Housing Market Faces Anxiety from Many Sources
by Joe Lamport
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In February, the Rent Guidelines Board announces its schedule of meetings, the annual deliberations that mark the signal event for New Yorkers living in the city's largest stock of affordable housing, rent-stabilized apartments. This month, then, seems a good moment to take a look at the status of the city's housing economy, where a number of different factors are causing anxiety for renters, property owners, developers, brokers and policy makers.

The Sub-prime Mortgage Crisis

The sub-prime mortgage crisis has led to record numbers of foreclosures across the country and now is creating anxiety here as foreclosures increase in New York City. The federal government has been talking about various plans to address the problem, but nothing has come of it, at least not yet.

Sub-prime loans, many of them taken out by people who cannot meet qualifications set by conventional lenders, often have far more onerous terms, including higher interest rates, than usual mortgages. Borrowers cannot meet the payment and default, particularly if the value of the property declines.

At first glance, New York City's housing market appears largely to be unaffected by the sub-prime mortgage crisis. The average price of an apartment has gone nothing but up over recent years, and the most recent numbers reflect that, too. But looks can be deceiving: the sub-prime mortgage scandals are affecting many communities in the outer boroughs, where mortgage brokers were pushing these loans on mainly lower income and minority homebuyers and homeowners. I've written about the predatory lending practices that mortgage brokers used to push bad loans. It's unclear what the rash of foreclosures in some neighborhoods will do to the overall housing market, though.

"We've had a very strong healthy housing market," said Jack Freund, executive vice president of the Rent Stabilization Association, a landlord lobbying group. "I don't have a crystal ball, but it would be hard to imagine that (the sub-prime mortgage problem) is not going to affect the New York housing market. If liquidity is re-established in the overall market, maybe there's no effect in New York."

Michael Slattery, senior vice president of the Real Estate Board of New York, agreed. "The recent reductions in interest rates will tend to ease some of that concern about the recession and make mortgages more affordable," Slattery said. "Hopefully it will bring people back into the market. There's reason to be optimistic; we'll see how the year develops."

Others, though, see less reason for optimism. In October 2007, the Furman Center for Real Estate and Urban Policy at New York University reported that the city had a higher than average proportion of sub-prime loans taken by homebuyers and people refinancing their homes. A lot of these loans were simple con-artistry and the practices of the brokers pushing them often referred to as "predatory lending."

The high proportion of sub-prime loans in the city - close to one in five loans taken by homeowners in 2006 was sub-prime - makes some experts nervous that the city's housing market could decline if many of those loans were foreclosed upon. That is already happening in poorer neighborhoods.

The sub-prime crisis has led banks to tighten their rules on lending and many low- and moderate-income people now cannot get loans to buy new homes. One agency that counsels low- and moderate-income people said the housing market now is more or less closed to these people. Julia Fitzgerald, executive director of Neighbors Helping Neighbors in Brooklyn, said one statistic from a Furman Institute study sums up the problem: "In 2006, 5 percent of home sales were affordable to a person of median income. That just lets you know that basically, only 5 percent of units available to buy are affordable to 50 percent of the population. It's stunning."

"We're now counseling people and placing loans when they are going to be spending 45 percent of their pre-tax income on their payments," Fitzgerald added. "That's a change just to try to help low and moderate income people to buy at all."

Construction Crunch

At the same time that foreclosures have caused havoc in the financing of housing, the costs of construction have skyrocketed, making the development of new housing more difficult, particularly for developers seeking to build affordable homes.

"It costs us about $325,000 to build 1,000 square feet, and we're selling that for $75,000 to $125,000," said Josh Lockwood, executive director of Habitat for Humanity in New York City. In the last five years, construction costs have tripled, he explained. The agency's 41-unit condominium project in Brownsville-Ocean Hill was originally budgeted at $9 million; it is now going to cost about $13 million to build.

Costs have increased due to a variety of factors largely beyond any single developer's control. Demand for materials like copper and equipment like cranes is international. Nationally, rebuilding in New Orleans and other parts of the country has driven up the price of basic materials like plywood. The war in Iraq, similarly, has sucked away materials and consequently increased prices. In New York City, the problem is compounded by the high cost of land as well and the increased cost of insurance in the wake of the terrorist attacks of Sept. 11.

Gov. Eliot Spitzer has introduced the first state-led effort in about two decades to aggressively help finance the development of affordable housing. Affordable housing developers support the proposal, which would provide $400 million to help build affordable housing and supportive housing. But political problems are jeopardizing the plan: $300 million of the $400 million fund was to come from the sale of land near the Javits Center, land that would not be used because the governor would scrap the plan to expand the center. Mayor Michael Bloomberg and other city officials oppose the sale.

