GOOD PLACE TO WORK HARD PLACE TO LIVE

THE HOUSING CHALLENGE FOR NEW YORK CITY'S NEXT MAYOR

CLOSING THE DOOR 2013 | By Tom Waters and Victor Bach





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The Community Service Society of New York (CSS) is an informed, independent, and unwavering voice for positive action on behalf of more than 3 million low-income New Yorkers. CSS draws on a 170-year history of excellence in addressing the root causes of economic disparity. We respond to urgent, contemporary challenges through applied research, advocacy, litigation, and innovative program models that strengthen and benefit all New Yorkers.

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About the Authors

Tom Waters has been 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.

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.

Michael Grant contributed to the analysis of Low Income Housing Tax Credit housing included in this report. He was the 2010 Harvey Schultz Public Policy Intern at CSS and is now operations manager of the Council of State Governments Justice Center.



Summary

One of the most serious challenges facing the next mayor of New York City is the dwindling supply of housing affordable to low-income New Yorkers. The city's economy continues to generate large numbers of low-wage jobs, yet neither the private market nor affordable housing subsidy programs are producing enough apartments to house the low-income population as it grows both in absolute numbers and as a share of the total population. This is not a sustainable situation for the city.

Already, the city's chronic housing shortage means that during economic good times, incomes rise for low-income households, but rents rise even faster, leaving these households with less income left over after paying rent. And during hard times, when incomes fall, rents continue to rise. Sixty-one percent of the city's low-income renter households paid at least half of their income in rent in 2011, compared to 46 percent in 1999.

The city has significant affordable housing policies in place—especially rent regulation and government-assisted public and subsidized housing—but these policies are eroding over time. The responsibility for this erosion is shared by the city, state, and federal governments, but the mayor holds several key levers with which to reverse this trend and begin to move our housing system in the right direction.

A strengthened rent stabilization system could improve the housing picture for low-income New Yorkers, and the next mayor can contribute to this through appointments to the city's Rent Guidelines Board and by making stronger rent laws a priority in his or her Albany agenda. But the mayor's influence on public and subsidized housing is far greater.

This report provides a detailed look at the state of New York's public and subsidized housing stock as the next mayor will inherit it. It updates the Community Service Society's previous work on the Mitchell-Lama rental stock and privately owned housing subsidized by the federal Department of Housing and Urban Development, and integrates this with an analysis of the other major types of assisted housing: public housing owned and operated by the New York City Housing Authority (NYCHA) and privately owned housing subsidized through the federal Low Income Housing Tax Credit.

Neither New York City's private housing market nor its affordable housing subsidy programs are producing enough apartments to house the growing low-income population. This is not a sustainable situation. The next mayor must use every policy lever to respond to this challenge.

By combining all of the major components of the assisted housing stock in one analysis, we show that this essential stock of affordable housing stopped rising relative to the city's low-income population around 1990, and has fallen by 7 percent. In the last two decades, the construction of new affordable housing has proceeded at a pace of only about half as many apartments per year as during the heyday of affordable housing development. At the same time, tens of thousands of apartments have been removed from government assistance programs. During the last two decades, the city's assisted housing stock has also shifted toward serving households with higher incomes, because newly constructed housing is generally targeted to households well above the poverty line.

In addition we find that:

▶ The last four years have not seen the rapid losses of subsidized affordable housing that hit New York City from 1997 to 2007, but many of the underlying causes of the losses are still present. As long as the city retains a growing economy, the real estate market will exert a strong pressure toward rising private rents and the removal of subsidized housing from the at-risk affordable stock.

- Public housing is protected by the fact of its public ownership, which makes it difficult to remove from the assisted stock. But even public housing is vulnerable if there are not enough funds to properly operate the program. The federal government has underfunded public housing for many years, contributing to an enormous backlog of rehabilitation work needed on the New York City Housing Authority's developments. NYCHA's practice of paying the city \$98 million per year for police services and Payments in Lieu of Taxes compounds the problem.
- Federal project-based Section 8 housing is also protected, though to a lesser degree than public housing, because the program provides strong incentives for owners who preserve affordability. The continued effectiveness of these incentives depends on Congressional appropriations that rise at the rate of housing cost increases, which is faster than the rate of inflation. The budgeting dynamic in Congress today will make it harder to sustain these appropriations, ultimately placing the housing stock in jeopardy.
- The newest component of the city's assisted housing stock, consisting of buildings subsidized through the federal Low Income Housing Tax Credit, has been protected because most of the buildings are still in their original affordability period, but that will begin to change when affordability restrictions begin expiring in eight years.

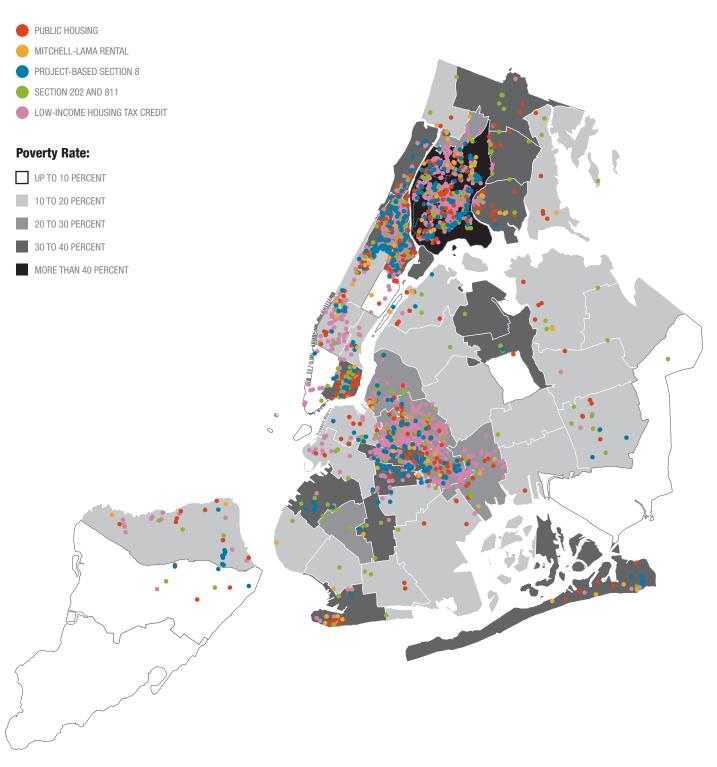
It is imperative that the next mayor of New York City use every policy lever to respond to these challenges. We recommend:

- ▶ Ending the New York City Housing Authority's \$98 million per year in payments to the city.
- In the event that NYCHA's land is redeveloped, prioritizing the use of the land for the creation of muchneeded new affordable housing, not the generation of cash flow.
- Ensuring the full and informed participation of NYCHA residents and neighboring communities in planning for the redevelopment of NYCHA land.

- Continuing the city's commitment to maximizing the use of the Low Income Housing Tax Credit and other federal resources for the creation of new affordable housing.
- Using the city's own resources as well as project-basing Section 8 vouchers to make newly developed affordable housing affordable to people with lower incomes, especially in neighborhoods where low-income people face the greatest threat of displacement.
- Ensuring that the regulators of tax credit housing are accessible and responsive to tenant concerns.

And finally, we recommend that the next mayor become a vocal and visible advocate for stronger rent laws, for adequate federal funding of existing affordable housing programs, and for the creation of new programs that can meet the growing needs of the low-income households in New York City and throughout the nation.

MAP 1



The centrality of housing policy in **New York**

New York City has long been known as a place where finding a job can be hard, but finding a place where you can afford to live on the money you make is even harder. What was once hard is now becoming nearly impossible. That is especially true for low-income households with incomes below twice the federal poverty threshold. Twenty-nine percent of the city's renter households paid at least half of their income in rent in 2011, compared to 23 percent in 1999. For low-income households, these severe rent burdens rose from 46 percent to 61 percent, leaving them with very little left to pay for all their other basic needs.1

The reason for this trend is simple: during economic good times, when incomes rise for low-income households, rents tend to rise even faster, leaving tenants further behind. But during hard times, rents do not decrease to soften the blow of declining incomes. New York City's perennially rising rents are driven in part by the city's prosperity, but this is no reason to discount the impact of rising rent burdens. When rents rise faster than incomes, the result is that lowincome New Yorkers fail to benefit from an economic tide that should be lifting all boats. The city appears to be on an unsustainable path, with an economy that generates large numbers of low-wage jobs but too little housing affordable to low-wage workers.

New York City does have significant affordable housing policies in place—especially rent regulation and governmentassisted public and subsidized housing—but these policies are eroding over time and are insufficient to ensure that lowwage workers can participate in the city's prosperity without the losses that come from rising rents. Although the federal and state governments play major roles in these policy areas, the city's next mayor could have considerable influence on housing. There are important levers that the mayor could use to preserve the city's existing stock of affordable housing and ensure that newly developed housing responds to the city's most urgent needs. These include appointments to regulatory and housing agencies, city budgetary decisions, zoning, and using the bully pulpit to influence federal and state policy.

