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POLICY BRIEF

MAKING THE RENT: BEFORE AND AFTER THE RECESSION

Rent-Income Pressures on New York City Tenants, 2005 to 2011

June 2012 (revised September 2013)

Community Service Society
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POLICY BRIEF

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By Victor Bach and Tom Waters

Is what started as an employment crisis now a deepening rent crisis for low-income New Yorkers?

Many households are now facing rising rents along with reduced hours or joblessness as they continue to struggle with the effects of a national recession that began to be felt in the city in late 2008 and led to the present job-short recovery.

In the wake of the recession, do low-income tenants have less income to make the rent and, at the same time, meet other necessary living costs? To what extent have the dynamics of the local rental market, compounded by the city's troubled job economy, affected their ability to make ends meet? Have rising rents outpaced household income gains, causing tenants to tighten belts or, worse, face rising risks of rent arrears, eviction, and other hardships? This report addresses those questions.

Data Used for This Report

Household data now available from the triennial NYC Housing and Vacancy Survey (HVS) for 2011, conducted by the Bureau of the Census, make possible a detailed analysis of the way in which rents and incomes have interacted before and since the recession. The prior HVS was carried out during the first half of 2008 in the midst of an upward economic cycle. As a result, it did not capture the impact of a local economy that was in recession later that year.

In addition, recent longitudinal data from the American Community Survey (ACS) for the years 2005 to 2010, also conducted by the Census Bureau, make it possible to track annual income and rent trends in New York City before and after the recession. The ACS data do not distinguish among

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.

David R. Jones, Esq., President & CEO

Steven L. Krause, Executive Vice President & COO

About the Authors

Victor Bach has been Senior Housing Policy Analyst at the Community Service Society since 1983. He was a Research Associate at the Brookings Institution and on the faculty of the New School for Social Research and the LBJ School of Public Affairs at the University of Texas, Austin. He holds a Ph.D. in Urban Studies & Planning from M.I.T.

Tom Waters has been a Housing Policy Analyst at the Community Service Society since 2005. Prior to joining CSS, Mr. Waters was at Tenants & Neighbors, an organization that works to preserve and improve the state's existing stock of affordable housing. He received his M.A. and is working towards a Ph.D. in Political Science from the City University of New York Graduate Center.

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105 East 22nd Street
New York, NY 10010
PH 212.254.8900
www.cssny.org

the various housing sectors renters occupy—from public housing to private, government-subsidized developments, to private rentals, either regulated or unregulated. However, they reflect broad tenant experience across housing contexts and can be linked to employment and unemployment data not yet released as part of the HVS.

Summary of Major Findings

Nearly two-thirds (64%) of New York's one million low-income households* rely on the private, unsubsidized rental market for their homes, which are largely in rent-regulated apartments. This analysis focuses on that group of tenants, on how rent and income changes that occurred between 2005 and 2011—before and after the recession struck the city—affected their ability to meet rent as well as other non-housing needs. The major findings are:

■ Rent levels rose persistently throughout the six-year period—during good economic times or bad—outpacing the income gains made by low-income tenants. Median contract rents rose by 25 percent, overtaking a net income gain of only 15 percent.

■ Low-income tenants who did not benefit from Section 8[1] vouchers experienced a rapid increase in rent burdens—the portion of household income paid for rent—from 45 to 49 percent of income over the six-year period. The proportion of these tenants paying at least half their income toward rent increased dramatically, from 41 percent to nearly half (49%). Among the poor, rent burdens escalated from 60 to 65 percent of income; the proportion paying 50 percent or more of income spiked from 66 to 80 percent.[2]

■ Low-income tenants without Section 8 vouchers experienced a net 10 percent decline in real per capita residual income—the income remaining per household member once rent is paid that is available to meet other needs. For the poor, the decline in residual purchasing power was steeper, a 16 percent reduction, leaving them on the average with a meager $4.40 daily per household member to pay for food, transport, medical and educational costs, and other necessities. The near-poor were also adversely affected, experiencing a net 7 percent decrease in per capita residual income over the six years.

