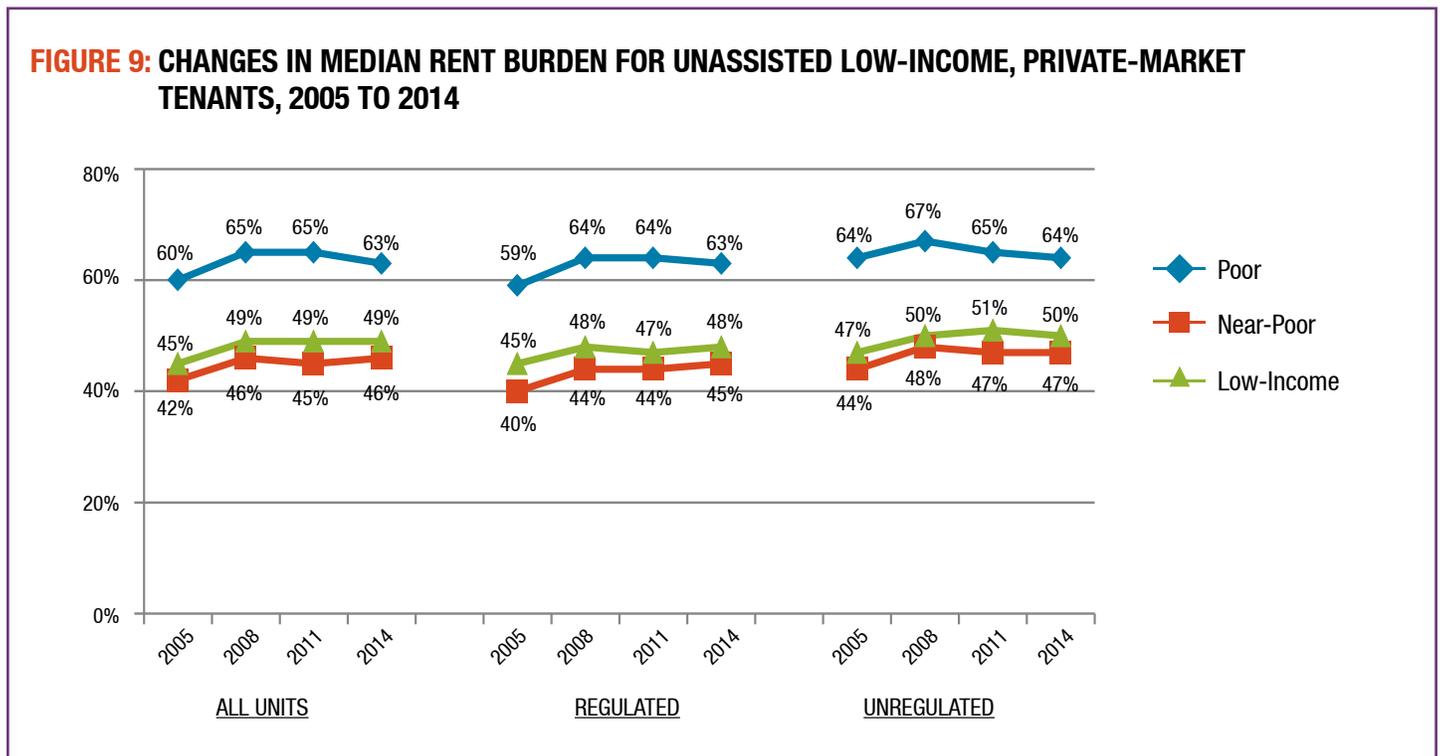
All private rentals	2005	2008	2011	2014
Median annual income	\$15,000	\$16,000	\$17,522	\$18,916
Median monthly rent	\$800	\$900	\$1,000	\$1,109
Regulated rentals				
Median annual income	\$14,000	\$15,000	\$16,416	\$18,000
Median monthly rent	\$750	\$834	\$970	\$1,095
Unregulated rentals				
Median annual income	\$16,000	\$18,000	\$19,000	\$20,000
Median monthly rent	\$922	\$1,050	\$1,150	\$1,200

Source: CSS analysis of the U.S. Census Bureau, New York City Housing and Vacancy Survey. Not adjusted for inflation.