The Community Service Society of New York has been reporting periodically on the state of the city's public and subsidized housing. Our focus in the Closing the Door series since 2006 has been on privately owned, government subsidized housing—the Mitchell-Lama rental housing program, the federal Department of Housing and Urban Development's (HUD) project-based Section 8 program, and a handful of other HUD programs.² In this fifth installment of the series, we combine that with a broader analysis that includes public housing, HUD's Section 202 and Section 811 (for seniors and people with disabilities), and the federal Low Income Housing Tax Credit, which has been the federal government's largest subsidy for new affordable housing since 1986 but is not administered by HUD. By treating all of these types of housing together, we are able to present a comprehensive picture of the city's affordable housing challenge as it will confront the next mayor.

of the city's low-income renter households paid at least half of their income in rent in 2011, compared to 46 percent in 1999.

The mismatch between supply and need

When we look at all of the city's public and subsidized rental housing together, the picture that emerges is of a long-term, worsening mismatch between the supply of affordable housing and the city's need. The government-assisted share of the city's housing stock stopped growing around 1990, but the low-income share of the city's population has continued to grow. To make matters worse, the income levels served by the subsidized stock have been shifting upward, due to the loss of Mitchell-Lama and HUD-subsidized housing and the growing use of the Low Income Housing Tax Credit, which serves households with somewhat higher incomes.

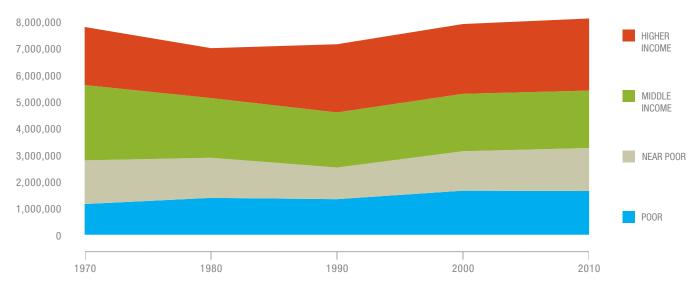
The city's economic development path, largely dependent on low-wage service industries, guarantees that the share of the population with incomes less than twice the federal poverty line will continue to grow—and these households are not adequately served by either the unsubsidized market or the tax credit.

The population of New York City has been growing since the early 1980s, when the city turned the corner after a period

of stagnation and population decline. According to the city's "PlaNYC," there will be 9 million New Yorkers by 2030, a 10 percent increase over 2010. There is every reason to expect that the city will continue to include a large proportion of low-income households. The city's income profile has changed along with the size of its population. Chart 1 shows the changing income composition of the population since 1970.3 In this table, the income categories are derived from the federal poverty threshold. "Poor" means that household income is below threshold, presently about \$17,500 for a family of three. "Near poor" means that household income is from 100 percent to below 200 percent of the threshold, "middle income" from 200 percent to below 400 percent, and "higher income" 400 percent or higher.

The graph shows a pattern of rising income polarization. The number of poor people in the city has been growing steadily since 1970, and the number of near-poor people has been growing since 1990. Meanwhile, the number of highincome people has also been growing since 1980, while the middle-income population has been generally on the decline. These trends reflect the oft-noted "hollowing out" of the city's middle class, consistent with the city's shift toward a service economy, with some high-paying jobs, especially in financial services, and a large number of low-paying service jobs. These trends are also very likely to continue. The city is taking steps to promote high-tech industry, which represents a diversification beyond financial services, but this will

CHART 1: EVOLUTION OF NEW YORK CITY'S POPULATION SINCE 1970



not necessarily reverse the trend toward increased income inequality, because high tech industries create primarily highend jobs.4

In order to accommodate the city's future, New York's affordable housing stock needs to grow not only to meet existing needs, but to keep up with a low-income population that will continue to grow. Unfortunately, the affordable stock has failed to keep up since 1990. Simply continuing the present course, even with the successes of Mayor Bloomberg's New Housing Marketplace plan, will mean ever-worsening housing hardships for the city's low-wage workforce. The city must find a way to increase the size of its affordable housing stock and simultaneously deepen the income targeting. A solution truly adequate to the problem would require federal participation, but the next mayor could significantly and immediately improve the local response to the problem by committing to use some the city's own resources, as well as Section 8 vouchers, to improve the income targeting of newly constructed affordable housing. The next mayor should also become an advocate for better urban housing programs at the national level.

THE EVOLUTION OF NEW YORK CITY'S TOTAL **HOUSING STOCK**

New York City's housing stock has been deeply shaped by the policies of the city, state, and federal governments. These policies have themselves undergone enormous changes over the last 50 years, with significant consequences for the affordability of housing.

Chart 2 shows how the housing stock has evolved. The largest components of the stock have been homeowner housing, rent-regulated (controlled and stabilized) housing, and unregulated rental housing. The number of homeowner units—single-family houses, owner units in buildings with two apartments or more, coops, and condos—has been rising steadily. The division of the unsubsidized rental stock into rent-controlled, rent-stabilized, and unregulated proportions has shifted drastically over the years as the rent laws have been altered by the City Council and the State Legislature. Since the 1980s, the major trends have been the growth of the unregulated and the shrinkage of the regulated portion.

CHART 2: EVOLUTION OF NEW YORK CITY'S TOTAL HOUSING STOCK SINCE 1960

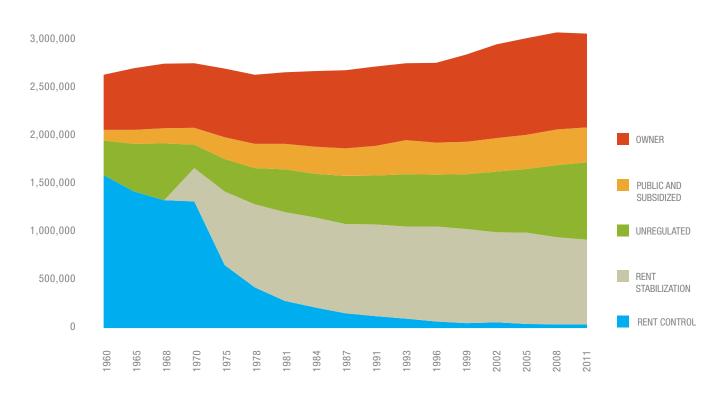


Chart 3 focuses on changes to the public and subsidized rental stock, whose aggregate share of the market rose from about 5 percent in the early 1960s to about 12 percent in the early 1990s, then leveled off. The relative weights of public housing and the various forms of privately owned subsidized housing have also shifted over time.⁵

All told, these major subsidy programs now provide a total of 356,000 apartments in New York City. The largest share is provided by the 178,000 public housing apartments operated by the New York City Housing Authority (because this information is based on sample surveys, the number for public housing appears to fluctuate more than it really has). The "Mitchell-Lama and HUD" category comprises several distinct types of housing: the federal project-based Section 8 program with 45,000 apartments, the federal Section 202 and Section 811 programs with 18,000 more apartments⁶ targeted to senior citizens and people with disabilities, and the state and city Mitchell-Lama rental housing program with 35,000 apartments. In rem housing-apartment buildings seized for non-payment of taxes and temporarily operated by the city's Department of Housing Preservation and Development (HPD)—was once a significant part of the picture but has now fallen close to zero. In addition, the Low Income Housing Tax Credit provides 80,000 apartments.

The various housing assistance programs vary in important ways, including the durability of their affordability, the income levels that they are designed to serve, and the identity of the agencies that regulate them. Table 1 summarizes a few of the key features of each program's design.

These differences in the design of the various programs naturally lead to differences in the income profiles of the tenants, although all of the programs primarily serve households who would find it very difficult to obtain housing they could afford on the unsubsidized market. (For comparison we also include tenants who pay part of their rent using Section 8 vouchers, a federal housing subsidy for individuals.) Most of the households in these types of housing contain at least one worker, with the exception of Section 202 and Section 811. Table 2 provides basic information about the incomes and employment of these households, derived from the 2011 New York City Housing and Vacancy Survey (HVS) conducted by the U.S. Census Bureau. "Working" means the household includes at least one person with income from work in 2010.

CHART 3: EVOLUTION OF NEW YORK CITY'S PUBLIC AND SUBSIDIZED HOUSING STOCK SINCE 1960

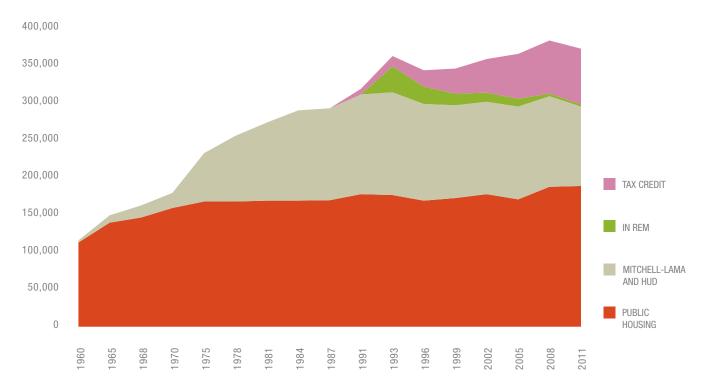


TABLE 1: KEY FEATURES OF HOUSING ASSISTANCE PROGRAMS

| | Do affordability restrictions expire? | What income level can afford housing? | Who regulates? |
|----------------|--|--|----------------------------|
| Public housing | No | Any income | HUD |
| HUD programs | Yes, often at conclusion of 15 to 20-year contract | Any income | HUD |
| Mitchell-Lama | Yes, usually after 20 years | Varies; often any income | City or state agency |
| Tax Credit | Yes, usually after 30 years | Varies; often about \$36,000 per year | IRS with network of others |

TABLE 2: RESIDENT INCOME, POVERTY, AND WORK STATUS BY HOUSING TYPE, 2011

| | Median income | Poor | Near-poor | Middle income | Working |
|------------------------------|---------------|------|-----------|---------------|---------|
| Owner | \$77,000 | 5% | 12% | 24% | 75% |
| Rent-regulated or tax credit | \$42,000 | 15% | 22% | 28% | 77% |
| Unregulated tenant | \$58,000 | 11% | 17% | 26% | 85% |
| Public housing tenant | \$17,800 | 43% | 30% | 19% | 56% |
| Mitchell-Lama tenant | \$37,200 | 18% | 27% | 27% | 68% |
| HUD tenant | \$16,100 | 38% | 30% | 13% | 42% |
| Section 8 voucher | \$14,000 | 51% | 34% | 11% | 50% |
| All New York City | \$50,000 | 15% | 19% | 25% | 75% |

Section 8 voucher holders are excluded from the estimates for other housing types.