After rent, poor renters in the private, unassisted rental market were left with an average of just $4.40 per household member per day to pay for food, transport, medical and education costs, and all other necessities.

■ A widening gap between rents and incomes was evident in both regulated and unregulated apartments. Even in regulated units, low-income tenants without vouchers experienced a median rent increase of 28 percent over the six years, against a net income increase of 20 percent. Tenants in regulated rentals tend to have lower rent burdens than those in unregulated units, but persistent increases in regulated rent levels over the six years have worsened the high rent-income pressures they were experiencing before the recession.

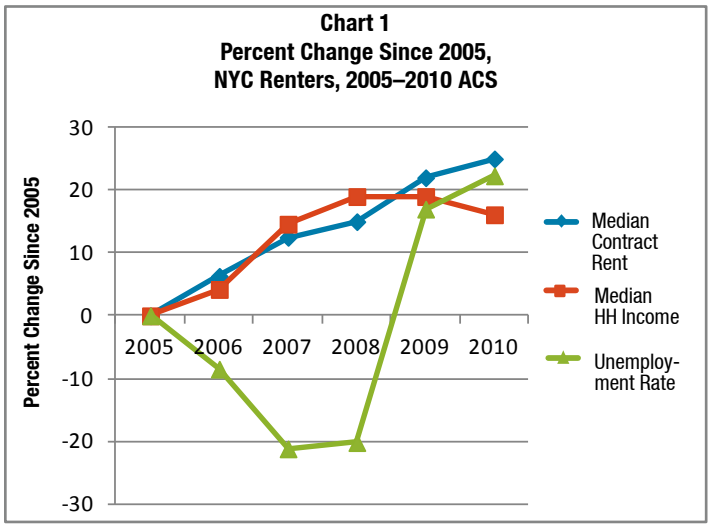
■ Most of the increase in rent burdens occurred between 2005 and 2008 before the recession struck. This pattern suggests that escalating market rents, good times or bad, have had a greater impact on the budgets of low-income New Yorkers than post-recession declines in employment and income. The escalating rental market throughout the six-year period, compounded by a troubled post-recession economy since 2008, has been disastrous for low-income tenants trying to survive in these difficult times.

*As used here, the term "low-income" refers to households with incomes up to twice the federal poverty threshold. For the 2011 HVS income data, which is based on 2010 income, a low-income household of 3 persons would have an income of up to $34,114. Low-income households include the poor as well as the "near-poor" with incomes above poverty but no greater than twice the poverty threshold.

The Overall Picture: Rent and Income Trends, 2005 to 2011

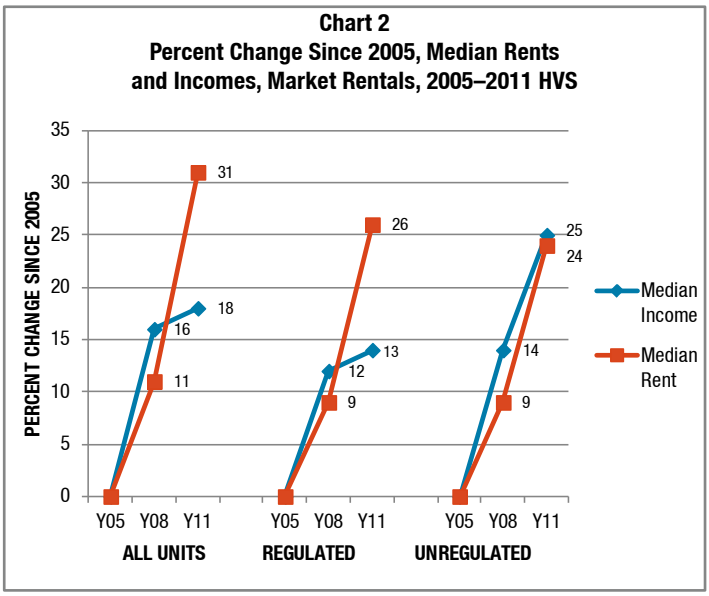
New York City renters, regardless of income, have reason to be concerned about a growing gap between rents and incomes following the local onset of the recession in 2008. The ACS data afford a year-to-year picture of overall rent and income trends from 2005 through 2010. (See Chart 1.) The picture is one in which median rents have been consistently rising since 2005, whether the local economy was thriving or receding, while median household incomes flattened and declined after 2008.

