IBO

New York City Independent Budget Office

Fiscal Brief

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Several Years After, City's Housing Rehabs Are Still In Good Repair

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SUMMARY

IN THE 1970s, New York City took ownership of over 100,000 units of housing because landlords had stopped paying property taxes and making repairs. Beginning in the late 1980s, the city began a multibillion dollar effort to renovate this housing and transfer its ownership to nonprofit organizations, real estate firms, and tenant associations through a variety of programs. As of the end of fiscal year 2005, 95 percent of these so-called *in rem* units had been rehabilitated and transferred out of city ownership.

Given the city's large investment in renovating the formerly city-owned buildings as well as ongoing housing preservation efforts, it is important to know how these buildings have fared since they were transferred from city ownership. Also important to consider is whether some of the different programs the city used have produced more sustained improvements in the housing stock than others.

To do this IBO compared the rate of emergency repairs for fiscal years 2000 through 2005 in the more than 16,000 formerly city-owned units in 1,010 buildings that were sold to nonprofit and for-profit owners between 1994 and 1998, with the rate in other privately owned buildings in similar neighborhoods. Among IBO's key findings:

- The formerly city-owned units in our sample required significantly fewer emergency repairs than comparable buildings in the same neighborhoods—2.97 repairs per 100 units compared to 14.80 repairs per 100 units in privately owned buildings.
- The scope of the initial renovation work can have a major effect on the need for future emergency repairs. For example, under the Tenant Interim Lease program the scope of renovation work was initially quite limited and these buildings have relatively high emergency repair rates. Upfront renovations for this program were later expanded and repair rates are now lower.

IBO's findings that the city's investment in the formerly city-owned buildings has resulted in sustained improvements in the quality of the housing are significant for three reasons. First, there are still almost 2,100 units awaiting rehabilitation and ownership transfer over the next several years. Second, using some of the same programs as examined here, the city is currently collaborating with the federal Department of Housing and Urban Development to rehabilitate and transfer housing built or financed through a variety of federal programs. Finally, after investing billions of dollars in its privatization strategy, policymakers and building residents should want to help ensure that the cycle of deterioration and owner abandonment does not one day repeat itself.

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BACKGROUND

In the 1970s, the city took ownership of over 100,000 units of dilapidated, tax-delinquent housing, the majority of which were occupied. The city, through its Department of Housing Preservation and Development (HPD), has invested billions of dollars in rehabilitating this housing and subsequently selling the units to nonprofit organizations, real estate developers, and tenant associations. As a result, there are now fewer than 2,100 city-owned and managed units remaining. (These units are also commonly referred to as "*in rem*" after the legal procedure used to seize them.)

HPD also has responsibility for enforcing the Housing Maintenance Code in privately owned buildings. The department inspects housing units for code violations, and when it identifies immediately hazardous violations such as lack of heat or hot water, severe plumbing problems, or significant electrical system flaws that the landlord has not corrected, HPD will fix the violation through its Emergency Repair Program (ERP). The housing department then seeks to recover the costs of the repair from the building owner.

Given the city's large investment in renovating the formerly city-owned buildings as well as ongoing housing preservation efforts, it is important to know how these buildings have fared since they were transferred from city ownership. In addition, the city has used a variety of programmatic approaches to renovating these buildings, underscoring the need to consider whether some of the programs have produced more sustained improvements than others.

Analytical Approach. IBO sought to determine if in the years following their sale, the formerly city-owned units were more or less likely to require repairs than other, similar housing located in the same group of neighborhoods. To do this we compared the rate of emergency repairs for fiscal years 2000 through 2005 in the more than 16,000 city-owned units in 1,010 buildings that were sold between 1994 and 1998, with the rate in privately owned buildings.

We use the number of ERP repairs as a proxy for building maintenance and overall building condition.[1] That HPD must step in to perform an emergency repair indicates that the building owner was unable or unwilling to do so—potentially indicating negligent maintenance due to financial stress or other causes.

Because many of these city-owned buildings are in low-income neighborhoods, low rent rolls may provide insufficient operating revenue to fund adequate maintenance or to meet sudden large cash needs, such as high winter heating bills or boiler breakdowns.

We compared the number of ERP repairs performed per 100 dwelling units in formerly city-owned buildings and in comparable buildings in the same neighborhoods. This comparison category includes privately owned buildings (some of which may at one time have been city-owned property that was sold before our sample). However, it excludes city-owned properties sold after July 1, 1998.

