

EXECUTIVE SUMMARY

In this 2006 edition of the *State of New York City's Housing and Neighborhoods* (*State of the City Report*, for short), the Furman Center focuses on homeownership in New York City. As devoted readers know, every year the Furman Center compiles statistics on housing, demographics and various indicators of the quality of life in New York City's neighborhoods, drawing upon more than 1,800 types of data, from more than a dozen different government sources. For those who would like more detail, we provide that huge store of data through our online data service, the New York City Housing and Neighborhood Information System, NYCHANIS.com. The *State of the City Report*, on the other hand, seeks to step back from the data to highlight the important "big picture" insights the data provide about trends, challenges, and puzzles. By focusing on the most important indicators of neighborhood quality, it reveals how the City has fared in recent years, and shows how the City's five boroughs and 59 community districts are doing, both in absolute terms and in relation to other areas of the City.

Last year, we provided the first independent analysis of the 2005 Housing and Vacancy Survey results and focused especially on what that survey revealed about the situation renters in the City face. Our analysis illustrated that, increasingly, renters were stretched; between 2002 and 2005, the combination of incomes that fell by 6.3 percent (adjusted for inflation) and rents that increased by more than 8 percent (again in real terms) significantly increased the burden housing costs imposed on renters. Indeed, the median share of income New York City renters spent on rent rose from 28.6 percent in 2002 to 31.2 percent in 2005, even though 30 percent is commonly considered the maximum burden households should take on. The problem was even more acute among unsubsidized, low-income renters:

the median share of income they spent on rent rose to over 50 percent in 2005, up from 43.9 percent in 2002.

Further, the number of rental units available at rents affordable to low and moderate income households in the City fell significantly in just three years. Households earning 80 percent of the City's median income—about \$33,000 in 2005, or roughly the starting salary of firefighters—could afford to pay \$830 in rent in 2005. The number of units affordable to those households fell by almost 205,000 units during the three years between 2002 and 2005. Although 58 percent of the City's rental housing was affordable to such households in 2002, only 48 percent of the rental stock was affordable to those households in 2005.

Our analysis last year, then, showed that the City faces significant challenges in ensuring that sufficient affordable rental housing is available to allow the City to staff its workforce, and to assure firms and industries that they will be able to attract and retain workers if they locate in the City. This year, we take a hard look at homeownership in the City. If renters are increasingly squeezed by rents increasing faster than incomes, how are homeowners faring?

Both the federal government and New York City have adopted a variety of measures, in addition to the existing mortgage interest and property tax deductions, to encourage homeownership. The City, for example, intends to preserve or construct almost 50,000 units of affordable owner-occupied housing before 2013 as part of Mayor Bloomberg's ambitious New Housing Marketplace Plan. But prices may be rising faster than supply, even given those incentives. So we have also asked: how many units of owner-occupied housing are affordable to low and middle income families today?

WHO OWNS THEIR OWN HOME IN NEW YORK CITY?

Our analysis shows that patterns of homeownership in the City differ markedly from those in the rest of the country.

- While homeownership rates have been trending up in the City (increasing 4 percentage points since 1990), only 33 percent of New York City residents own their own homes, compared with 67 percent across the nation.

- Homeownership rates in New York City vary significantly by race and ethnicity, as they do in the rest of the country. In the City, 44 percent of all non-Hispanic whites own their own homes. Asians follow, with a 40 percent rate of homeownership. Blacks trail at 28 percent. Only 16 percent of Hispanics own their own homes in the City, which is approximately a third of the rate of non-Hispanic whites.

- The City's homeownership rate for Hispanics also lags far behind the rate of homeownership Hispanics enjoy in other cities. Chicago, for example, has a Hispanic homeownership rate of 45 percent, which is three quarters of the rate of non-Hispanic whites.

- Homeowners in the City are far more affluent than non-homeowners (as is the pattern across the United States). But in the City, homeowners are less likely to be middle income, and more likely to be in the upper income brackets, than are homeowners in the rest of the nation.

HOW ARE HOMEOWNERS BEING AFFECTED BY HOUSING COSTS?

Homeownership brings rewards in the form of tax savings and appreciation, and may provide emotional and social benefits. But it also imposes costs, of course. Our analysis reveals that those costs vary a great deal across different groups of homeowners.

- The out-of-pocket housing costs of lower income homeowners are not that different from the out-of-pocket housing costs of higher income homeowners with mortgages, which means that low-income homeowners are paying a much higher percentage of their income for housing than are wealthier homeowners.

- In fact, three quarters of New York City homeowners with outstanding mortgages who earn less than \$50,000 a year pay more than half their income on housing costs.¹

- Cost burdens in the City vary by race and ethnicity: more than one-third of Asian homeowners, and about one-quarter of black and Hispanic homeowners pay more than 50 percent of their income on housing, compared to 17 percent of white, non-Hispanic homeowners.

- While the number of New Yorkers facing such severe cost burdens from homeownership is troubling, on average, current homeowners with mortgages in the City face housing costs roughly in line with HUD's 30 percent standard of affordability, despite the high cost of housing in the City.

HOW AFFORDABLE IS HOMEOWNERSHIP IN THE CITY?