"It's a great idea, but it's mired in all sorts of conflicting agendas," said Victor Bach, housing policy analyst at the Community Service Society. "We need the capital for housing development. It's the first time in a long time that the state has expanded the pool of funding for housing development. It's too bad so much of the funding is up in the air."

Despite the increase in construction costs, Mayor Michael Bloomberg's New Housing Marketplace plan to build and preserve 165,000 units of affordable housing by 2013 is on target, the Department of Housing Preservation and Development said. The city has arranged the financing for 69,516 apartments so far, or 42 percent of the total, said Assistant Commissioner Neill Coleman.

"We are on track with the plan so far and we expect to meet the 165,000 unit goal," Coleman added. "While we are certainly aware of the construction costs, it's not at a point that we feel that it is putting the plan's goals in jeopardy."

Private developers express little concern about the rising construction costs.

"Production is still going strong," said Michael Slattery, senior vice president of the Real Estate Board of New York, pointing to the about 30,000 new building permits issued in 2007. "Based upon pricing information, prices are still continuing to rise. The market still seems to be positive and good, although I think there's a general nervousness due to economic conditions.

"Not every permit becomes a house, but I think it's an indication of the confidence in the city and the opportunity here. We're still a city that doesn't produce enough housing."

The Existing Housing

While they welcome new construction, housing advocates have urged more action to save the existing affordable housing in the city. Their efforts have coalesced into the statewide "Real Rent Reform" campaign.

The city cannot simply build its way out of the affordability problems affecting so many New Yorkers, advocates have said. They are calling for stronger rent laws to protect existing affordable housing. Rent stabilized apartments have been under attack, advocates said, with landlords resorting to a variety of tactics to force out longtime tenants so they can increase rents significantly for new tenants. One part of the advocates' agenda is to repeal a provision of rent regulation law that allows landlords to decontrol apartments that become vacant when their rents reach $2,000 or greater. "The city has lost tens of thousands of rent stabilized apartments through vacancy decontrol, studies have shown.

Another sign to advocates that the pressure for rents to increase will not abate anytime soon has been the entry of private equity firms into the housing market. All over the city, private equity firms have made big purchases of rent-stabilized buildings. Many of these firms seek to take an initial investment, increase its value by 15 to 20 percent, or greater, and then sell the property. Advocates see this kind of pressure to make short-term profits as ominous.

"In the last four years, 65,000 units of affordable rent-stabilized housing have been purchased by private-equity backed landlords," said Ben Dulchin of the Association for Neighborhood and Housing Development. "Traditionally real estate has returned eight, nine or 10 percent profit in New York City. Private equity firms have to return Wall Street-type profit levels of 15 to 20 percent. That seems to be why the private equity-backed landlords are taking a more aggressive stance in pushing out low-rent paying tenants."

Dulchin said legislation to make harassment a serious violation and allow tenants to sue landlords who harass them could help. City Council is considering such legislation now.

The sale of 50 buildings owned by Nicholas Haros, who has been singled out as one of the city's worst landlords by advocates, might have seem like good news for tenants in Queens where the buildings are located. But the buyers, backed by private equity firms, could be worse.

Beyond rent-regulated apartments, virtually all types of affordable housing in the city are under some pressure to become market rate. Landlords try to buy out of affordable housing programs whenever they get a chance. The city's public housing agency, the largest landlord in the city and the largest public housing authority in the nation, is in the throes of a well-publicized fiscal crisis.

The Board to the Rescue?

All of the city's housing finance issues somehow figure into the deliberations of the Rent Guidelines Board, which analyzes reams of data as it weighs how much to allow owners of rent regulated apartments to raise rents. Its first public meeting to kick off its deliberations is March 25. In recent years, its 5-to-4 votes reflect that the board's final vote, this year scheduled for June 19, leave many people unhappy. Two years ago, tenants shut the board's final public hearing down with a cacophonous intervention that had been building for years. Stagnant wages have been a powerful argument against rent increases; ultimately, however, the market forces apparently cannot be resisted.

The general state of the housing market today does not bode well for tenants hoping the board freezes rents or adopts a moderate or low increase.

"On the renters' side there's no reason to believe that rents are not going to continue to escalate, as they have over the last decade," said Bach. "The city is still going through a growth spurt despite the recession, and that's putting increasing demand on the rental market. I don't see a major ebbing of rents in the very near future, certainly not in Manhattan and probably not in the outer boroughs."

It's a simple question of economics, perhaps, suggested Freund of the Rent Stabilization Association. Fuel costs alone have been significantly higher over last year, he noted, and pointing to an ominous statistic: 10 percent of rental properties operate at a loss. On the other hand, he added, lower property taxes and more reasonable water rates could diminish the pressure on rents

"Our point on this issue is that somebody's got to realize that you can't keep raising rents because incomes are not going up at same rate as expenses," Freund said. "Unless there is some curtailment of taxes and water and sewer rates, unless the city does that, it's basically going to drive out affordable housing."

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