In order to ensure comparability as much as possible, we restricted our comparison group buildings in three ways (see the Methodological Note for details). First, we included only multifamily (more than three unit) rental and owner-occupied buildings, including some primarily residential mixed-use (commercial and residential) buildings. Second, we included only buildings built before 1940, in order to limit our comparison group to apartments that were of roughly the same age as the formerly city-owned buildings, 99 percent of which were built prior to 1940. Finally, we included only buildings in the same neighborhoods in which the formerly city-owned units are concentrated and used census tracts for our "neighborhoods," in order to have small, homogeneous geographic areas.

RESULTS

The formerly city-owned units in our sample required significantly fewer emergency repairs than comparable buildings of the same age in the same neighborhoods—2.97 repairs per 100 units compared to 14.80 repairs per 100 units in privately owned buildings.

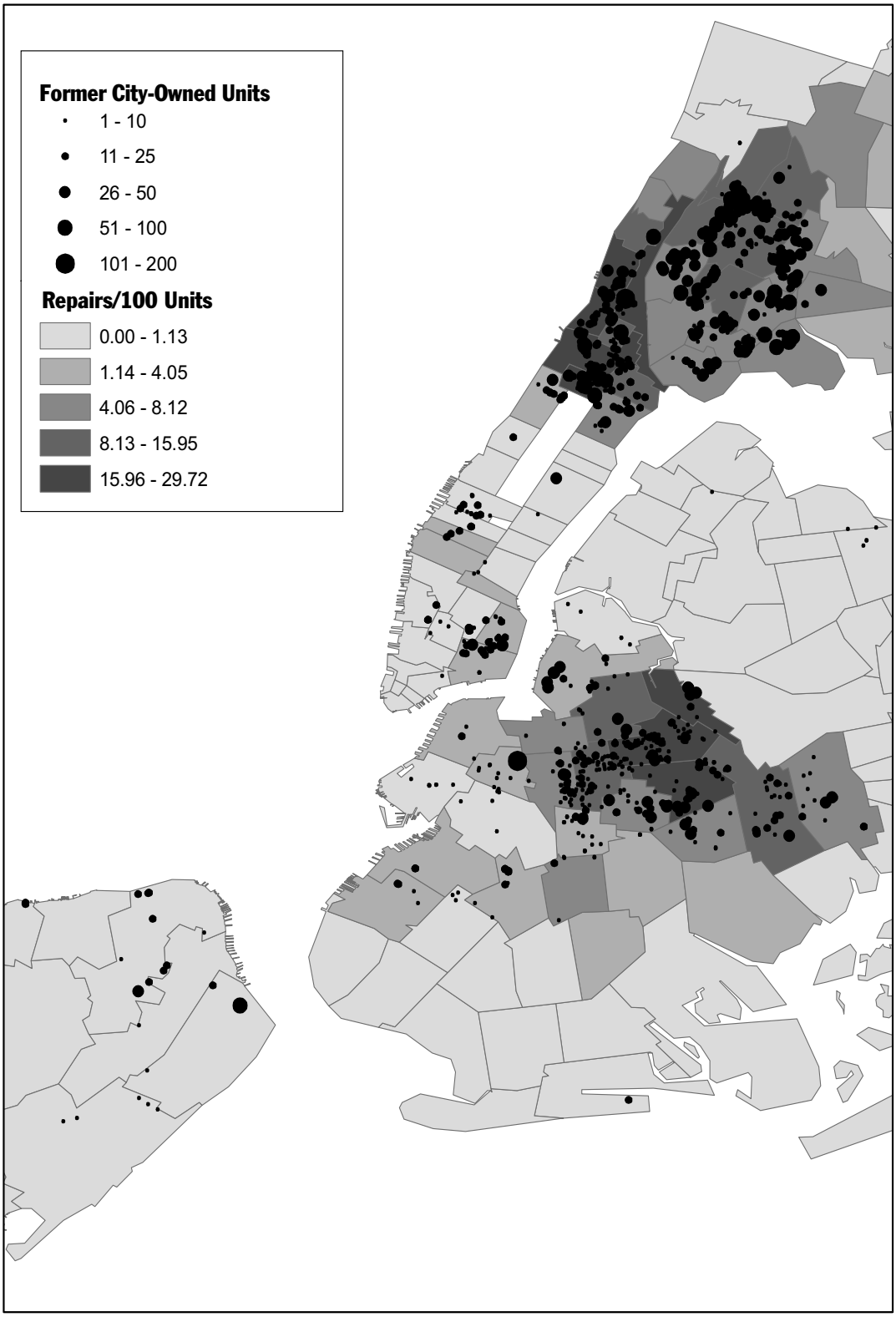
These overall results could be skewed, however, because the formerly city-owned buildings are, on average, larger than the other buildings (16.5 units compared to 10.3). Comparing repairs per 100 units gives more weight to building-wide repairs in smaller buildings, potentially making

