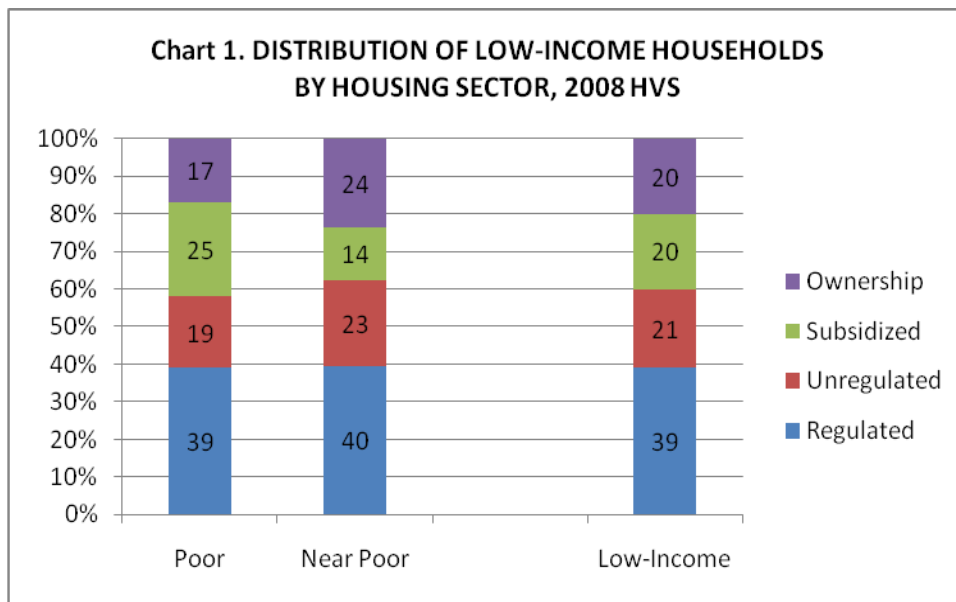


MAKING THE RENT, 2008 to 2010

**Prepared as Invited Testimony:
New York City Rent Guidelines Board (RGB) Hearings
April 30th, 2010
by
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Community Service Society**

Thank you for this opportunity to testify, as we have in previous years, about how low-income New Yorkers are faring in New York City’s rental market and the potential impact of pending RGB decisions. As we all know, the city and the world changed in 2008, with the onset of a severe economic recession that continues to the present, with dire consequences for the city’s economy, and in particular for its low-income households, the vast majority of whom are renters. (See Chart 1.)



We define low-income households as those with incomes no more than twice the federal poverty threshold—about \$33,000 for a family of three, \$42,000 for a family of four, as of the 2008 New York City Housing and Vacancy Survey (HVS). Near-poor households are those with

incomes between 100 and 200 percent of poverty. In 2008, a total of about 1.1 million city households were low-income, with roughly equal numbers of poor and near-poor.

Most low-income New Yorkers (60%) continued to rely on the unassisted private rental market, both regulated and unregulated apartments. In 2008, regulated rentals still constituted their largest single source of dwelling units, among the four housing sectors delineated. About 39 percent—435,000 low-income families—lived in regulated rentals, nearly double the number of households who lived in subsidized housing. In short, what happens to stabilized rents has a major impact on the budget and housing pressures faced by low-income New Yorkers.

Unfortunately, the most recent HVS was conducted in 2008, before the economic crisis hit home. It does not bear witness to rent shifts since then, or to forces that affected employment and household incomes in a declining economy. More recent reports of rising unemployment and joblessness, of rising homelessness, of lower wages and working hours, including the RGB's just-released *2010 Income and Affordability Study*ⁱ, indicate that growing numbers of low-income New Yorkers are facing greater difficulty in meeting rents and making ends meet. The 2008 HVS badly needs to be updated. Conducted during better times, it is silent on more current, post-crash income and rent trends, and their resulting impact on rent burdens and income stresses. Much of today's data remains to be gathered and assessed.