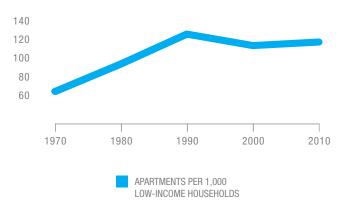
Unfortunately, the HVS does not allow us to distinguish incomes and working rates for all of the types of housing considered in this report. HUD's project-based Section 8, Section 202, and Section 811 programs are all combined into one category, HUD tenants.7 Tenants in tax credit housing are combined with those in rent-stabilized housing. The incomes of tax credit tenants will be discussed further

below, but it is noteworthy that the program is designed to benefit primarily tenants with incomes close to 200 percent of the poverty threshold or higher—similar to the median income for Mitchell-Lama tenants without vouchers, but much higher than the incomes of most tenants in any of the other subsidy programs.

As we saw in Chart 1, the need for affordable low-income housing has grown substantially since 1990. During this period, the subsidized stock has kept pace with the growth of the city as a whole but lagged behind the growth of the low-income population. As Chart 4 shows, there were 64 units of subsidized housing for each 1,000 low-income New Yorkers in 1970. By 1990, that number had risen to 122, thanks primarily to the construction of about 100,000 new HUD and Mitchell-Lama rental units. By 2010, however, the number had fallen back to 114. It should be noted that the city's supply of Section 8 vouchers increased substantially during the 1990s and 2000s, arguably compensating for the loss of brick-and-mortar housing stock, but unfortunately it seems very unlikely that Congress will fund the continued growth of the Section 8 voucher program in the future. And more important, the incomes served by subsidized units have shifted upwards as tax credit apartments replace HUD and Mitchell-Lama in the subsidized stock.

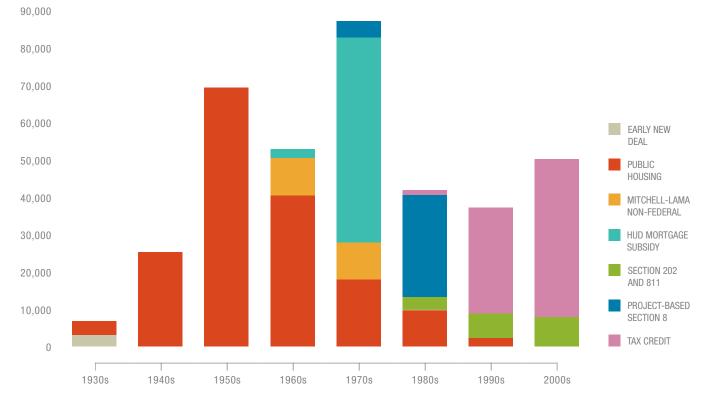
These shifts in the availability of affordable housing for low-income people result from even more dramatic changes in local, state, and especially federal housing production

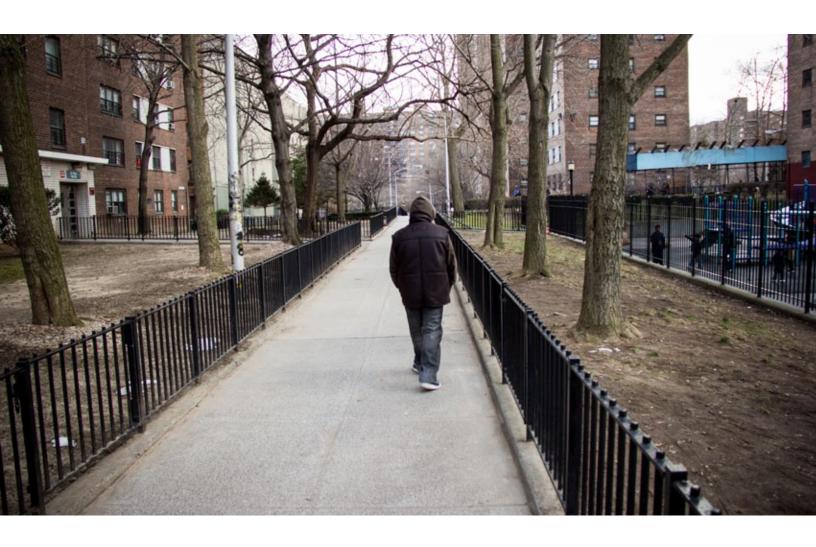
CHART 4: RATIO OF AFFORDABLE APARTMENTS TO LOW-INCOME HOUSEHOLDS OVER TIME



programs. Because housing lasts a long time, the city benefits at any time not only from current investments in affordable housing but also from the legacy of past investments. Chart 5 shows how production of public housing, Mitchell-Lama rentals, the various forms of HUD subsidized housing, and tax credit housing has risen and fallen in New York City since subsidized housing production began in the 1930s.8

CHART 5: CONSTRUCTION OF **GOVERNMENT-ASSISTED HOUSING BY DECADE**



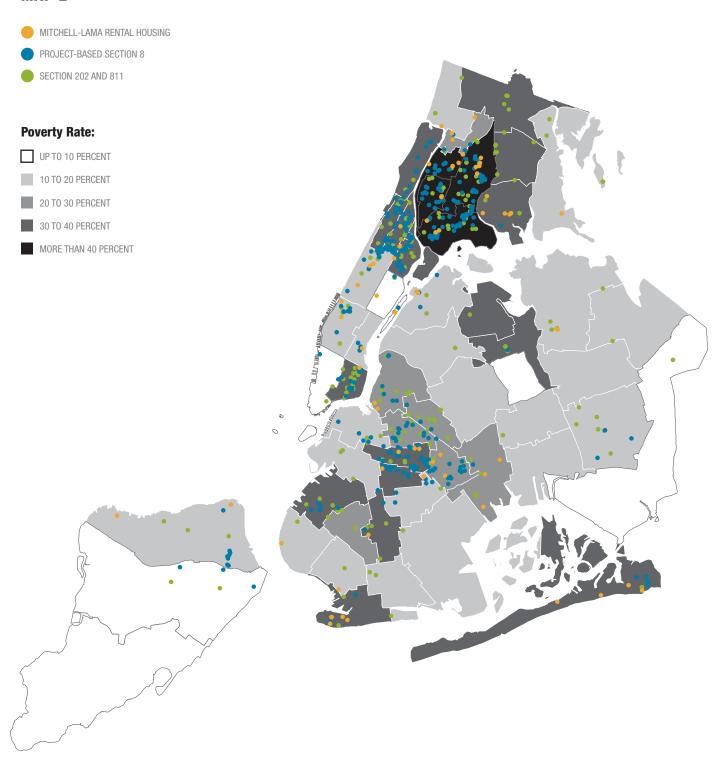


The chart reveals the shifting scale and form of assisted housing development over the last 80 years. New Deal programs, primarily public housing, contributed a relatively small amount of housing during the depression and World War II years. After the war, the production of public housing exploded with the passage of the 1949 National Housing Act. Ten years later, the city and state of New York launched the innovative Mitchell-Lama program, providing belowmarket financing and tax breaks to develop privately owned housing, initially intended as a middle-income complement to public housing. During the Great Society era, federal mortgage subsidy programs (modeled in part on Mitchell-Lama) enabled total production in New York City to reach its historic peak—18,016 apartments completed in 1976.

Immediately after this peak, production crashed as a result of the Nixon administration's subsidized housing moratorium, which prevented new projects from being initiated after 1973. During the late 1970s and early 1980s, the new project-based Section 8 housing subsidy made possible another boom in affordable housing production. But the Section 8 era did not last long and, since the late 1980s, the great majority of affordable housing production in New York City has been financed either through the Section 202 and 811 programs for elderly people and those with disabilities or through the federal Low Income Housing Tax Credit for households with incomes much higher than those in public or HUD-assisted housing.

Over the last 20 years, the rate of production has stood at a little over half of what it was in its heyday. Fifty-five percent as many apartments were developed from 1992 to 2011 as from 1958 to 1977. Just as important, most of the recently developed apartments are not affordable to poor families without Section 8 vouchers. This change in affordable housing production policy, part of a national trend, is an important reason why New York City's affordable housing supply is falling behind as the need for it continues to increase.