Comparative Repair Rates

	Buildings	Units	Repairs	Average Repair Rate	Average Repair Cost
Formerly City-Owned Units	1,010	16,624	457	2.97	$776.12
Other Units	36,762	378,174	41,778	14.80	$525.16

SOURCES: IBO, Department of Housing Preservation and Development, Department of Finance Real Property Assessment Database.
NOTES: Repair rate is defined as repairs per 100 units. An independent sample t-test of the difference of means was significant at the 0.001 level.

Former City-Owned Units are Clustered in Neighborhoods with High ERP Rates



SOURCES: IBO; Department of Housing Preservation and Development.
NOTE: Repairs/100 Units are for non-city owned buildings. Formerly city-owned buildings are those sold 1994-1998

METHODOLOGICAL NOTE

IBO used three datasets for this analysis. First, HPD provided us with a list of all formerly city-owned buildings that were sold between 1994 and 2005. Second, also from HPD, we received a list of all buildings that had had emergency repairs between 2000 and 2005. Finally, we used the Department of Finance Real Property Assessment Database.

In Rem ***Sales File***. The file of formerly city-owned buildings included the number of dwelling units in each building, and the program through which the building was sold. The original file included 2,651 building records with 34,485 units. We excluded all buildings sold after July 1, 1998 (the start of fiscal year 1999) to ensure that work done as part of the disposition process was not accidentally included in our emergency repair count. Leaving a full year between the close of our sales file and the start of our repair records eliminated errors due to lags in billing cycles, as well as Year 2000 computer problems, which delayed HPD's record keeping for several months. In addition, we excluded units with missing building classes, units in two-family homes or largely nonresidential building classes, and those built 1940 or later. A small number of additional units also dropped out of our analysis because they were missing values for other critical variables, such as census tract, leaving a total of 1,010 buildings with 16,624 units. The mean number of dwelling units was 16.5, with a median of 13 units per building.

Emergency Repairs. The dataset containing Emergency Repair Program information listed each building that had had at least one repair, the number of repairs made in that building, and the total cost of those repairs. Overall, the file included 87,008 repairs, of which 42,235 were included in our analysis. Repairs were excluded because they were done in buildings other than multifamily housing, primarily two-family homes, because they were in buildings built after 1939, or because they were done in neighborhoods outside of our analysis region (i.e., in census tracts with no *in rem* sales from 1994 through 1998). We also excluded repairs done in city-owned buildings that were sold after fiscal year 1998, since some of these apparent "emergency repairs" were actually part of the disposition process. The other excluded repairs were missing values for critical variables.

Real Property Database. We used the Department of Finance Real Property Assessment Database (RPAD) to capture buildings that were neither city-owned nor had emergency repairs, but which were located in our comparison neighborhoods. The year of construction variable for all buildings in our analysis came from the RPAD, and for buildings with emergency repairs, but which were not formerly city-owned, the number of units in the building was also drawn from the RPAD.

Comparability. As noted, in order to compare the *in rem* buildings to a similar set of privately owned buildings, we limited our analysis to pre-1940 buildings in Building Classes C (walk-up apartments), D (elevator apartments), R (condominiums), and S (mixed used), located in census tracts containing the sold *in rem* buildings.

First, we limited the comparison group buildings to those census tracts in which there were also formerly city-owned buildings. The formerly city-owned units are not spread evenly around the city—they are overwhelmingly concentrated in Northern Manhattan, the Bronx, and Central Brooklyn (see map). These are also the areas where the preponderance of emergency repairs is located. These neighborhoods are also relatively low income.