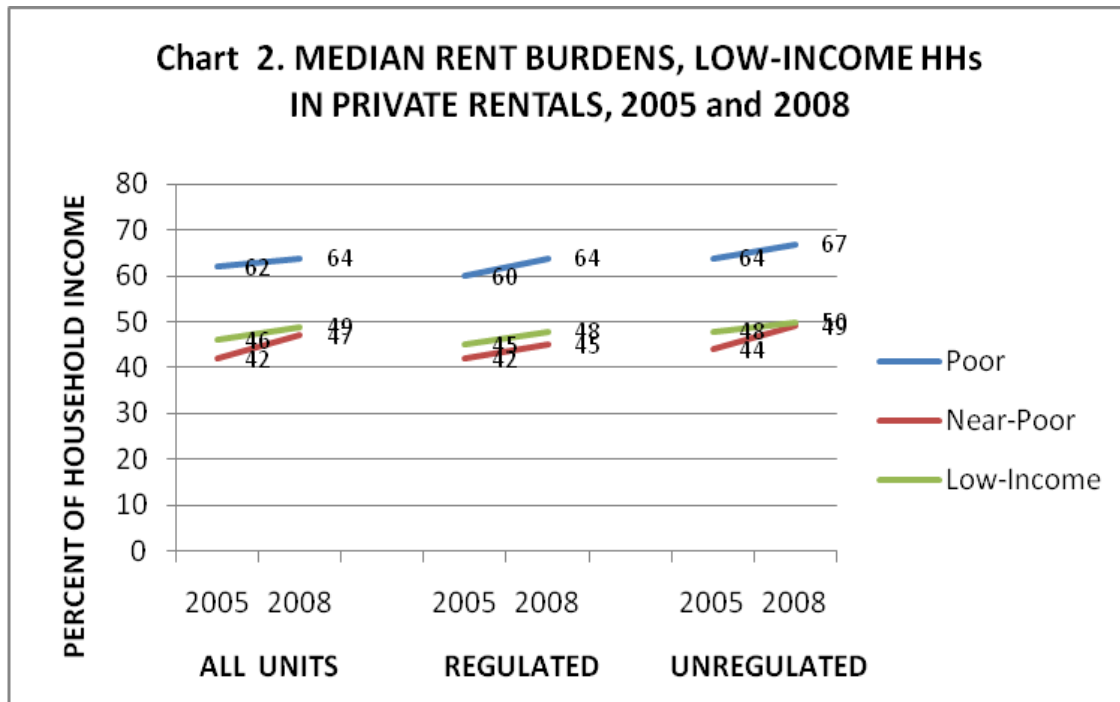
To make up for this gap, our testimony first updates rent burden trends through the 2008 HVS. Then it attempts to project trends since 2008, through alternative data sources that shed some light on more current income and rent trends. Taken together, the overall picture is not pretty.

Rent Burden Shifts, 2005 to 2008

In the three-year period between 2005 and 2008, low-income tenants in the private rental market experienced an escalation in their median rents of 13 percent, from \$800 to \$900 a month. These rent increases outpaced their median income increases during the period, which rose from \$15,000 in 2005 to \$16,000 by 2008, an increase of only 7 percent. Rents escalated at nearly double the rate of household incomes. These aggregate trends make it clear that tenants had to stretch relatively static incomes to meet the pressure of rapidly rising rents. Rent payments subsumed a greater portion of limited household incomes.

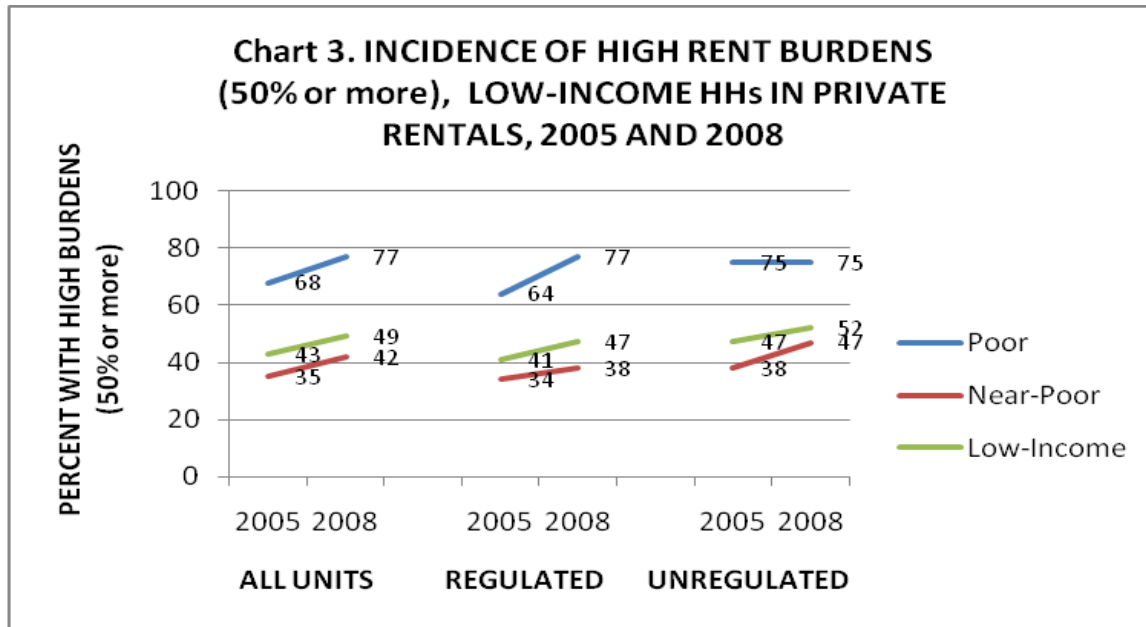
To track rent burden trends by income and housing sector, we use a “mainstream” subsample of renters, which lessens the inevitable discrepancies that occur when income and rent are separately reported in household surveys. (See Appendix A: CSS Renter Subsample.) The resulting rent-income indicators tend to be more conservative, and, we believe, more reliable than those generated by the entire HVS renter sample.

