Update: New York's Arrears Crisis

Arrears Continue to Hobble New York Affordable Housing

NEW YORK HOUSINGCONFERENCE

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Summary

In March 2023, New York Housing Conference released a report, New York's Rental Arrears Crisis: Threatening the Stability of Affordable & Public Housing, about the crisis of outstanding rental arrears (unpaid rent) in affordable housing. Our data showed widespread and unprecedented arrears that were putting the financial stability of the owners and the housing stability of the tenants at risk. This fall we have received updated numbers that show the problem continues.

History

In March 2023, NYHC found that nearly 1/3 of renters in affordable housing were in arrears of more than 2 months based on a sample of nearly 50,000 apartments, owing $9,565 on average. This level of arrears, combined with other rising costs and small increases in rents, was putting the financial stability of the buildings at risk. The average amount of arrears would lead to negative cash flow in a typical building.

Updated Data

In this policy brief, we are updating our analysis by looking at the latest data to see the status of arrears, the impact it is having on affordable housing buildings, and recommendations to address the crisis.

We worked with the same providers and partners and received data from a similar number of units. We have found that the arrears crisis continues.

In more than 52,000 units operated by nonprofit and for-profit providers, 17,880 units – 34 percent of households – in affordable housing are in arrears of more than 2 months. The households owe nearly $130 million in total, coming to $7,260 on average per household in arrears. Compared to our analysis last spring, a slightly greater share of renters are in arrears – 34% compared to 31%. However, the average amount owed is slightly less – $7,260 compared to $9,565.

In addition, 8% of renters owe more than $10,000, owing on average $23,600. Last spring 10% of renters owed more than $10,000, owing $22,000 on average.

These small changes since March highlight the reality that after nine months, there are still extremely large arrears in affordable housing that continue to put the financial stability of these buildings at risk. Government interventions and other solutions have not yet meaningfully improved the situation.

And if we dive into the details more, looking at individual case study buildings, we can see how arrears are changing over time and how they are affecting the stability of the building.

In one building with more than 150 units, 46 units are in arrears of more than two months, with $443,700 owed in back rent as of August 2023. The building's rent roll is $196,000, meaning the arrears are 2.3 times the rent roll.

Since February 2020, arrears at the building have increased 278% - almost tripling over that time. While the pandemic is likely part of the story, it is not the whole story. Arrears in December 2020, almost one year into the pandemic, were just

$187,700 and $192,200 in December 2021, two years into the pandemic. But in January 2023, arrears had ballooned to $400,200.

In another building, this one with nearly 220 units, 55 units were in arrears of more than two months – 25% of units, owing a total of $278,900. The rent roll in the building is $163,200, and so the arrears are 1.7 times the rent roll.

This level of arrears is unsustainable, yet it continues. Buildings are dealing with exceptional arrears while also seeing higher interest rates, inflation and construction costs, and rapidly rising insurance costs which have tripled over the past several years. Facing low rent collections, growing costs, and insufficient income, buildings have been and will be forced to cut costs, defer maintenance and could miss loan payments.

Without government action, the crisis puts tenants at risk of eviction. While affordable housing providers are mission-driven, with such high back rent owed, owners have been forced to initiate eviction filings. In our sample, 19% of units have court action. If tenants are evicted, some will need to enter shelter and it will cost the city $60,000 for each single adult that enters shelter and more than $100,000 for families for each of those households because they would need to be housed in shelter, for an average stay of 1 to 2 years, until the city finds new affordable housing for them.

Assistance to tenants remains the best option to address the arrears crisis – to both protect affordable housing, including the city's investment in the housing, and to protect tenants in affordable housing.

The Emergency Rental Assistance Program, which was predominately federally-funded and supported with additional state funding, has provided nearly $3.3 billion total for arrears and prospective rent support to more than 278,000 households in public and private housing in New York state. In our sample of buildings, 16% (8,170) of households received ERAP funding totaling $77.8 million. But thousands of households remain in arrears.

As ERAP funding has been used up, tenants and owners in New York City have turned to the ongoing One-shot Assistance program to pay for arrears and keep tenants housed. However, this program is significantly delayed. For example, the case study building above with more than 150 units has 25 households that received one-shot assistance but has 30 that are waiting for one-shot assistance.

The city has a processing backlog of public benefits, including one-shots, of tens of thousands of applications. In June, DSS said that the backlog would be cleared by December. However, in August they said the backlog will not be cleared until March. The backlog is mostly due to understaffing at the Department of Social Services, which had 13% fewer staff in September than they had just before the pandemic.

Mayor Eric Adams has called on city agencies to institute a hiring freeze and cut their budgets by 15% this year (5% in each of the three budget plans – November plan, Preliminary Budget in January, and the Executive Budget in April). As the Department of Social Services remains understaffed, the hiring freeze and budget cuts could lead the staffing crisis to get significantly worse at the agency and continuing or worsening the public benefits processing backlog.

Despite the ongoing backlog, the agency does not have any dedicated staff or unit at the agency to support affordable housing providers specifically. Having a dedicated staff for affordable housing could ensure that arrears are paid in a timely manner and tenants stay housed.

By not spending the money now to fix the problem, the city will spend more money in the long run in two ways. First, as we mentioned above, if tenants get evicted, many will need to enter shelter and the city will spend upwards of $100,000 housing them in shelters before working to find them new affordable housing, often paying for the new housing with a voucher.

Second, as affordable housing buildings defer maintenance, the city may need to spend capital funding, in a building they have already invested significant funding, to support and maintain the building.

The arrears crisis is continuing with little meaningful improvement. This is putting tenants at risk of eviction and affordable housing at financial risk. The city must act fast to protect tenants and their investment in affordable housing.