Second, one- and two-family homes were excluded from the comparison group because these homes—many of which are owner-occupied—are far less likely to have been in city ownership or to use HPD's emergency repair program. The multifamily apartment buildings that make up the vast majority of the formerly city-owned units should be compared to similar building types, not one- and two-family homes. There were also units and repairs in wholly nonresidential building classes, such as stores, office buildings, and properties used for religious use. These properties may have been miscoded in the RPAD, or the building class could have changed over time. IBO excluded all nonresidential properties from the analysis to get a cleaner dataset. (Mixed-use buildings, which contain both some commercial and some residential space, were included, however.)

Third, virtually all of the formerly city-owned stock was built prior to 1940. Newer buildings are presumed to be in better condition, simply because they have not suffered the same wear and tear as these pre-war buildings. Limiting the analysis based on building age ensured that our results were not skewed by the inclusion of relatively new buildings in the comparison group. Almost all of the formerly city-owned buildings were built prior to 1940, while less than two-thirds of the privately owned buildings were built before 1940.

Repair Rates, Controlling for Building Size

Building Size	Formerly City-Owned: No. of Buildings	Repairs	Repairs/ 100 Units	Other: No. of Buildings	Repairs	Repairs/ 100 Units
6 unit	89	7	1.31	3,080	5,966	32.28
8 unit	117	74	7.91	2,235	3,767	21.07
10 unit	61	13	2.13	839	1,994	23.77
20 unit	73	22	1.51	824	2,062	12.51

SOURCES: IBO, Department of Housing Preservation and Development, Department of Finance Real Property Assessment Database.
NOTE: An independent sample t-test of the difference of means was significant at the 0.05 level for each building category.

the relative performance of the formerly city-owned buildings look better than it actually is. For example, a single building-wide repair in a five-unit building translates into 20 repairs per 100 units, while the same repair in a 10-unit building equates to 10 repairs per 100 units.

To address this issue, we selectively compared repair rates per 100 units in buildings of the same size to determine whether the difference in average building size affected the results. The units in these buildings of specific sizes accounted for 21 percent of the formerly city-owned units and 16 percent of the other units in our sample. The formerly city-owned buildings have lower emergency repair rates even when holding the building size constant, suggesting that our findings are not driven by the difference in average building size.

These results suggest that the hundreds of millions of dollars HPD has invested in rehabilitating these apartments has resulted in improvements in the quality of the housing that have been sustained over a period of time. These units were among some of the city's most dilapidated, and they are now in better condition than comparable buildings.

Several factors may have contributed to these results. Most obviously, the formerly city-owned buildings' strong performance may reflect the fact that major rehabilitation work was done on every building relatively recently—7 to 12 years prior to the last year of our analysis. If this investment is the primary reason for the differential in repair rates between the former *in rem* apartments and their neighbors, then the differences may diminish over time.

Other factors are also likely to have contributed. Under many of the disposition programs, building operating funds were well capitalized at the time of sale, which may allow these buildings to cope with repair needs better than their neighbors. The good maintenance of these buildings may also be self-sustaining to some degree; because the buildings are in good repair, they may attract tenants with somewhat higher incomes, generate higher rent rolls, and therefore have more resources to make repairs. It is likely that all of these factors—as well as others we have not identified—are driving the difference in repair rates.

Although fewer emergency repairs are needed, the mean cost of the repairs done in the formerly city-owned buildings is higher than the cost of those done in other units. This is largely because the formerly city-owned buildings are, on average, larger than the other buildings. A typical building-wide repair, such as roof work, therefore costs more in a formerly city-owned building. In comparing buildings of the same size, the systematic difference in average repair cost between the formerly city-owned and other units disappears.

Program Differences. During the 1994 through 1998 period, HPD used 15 different programs to rehabilitate and sell city-owned housing. All of the major programs had repair rates that were statistically significantly lower than those of non-city-owned housing in the same neighborhoods.