Through 2008, during relatively good times, rents increased in tandem, more or less, with rising household incomes. However, in the post-recession economy following 2008, incomes and rents began to diverge as continuing rent escalation outpaced a significant fall-off in tenant incomes. Between 2005 and 2010, the median rent for the "typical renter" increased by 25 percent, while median tenant incomes registered a gain of only 16 percent. Unemployment rates over the period traced a boom-then-bust arc, dropping from 9.4 to 7.5 percent through 2008 during the economic growth cycle, then spiking in 2009 to a peak of 11.5 percent by 2010.[3]



	2005	2010
Median Contract Rent	$800	$1,000
Median HH Income	$33,600	$39,000
Unemployment Rate	9.4%	11.5%

The triennial HVS, 2005 through 2011, makes it possible (unlike the ACS) to focus on tenants in the private, unsubsidized rental market, in both rent-regulated and unregulated units, and exclude those in public housing or private government-subsidized developments, where rents are set to standards of affordability based on household income.[4] The HVS data also provide confirmation that over the six years, market rents rose consistently, with a net increase of 31 percent, while renter incomes had a net gain of only 18 percent. (See Chart 2.)

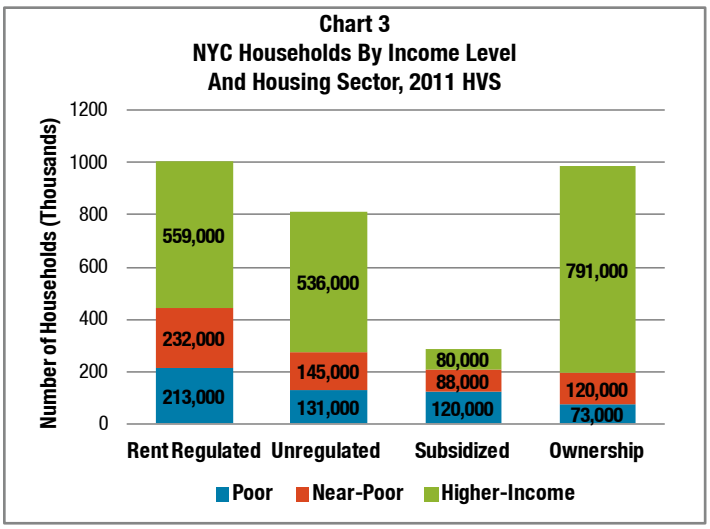


	2005	2008	2011
ALL PRIVATE RENTALS			
Median Income	$38,000	$44,000	$45,000
Median Rent	$900	$1,000	$1,176
REGULATED RENTALS			
Median Income	$33,800	$38,000	$38,132
Median Rent	$832	$909	$1,050
UNREGULATED RENTALS			
Median Income	$44,000	$50,050	$55,000
Median Rent	$1,000	$1,200	$1,369

The growing disparity between rents and incomes was more evident in regulated rather than unregulated apartments. No doubt this is due in large part to income differences between the two sectors. Regulated tenants have substantially lower incomes—a median of $38,132 in 2011, compared to $55,000 for those in the unregulated sector. As a whole, tenants in the private market, particularly those in regulated rentals, struggled with belt-tightening following the recession, as rents subsumed a growing share of relatively static or declining incomes.