MAP 2



Privately owned subsidized housing: an update

The past five years have been a time of relative quiescence in the real estate market, and this is reflected in the fortunes of New York's subsidized housing stock. In mid-2007, the housing market shifted from boom to bust both nationally and in New York City. Since then, the rate of change in the privately owned, subsidized rental housing stock has slowed to a crawl. In New York City during the four years from 2009 to 2012, only 1,943 apartments in six subsidized developments lost subsidies under Mitchell-Lama program or HUD's major programs for low-income families—a slower rate of loss than in any year from 1997 to 2008.

The national financial crisis and economic downturn that began in 2007 has reduced the availability of credit and diminished investors' appetite for risk, providing a highly plausible explanation for the slowdown in subsidy loss. Tighter credit makes it more difficult to arrange the refinancing needed to remove a building from a subsidy program, and giving up subsidies is a generally riskier proposition than continuing to operate subsidized housing. It is less plausible that the lull in subsidy loss has anything to do with a change in the underlying rental housing market. The rents that subsidized buildings are likely to command upon exit from their programs have not gone down.

As of the end of 2012, New York had lost just under one third of its 119,061 apartments in Mitchell-Lama and HUD programs for low-income families. As Table 3 shows, Mitchell-Lama was hit the hardest, losing 47 percent of units, compared to 13 percent of other units, primarily project-based Section 8. Since CSS's last Closing the Door report in 2009, however, there have been relatively few losses. Three percent of project-based Section 8 apartments and less than one percent of Mitchell-Lama apartments have been lost since the end of 2008.9 In fact, the rate of loss has been low since the middle of 2007, when the unraveling of mortgage-backed securities precipitated the credit crisis that began the current economic slowdown.

Chart 6 helps place these recent losses in context by showing how they compare to the rate of loss during the 2002-2007 boom and before. Mitchell-Lama losses rose and fell dramatically with the boom and bust cycle after experiencing an earlier wave of buyouts during the last 1990s. Non-Mitchell-Lama Section 8 housing was not obviously affected, on the other hand. This suggests that Mitchell-Lama losses have been primarily driven by the housing market, but Section 8 losses have not been, which

TABLE 3: LOSSES OF AFFORDABLE HOUSING BY CATEGORY

| | Apartments in 1990 | Apartments at end 2008 | Apartments at end 2012 | Percent lost, 1990 to 2008 | Percent lost, 2009 to end 2012 | Total percent lost |
|----------------------------|--------------------|------------------------|------------------------|----------------------------------|--------------------------------------|--------------------------|
| MITCHELL-LAMA | | | | | | |
| With federal subsidy | 41,822 | 28,332 | 28,066 | 32% | 1% | 33% |
| Without federal subsidy | 23,823 | 6,691 | 6,483 | 72% | 1% | 73% |
| Total Mitchell- Lama | 65,645 | 35,023 | 34,549 | 47% | 1% | 47% |
| NOT MITCHELL-LA | AMA | | | | | |
| Project-based Section 8 | 52,578 | 46,589 | 45,120 | 11% | 3% | 14% |
| Other federal subsidy | 838 | - | - | 100% | 0% | 100% |
| Total not Mitchell-Lama | 53,416 | 46,589 | 45,120 | 13% | 3% | 16% |
| Total | 119,061 | 81,612 | 79,669 | 31% | 2% | 33% |

is consistent with the fact that the Section 8 subsidy system allows for increased subsidies to make operating subsidized housing economically competitive with unsubsidized operation, but most Mitchell-Lama housing does not.

CHART 6: LOSSES OF SUBSIDIZED HOUSING OVER TIME

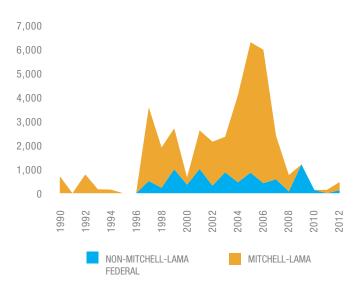


Table 4 summarizes the recent losses geographically and by subsidy type. In addition to the aforementioned Bronx Section 8 development, with 1,208 apartments in Mott Haven, the buildings that left subsidy programs included three more Section 8 developments and three Mitchell-Lamas. Two of the Section 8s were in Brooklyn, one with 20 apartments in Clinton Hill and one with 128 in Prospect Park South. The other was in Manhattan, with 113 apartments in Harlem. The Mitchell-Lamas were one with 208 apartments in East Midtown, Manhattan; one with 134 apartments in Manhattan's East Harlem; and one with 132 apartments in Corona, Queens. The East Midtown building had only state subsidies, while the other two Mitchell-Lamas both had federal subsidies before their buy-outs.

The Bronx development was removed from the projectbased Section 8 program under standing arrangements to refinance it because it had fallen into a severely deteriorated condition. Thus it can be considered another example of a project-based Section 8 development lost to physical distress. The East Midtown building had only state subsidies as a Mitchell-Lama development, and was converted by New York State's Homes and Community Renewal Agency with the addition of federal Low Income Housing Tax Credits and other subsidies, representing a lower degree of

affordability. The motive for the removal of subsidies at the other two Mitchell-Lamas appears to have been financial, as is common for buildings in that program. Both of them began the process of leaving the program before the 2007 crisis, but were delayed. They can thus be seen as examples of developments lost to market forces.

TABLE 4: 2009 TO 2012 LOSSES BY BOROUGH AND CATEGORY

| | Mitchell- Lama | Project- based Section 8 | Total |
|-----------|-------------------|--------------------------------|-------|
| Bronx | | 1,208 | 1,208 |
| Brooklyn | | 148 | 148 |
| Manhattan | 342 | 113 | 455 |
| Queens | 132 | | 132 |
| Total | 474 | 1,469 | 1,943 |

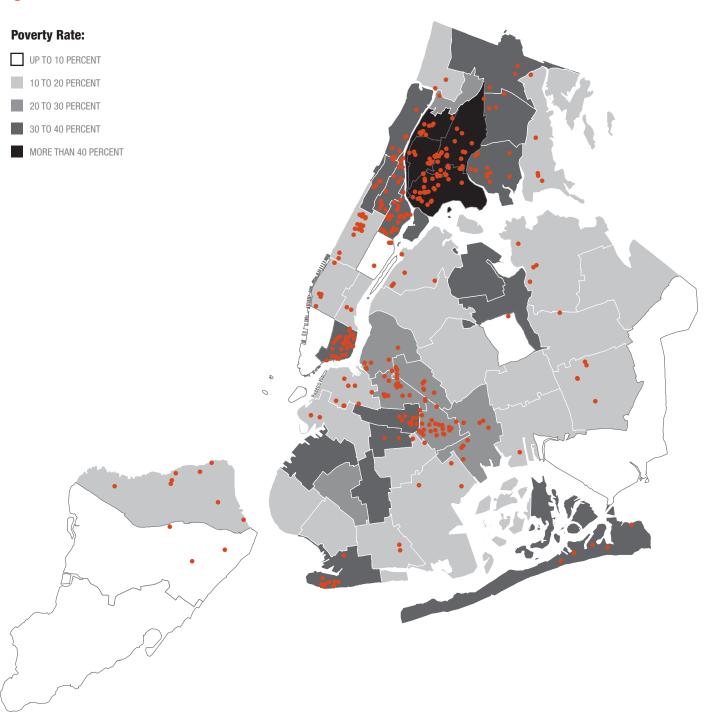
The reasons for the loss of the other Section 8 developments are unclear, but at least two of them are buildings in good condition with desirable locations near parks, which could indicate a market motive. Across the street from the Harlem building, rentals in a new building are being offered at more than \$3,000 per month. As noted above, few owners in the past have removed buildings from the project-based Section 8 program for market reasons, because HUD has the ability to increase subsidy levels to compete with the market. If this turns out to be changing, that would be a very troubling sign, especially during the current lull in the market.

Note that these figures do not include the federal housing programs targeted to seniors and people with disabilities. Congress created the Section 202 housing program for seniors and people with disabilities as part of National Housing Act in 1959 and redesigned it as a low-income program in 1978. Later, subsidies for people with disabilities were split off to create Section 811. The design of these programs results in far fewer of these buildings being removed from the subsidized stock than Section 8. A few Section 202 developments have been demolished in New York City, but the overwhelming majority of this stock is still providing affordable housing today, totaling more than 18,000 apartments, primarily for people with low incomes similar to those found in public and project-based Section 8 housing. Unlike the other HUD programs, Section 202 and 811 also still provide funding streams for new housing today.



MAP 3

PUBLIC HOUSING



Public housing: How secure is the stock?

At the national level, the country's retreat from public housing is one of the most significant trends in affordable housing policy over the last 20 years. But New York City stands out as a strong exception. From 1995 to 2008, the country's total supply of public housing fell by 170,000 apartments, or 13 percent of the 1.3 million apartments that existed in 1995. The major vehicle for this was the federal HOPE VI program, which funded the demolition of 155,000 apartments and the construction of 32,000 replacement public housing apartments while also facilitating the development of mixed-income communities involving other subsidy programs. Some large cities that once had major investments in public housing, such as Chicago and Atlanta, have demolished most of their public housing—62 percent and 86 percent in those two cities, respectively.

