

Executive Summary

Recent data shows that a significant number of affordable housing buildings in New York City are experiencing operating deficits, where rents are not covering expenses. Policy interventions to increase revenue and decrease expenses are required to prevent these buildings from defaulting on their loans with private banks and the City of New York.

Affordable housing is publicly subsidized, and income restricted by a regulatory agreement with a city or state housing agency. They represent about 213,000 units¹ in the rent stabilized stock of 1 million apartments. Rents in these buildings are initially set according to the area median income (AMI) designated by their regulatory agreement, and subsequent annual increases follow the Rent Guidelines Board (RGB). They are typically exempt from property taxes and their financing is structured so that the project will remain sustainable assuming a 5% vacancy allowance, 2% annual increases in rent and 3% annual increases in costs. However, over the last decade affordable housing has experienced RGB increases below 2% on average and since the pandemic, rent collection has been lower than expected. Over the same period, expenses have been increasing, jeopardizing the financial stability of many affordable housing buildings.

When operating costs and debt service exceeds rental income, building owners don't have the necessary funds to make repairs but even more consequential is that financial instability threatens the financing making these buildings affordable, putting their tenants at risk. A large number of non-profit owners are also susceptible to financial risk while trying to keep their distressed buildings afloat. And there are significant implications for the City's housing plan at large.

A major pillar of Mayor-elect Zohran Mamdani's campaign platform is to freeze the rents on rent regulated housing to provide relief to tenants who are struggling to make ends meet and to offer owners property tax relief to offset impact. Analysis by NYC's Rent Guidelines Board (RGB) study found that [45.5%](#) of rent stabilized tenants are rent-burdened paying more than 30% of their income on rent. Freezing rent will help these tenants, with average incomes of \$60,000, to better afford living in NYC. However, a multi-year rent freeze will exacerbate financial difficulties for distressed affordable housing while undermining the City's own affordable housing financing assumptions of 2% rent growth.

The City of New York must actively prevent default of affordable housing which has received significant public investment to protect tenants, affordable housing providers and New York City Housing Development Corporation (HDC)'s bond rating. The following policy reforms are necessary to preserve this stock and to offset negative financial consequences of a multi-year rent freeze.

NECESSARY POLICY REFORMS TO PROTECT AT-RISK AFFORDABLE HOUSING

INCREASE REVENUE

- Affordable housing regulatory reset for vacancies at current AMIs as per regulatory agreements.
- Expand use of rental assistance to increase revenue and improve processing times to reduce vacancies.
- Establish a new Affordable Housing Stability Court Initiative to decrease housing instability and nonpayment.
- Make Housing Connect re-rental waiver permanent to prevent lengthy vacancies.
- Streamline access to operating and capital reserves and establish a reserve replenishment fund.

DECREASE EXPENSES

- Fund \$1 billion financing program for projects at risk of default to restructure debt.
- Decrease insurance rates by financing Milford Street Affordable Housing Insurance Captive and support legislative reforms to lower rates.
- Reduce & Fix Water Rates for regulated affordable housing.
- Renew and reform the J-51 tax abatement to expand investment and improve housing quality.
- Exempt all preservation financing programs from any new labor requirements.

¹ Source: NYC Department of Housing Preservation and Development

Distressed Affordable Housing

There are worrying signs of distress – financial and physical – in NYC’s affordable housing stock. According to the Mayor’s Management Report, HPD currently asset manages nearly 2,500 rental buildings and over 1,000 co-op buildings, making up roughly 213,000 units. This subsidized affordable housing, whether it’s newly built or existing housing preserved with City funding, represents a major investment of City resources. Over the past 10 years, the city has invested more than \$13 billion in City capital funding for affordable housing.

Affordable housing already operates at razor-thin margins in order to serve low-income tenants and by definition it cannot raise rents to cover unusually high expenses. While many projects will need reinvestment or subsidized loans renewed after 15 or 30 years, recent data shows there is a crisis developing for projects that are in distress and need assistance long before their loans run out. The Mayor’s Management Report estimates that 16% of the rental project and 32% of the co-op projects are at high risk – defined as at high risk of physical deterioration, financial distress, or noncompliance with federal requirements. For rental projects this is nearly double the rate of four years ago. However, this is still likely a significant undercount.

Enterprise Community Partners [reviewed data](#) on 160 Low Income Housing Tax Credit projects (LIHTC) citywide, totaling 12,928 units, and found 56% have negative cash flow. Another study showed similarly troubling data. [ANHD’s report](#) looked at DOF records for affordable housing. They found that 63,700 units out of the 112,000 units with records – more than half of the units reviewed – had expenses greater than their income.

These higher rates of distress – more than 50% in these two samples – show this is an urgent and widespread problem. Most expenses related to housing are fixed or non-negotiable, including mortgage payments, water & sewer charges, insurance, fuel, and electricity, leaving maintenance as the largest single category of discretionary operating costs. Buildings with negative cash flow will likely need to cut back on services and defer necessary maintenance to avoid default. If this continues for several years, the physical condition of the building will deteriorate and/or the building will run out of ways to cut costs and they will default on their loan.