Both the HVS and ACS data present a similar picture of a fairly robust market in which apartment rents consistently escalated throughout the six-year period. Between 2005 and 2008, these increases reflected rising demand for apartments as the city's economy and population grew. Once the recession struck, any decline in rental demand may have been offset by the financial crisis: the sudden obstacles to financing home purchases and growing uncertainty about market values. It is striking that median rent increases were steeper in the three years following 2008 than they were in the three years prior.

The net result was that over the six-year period, rent subsumed a larger and larger share of income for the "typical" tenant. The median rent burden increased from 25 to 27 percent of income, a rapid shift in the citywide measure for such a short period.[5] This pattern of quickly rising rent burdens is also confirmed in successive reports of the NYC Rent Guidelines Board (RGB) on rent-stabilized tenants: Between 2005 and 2008, RGB estimates the median gross rent burden[6] rose marginally from 31.2 to 31.5 percent, then escalated to 33.8 percent by 2011.[7] A two-point rise in rent burdens for tenants as a whole, regardless of income, is an ominous indication of intensifying rent-income pressures among low-income tenants.



Between 2005 and 2011 the gap between tenant incomes and the rents charged for their apartments grew wider, in both regulated and unregulated rentals. Median rents increased by 25 percent over the six years, while median incomes increased by only 17 percent.

The Experience of Low-Income Tenants, 2005–2011

Low-income New Yorkers make up a third of the city's 3 million households. A nearly two-thirds majority (64%) make their homes in the private, unsubsidized rental market, in both regulated and unregulated apartments. While they also include homeowners as well as residents of government-subsidized public and private developments, regulated rentals constitute their primary source of housing. Forty percent of low-income New Yorkers live in regulated apartments. (See Chart 3.) Another fifth (19%) reside in subsidized developments,[8] publicly and privately owned, where affordable rents based on household income insulate them from forces in the external market.

The Threat of Rising Market Rents

Low-income tenants live under continual risk of escalating market rents that threaten to overtake any gains in their incomes. Between 2005 and 2011, the gap between tenant incomes and the rents charged for their apartments grew wider, in both regulated and unregulated rentals. (See Chart 4.) Median rents increased by 25 percent over the six years, while median tenant incomes increased by only 15 percent. The disparity was more marked in regulated rentals, in part because tenants in unregulated apartments

tended to have higher incomes and experienced larger income gains. The higher rate of rent increase in the regulated sector may be related to annual rent guideline decisions approved by the NYC Rent Guidelines Board.[9]

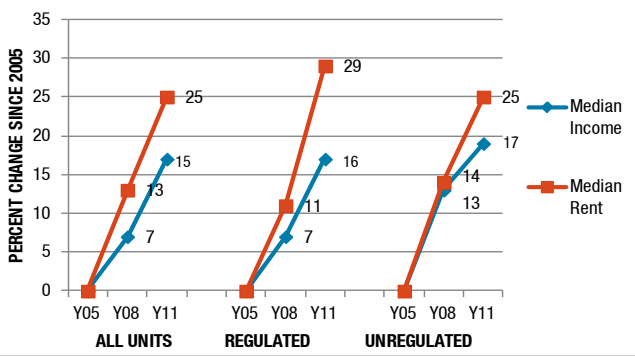
Low-Income Tenants Without Section 8 Vouchers

The holding of a federal Section 8 Housing Choice voucher makes a vast difference in whether a low-income tenant can withstand market rent increases and maintain an affordable rent burden. In New York, a small portion (15%) of low-income tenants in private rentals are fortunate enough to receive the voucher, which provides rent assistance to enable income-eligible individuals and families to rent in the open market at affordable out-of-pocket costs.[10] In 2011, about 106,000 low-income households held Section 8 vouchers, most of them (72%) in regulated rentals. By law, vouchers are targeted primarily to extremely low-income households.[11] As a result, they target benefits and alleviate rent burdens for tenants who would otherwise be most vulnerable to severe rent-income pressures in the open market.[12]

The central question is: what happens to the majority of low-income tenants who live in private rentals without benefit of vouchers? In 2011, there were about 560,000 low-income renters who were "unassisted," most of them (60%) near-poor rather than poor.[13] Because they are not cushioned against unaffordable rent burdens, they are the critical population for which the threat of rising rent burdens needs to be assessed.