For low-income tenants in the private market, median contract rent burdens—as a percent of household income—rose three percentage points between 2005 and 2008, from 46 to 49 percent of income, a fairly rapid shift over a three-year period. (See Chart 2). Although regulated tenants paid a lower share of income for rent than those at similar income levels in unregulated units, the rent burdens in regulated units—for both poor and near-poor tenants—also rose by three percentage points. RGB rent guidelines during the period were not sufficient to protect large numbers of regulated low-income tenants from increasingly unaffordable rents.



Another way of tracking rent burden trends is to look at the proportion of low-income renters who pay “high” rent burdens—of at least 50 percent of household income. Between 2005 and 2008, the incidence of high rent burdens rose from 43 to 49 percent across the private rental market. These intensifying income pressures also occurred in the regulated sector, where high

rent burdens rose from 41 to 47 percent among low-income tenants. The impact was particularly severe on poor renters in regulated apartments, where the incidence of high rent burdens escalated from 64 to 77 percent of households, to a level that was on par with unregulated tenants. Rent guideline increases left the poor, who face chronically disastrous rent burdens, in an even more vulnerable position.



Perhaps the most critical measure of the impact of rent and income shifts is their effect on the residual incomes of households, the income available, once contract rent is paid, to meet other needs. We use the per capita residual income to take into account household size, as a measure of the “stretch” families must make to meet after-rent non-housing expenses.

Given the indicators already discussed, it comes as no surprise that per capita residual incomes for low-income renters in New York’s private market declined between 2005 and 2008. Rents were eating a larger and larger “hole” in household budgets.

As a whole, low-income renters experienced a 4 percent drop in per capita residual income, from \$369 to 353 monthly per person in constant 2007 dollars. The impact of rent and income shifts was far more severe on poor tenants, who experienced a net 9 percent drop in per capita residual income, from \$146 to \$133 in 2007 dollars. As in 2005, poor families still had little over \$4 a day per household member, to pay for food, transportation, school-related

expenses, medical costs, and other necessities, but the same figure represents a significant drop in purchasing power, particularly in light of the rapidly rising costs of food, transit, and other non-housing needs. These effects on the residual income of poor tenants were also striking in regulated units, where households lost, on the average, 10 percent of their after-rent purchasing power.

Trends Since 2008

The RGB *2010 Income and Affordability Study* does a thorough job of updating some of the key indicators of economic stress and housing hardship in New York City from 2008 to 2009. It presents an unmitigated picture of mounting stresses for New Yorkers across the city:

NYC jobs lost	106,800 (2.8% decrease since 2008)
Average Unemployment Rate	9.4% in 2009, compared to 5.4 % in 2008
Inflation-Adjusted Wages	Decrease of 3.4 % since 2008
Homeless Shelter Census Average	35,915, 7% increase since 2008.
First-Time Homeless Clients	17.0 increase since 2008
Non-Payment Housing Court Filings	2.3 increase since 2008
Evictions	7.5 % increase since 2008

Additional data makes clear that economic and employment-related stresses have been escalating even faster for low-income New Yorkers . The Central Population Survey conducted annually by the Census Bureau makes it possible to determine recent economic trends specific to low-income New Yorkers in the period since the 2008 HVS.ⁱⁱ Among low-income households there were about 1.5 million working-age adults between ages 18 and 65 who were classified as “able to work.” They experienced dramatic increases in unemployment, from a 10.7 percent unemployment rate in 2008 to 15.2 percent in 2009. For low-income blacks in the labor force, unemployment mounted from 12.9 percent to 21.7 percent, and for Latinos from 12.3 percent to 15.3 percent. The overall number employed low-income workers declined from 749,000 to 698,000, a drop of 6.8 percent. The number of unemployed actively seeking work rose from 89,000 to 135,000, an increase of 51.3 percent between 2008 and 2009. Among individuals who earned wages or salary, the median income from those sources dropped from \$15,000 to 14,000, a decrease of 6.7 percent between those two survey years.

Against the dismal picture of declining income and employment, rents appear to have continued to rise since the 2008 HVS. Each year in November, the U.S Department of Housing and Urban Development sets an annual schedule of “fair market rents (FMR)” for the New York metropolitan area, as a basis for rent payments under the Section 8 Housing Voucher Program.ⁱⁱⁱ The established FMRs set by HUD in November 2008 and 2009 rose by 3.5 percent over the year, regardless of apartment size. (See Table 1.) For rent-stabilized tenants renewing in 2008, the RGB guideline increases were even steeper.