The problem is that operating costs have been rising much faster than expected, while revenue is lower than expected. In 8 of the last 12 years, RGB increases for one-year leases have been less than 2%, which is the increase assumed in underwriting for city-financed affordable housing. Each year of lower rent increases compounds over time. Nonpayment of rent, which was a significant problem during the pandemic, continues to be a challenge- meaning buildings are collecting less rent than expected. The average annual inflation rate in the New York region over the past five years is [4.1%](#), however our research shows that insurance costs increased at an average of [25%](#) annually over a four-year period. Growth of expenses has exceeded 3% annual growth assumed in affordable housing underwriting. Simply put, about half of these buildings are not collecting enough rent to pay their bills.

RGB rent increases alone will not solve the financial problems facing at-risk affordable housing, but a rent freeze will exacerbate them.² While rent increases in affordable

DISTRESSED RENT STABILIZED HOUSING WITHOUT INCOME RESTRICTIONS

In addition to concerns we have outlined regarding NYC’s affordable housing stock, we are also concerned about the financial stability of buildings without income restrictions that are 100% rent stabilized with low average rents.

According to the Community Preservation Corporation’s annual survey of their service portfolio, where half of the of the roughly 600 loans representing 22,550 units of housing responded, 28% of buildings had a Debt Service Coverage Ratio of less than 1.0, which signals the building does not have sufficient income to pay its debt service. This is up from 11% in 2022. All of the properties in this portfolio are rent stabilized and subject to approved RGB increases.

In 2024, 8% of CPC’s permanent servicing portfolio were delinquent on their mortgage payments, up from 3.7% the previous year and 2.7% in 2022.

For this housing stock, several expense-side solutions will be needed. Mayor-elect Mamdani has supported reforms to provide relief to rent stabilized buildings in distress, which should include reauthorizing and improving J-51 for capital repairs, and relief from property tax, insurance, and utility expenses.

² An alternate approach to a blanket rent freeze is to expand rent increase exemption programs (Senior Citizens Rent Increase Exemption and the Disability Rent Increase Exemption) through legislation in Albany to all rent-burdened tenants in at-risk buildings. This will shield the tenants from increases they can’t afford while building owners receive the value of the rent increase

housing add to the cost burden of tenants, it is also required to keep pace with rising operating costs.

What is at stake for the City of New York if a growing number of City-subsidized affordable housing buildings default is significant. It can impact the bond rating of the Housing Development Corporation (HDC) if the loans paying back bonds are compromised. This will lead to higher borrowing costs for the City, which can impact the mayor's entire affordable housing plan. It can also impact investment and lending in affordable housing from the private sector affecting Low Income Housing Tax Credits (LIHTC) equity and also direct loans in projects by major banks in the mayor's affordable housing plan. Ultimately, this would result in fewer new or rehabilitated units of affordable housing.

Later in this report, we will look at policy solutions to address affordable properties that are in distress. The impact of taking no action however is clear: properties that the city has invested billions of dollars in that are in financial distress will experience physical distress and deterioration and default on their loans which in turn risks the loss of the buildings.

Affordable Housing Case Studies

Looking at the annual building income and expenses for two affordable housing buildings, it is clear that intervention is required. In the first case study, income exceeds expenses but there is only \$228,600 to pay nearly \$2 million in debt service on the building's mortgage, leading to a negative cashflow of \$1.7 million. In the second example, income also exceeds expenses but it is also not enough to pay debt service on the mortgage. In this scenario there is only \$164,000 available to pay \$241,000 in annual debt service to lenders. Both of these buildings will require financial help from NYC HPD to avoid default.

Affordable Housing Case Study #1

1,053 Units, Preservation in the Bronx
Annual Income: \$12,670,000
Annual Expenses: \$12,441,400
Net Operating Income: 228,600
Debt Service: \$1,972,000
Cash Flow: **-\$1,743,400**

Affordable Housing Case Study #2

30 Units, New Construction in the Bronx
Annual Income: \$550,000
Annual Expenses: \$386,000
Net Operating Income: \$164,000
Debt Service: \$241,000;
Cash Flow: **-\$77,000**