Figure 9 shows the median rent burden, or share of income paid in rent, for poor and near-poor (incomes from 100 to 200 percent of poverty) private-market tenant households. Rent burdens for all low-income households worsened significantly during the boom prior to the 2008 economic crisis and have remained above their 2005 levels. Households that pay part of their rent through Section 8 vouchers are excluded from this analysis because the vouchers lower their effective rent burden, although an increasing share are now paying more than the 30 percent standard from their own income.

Note that the difference in rent burdens for low-income regulated and unregulated tenants is small, but favors

regulated tenants—a difference of 2 percent in 2014. The small size of the difference in part reflects the fact that rent regulation is not a true affordable housing program, but it can also be traced to the present weakness of New York's rent laws. Strengthening the laws would result in a larger affordability benefit. And in any case, the significance of 2 percent of income should not be underestimated. For a family earning \$20,000 a year, it is the difference between after-rent income of \$10,000 in an unregulated apartment and \$10,400 in a regulated one. For a family on a tight budget, that \$400 can make a real difference.



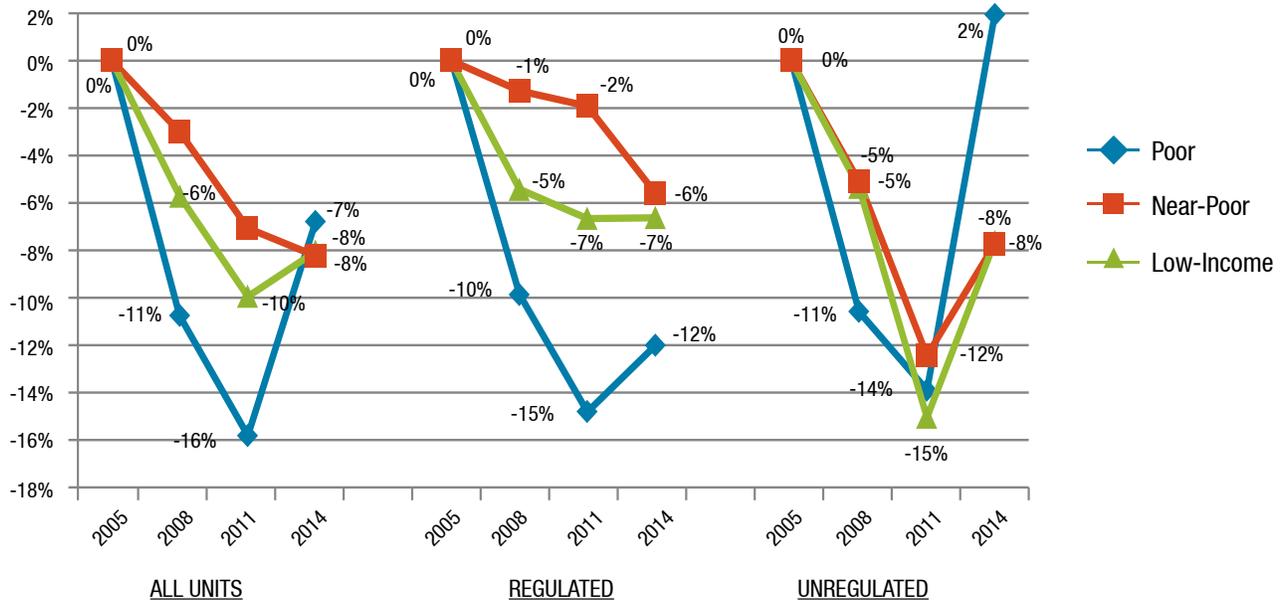
Source: CSS analysis of the U.S. Census Bureau, New York City Housing and Vacancy Survey.

We can also use the Housing and Vacancy Survey to directly examine residual income—the amount of money per household member that is left after paying rent—as an alternative measure of the rent pressure on low-income tenants. In 2014, the median low-income, regulated household had just \$13.27 per person per day for all expenses except housing, slightly higher than the \$12.70 available to the equivalent unregulated household. Figure 10 uses this measure to show how conditions worsened during the boom, and have since remained severe. (The residual income figure for poor, unregulated households is anomalously high in the 2014 data, perhaps indicating a change in the composition of the poor unregulated group.)