Record housing price appreciation and stagnating incomes have left less than 5 percent of home sales affordable to New Yorkers earning the City's median income.

Figures for the costs of homeownership are based upon the expenses existing homeowners with a mortgage bear. When thinking about the affordability of homeownership, it is perhaps more helpful to think about the opportunities available to new buyers in the face of recent high rates of appreciation.

- Between 2000 and 2005, the median sale price for all condos, single-family, and 2-4 family buildings increased by 68%, reaching \$480,000 in 2005, up from \$285,805 in 2000.

- These record high sale prices, combined with stagnating incomes, have led to a declining share of home sales that are affordable to households earning the City's median income (\$43,434 in 2005 dollars). In 2000, 11 percent of home sales were affordable; that number dropped to less than 5 percent in 2005.

- One determinant of housing prices, of course, is the supply of new housing being provided. Our analysis of how well housing supply is keeping up with the population growth shows that even in recent years, growth in housing stock has not kept pace with population growth, despite the highest levels of new construction seen in New York City since the 1970s. The annual gap between construction and household growth has diminished since the 1990s, when low levels of construction created a substantial gap between housing demand and housing supply. But even higher levels of construction than we are seeing now will be needed to reduce that gap and meet current and projected future population growth.

SIGNS OF PROGRESS

Recognizing that a community's well-being is about more than the built environment, we have included new indicators this year. We have added indicators of open space and density to give a picture of the land use patterns in a neighborhood. We also added several of the most important health indicators that are thought to be related to housing and neighborhood environmental conditions – infant mortality, asthma hospitalizations, and elevated blood lead levels. On many indicators, the news is very positive for the City's neighborhoods:

- The City added another 45,501 people between 2004 and 2005, indicating that the City's neighborhoods continue to be attractive places to live.

- The production of new housing is higher than it has been in decades – 16,201 certificates of occupancy were issued and 31,599 units were authorized by building permits in 2005. As noted earlier, production still falls short of what is necessary to keep up with the population growth of the 1990s and this decade, but the gap is narrowing.

- Crime rates continued to drop in the City. Indeed, only two neighborhoods saw even slight increases in the rate of felony crimes.

- The number of public school students performing at or above grade level continued to increase, with gains in almost every community district. Between 2004 and 2005, for the City as a whole, the percentage of students performing at grade level went up 10.6 percentage points for reading, and 6.2 percentage points for math.

- The percentage of residents requiring hospitalization for asthma decreased in the City between 2002 and 2005. Similarly, the infant mortality rate fell in the City, as did the percentage of children tested who had elevated levels of lead in their blood.

- Unlike the situation reported in the media for other parts of the country, the rate of notices of foreclosure issued fell slightly citywide between 2002 and 2005. In 2002, for the City as a whole, 13.0 notices of foreclosures were issued per 1,000 two to four family houses; in 2005, that rate had dropped to 10.1. Indeed, only four neighborhoods suffered increases in notices of foreclosure in 2005, and the increases in those neighborhoods were small.

- In March, 2007, the City announced that its New Housing Marketplace Plan has funded 55,000 units of new housing, one-third of the 165,000 units the City plans to build by 2013 in order to house 500,000 low, moderate, and middle-income New Yorkers.

SIGNS OF POTENTIAL DANGER

The media is full of reports that subprime mortgages are going into default in alarming numbers. The Furman Center is engaged in research about the causes and effects of mortgage distress and foreclosures, and will report on that research in next year's *State of the City Report*. For now, several facts stand out.

Citywide, the percentage of home purchase loans that were subprime more than tripled between 2002 and 2005.

- As just noted, the City to date has been spared overall increases in foreclosure rates. But some areas of the City continue to experience high rates of foreclosure notices. Bedford Stuyvesant, Brownsville, Bushwick, Hunts Point/Longwood, and Jamaica/Hollis have the highest rates of foreclosure notices. Bed-Stuy, for example, had a notice of foreclosure rate of 34.2 in 2005 (down from 43.9 in 2002).

- The City has seen a dramatic increase in subprime lending activity, rising from 6.5% in 2002 to 22.9% in 2005 - six percentage points higher than the national average. While subprime lending may allow borrowers with imperfect credit records to gain access to financing, some subset of these subprime

loans are predatory and force borrowers to pay unreasonably high interest rates, making them far more vulnerable to foreclosure. In 22 community districts, over 30 percent of all home purchase loans were subprime in 2005, and in five, the share of home purchase loans that were subprime was fifty percent or higher.

In sum, then, both low-income renters and low- and middle-income homeowners are finding affordable housing increasingly scarce, and are being stretched to afford housing in the City. But much of the City has enjoyed decreasing rates of notices of foreclosure, and lower rates of tax delinquencies as well. The City continues to see population growth that is accompanied by increased housing production. Neighborhoods across the City are enjoying improvements in the performance of the City's schoolchildren and in a variety of health indicators, as well as decreases in the crime rate.

The Furman Center offers the data and analysis in the *State of the City Report* to help neighborhoods – and the organizations that serve them – more effectively target their efforts to make communities better, to guide public policy regarding housing and land use regulation, and to inform public debate. Please let us know how you like the changes in this edition, and be sure to send any suggestions you have for further improvements to furmancenter@nyu.edu.