NECESSARY POLICY REFORMS TO PROTECT AT-RISK AFFORDABLE HOUSING

Recommendations to Increase Revenue

- **Affordable housing regulatory reset for vacancies at current AMIs as per regulatory agreements.** It is unlikely that the City can fully meet the need of distress through CityFHEPs or loan workouts, therefore affordable housing operators should be allowed to rent vacant units at the current rents allowed under their regulatory agreements. This should be done through state legislation to allow for across-the-board relief and not require new regulatory agreements. This will help some buildings move towards positive cashflow. It is also important to have this mechanism to increase revenue during a rent freeze. For example, 2019 LIHTC rent for a 2 bedroom at 50% AMI was \$1201. With RGB rent increases, rent today is \$1352. 2025 LIHTC rent however has increased by \$470 to \$1822. While vacancy rates in affordable housing are low, increasing rents on the few units that become vacant will help buildings to be on more solid financial footing and updated rents will still confirm to the affordability levels dictated in the regulatory agreement.
- **Expand use of rental assistance and improve processing times to increase building revenue.** For buildings that are experiencing operating deficits, it is critical that they increase building income but regulatory agreements limit rents on income-restricted units. Section 610 allows affordable housing operators to access fair market rents (FMR) set by the U.S. Department of Housing and Urban Development (HUD) when a tenant is aided by a voucher. Access should be strategically deployed to struggling buildings. HPD should also expand CityFHEPS and use project-based CityFHEPS vouchers for buildings to stabilize funding. The city will spend [more than \\$1.1 billion](#) on the program in FY 2025 providing 51,000 vouchers, at a cost of more than \$20,000 per voucher per year. Processing times must be improved for speedier inspections, voucher issuance and homeless placements to avoid lengthy vacancy periods.

as a reduction of real estate taxes or reimbursement from NYC Department of Finance. This, however, will not solve the problem of operating deficits in at-risk buildings- adoption of additional policy reforms is still required.

- **Establish a new Affordable Housing Stability Court Initiative to decrease housing instability/nonpayment-** Housing court can take a year or more to resolve nonpayment cases. Better outcomes can be achieved for tenants and landlords if resolution occurs within 90 days of a rent demand letter. A specialized housing court dedicated to affordable housing cases can be staffed with case workers to aid tenants in receiving “one shot” cash assistance for arrears from the New York City Human Resources Administration (HRA), help paying rent moving forward with CityFHEPs (a New York City rental assistance program), access to other benefits or developing a payment plan with the landlord. Investment in an affordable housing court will likely save City money spent on “one shots” when back rent is only 3 months instead of 15 months. It will also improve outcomes for tenants who want to retain their housing and it will help landlords reduce nonpayment occurrences.
- **Make Housing Connect re-rental waiver permanent to prevent lengthy vacancies.** Affordable housing owners cannot afford to lose rent due to HPD’s ineffective housing lottery re-rental policy. Owners should be required to publicly post the vacancies as per local law but they should not be required to lease up through Housing Connect.
- **Streamline access to operating and capital reserves and establish a reserve replenishment fund.** Owners face hurdles accessing reserves. A streamlined process providing dedicated staff and processing times should be established to quickly review reserve requests. The City should establish a reserve replenishment fund modeled on the New York State Homes and Community Renewal (HCR)’s program.

Recommendations to Decrease Expenses

- **Fund \$1 billion financing program for projects at risk of default to restructure debt.** HPD is already conducting workouts to aid projects who cannot pay their lenders. But many more buildings that are in distress will need workouts in upcoming years to refinance with city subsidies to avoid default. Workouts should be done on a portfolio basis. Many providers have more than one building that needs a workout. Doing it on a one-by-one building basis is inefficient and time-consuming, leaving some buildings in limbo while others are stabilized.
- **Decrease insurance costs.** Insurance costs have risen by 103% over the past four years to \$1,770 per apartment per year according our research. Government at all levels will need to look for ways to manage rising costs, including supporting innovations like the Milford Street Affordable Housing Insurance Captive in addition to legislative reforms to lower rates. With City-backing, the Milford Street captive can scale up to provide lower cost insurance.
- **Reduce & Fix Water Rates for regulated affordable housing.** Over the past four years, water and sewer rates have increased 5.4% per year on average, or 21.5% in total over that time. The Water Board should maintain minimal water rate increases in the future. Also, the Water Board should not have to pay rental payments – up to \$300 million per year – to the City. Finally, the City should continue to expand the [Multifamily Water Assistance Program](#) to meet all demand.
- **Renew and reform the J-51 tax abatement to expand investment and improve housing quality.** The existing J-51 program legislation expires June 29, 2026 and requires changes to make it a more effective program. The city and state should work together to deliver as deep of an as-of-right incentive as possible that can efficiently layer with other public programs. Additionally, a new J-51 must be structured to regularly update the approved cost schedule to stay current with market conditions. Select HPD affordable housing preservation programs had used this program in the past to preserve existing affordable housing.
- **Exempt all preservation financing programs from any new labor requirements.** NYHC estimates that a \$40 minimum wage for all project labor could increase affordable housing subsidy costs by 15% and a prevailing wage requirement could increase costs by 35%. HPD’s preservation budget is roughly \$600 million per year. Adding costs would either require significant increases to the budget or fewer units; a \$40 minimum wage would mean 1,800 fewer units for the same amount funding while a prevailing wage would mean roughly 3,400 fewer units preserved.