It is also notable that the rent burdens for regulated and unregulated tenants seem to generally move in tandem. Rent regulation has been softening the impact of New York City’s permanent housing shortage on tenants at a steady rate, but it has not created a separate housing market that could serve as a safe harbor for tenants. The forces that cause severe rent pressures for unregulated tenants hit the regulated ones as well.



FIGURE 10: RESIDUAL MONTHLY INCOME PER HOUSEHOLD MEMBER FOR UNASSISTED LOW-INCOME, PRIVATE-MARKET TENANTS, 2005 TO 2014



All units	2005	2008	2011	2014
Poor	\$166	\$148	\$140	\$155
Near-Poor	\$490	\$476	\$456	\$450
Low-Income	\$423	\$399	\$381	\$389
Regulated units				
Poor	\$170	\$154	\$145	\$150
Near-Poor	\$495	\$488	\$485	\$467
Low-Income	\$426	\$403	\$398	\$398
Unregulated units				
Poor	\$159	\$142	\$137	\$162
Near-Poor	\$474	\$449	\$415	\$437
Low-Income	\$413	\$390	\$350	\$381

Source: CSS analysis of the U.S. Census Bureau, New York City Housing and Vacancy Survey. Figures in 2014 dollars.

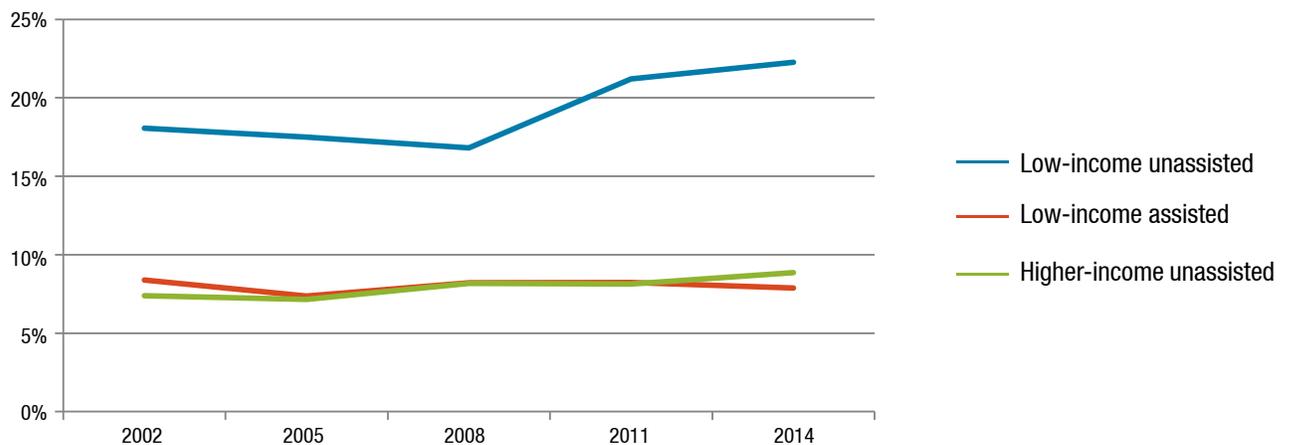
Dramatic increase in crowding for unassisted low-income tenants

The Housing and Vacancy Survey also enables us to analyze crowding among renter households. Crowding is typically defined as the condition of households with more than one household member per room. More than 1.5 persons per room is considered severe crowding. Crowding is generally more common and more severe for low-income households, especially those living in private-market housing without a Section 8 voucher. In New York City in recent years, this pattern has sharply intensified. Crowding has worsened considerably for unassisted low-income renter households, even as it has remained roughly constant for those with higher incomes or with subsidies. Members of this group became sharply more crowded, regardless of whether their apartments were subject to rent regulation. And unlike the change in rent burdens, this shift clearly came after the economic crisis of 2008.

Figure 11 shows the crowding rate from 2002 to 2014 for three groups of renter households. One group consists of low-income households in the private market without vouchers; another consists of low-income households who either have a Section 8 voucher or live in public or subsidized housing; and the third consists of those with incomes above 200 percent of the poverty threshold. Figure 12 shows the severe crowding rate for the same groups.

The increases in crowding and severe crowding for low-income, unassisted tenants are quite dramatic. Crowding went from 17 or 18 percent before the economic crisis to 21 or 22 percent after. The severe crowding rate went from 6 or 7 percent to 8 or 9 percent. The magnitude of the change is obscured when the experience of this most vulnerable group of tenants is averaged with those who have either higher incomes or subsidies to cushion them from the market.