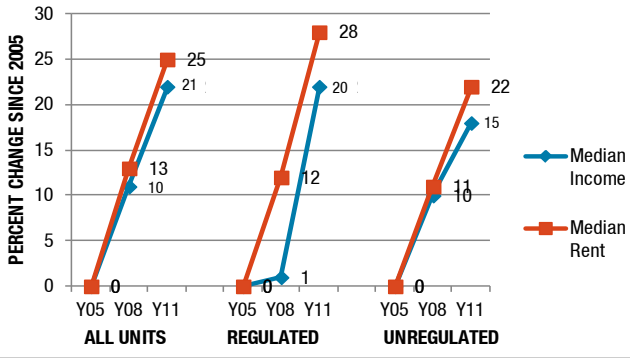
Between 2005 and 2011, unassisted renters experienced a growing gap between rent and income. Rents increased by 25 percent against income gains of 21 percent, a narrower gap than might be expected in a rapidly escalating rental market. The effects were more marked in regulated rentals, where median rents increased by 28 percent against a net gain in median incomes of 20 percent. (See Chart 5.)

Chart 4
Percent Change Since 2005, Median Rents and Incomes, Low-Income Tenants, Market Rentals, 2005–2011 HVS



	2005	2008	2011
ALL PRIVATE RENTALS			
Median Income	$15,000	$16,000	$17,522
Median Rent	$800	$900	$1,000
REGULATED RENTALS			
Median Income	$14,000	$15,000	$16,416
Median Rent	$750	$834	$970
UNREGULATED RENTALS			
Median Income	$16,000	$18,000	$19,000
Median Rent	$922	$1,050	$1,150

Chart 5
Percent Change Since 2005, Median Rents and Incomes, Unassisted Low-Income Tenants, Market Rentals, 2005–2011 HVS



	2005	2008	2011
ALL PRIVATE RENTALS			
Median Income	$15,000	$16,640	$18,300
Median Rent	$800	$900	$1,000
REGULATED RENTALS			
Median Income	$14,800	$15,000	$18,000
Median Rent	$740	$825	$950
UNREGULATED RENTALS			
Median Income	$16,800	$18,520	$19,800
Median Rent	$900	$1,000	$1,100

Surprisingly, rent increases of 28 percent in the regulated sector were steeper than the 22 percent increase in unregulated apartments.

Unassisted tenants in the private rental market carried heavier and heavier rent burdens through the six-year period, whether or not they lived in rent-regulated apartments. This should give pause to the NYC Rent Guidelines Board in its current guideline decisions.

Rent burdens for unassisted low-income tenants rose markedly over the six-year period, a 4-point increase from 45 percent to close to half (49%) of household income by 2011. (See Chart 6.) For the poor, burdens were substantially higher and rose by 5 points, from 60 to 65 percent of income, with higher acceleration in regulated rather than unregulated apartments. Interestingly, burdens increased more steeply before the recession, between 2005 and 2008, than they did afterwards. This suggests that the budget pressures on low-income tenants were more affected by market rent escalation during the "good times" than they were by the subsequent post-recession fall-off in employment and incomes. The rising share of household income that went toward rent was a more a product of rental market dynamics than of a worsening job economy.

The sudden rise in the incidence of high rent burdens—of 50 percent or more of income—was even more striking. (See Chart 7.) Between 2005 and 2011, the proportion of unassisted low-income tenants carrying high rent burdens increased from 41 to 49 percent. By 2011, virtually half were paying high rent burdens. Among the poor, the rise was astronomical, from 66 to 80 percent. The near-poor also experienced a substantial increase in the incidence of high rent burdens, from 34 to 41 percent of households across both regulated and unregulated apartments.