The New York City Housing Authority has not gone down that road, despite the size of its program and fact that most of its apartments are in older high-rises, the same type of housing most targeted for demolition nationally. Here, only two public housing developments have been lost. Markham Gardens was a 360-unit development on Staten Island, originally built as temporary housing for defense workers in 1943, until it was demolished in 2006 and replaced with a mixed-income development through HOPE VI. Prospect Plaza was a 368-unit development in Brooklyn that was emptied in 2003 and has been partially demolished in anticipation of a long-stalled redevelopment. Together, these developments amount to less than 0.5 percent of NYCHA's public housing stock. In addition, the housing authority has also demolished a small amount of project-based Section 8 housing that it acquired after private owners failed in the 1970s, but it does not consider that to be public housing. And NYCHA has also completed one HOPE VI project in the Rockaways under a special waiver that did involve any demolition.

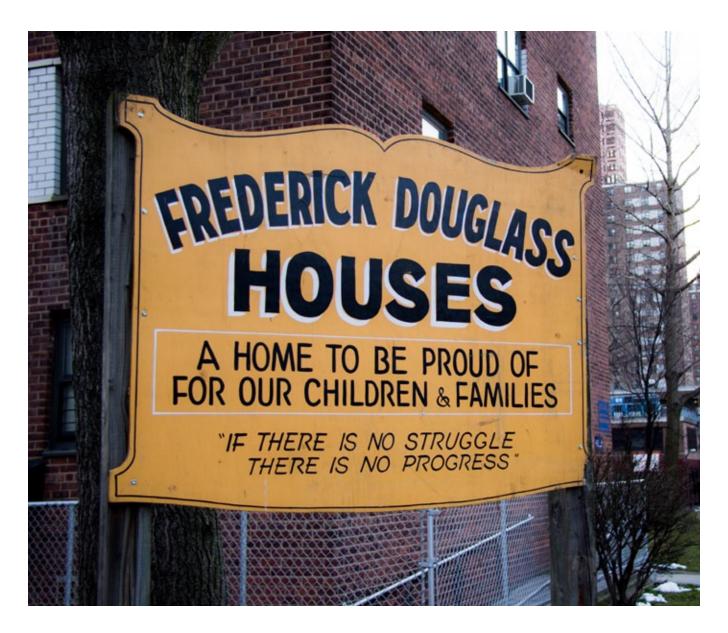
Today, New York City's public housing stock consists of 179,486 apartments in more than 300 developments built between 1936 and 2003. These developments are owned either by the New York City Housing Authority or limited liability corporations set up by NYCHA to facilitate the

addition of new federal subsidies. (NYCHA also owns a smaller amount of housing that does not receive public housing operating subsidies.) Two-thirds of NYCHA's apartments were built in the 1950s and 1960s. In addition to NYCHA's current tenants, 140,000 families on its waiting list make up what could be considered another public housing constituency.

Despite recent criticisms of NYCHA's management, its ability to sustain such a large stock of deeply affordable housing represents a striking success compared to other housing authorities. A number of reasons have been proposed for the authority's success. Historian Nicholas Dagen Bloom credited the authority's management abilities in a 2008 book, Public Housing that Worked: New York in the Twentieth Century. The fact that NYCHA operates in a city where much of the private housing is also in high-rises provides another possible reason. And the large size of the city's public housing constituency, along with the higherthan-usual share of NYCHA residents with incomes above the poverty line, could provide a more political explanation, since both of these factors would tend to increase residents' political influence and their ability to demand good management.

Today, NYCHA operates under difficult financial conditions that reflect the complex history of federal, state, and local funding for public housing. Most of its stock was built with federal subsidies, but the city and state each also contributed a substantial share. Initially, the money for operating public housing developments came entirely from tenants' rents, but as tenant incomes fell and operating expenses rose, public housing authorities around the country fell into deficits compelling them to raise rents to levels that often imposed severe hardships on tenants. In 1967, the federal government capped rents at 25 percent of tenants' income (later raised to 30 percent) and began providing operating subsidies to lift the housing authorities out of the red. The city and state followed suit with operating subsidies for the developments they had financed. Over the years, most of the non-federal developments were converted to federal support.

Beginning in 2003, the federal government began to provide only part of the subsidy amount it calculated that each development would need, and the funded share fell to 83 percent in 2007 and to 83 percent again under the current federal funding sequestration. The state stopped providing



operating subsidies for its remaining developments altogether during the Pataki administration and the city followed suit early in the Bloomberg administration. With HUD's permission, NYCHA adapted to the city and state cuts for several years by stretching its already inadequate federal operating support to cover the additional developments. In recent years, the remaining 21 city and state developments, totaling 22,656 apartments, have been federalized under financial restructurings as public-private limited-liability corporations with a combination of federal public housing operating subsidy, Section 8 vouchers, and Low Income Housing Tax Credits. The deal improved NYCHA's finances, but its long-term consequences are not clear, and NYCHA remains underfunded. The authority expects an operating deficit of \$61 million this year.

Even with NYCHA's generally strong track record, this chronic underfunding represents a long-term threat to New York City's public housing stock, and it is compounded by the large payments that NYCHA annually makes to the city government. Each year, the housing authority pays the city \$75 million for special police services that are hard to distinguish from those other building owners get for free, and it pays \$23 million to the city's general coffers as Payments in Lieu of Taxes. Wiping out these unnecessary payments would be sufficient to eliminate NYCHA's operating deficit and fund many needed repairs.

The criticisms leveled at NYCHA since August 2012 have focused on several issues. One is the housing authority's slowness to respond to maintenance and repair issues raised by tenants—a problem no doubt related to the authority's inadequate funding but nevertheless an extremely serious one for tenants. What's more, it appears that the housing authority's move to a centralized and computerized repair request system known as the Central Call Center has made the system less responsive to tenants. NYCHA has also been criticized for slowness to complete capital projects even with funding in hand and for its slowness to deal with

Each year, the housing authority pays the city close to \$100 million, largely for police services. Wiping out these unnecessary payments would be sufficient to eliminate NYCHA's operating deficit and fund many needed repairs.

destruction by Hurricane Sandy. These issues warrant a careful review of management practices, although it is not unusual for other property owners to experience setbacks in capital projects. If NYCHA's internal organization needs to be improved, changes should focus on accountability to tenants and strengthening the institution's ability to act as a steward of its property and affordable housing mission—not weakening it or allowing its underfunding to continue.

The other major issue facing NYCHA today is the proposal to lease "underutilized land" around NYCHA developments, including parking lots and green space, for private redevelopment, including housing, schools, and commercial facilities. This is often proposed as a solution to the housing authority's insufficient funding; by leasing land to developers it can bring in money to balance its books. Alternatively, using the land for affordable housing could be seen as an opportunity for the housing authority to advance its mission of providing affordable housing by making more intense use of its land assets. Various compromises between these two approaches could be justified as not only fiscally prudent but desirable because they would create

a mix of income levels among residents. But the conflict between the housing authority's revenue and income mixing goals runs deep. In order to achieve real income mixing at the neighborhood level, NYCHA would have to use any underutilized land in high-market or rising-market areas to build housing for people with the lowest incomes possible. But it is precisely these neighborhoods where NYCHA would be able to generate significant income by selling development rights.

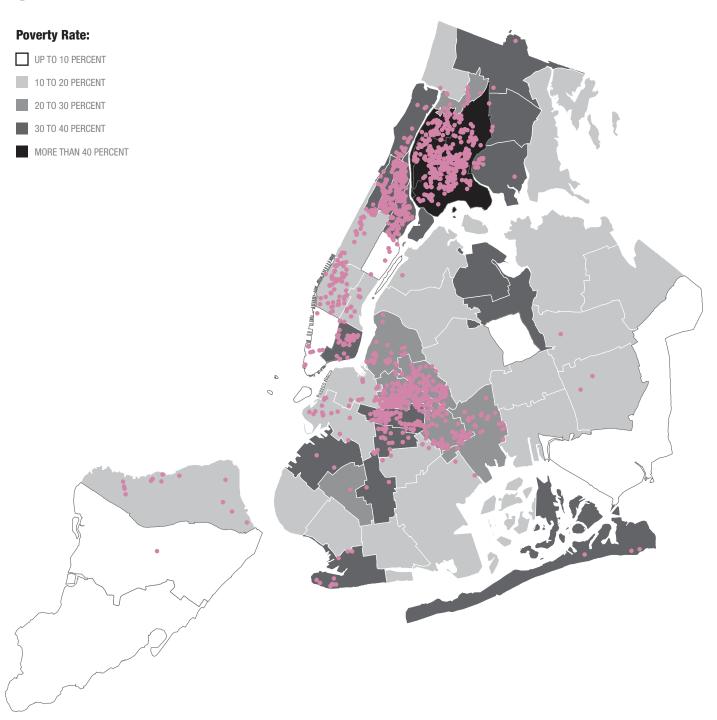
In fact, it appears that it is the revenue goal which will win in this conflict. In October 2012, NYCHA Chair John Rhea announced that the housing authority will release a comprehensive citywide plan for private redevelopment in early 2013, along with a list of "prime-market" developments targeted for early action. More recently, the Daily News reported that leaked documents showed that NYCHA was planning to concentrate the first wave of new building in eight Manhattan developments, all in relatively high-market locations, possibly with only 20 percent of the new units subsidized for lower-income tenants. This is the minimum that would enable the developers of the new housing to access important tax benefits.