FIGURE 11: CROWDING RATE FOR SELECTED GROUPS OF TENANTS, 2002 TO 2014



Source: CSS analysis of the U.S. Census Bureau, New York City Housing and Vacancy Survey.

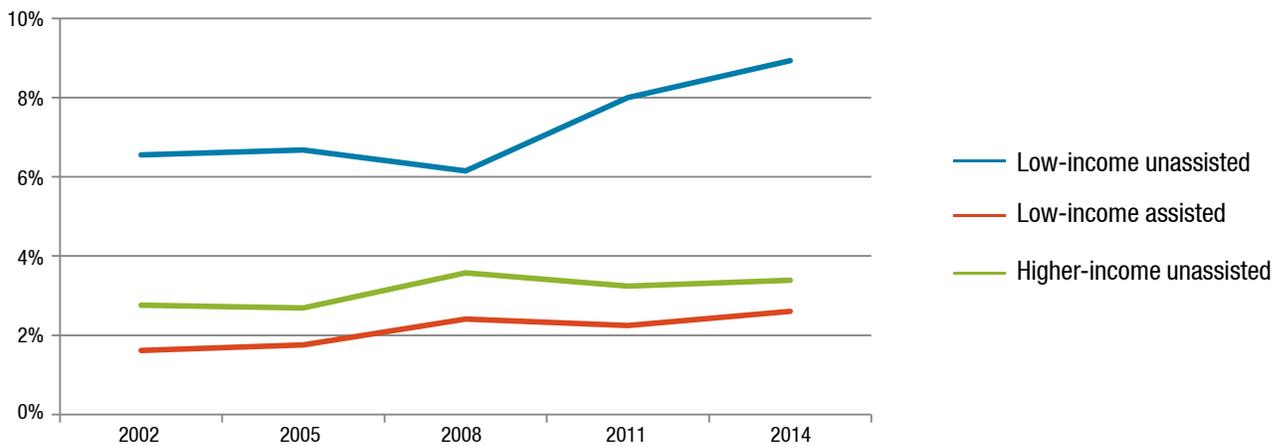
The most likely reason for the shift is that vulnerable households doubled up with each other or took on additional household members in order to meet rising rents. It is interesting that this shift took place after rent burdens hit a plateau at around 65 percent of income. Perhaps doubling up is such an extreme step that households only undertake it when their rent burdens reach a high threshold. In any case, this increase in crowding represents a severe hardship which rent regulation has not been effective in preventing.

Research has shown several mechanisms by which crowded conditions harm tenants. For example, children's school performance can suffer when their homes don't provide quiet places to study and to sleep. Matthew Desmond's recent book, *Evicted*, also demonstrates the kind of emotional stress that can result from doubled-up living arrangements. Even more alarmingly, such living arrangements are often a precursor to homelessness.

Mechanisms of rent increase in stabilized apartments

This analysis has shown how rents, rent burdens, and overcrowding have all risen rapidly for low-income tenants in both regulated and unregulated apartments. These pressures are on the rise in all sorts of places where low-income New Yorkers live, suggesting that gentrification and other forms of localized neighborhood change can explain only part of the problem. Deregulation of rent-regulated apartments is another factor that can also explain only part of the problem, since regulated rents and burdens are rising as well as unregulated ones. Rent regulation provides important protections and somewhat better affordability, but the system is being eroded not only by deregulation but also by changes within the still-regulated stock: rising rents and increasing prevalence of preferential rents.

FIGURE 12: SEVERE CROWDING RATE FOR SELECTED GROUPS OF TENANTS, 2002 TO 2014



Source: CSS analysis of the U.S. Census Bureau, New York City Housing and Vacancy Survey.

To understand why rent regulation is not providing more affordability to low-income New Yorkers we must examine the mechanisms for raising rents that the rent laws allow. There are many. For occupied apartments, there are:

- increases on lease renewals for rent-stabilized apartments within the limits set by the Rent Guidelines Board,
- annual increases for rent-controlled tenants under the Maximum Base Rent system,
- increases allowed because of Major Capital Improvements to a building (MCIs), and
- increases because of Individual Apartment Improvements approved by tenants (IAIs).