Unassisted tenants carried heavier and heavier burdens through the six-year period, whether or not they lived in regulated apartments. This should give pause to the NYC Rent Guidelines Board in its current guideline decisions.

The strongest indicator of tenant belt-tightening is captured in the per capita residual income—the household income that remains per member once rent is paid—because it takes into account the number of people in the household whose daily living costs must be met. Over the six years, unassisted low-income renters experienced a sharp drop of about 10 percent

Chart 6
Median Rent Burdens, Unassisted Low-Income Tenants, Market Rentals, 2005–2011 HVS

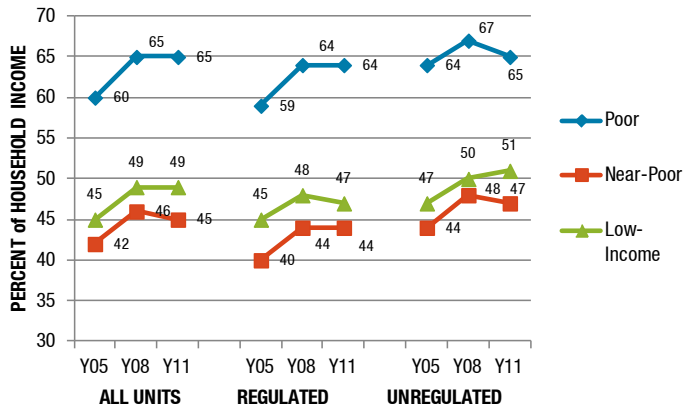
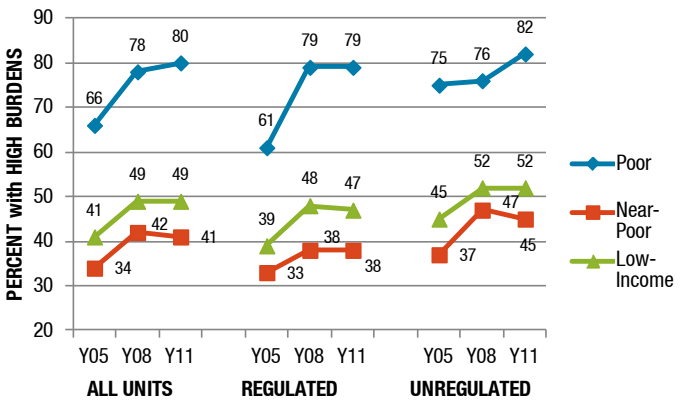


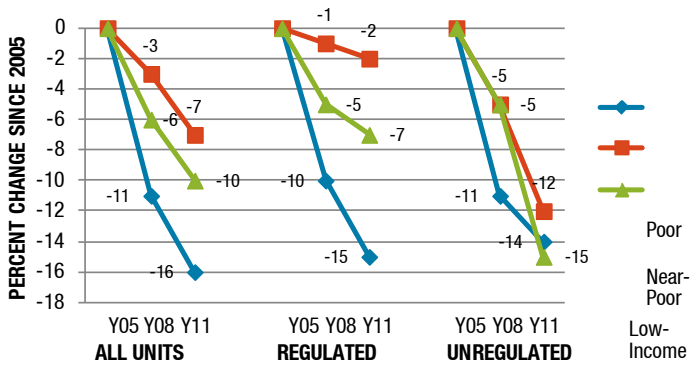
Chart 7
Incidence of High Rent Burdens (50% or More), Unassisted Low-Income Tenants, Market Rentals, 2005–2011 HVS



in real per capita residual income (measured in constant 2011 dollars) available to meet non-housing needs. (See Chart 8.)