New York City is experiencing a shortage of land for the development of low-income housing. Ten years ago, the city still owned a substantial stock of development sites that it acquired during the era of housing abandonment, but that stock is now dwindling to nothing while the need for low-income housing development continues. Under these circumstances, it is not surprising that NYCHA's land should attract the interest of the city's low-income housing developers, and the possibility of using the land this way should be taken very seriously. But the city's need for affordable development sites will continue for the long term, and to squander scarce sites today on high-end development in order to generate money for shorter-term needs would be foolish—especially if NYCHA's limited resources are also being used to subsidize the police department. The effects of new building on NYCHA tenants should also be considered carefully.

Any additional building on NYCHA land should involve a long-term plan to maximize the use of NYCHA's resources for its primary mission of providing low-income housing and a broad public neighborhood planning process with full participation by NYCHA tenants.

MAP 4

LOW-INCOME HOUSING TAX CREDIT



The tax credit era in New York City housing policy

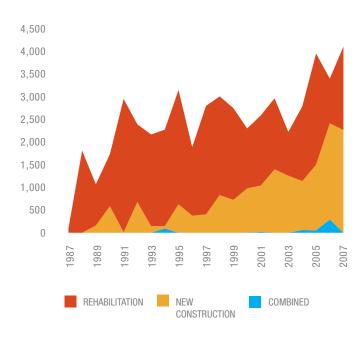
The federal Low Income Housing Tax Credit was created as part of the overhaul of the federal tax system in 1986. Its advent roughly coincided with the end of project-based Section 8 housing production, making the tax credit easily the country's largest subsidy stream for affordable housing production.

In New York City, the creation of the federal tax credit also marked the beginning of a distinct era in the city's housing policy. Just as the new federal funding stream became available, the city as a whole underwent a dramatic population turnaround, and Mayor Edward Koch committed the city to an ambitious Ten-Year Plan to rebuild the city's devastated low-income neighborhoods with affordable housing. This rebuilding became the new mission for housing production policy.

The success of Koch's plan was linked to a broader turnaround in the city's fortunes. Most industrial cities in the northeastern and midwestern United States, including New York, had experienced significant losses in population after 1950. But unlike many other cities, New York began to grow again during the 1980s, fueled by an economic recovery and a revival of international immigration. During the city's decline, especially during the 1970s, landlords in low-income neighborhoods began abandoning property that was no longer profitable. The city seized much of this property for nonpayment of taxes and became a major landlord and landowner by default. Koch's housing plan hinged on using this stock of housing and land as a resource to rebuild neighborhoods hard hit by disinvestment. The tax credit provided a major source of funding for this effort, though new affordable housing developments increasingly came to combine multiple funding sources.¹⁰

This remarkable confluence of new funding, new political commitment, and new demand for housing in low-income neighborhoods set the stage for the successful conversion of an enormous stock of vacant land and vacant buildings into affordable housing. From 1987 through 2011, more than 80,000 apartments were developed with the tax credit in New York City. This housing stock includes a large share of the rental housing produced under both Koch's plan and Mayor Bloomberg's New Housing Marketplace Plan. It includes both newly constructed buildings and rehabilitated older structures, but it tilts toward rehabilitation. In New York City, 68 percent of tax credit apartments are rehabilitated compared to only 36 percent nationally.¹¹ But this tilt is largely a product of the earlier years of tax credit development in the city, when reclaiming abandoned buildings was at the top of the city's agenda. As Chart 7 shows, the balance has now shifted toward new construction.

CHART 7: NEW YORK CITY'S TAX CREDIT HOUSING PRODUCTION: CONSTRUCTION VERSUS REHABILITATION, 1987 TO 2007



The geography of New York City's tax credit stock is largely a product of housing policy's rebuilding mission during this era: most of the stock is concentrated in the low-income neighborhoods most affected by fire and abandonment. As Map 4 shows, this stock is dispersed among the five boroughs in a pattern that is conspicuously similar to the distribution of earlier forms of subsidized housing. The siting of affordable housing has often been criticized for concentrating poverty, since much of it is built in areas with large numbers of poor people. The switch from HUD programs to the tax credit has not altered this pattern in New York City. One central reason for this continuity is very simple, however. The city has tended to support the creation of tax credit housing on city-owned property, and

this property is concentrated in the same high-poverty areas that were the focus of renewal efforts using the earlier forms of subsidy.

Subsidized housing development in poorer areas does not necessarily concentrate poverty, however, if it remains in place as the neighborhood becomes less poor. Tax credit development may now be contributing to economic integration on the Lower East Side, for example, as that neighborhood gentrifies. The same process could eventually turn tax credit developments into resources for integration in other low-income neighborhoods with central locations such as Harlem and East Harlem. But this desirable outcome will only be realized if this housing stock remains affordable beyond the end of the current affordability commitments on many of the developments.

THE DESIGN OF THE TAX CREDIT PROGRAM

The Low Income Housing Tax Credit has a markedly different design from that of earlier housing subsidies. It is structured as a tax expenditure administered by the Internal Revenue Service rather than the Department of Housing and Urban Development. Each year, housing finance agencies in each of the 50 states are given a total dollar value of tax credits to allocate, based on state population. In New York, a share of the state's credits are passed on for allocation by the city's Housing Development Corporation. Housing developers apply to these allocating agencies for access to the credits through a competitive process. Once they receive the credits, the developers make legal arrangements to transfer the tax benefits to investors who buy into the deal based on the value of the tax credit—a process known as syndication. The developers then use the capital proceeds to build housing, while the investors can then reduce their taxes by a set amount over ten years. If the resulting housing fails to comply with the law, the IRS can yank the tax benefits, but as long as that doesn't happen, the value of the tax credit to the investor is unaffected by anything that happens in the building.

This structure has three key consequences for policy. First, the tax credit functions as a capital subsidy, contributing funds to build or rehabilitate housing rather than to operate it. Second, the regulation of tax credit housing is not centrally administered through a housing agency but rather

dispersed among many players, including state and local housing agencies, independent nonprofit organizations, and the IRS. And third, like previous subsidies for privately owned affordable housing, the tax credit is a time-limited program.

AFFORDABILITY

The fact that the tax credit is in effect a pure capital subsidy sharply limits the degree of affordability that can be achieved. A capital subsidy reduces the amount of money that a building must generate each month to lenders or owners as return on their investments, but it does not affect a building's need to cover operating expenses such as utilities and maintenance. Therefore the tax credit cannot by itself create housing that rents for less than the cost of operation. In New York City today, operating expenses excluding taxes are generally at least \$500 per apartment per month. Housing that rents at that amount is considered affordable to households with incomes of at least \$20,000 a year.¹² In tax credit housing, operating costs are generally somewhat higher, and rental income is also used to service mortgage debt, so the rents are always higher than this theoretical minimum.

This is the primary reason why tax credit housing is targeted to much higher incomes than public housing or other types of privately owned subsidized housing, which usually includes an operating subsidy. The tax credit law provides for income targeting based on a flawed "Area Median Income," calculated by HUD, but the underlying reason for tax credit affordability levels has more to do with the buildings' finances than with the defects of the AMI system.¹³

Fortunately, the city's housing agency can partially compensate for this problem by combining the tax credit subsidy with federal Section 8 vouchers—a subsidy tied to individual tenants rather than to specific housing units. This funding stream has played an important and underrecognized role in tax credit development in New York City. Under the tenant-based Section 8 program, HUD works through local housing agencies to provide lowincome households with vouchers that help pay their rent. HPD controls a share of New York City's vouchers, and it has placed many of them within tax credit and other affordable housing developments. As the agency says in

its administrative plan for the voucher program, a "major emphasis of HPD's voucher program is to supplement development activities that improve the quality of lowincome housing."14 Until recently, nonprofit-owned tax credit developments typically included a share of formerly homeless Section 8 voucher holders. But for the past two years, a shortage of vouchers has led HPD to curtail their use in tax credit developments.

HPD's use of vouchers in tax credit developments has made them affordable to people with incomes far below those targeted by the tax credit program itself, making the resulting program into a far better substitute for HUD's low-income housing programs than it otherwise would have been. On the other hand, the use of multiple subsidies for one unit of housing could be considered a form of inefficient double-dipping. HPD has examined the actual incomes of a sample of tenants living in the developments it sponsored in 2006. The sample included 500 apartments developed through four programs that are largely based on the tax credit, and 29 percent of these tenants had incomes below 30 percent of the HUD area median income, about \$21,000 a year for a family of three—definitely too poor to afford tax credit apartments without a voucher. Another 41 percent had incomes from 30 to 50 percent of AMI, and it is likely that some of them had vouchers as well.¹⁵

REGULATION

The second key feature of the tax credit's design is its decentralized regulatory apparatus. The nominally central regulator, the IRS, plays a passive role, taking action only in extreme cases. The state and local agencies involved in administering tax credit developments also play a federally mandated role in monitoring the developments, but a much greater share of the detailed supervision of building operations is actually conducted by private nonprofit players such as the Local Initiatives Support Corporation and the Enterprise Foundation. These groups syndicate affordable housing developments for tax-minded investors and then keep track of the developments' performance. The program's ultimate enforcement mechanism comes from the threat that investors will lose their tax benefits if the developments are not properly operated. Investors trust that their interests will be protected by these intermediaries, who do much of the regulatory monitoring

that would be done by HUD or another government agency under the older affordable housing programs. 16

This decentralized form of supervision tends to limit tenants' access to their housing's regulators. The contrast is especially sharp with Mitchell-Lama rentals, which are supervised by state and local agencies that stand as mediators between landlords and tenants with strong connections on both sides. Tax credit developments are monitored instead by networks of players with strong ties with the landlords, including financial relations, and much weaker ties to tenants.