For vacant apartments there are also:

- the vacancy bonus of approximately 20 percent that is automatically allowed upon vacancy and
- the opportunity to add further increases for Individual Apartment Improvements that do not need tenant approval since there is no tenant.

MCI increases apply to all apartments in a building (or occasionally a section of a building) and do not require tenant approval; they add 1/84 of the cost of an improvement to each month's rent, but the increase is phased in at a rate of 6 percent per year for rent-stabilized apartments and 15 percent per year for rent-controlled apartments. IAI increases add either 1/40 or 1/60 of the cost of an improvement to each month's rent. They are common during vacancies but relatively uncommon in occupied apartments, because most tenants would rather make and pay for improvements themselves than allow such a large rent increase. Both MCIs and IAIs are permanent increases that continue even after the improvements are fully paid for.

All of these types of rent increase contribute to the unaffordability of rent-regulated apartments. Estimating the contribution of each type is difficult, but data from the New York City Housing and Vacancy Survey does make it possible for a large subset of rent-stabilized apartments. There are not enough rent-controlled apartments in the survey sample to support detailed analysis, and we also omit rent-stabilized apartments built in 1974 or later. We omit them because they entered the rent regulation through the 421-a tax exemption program or other subsidies, are accordingly subject to somewhat different rules, and often have much higher rents than the original rent-stabilized stock built prior to the passage of the Emergency Tenant Protection Act.

In New York City in 2014, there were 935,000 apartments that were subject to rent stabilization and built before 1974. The total rent on these apartments in 2014 was \$1.18 billion, for a mean of \$1,262 per apartment. (The median was \$1,200.) In 2011, the total rent for the same apartments, as estimated from the 2011 HVS, was \$1.04 billion.¹ Thus the mean increase between the two survey years was 13.2 percent, or 7.6 percent after adjusting for inflation. But this increase was not spread evenly over all apartments. Rents rose much more on those apartments where the tenants turned over during the three-year period between surveys, because of the additional increases allowed on those apartments. Rents in turnover apartments rose 29.5 percent (23.0 percent after inflation), compared to only 7.5 percent (2.2 percent after inflation) in non-turnover apartments. As a result, turnover apartments contributed 58 percent of the total increase (or 79 percent of the total increase after inflation).

This dramatic difference is a strong indication of the role of vacancy increases in contributing to high rents on rent-stabilized apartments. But in order to estimate the contribution of each type of increase we must go further.

1. The estimate was made by using the number of apartments in 2014 within each combination of neighborhood and apartment size times the estimated mean rent in 2011 for apartments of the same size and location. Because the number of cases in the survey was low for some combinations of size and location, these and other estimated mean rents in this analysis were made not by simply averaging the cases for each such combination, but by using a hierarchical linear model. This produces better estimates by allowing the estimate for each combination of size and location to be influenced by rents in similar neighborhoods and with similar numbers of bedrooms.

First, we consider the non-turnover apartments. Because the Rent Guidelines Board sets different limits on rent increases each year, and because tenants can choose either one-year or two-year leases, we must estimate the average increase over three years due to RGB increases. Depending on the dates of tenants' leases, the total increase from this source could be anywhere from 4 to 15.6 percent. Based on a few simplifying assumptions, we estimate an average of 9.5 percent. That is somewhat higher than the average increase observed in non-turnover apartments, which may indicate that higher-rent apartments were more likely to turn over. This would leave a lower-rent fraction remaining in the observed non-turnover group. But for some combinations of size and location, rents rose faster than the estimated RGB rate. For these apartments, we can assign the first 9.5 percent of the increase to the RGB and the rest primarily to MCI increases (because IAI increases for non-turnover apartments are rare).

The vacancy bonus was responsible for almost half of the total increase in rent, after inflation, during the period. This makes clear the importance of the vacancy bonus in making rents so unaffordable in New York City.