For the poor, the belt-tightening was wrenching: a 16 percent decrease in after-rent purchasing power that left them by 2011 with only $4.40 daily per person to pay for food, transportation, medical- and school-related costs, and other necessities. Although they may be income-eligible for food stamps, Medicaid, and other benefits, that the poor survive in the rental market carrying a median rent burden of 65 percent, with so little left over for other needs, is a remarkable indication of their capacity to survive in the face of severe economic circumstances. Within that context, gaining admission to subsidized housing or obtaining a Section 8 voucher is akin to winning the lottery.[14]

Chart 8
Percent Change Since 2005, Per Capita Residual Income, Unassisted Low-Income Renters, Market Rentals, 2005–2011 HVS



Per Capita Monthly Residual Income ($2011) Unassisted Low-Income Renters in Private Market			
	2005	2008	2011
ALL UNITS			
Poor	$158	$141	$133
Near-Poor	$466	$452	$433
Low-Income	$402	$379	$362
REGULATED UNITS			
Poor	$162	$146	$138
Near-Poor	$470	$464	$461
Low-Income	$405	$383	$378
UNREGULATED UNITS			
Poor	$151	$135	$130
Near-Poor	$450	$427	$394
Low-Income	$392	$371	$333

Poor renters took a serious loss of 15 percent in per capita residual income. Whether or not they lived in rent-regulated apartments, rent increases ate up income gains, leaving them with far less purchasing power for goods and services beyond housing, often at the sacrifice of other needs. The near-poor fared better, with a 7 percent net loss in residual income, but rent regulation made a substantial difference in how well they fared. Those living in regulated rentals experienced a loss of only 2 percent, against a 12 percent loss in unregulated apartments. The higher incomes of near-poor households, and, possibly, lower post-recession unemployment, may have made it easier for them to keep up with regulated rent increases. In that sense, rent regulation offered the near-poor more protection from the hazards of an escalating rental market, while it left the poor increasingly far behind.

Summary and Recommendations

The major findings of this report, already summarized in an earlier section, describe the rent escalation that persisted from 2005 through 2011, both before and after the recession, in both regulated and unregulated rentals. These market pressures, compounded by declining post-recession household incomes after 2008, heightened the already high rent-income pressures on hundreds of thousands of low-income New Yorkers who rely on the private rental market without benefit of rent assistance.

For these households, rent burdens rose by 4 percentage points, from 45 to 49 percent of income in a short six-year period. The proportion of households paying rents of at least 50 percent of income toward rent spiked by 8 percentage points, from 41 to 49 percent. The poor reached a new peak of dire circumstances, with a median 65 percent rent burden, and 80 percent paying at least half their incomes for rent by 2011, resulting in an untenable $4.40 daily per household member to meet other needs. The dynamics of the rental market, along with a global recession that constrained employment and incomes, have

significantly worsened the economic circumstances of low-income New York tenants and posed further challenges to their survival.

From the observed trends, it would appear that the rental industry has not suffered a noticeable decline as a result of the recession. Continuing high demand for rentals in a tight market short of affordable opportunities—where home purchase was at a standstill in the financial crisis—may have spurred greater returns for owners of rental properties. It is fair to say that the industry has shared far less pain as a result of the wrenching recession than have its lower-income tenants.

Recommendations

Short of a resurgent local economy that distributes employment opportunities and income benefits that match or overtake the ongoing escalation in market rents, what can be done?

■ CSS recommends that the NYC Rent Guidelines Board (RGB) take into account the combined effects of simultaneous rent escalation and the current job-short economy on lower-income New Yorkers by exercising greater restraint in setting new guidelines for rent-stabilized apartments. In recent years, guideline increases have been excessive and over-compensated owners. RGB has consistently overestimated projected owner income and operating costs, compared to the actual increases later reported in owner surveys. For instance, in 2007 RGB projected a 7.1 percent increase in owner costs, against an actual increase of 5.2 percent; in 2010 the projected increase was 5.5 percent against an actual increase of 0.9 percent.[15] CSS continues to recommend a "rent freeze" in light of the ongoing employment crisis that many low-income New Yorkers face.

■ CSS urges the RGB to refrain from further supplemental rent increases at the lowest rent levels—what tenant advocates refer to as the "poor tax"—which raise rents at the lowest levels beyond the guideline increases, where tenants with the lowest incomes tend to live.