Fortunately, the tax credit law does not provide the only regulatory handle for most developments in New York City. Here, HPD and the New York City Housing Development Corporation (and to a lesser extent the state's Housing and Community Renewal agency and the New York State Housing Finance Agency) provide financing for many of the projects and usually enter into regulatory agreements with the owners of tax credit housing, adding a layer to the regulatory regime for these buildings. But these agencies still do not provide the kind of supervision that HUD provides for housing produced through its programs, or that HPD and the state's Division of Housing and Community Renewal provide for Mitchell-Lama housing.

PRESERVATION

The final key feature of the tax credit's design resembles the earlier programs. The affordability provided by the tax credit expires after a set period of time, just as it was the case with HUD and Mitchell-Lama. This raises the question whether tax credit developments will remain affordable after these expirations.

For buildings subsidized from the program's inception in 1986 until 1990, owners of tax credit housing were free under federal law to rent to any tenant at any price after 15 years. 17 In 1990, the picture became somewhat more complex. When Congress continued the tax credit program, it added a second 15-year period of affordability regulation. As a result, only tax credit developments completed before 1990 have seen all of their federal restrictions expire. Later buildings will not come to the end of their affordability periods until 2020.

By examining the fate of the early buildings, we can gain some insight into the likely outcomes when other buildings begin to age out of the program as well. But the picture is complicated by the fact that most of these buildings were developed with multiple forms of subsidy, and in many cases are subject to more than one kind of regulation. In New York City, HPD and other agencies sought to promote long-term affordability with additional restrictions, often lasting longer than 15 years. Instead of a sharp line between regulated and unregulated developments, there is a gradation from greater to lesser degrees of regulation. In addition, these additional layers of regulation do not come with the kind of close supervision that HUD and Mitchell-Lama developments receive, making the strength of regulation hard to evaluate. And the rents charged for tax credit developments are generally much closer to market rents than at HUD and Mitchell-Lama developments. Thus it is harder to assess the impact of these layers of regulation.

For these reasons, we do not assign tax credit and former tax credit buildings to "still affordable" and "lost" categories used in the discussion of the other subsidy programs. Instead, we use much less conclusive terms to characterize their regulatory status. The key distinction is between buildings that have and have not sold at an economic price—a price high enough to suggest that the sale transaction was based on the buyer and seller's calculation of the expected economic returns to ownership. A large share of these buildings, with 32 percent of the subsidized apartments, has not sold at all. Another 20 percent has sold at clearly non-economic prices of up to \$8,000 per apartment, while 47 percent have sold at apparently economic prices of \$30,000 per apartment or higher. None sold for prices between \$8,000 and \$30,000.

A sale price of \$30,000 per apartment is not necessarily too high to be compatible with affordable rent for families with incomes in the range for which the buildings were originally developed. 18 Thus, sale at an economic price is to be interpreted only as a sign of movement toward an orientation to the real estate market as opposed to an affordability mission. The fact that 47 percent of the early tax credit stock has been sold at such prices is a warning sign for potential loss of affordability, not evidence of affordability already lost.

Sale at an economic price is closely linked to two factors for-profit ownership and the absence of additional regulatory agreements on the buildings beyond the regulation required under the federal tax credit law. As Table 5 shows, tax credit housing developed by nonprofit organizations was much less likely to be sold for an economic price than housing developed by forprofit developers. Housing developed with additional regulatory agreements beyond the tax credit restrictions was also less likely to be sold at an economic price than housing developed without additional restrictions. Because nonprofit status and the presence of additional regulations are themselves highly correlated, it is difficult to determine which factor is more important in influencing the fate of this housing stock.19 However, it does appear that the agencies that allocate tax credits can promote long-term affordability through a combination of regulation and encouraging nonprofit sponsorship.

TABLE 5: SALES OF EARLY TAX CREDIT DEVELOPMENTS

| | Share of apartments sold at economic prices |
|--|--|
| Nonprofit developer | 3 % |
| For-profit developer | 73 % |
| With additional affordability restrictions | 26 % |
| With tax credit restrictions only | 71 % |

In some cases, local government agencies are able to add new affordability regulations to tax credit developments when the original ones expire. Buildings often need significant capital improvements after 15 years of use, and agencies can offer financing for those improvements in return for new regulation. Not surprisingly, such arrangements are much more common in buildings that have not sold at an economic price, where 70 percent of apartments are covered by new regulatory agreements, than in those that have, where the number is only 14 percent.

Unlike project-based Section 8, the tax credit program does not provide an incentive for owners to renew their affordability commitments at the end of the original affordability period. In this respect, the tax credit program resembles Mitchell-Lama, which has seen tremendous losses. New regulatory agreements added by local agencies may be reducing the threat that the tax credit stock will suffer similar losses. But the true effectiveness of these restrictions is unknown, and a large share of the pre-1990 tax credit buildings were sold without such restrictions. There is a real danger that the city's affordable housing stock will suffer another round of large losses when the post-1989 tax credit buildings begin hitting their 30th birthdays in 2020.



Conclusion and policy recommendations

Housing policy in the United States is made at the city, state, and federal levels, with many complicated interrelationships. The next mayor of New York City will not be able to make every change in policy that would result in better conditions for the city's low-income households. But he or she will hold several key levers with which to move our housing system in the right direction.

One of the mayor's most powerful housing levers is through appointment processes. This is true for the city's Rent Guidelines Board, as well as the board of the New York City Housing Authority, providing substantial control over these nominally independent authorities. The mayor also controls HPD, which enforces the housing and maintenance code, regulates Mitchell-Lama housing, supports the development of new affordable housing, and has come to play a major role in the preservation of existing affordable housing of all kinds. In addition, mayors influence NYCHA and HPD through their very strong role in the city's budgeting process, and they have often functioned as important national spokespeople for urban issues, including housing.

Recent years have not seen the rapid losses of subsidized affordable housing that hit New York City from 1997 to 2007, but many of the underlying causes of the losses are still present. As long as the city retains a growing economy, the real estate market will exert a strong pressure toward rising private rents and the removal of subsidized housing from the at-risk affordable stock.

Some parts of the city's subsidized stock have relatively strong defenses against these pressures. Public housing is protected by public ownership, many Section 202 and 811 developments have very long affordability commitments, and project-based Section 8 housing is protected by financial incentives to owners who keep their developments affordable. But even these stocks are vulnerable if there are not enough funds to properly operate the programs. The federal government has underfunded public housing for many years, contributing to an enormous backlog of rehabilitation work needed on the New York City Housing

Authority's developments. Project-based Section 8's ability to keep buildings in the program by matching the market depends on Congressional appropriations that rise at the rate of housing cost increases, which is faster than the rate of inflation. The budgeting dynamic in Congress today will make it harder to sustain these appropriations, ultimately placing the housing stock in jeopardy.

Other components of the city's housing stock are even more vulnerable. The Mitchell-Lama rental program lost almost half of its apartments from 1990 to 2007, and the losses could be revived by a change in the investment climate. The federal Low Income Housing Tax Credit stock has been protected because most apartments are still in their original affordability period, but that will begin to change in eight years.

What's more, existing programs will not allow the city's subsidized housing stock to keep pace with, let alone catch up with, the enormous and growing demand from the city's 3 million low-income people. Preservation of the city's existing affordable stock is not a sufficient response to this demand, but given the high cost of building new housing, it is certainly the most cost-effective step toward meeting this demand.

It is imperative that the next mayor of New York City use every policy lever to respond to these challenges.

PUBLIC HOUSING

Perhaps the simplest thing that the next mayor can do to safeguard the future of affordable housing in New York is to end the practice of siphoning nearly \$100 million in operating funds from NYCHA to the city coffers each year through police fees and payments in lieu of taxes. It is impossible to justify the continuation of these payments at a time when NYCHA is starving for both operating and capital funds.

In addition, the next mayor must ensure that any NYCHA land that is redeveloped supports the authority's affordable housing mission for the long-term—rather than just generating funds for the short term by selling or leasing off assets. He or she must also ensure that there is a genuine role for NYCHA tenants and neighborhoods in determining As long as the city retains a growing economy, the real estate market will exert a strong pressure toward rising private rents and the removal of subsidized housing from the atrisk affordable stock.

the use of this land, in part by releasing long-withheld HUD tenant participation funds so that tenant groups can obtain independent technical assistance during the process.

HPD also has a role to play in improving NYCHA conditions—by inspecting NYCHA's buildings and publicly posting violations as they do for all other landlords. This would greatly increase NYCHA's transparency and accountability to tenants.

Finally, the mayor should be a vocal and visible advocate at the national level for adequate federal funding for public housing.

NEW AFFORDABLE HOUSING DEVELOPMENT

During the Bloomberg administration, New York City added some 38,000 apartments to its tax credit housing stock. This overlaps with the 124,495 apartments developed or preserved as part of the city's New Housing Marketplace Plan by mid-2012. Whichever way one counts, this significant achievement resulted from the city's willingness, and technical capacity, to make maximum use of federal resources for housing development such as the tax credit and also from the addition of significant local resources such as money from Battery Park City.