Next we consider turnover apartments. These are subject to RGB and MCI increases but also to the vacancy bonus and other increases. The amount of vacancy bonus varies according to whether the departing tenant had a one- or two-year lease and according to the rent guidelines in force in the case of two-year leases. Vacancy bonuses during the period from 2011 to 2014 could have been from 16.25 to 20 percent, with an estimated average of

18.5 percent. (We ignore the relatively rare circumstance that an apartment could have become vacant twice within the three years.) For turnover apartments, the first 9.5 percent can still be attributed to the RGB. Another increment can then be attributed to MCI increases, which are expected to be the same for non-turnover apartments as for turnover apartments of similar size and location. Next comes an 18.5 percent attributed to the vacancy bonus. Finally, any increases observed after that can be attributed to apartment improvements made during vacancy.

Using this approach, we can break down the \$137 million estimated total increase from 2011 as shown in Table 1 (page 22). But this analysis does not take inflation into account. In order to determine how much these factors increased rent above the rate of inflation, we must reduce the total amount of the rent increase to be explained from \$137 million to \$83 million, because the first \$54 million of increase is explained by inflation. We must also reduce the amount of the increase attributed to the RGB by the same amount. This makes sense for two reasons, first because the RGB increases are applied first in setting rent, with other increases added on later, and second because RGB increases are largely based on estimates of landlords' costs, which incorporate inflation. The estimated contributions to inflation-adjusted rent increases are shown in Table 2 (page 22).

By this measure, the second largest share in the total rent-stabilized rent increase from 2011 to 2014 came from Rent Guidelines Board increases. The Rent Guidelines Board is mandated to consider landlords' costs in setting its limits, and these costs have often risen faster than inflation, so it is not necessarily unreasonable for it to allow increases above inflation. Nevertheless, the large share of the total increase attributable the board's decision may well relate to the rather high guidelines set in 2011 and 2013. The lower guidelines set in 2014 and 2015 may represent an acknowledgement of, and attempt to correct for those excessive increases.

TABLE 1: ESTIMATED CONTRIBUTIONS TO NON-INFLATION ADJUSTED TOTAL RENT INCREASES ON RENT-STABILIZED APARTMENTS, 2011 TO 2014

\$ Amount	Share	Type of increase
77 million	56%	Rent Guidelines Board
9 million	6%	Other increases during occupancy
40 million	29%	Vacancy bonus
12 million	8%	Other increases during vacancy
138 million	100%	Total

TABLE 2: ESTIMATED CONTRIBUTIONS TO INFLATION ADJUSTED TOTAL RENT INCREASES ON RENT-STABILIZED APARTMENTS, 2011 TO 2014

\$ Amount	Share	Type of increase
23 million	27%	Rent Guidelines Board
9 million	10%	Other increases during occupancy
40 million	48%	Vacancy bonus
12 million	14%	Other increases during vacancy
83 million	100%	Total

Source: CSS analysis of U.S. Census Bureau, New York City Housing and Vacancy Survey, 2011 and 2014.

Even more striking is that the vacancy bonus was responsible for almost half of the total increase in rent, after inflation, during the period. This makes clear the importance of the vacancy bonus in making rents so unaffordable in New York City. It implies that one of the most effective policies to improve the affordability of rent-stabilized housing would be to reduce the vacancy bonus and other rent increases permitted during vacancy.