Table 1.
RENT TRENDS SINCE 2008:

HUD Fair Market Rents (NYC Metro Area)

	FY 2009	FY 2010	% Increase
0 br	\$ 1,091	\$ 1,129	3.5 %
1 br	1,180	1,222	3.6 %
2 br	1,313	1,359	3.5 %
3 br	1,615	1,672	3.5 %
4 br	1,817	1,880	3.5 %

RGB Rent Guidelines Increases

	2008-9	2009-10	2008-10
1-year renewal	4.5 %	3 %	7.6 %\
2-year renewal	8.5 %	---	8.5 %

In short, recent employment/income and rent trends strongly suggest that affordability problems for low-income New Yorkers in the private, unassisted rental market have worsened since the high and escalating rent burden trends recorded in the 2008 HVS. These factors should be taken into account by the Rent Guidelines Board in deciding on new rent guidelines during a recession that, despite some signs of recovery, still deeply affects low-income New Yorkers.

Conclusions

Between 2005 and 2008, the rent affordability crisis faced by low-income New Yorkers ratcheted up several degrees—in terms of rising rent burdens, increasing numbers of households

bearing heavy burdens, and shrinking residual incomes needed to cover other non-housing expenses. The rapidly rising rents between 2005 and 2008, combined with relatively static or slowly rising incomes, meant that housing was extracting a larger share of the limited resources of low-income working New Yorkers, whether they were poor or near poverty.

That was the case whether or not low-income tenants were living in regulated rental units. But some of the steepest, most dramatic increases in rent-income pressures, particularly in the incidence of high rent burdens and the decline of residual income, occurred in the regulated sector, and can be viewed in part as direct consequences of recent RGB guideline decisions.

The indicators for post-2008 New York, since the last HVS, demonstrate that low-income working households continue to be hard hit by the economic recession with increasing unemployment and wage cuts. Despite reports that rents have gone down at the high end of the rental market, there is little reason to assume that rent pressures will decrease in apartments and neighborhoods where low-income New Yorkers live. Rent stresses have become even more dire as incomes shrink and rents rise.

In 2009, the increase in the RGB Price Index of Operating Costs (PIOC) was relatively small—a 4 percent increase that followed closely the Consumer Price Index, even with projected property tax increases included. This year the RGB reports a PIOC increase of 4.9% (for 2008), among the smallest since 2002. Unfortunately the data badly needs updating since 2008, when the world changed and underwent a deepening economic recession. This seems to be an unusual opportunity for RGB to cushion the rent-income stresses that beset low-income renters, who still face an unstable, declining economy. We would recommend that RGB seriously consider freezing stabilized rents at current levels.

During the continuing economic crisis, our leaders called for “shared sacrifice.” Low-income New Yorkers are still bearing the heavy costs of economic losses in a resilient rental market. This is the right time for RGB to ask owners facing marginal increases in operating costs to lower their expectations. Rent regulation was instituted in New York City as a way to fairly address an emergency housing shortage—one that still exists—by seeing that vulnerable New Yorkers were able to remain in their homes and communities, without facing unfair, extortionate rent burdens or wrenching displacements. That is still the central mission of the Rent Guidelines Board.

Appendix A: CSS Renter Sub-Sample

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:

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:

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:

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

	<u>1996</u>	<u>1999</u>	<u>2002</u>	<u>2005</u>	<u>2008</u>
Median Income	HVS: \$24,680 CSS: \$31,000	\$27,600 \$35,000	\$32,000 \$39,000	\$33,904 \$40,050	\$ 40,000 46,400
Median Contract Rent	HVS: \$ 600 CSS: \$ 600	\$ 648 \$ 650	\$ 706 \$ 730	\$ 850 \$ 850	\$ 950 \$ 996

Median Contract	HVS:	28 %	27 %	27 %	28 %	29 %
Rent Burden	CSS:	24 %	23 %	23 %	25 %	25 %
Percent Households	HVS:	26 %	26 %	23 %	26 %	26 %
With High Burdens (50% or more)	CSS:	12 %	12 %	12 %	14 %	15 %

ENDNOTES

ⁱ New York City Rent Guidelines Board, *2010 Income and Affordability Study*, April 16, 2010.

ⁱⁱ The Central Population Survey (CPS) is conducted annually by the U.S Bureau of the Census to estimate income and employment characteristics of American households.

ⁱⁱⁱ Fair Market Rents (FMRs) are set by HUD each year, as of November, using a variety of sources, including the recent American Community Survey (for the metro area) and, as appropriate, random –digit dialing surveys for recent movers. See: <http://www.huduser.org>.