The next mayor will have to commit capital resources just to continue to produce affordable housing at the Bloomberg administration's level—and doing so will not be enough. The amount of affordable housing being produced now is not enough to meet the needs of the city's growing lowincome population, it is not targeted to the lowest incomes levels where it is most needed, and it is not doing enough to protect low-income communities from displacement when neighborhoods begin to attract higher-income people.

A serious response to these challenges will require new resources from the federal government, which the next mayor should advocate for. But in the meantime, there are steps the next mayor can take to improve on the city's current response.

First, the city must continue to invest its technical capacity and its own financial resources in maximizing the use of the federal tax credit and other affordable housing subsidies. But it should concentrate its own money on the goal of lowering the income targeting in new developments to reach the lowest-income tenants possible. It should return to the practice of using Section 8 vouchers and other tenantbased subsidies to increase income mixing within tax credit developments, and make this an explicit goal. It should take special care to place Section 8 vouchers in developments in neighborhoods where low-income people are threatened with displacement, and it should project-base these vouchers in tax credit developments to the fullest extent possible.

The city should also take all steps to promote permanent affordability in tax credit developments, despite the 30year timeline embedded in the design of the tax credit program. The city's experience with its earliest tax credit developments suggests that the combination of additional regulatory agreements and nonprofit development sponsors may be an effective way to extend affordability for the long-term. Nonprofit developers with an affordable housing mission should play the central role in future affordable housing development in the city.

The city should also explore the possibility of creating an office to coordinate and centralize the supervision of tax credit housing developments and ensure that tenants have access to that office. This will not only give tenants a way to address any maintenance or repair problems they face, but it will also help ensure that buildings' problems are dealt with before they mount to a level that threatens continued affordability.

PRESERVATION OF EXISTING AFFORDABLE HOUSING

The next mayor must sustain HPD's involvement in the preservation of all kinds of subsidized housing. The agency's technical capacity and local knowledge is invaluable for this purpose. Although Mitchell-Lama rental buildings have not been leaving the program rapidly in recent years, the city must prepare for the return of the market conditions that caused the last wave of Mitchell-Lama losses by creating and funding incentives for owners to maintain their commitment to affordability through the Mitchell-Lama program. In addition, the city should create new resources to respond to physical distress in Mitchell-Lama buildings in ways that do not result in excessively burdensome rent increases, even when buildings remain in the program.

The city should also anticipate the likely onset of a wave of Low Income Housing Tax Credit losses at the end of this decade by strengthening the incentives and regulatory practices that steer tax credit developments toward continued affordability.

In addition, the mayor of New York City should always be a vocal and visible advocate for full federal funding for project-based Section 8, sufficient to continue to provide effective incentives for development owners to renew their Section 8 contracts, and the mayor should also advocate for state law protecting the affordability of all formerly subsidized apartments by subjecting them to rent stabilization.

In short, the next mayor must mobilize and orchestrate all the resources that can be brought to bear on expanding the city's affordable housing supply to meet ever-growing needs.

Endnotes

- 1. Victor Bach and Thomas J. Waters, "Making the Rent: Before and After the Recession: Rent-Income Pressures on New York City Tenants, 2005 to 2011," CSS Policy Brief, 2012.
- 2. Tom Waters and Victor Bach, "Closing the Door: Accelerating Losses of New York City Subsidized Housing," CSS Policy Brief, 2006; "Closing the Door 2007: The Shape of Subsidized Housing Loss in New York City," CSS Policy Brief, 2007; "Closing the Door 2008: Subsidized Housing Loss in a Weakened Market," CSS Policy Brief, 2008; and "Closing the Door 2009: Risks of Boom and Bust," CSS Policy Brief, 2009.
- **3.** The 1970 Census was the first after the creation of the federal poverty definition.
- **4.** See Jaison R. Abel and Richard Deitz, "Job Polarization and Rising Inequality in the Nation and the New York-Northern New Jersey Region," Federal Reserve Bank of New York Current Issues in Economics and Finance, Vol. 18, No. 7, 2012.
- **5.** Sources of information for Charts 2 and 3 include CSS's database of privately owned subsidized housing, information from the New York City Housing Authority on its public housing and project-based Section 8 stock, information from HUD on the city's Section 202 and 811 stock, information from New York University's Furman Center on the tax credit stock, and information on the city's unsubsidized housing stock from the New York City Housing and Vacancy and earlier surveys commissioned by New York City's housing agencies since 1960.
- 6. This includes Section 202 and 811 buildings that have been converted into other affordable housing programs through refinancing.
- 7. The working rate for project-based Section 8 tenants is probably similar to those for public housing tenants and Section 8 voucher holders and higher than those for Section 202 and Section 811.
- 8. The chart is based on information from CSS's subsidized housing database, plus information from the New York City Housing Authority on its public housing and project-based Section 8 stock, information from HUD on the Section 202 and 811 stock, and from New York University's Furman Center on the tax credit stock. It is slightly incomplete in that it omits a few developments lost to the public housing and Section 202/811 stock, or lost to other stocks before 1990. The categories used here are somewhat different from those used elsewhere in this report, because here the purpose is to identify the subsidy programs that originally did the most to stimulate the construction of housing. As a result, a Mitchell-Lama development with a federal mortgage subsidy would be shown in the federal mortgage subsidy category, and so would a building that was initially developed with a federal mortgage but later received an additional project-based Section 8 subsidy. Other analyses presented in this report are more concerned with the programs influencing the regulation of the buildings today, and would categorize the same buildings as Mitchell-Lama and Section 8. The "early New Deal" category includes two developments financed by the Reconstruction Finance Corporation and the Public Works Administration during the 1930s. These developments had financial structures somewhat similar to those constructed later under the Mitchell-Lama program.
- 9. One should be careful in drawing conclusions from the higher rate of Section 8 losses, because most of them came from a single large scattered-site development in the Bronx.

- 10. Other key funding sources during the tax credit era include the federal Community Development Block Grant program, the HOME Investment Partnerships Program, another federal block grant to state and local governments, and the authority that the federal government gives certain public entities to issue tax-exempt bonds to fund private organizations for public purposes, including the development of affordable housing. In addition, there are federal subsidy streams to provide support housing and to provide housing for formerly homeless people.
- 11. The New York City figure is calculated from HUD data. The national figure is for the period from 1995 to 2002 and comes from HUD office of Economic Affairs, "Updating the Low-Income Housing Tax Credit Database: Projects Placed in Service Through 2002," available at www.huduser.org/portal/datasets/lihtc/lihtcpubs.html
- **12.** A possible exception to this principle would be the scenario in which high-income tenants in a building pay enough rent to contribute to the operation of not only their own apartments, but also those of lower-income neighbors. But this cross-subsidy strategy has never been implemented on a large scale.
- 13. Tax credit income targeting is based on percentages of Area Median Income, which is the median family income for the local metropolitan area, including suburbs, adjusted for various factors. In New York City, it is much higher than the city's actual median income. So when housing is designated as affordable to a household with an income of 50 percent of the HUD Area Median Income, that means an income of about \$36,000 a year for a family of three, and a rent of \$900 a month. That is roughly double the federal poverty line, and one third of the city's three-person families have incomes too low to afford such an apartment.
- **14.** HPD, "Housing Choice Voucher Program Administrative Plan," 2012. Available at www.nyc.gov/html/hpd/downloads/pdf/Admin-Plan.pdf
- 15. Rebecca Koepnick, Raisa Bahchieva, Alexander Schwarz, and James Crowder, "Fiscal Year 2006 Affordability Study: Examination of Incomes Served by Mayor Bloomberg's New Housing Marketplace Plan." Available at www.nyc.gov/html/hpd/ downloads/pdf/Affordability-Study.pdf
- 16. See David Erickson, The Housing Policy Revolution: Networks and Neighborhoods, Urban Institute Press 2009; and Doug Guthrie and Michael McQuarrie, "Providing for the Public Good: Corporate-Community Relations in the Era of the Receding Welfare State," City & Community 7 (2008), 113-141. This decentralized supervision can be seen as a form of privatization. Subsidies for private owners overtook public housing as an affordable housing production strategy in the 1970s, but now it is the regulation as well as the ownership of housing that is being partly privatized.
- 17. In New York City, tax credit apartments are generally subject to rent stabilization, so the 15-year transition for these buildings was cushioned. Nevertheless, rent stabilization is a very different, and generally less restrictive, regulatory regime than the tax credit.
- 18. A few buildings sold at very high per-unit prices (\$160,000 per unit), but those tended to be buildings that also included never-regulated apartments.
- 19. Of the developments with additional regulations, 76 percent had nonprofit owners. (This is restricted to developments where at least 90 percent of the units were subsidized. If partial-subsidy buildings are included, that drops to 55 percent nonprofit.) Of buildings without additional regulations, only 19 percent were nonprofit (16 percent including partial-subsidy buildings). Both the presence of additional regulations and the nonprofit corporate structure reflect a more mission-oriented, as opposed to a more market-oriented, development. Differences in the subsequent trajectory of the developments may well reflect this underlying mission or market orientation, rather than the legal consequences of the actual regulations or corporate structure.

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