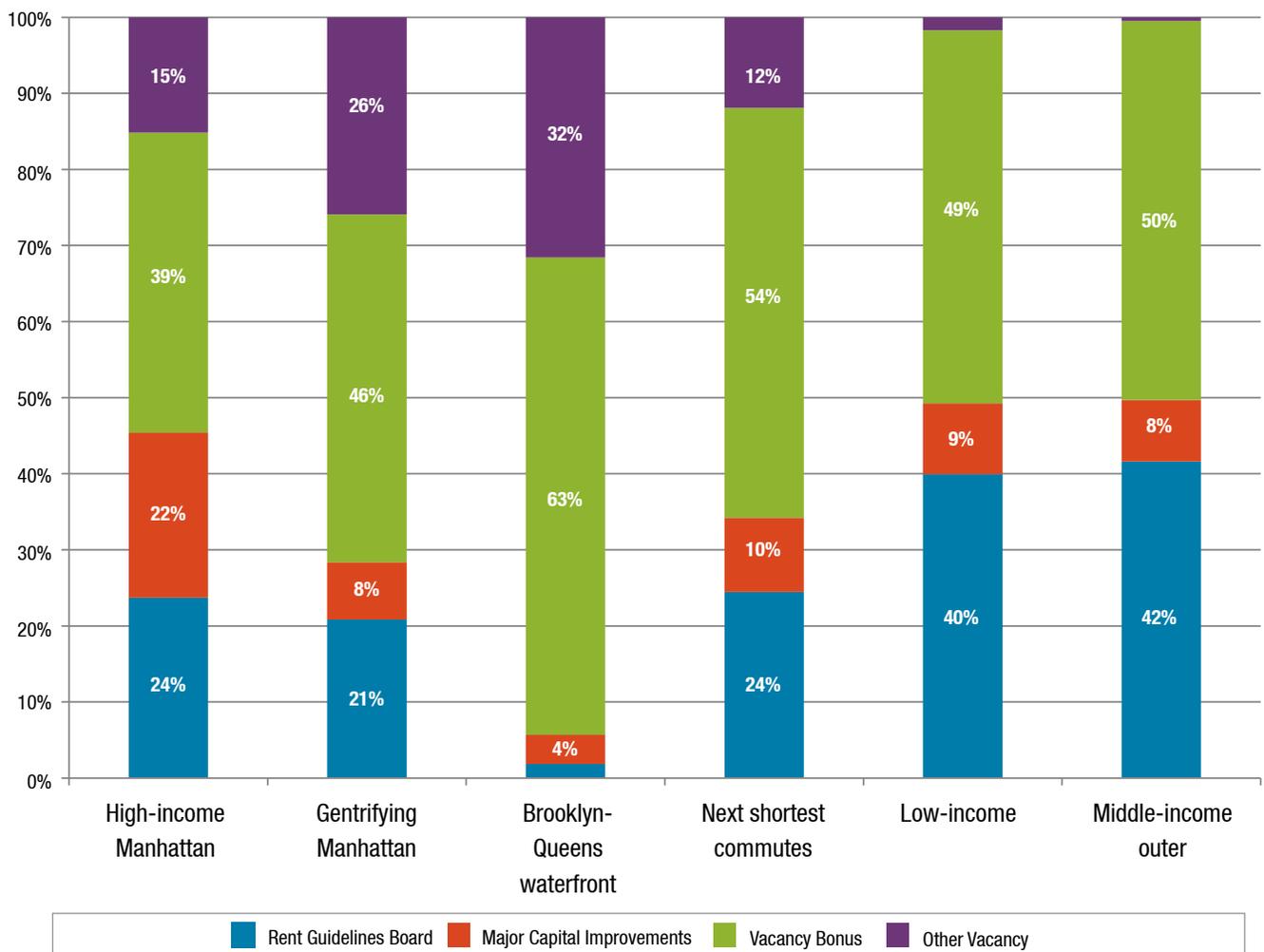
We can further dissect the city’s rent increases by examining the role of the various types of rent increase in high-, middle-, and low-income neighborhoods. As Figure 13

shows, the vacancy bonus remains important in all parts of the city, but each other type of increase weighs particularly heavily on one type of place: RGB increases in low- and middle-income areas far from the city core, MCIs (or other increases during occupancy) in high-income areas of Manhattan, and IAIs or other additional increases during vacancy in gentrifying areas. Interestingly, the areas with next shortest commutes after the core and gentrifying areas (excluding low-income areas) show a pattern intermediate between that of the gentrifying areas and that of the low- and middle-income areas. (These are the same areas of the city shown in Map 2.)

The vacancy bonus is also contributing to another gap in the protection afforded by rent regulation, “preferential rent.” In many parts of the city, the observed rent increases are somewhat lower than one would expect based on the combined effect of RGB and MCI increases and the vacancy bonus. This indicates that these increases are allowing legal rents to reach levels that the market will not bear. Whenever this happens, it creates an opportunity for landlords to give tenants leases that specify the actual rent being paid as a preferential rent and another, higher amount as the legal registered rent. Under the rent

stabilization laws as amended in 2003, the landlord can then withdraw the preferential rent at the end of the lease and instead charge a rent based on the legal rent plus any RGB increase. This severely undermines the protection of rent stabilization, threatening both affordability and the tenant’s security of tenure, since he or she may be simply unable to afford the rent on the renewal lease. It has recently been reported that 28 percent of all rent-stabilized leases now have preferential rents, so this is a serious and widespread problem.