■ CSS urges New York State to reform its Circuit Breaker Real Estate Property Tax Credit to provide significant relief to low-income renters bearing high rent burdens in New York City and throughout the state. Recent increases in local property tax levels, here and elsewhere in the state, account for some of the upward cost pressure on owners and resultant rent increases imposed on tenants. Like homeowners, lower-income renters deserve some measure of appropriate relief from rents that become more unaffordable as a result of rising property taxes on apartment owners.[16]

It is fair to say that the rental industry has shared far less pain as a result of the wrenching recession than have its lower-income tenants.

■ CSS urges the State Housing and Community Renewal agency to issue new regulations to fill the current gaps in rent administration and strengthen its enforcement of rent regulation.

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:

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:

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:

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

	1996	1999	2002	2005	2008	2011
Median Income						
HVS:	$24,680	$27,600	$32,000	$33,904	$40,000	$40,000
CSS:	$31,000	$35,000	$39,000	$40,050	$46,400	$50,000
Median Contract Rent						
HVS:	$ 600	$ 648	$ 706	$ 850	$ 950	$ 1,100
CSS:	$ 600	$ 650	$ 730	$ 850	$ 996	$ 1,100
Median Contract Rent Burden						
HVS:	28 %	27 %	27 %	28 %	29 %	31 %
CSS:	24 %	23 %	23 %	25 %	25 %	27 %
Percent Households with High Burdens (50% or more)						
HVS:	26 %	26 %	23 %	26 %	26 %	29 %
CSS:	12 %	12 %	12 %	14 %	15 %	18 %

Endnotes

1. An unassisted tenant is a household that does not receive rent assistance through a Section 8 Housing Choice Voucher. The vast majority of low-income tenants (84%) are unassisted.
2. Rent burden data cited in this report is based on a CSS subsample of the HVS sample. See Appendix for an explanation.
3. Unemployment figures are for individuals in renter households who are 18 years or older and below age 65.
4. In federally-subsidized housing, rents are capped at 30 percent of household income, the standard of affordability under the Brooke Amendment of 1969.
5. Based on CSS subsample. See Appendix.
6. Gross rent burden is the proportion of household income paid for contract rent, as well as other housing-related expenses, such as heating, utilities, etc.
7. See: Income and Affordability Study (NYC Rent Guidelines Board) for years 2006, 2009, and 2011.
8. The analysis does not include developments underwritten with Low Income Housing Tax Credits because they are not identified in the HVS.
9. In addition, recent changes in state law allow owners increases from preferential rents up to the legally-allowable rent upon lease renewal. In appreciating rental markets the increases can be substantial.
10. Voucher tenants pay out-of-pocket rents of 30 percent of household income at initial occupancy. The voucher covers the remaining portion of the market rent.
11. 75 percent of vouchers allocated each year must be awarded to "extremely low-income households," defined by HUD as those with incomes up to 30 percent of the area median income, up to $22,100 for a family of 3. In 2011, 62 percent of low-income voucher holders in New York City were poor rather than near-poor.
12. Voucher holders have a rent burden of at most 30 percent upon initial occupancy, but subsequent market rent increases exceeding the local "payment standard" for vouchers may require an additional out-of-pocket payment by the tenant. As a result, some voucher holders may have a rent burden over 30 percent.
13. In 2011, low-income voucher holders had a median income of $12,500 compared to $18,000 for unassisted households.
14. The waiting lists held by the NYC Housing Authority include: 184,000 households on the public housing list and 124,000 households on the Section 8 voucher list. Source: NYCHA Draft FY 2013 Annual Plan.
15. NYC Rent Guidelines Board, 2012 Income and Expense Study, April 19, 2012, page 13.
16. See CSS Report: Shorted Renters: Circuit Breaker Property Tax Relief for Low-Income Renters, by Victor Bach & Tom Waters (Community Service Society, January 2009).

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105 East 22nd Street
New York, NY 10010
PH 212.254.8900
www.cssny.org