FIGURE 13: ESTIMATED CONTRIBUTIONS TO RENT INCREASES IN DIFFERENT PARTS OF THE CITY



Source: CSS analysis of U.S. Census Bureau, New York City Housing and Vacancy Survey, 2011 and 2014.

Recommendations for policy

New York’s rent control and rent stabilization laws protect one million households, including more than 400,000 low-income households, from the worst effects of the city’s chronic housing shortage. Unlike the city’s 260,000 public and subsidized apartments, rent regulation is not intended to guarantee true affordability, but is still an essential affordability resource for low-income New Yorkers. Unfortunately its protections are being undermined not only through deregulation but also by the excessive increases allowed when apartments turn over, particularly in combination with preferential rents.

These trends call for action both from New York City Rent Guidelines Board and from the New York State Legislature and Governor. Preservation of public and subsidized housing has already been recognized as a priority by city and state policy makers, and the New York City Rent Guidelines Board also appears to have recognized the need to ensure that the rent increases it allows on lease renewal not unduly contribute to the affordability crisis. But the time has come for state lawmakers to recognize that the rent stabilization system must also be reformed to halt the regulated housing stock’s slide toward ever greater degrees of unaffordability.

- The New York City Rent Guidelines Board should continue to take the economic situation of tenants into account in setting limits on rent increases on lease renewals of rent-stabilized apartments.
- The New York State Legislature and Governor should act to eliminate the “eviction bonus,” which is the preeminent driver of unaffordable rents in the city’s regulated housing stock.
- The New York State Legislature and Governor should act to eliminate the “preferential rent” loophole by requiring that landlords offer rent-stabilized tenants renewal leases at rents based on the rent actually paid by the tenant under the previous lease, not a higher registered rent.

Appendix: CSS Renter Subsample

Because of unavoidable inconsistencies and inaccuracies in respondent reporting of household income and contract rent, this analysis of rent burdens is based on a sub-sample of renter households within each of the HVS samples used. The CSS renter sub-sample for each HVS year was selected on the following basis:

1. Rent-paying households only (exclude rent-free and owned housing)
2. Head of household age at least 25 and less than 65
3. Households with a positive HVS contract rent burden
4. Households within the middle 90 percent of the income distribution for renters (excludes 5-percent outliers at either extreme). The resulting household income intervals used for each HVS year are as follows:

2014	\$7,800 to \$200,000
2011	\$7,896 to \$175,000
2008	\$6,912 to \$160,000
2005	\$6,006 to \$133,000
2002	\$6,000 to \$130,000
1999	\$5,700 to \$131,000
1996	\$5,000 to \$119,950

5. Households within the middle 90 percent of the contract rent distribution for renters (excludes 5-percent outliers at either extreme). The resulting contract rent distributions used for each HVS year are as follows:

2014	\$330 to \$3,300 monthly
2011	\$342 to \$2,800 monthly
2008	\$252 to \$2,500 monthly
2005	\$208 to \$2,100 monthly
2002	\$200 to \$1,900 monthly
1999	\$177 to \$1,550 monthly
1996	\$163 to \$1,300 monthly.

6. Residual (after-rent) household income of at least \$100 monthly, in 2002 dollars. For each HVS year, the residual income threshold, in 2002 dollars, was:

2014	\$134
2011	\$129
2008	\$123
2005	\$111
2002	\$100
1999	\$93
1996	\$87

The resulting CSS sub-sample can be considered a more “mainstream” sample of New York City renters than the HVS renter sample as a whole. The comparison below of some of the key parameters for each of the two samples suggests that the CSS results are more likely to underestimate rent burdens and related measures of rent-income pressures for the city as a whole.

COMPARISON: HVS AND CSS RENTER SAMPLES

Median income							
HVS:	\$24,680	\$27,600	\$32,000	\$33,904	\$40,000	\$50,000	\$52,000
CSS:	\$31,000	\$35,000	\$39,000	\$40,050	\$46,400	\$50,000	\$54,000
Median contract rent							
HVS:	\$600	\$648	\$706	\$850	\$950	\$1,100	\$1,200
CSS:	\$600	\$650	\$730	\$850	\$996	\$1,100	\$1,200
Median contract rent burden							
HVS:	28%	27%	27%	28%	29%	31%	31%
CSS:	24%	23%	23%	25%	25%	27%	27%

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