The Neighborhood Entrepreneur Program (NEP), the Neighborhood Redevelopment Program (NRP), and the Tenant Interim Lease Program (TIL) account for the bulk of

Emergency Repairs by Renovation and Disposition Program

Program	Units	Repairs	Repairs/ 100 Units
Tenant Interim Lease (TIL)	4,534	235	5.70
Special Initiatives Program (SIP)	2,738	77	2.55
Neighborhood Ownership Works (NOW)	2,012	45	2.64
Neighborhood Redevelopment Program (NRP)	2,555	26	1.28
Neighborhood Entrepreneur Program (NEP)	2,492	25	0.61
Community Management Program (CMP)	900	28	3.37
Private Ownership and Management Program (POMP)	1,012	14	1.51
Neighborhood Homes (NHP)	53	1	1.32
Mutual Housing Association Program (MHAP)	165	-	-
Other	163	6	10.31
TOTAL	**16,624**	**457**	**2.97**

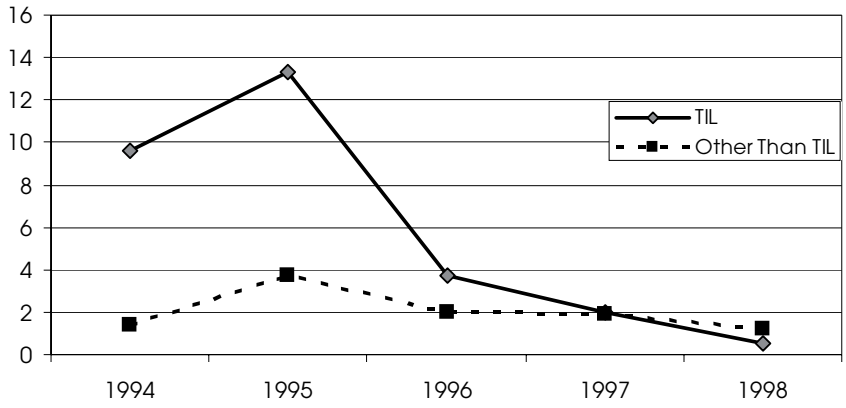
SOURCES: IBO, Department of Housing Preservation and Development.
NOTE: Includes one TIL building with 32 units and 102 emergency repairs. Excluding this outlier building would lower the TIL repair rate to 4.46

HPD's ongoing rehabilitation and ownership transfer efforts. NEP conveys buildings to local real estate companies, NRP transfers the buildings to nonprofit organizations, and TIL converts them to tenant-owned cooperatives.

Under the existing program guidelines, TIL buildings receive up to $95,000 per unit in city capital funding for rehabilitation. Prior to the conversion to a cooperative, HPD provides tenants with training in preparation for ownership. Following conversion, all operating costs must be paid for through tenant monthly payments. In contrast, NEP and NRP buildings are eligible for up to $120,000 per unit in capital financing, plus Low Income Housing Tax Credits to cover some rehabilitation and operating costs. The tax credits are not available to TIL buildings. NEP and NRP buildings are also owned and managed by outside organizations, as opposed to tenant associations.

Repair Rates by Year of Sale

Emergency repairs per 100 units



SOURCES: IBO; Department of Housing Preservation and Development.

NEP and NRP both have excellent track records, with repair rates well below those of any comparable subset of other housing units. The performance of TIL apartments is not as strong as NEP and NRP—even when excluding a TIL "outlier" building with 32 units and 102 repairs, the TIL repair rate is over three times as high as NRP and seven times as high as NEP.[2]

The relatively high TIL repair rate is driven by those buildings that were sold in the early years of our sample: fiscal years 1994 and 1995. Although this would seem to be relatively intuitive—the rehabilitation work in these buildings is relatively old, and therefore they have had the greatest opportunity for maintenance problems to arise—the pattern does not hold for the other formerly city-owned buildings. HPD expanded the rehabilitation work for TIL buildings in the mid-1990s, which appears to have had a major effect on the need for future emergency repairs.

CONCLUSION

Between 1994 and 1998, HPD invested roughly $600 million in city capital funds in the rehabilitation of city-owned housing, and sold over 16,000 units in over 1,000 buildings. This investment has resulted in sustained improvements in the quality of these apartments. The housing that has been through city rehabilitation programs is, overall, in much better repair than other apartments of the same age in the same group of neighborhoods.

The performance of the formerly city-owned units does vary by rehabilitation program. The apartments renovated through NEP and NRP appear to be in better physical condition than any other comparable housing, while TIL buildings are somewhat worse off. These programmatic differences are largely a reflection of the financing available for rehabilitation—the changes in TIL repair rates illustrate that a broader scope of upfront rehabilitation work can significantly affect later repair needs. As HPD continues to renovate and transfer the ownership of its remaining inventory of city-owned housing and develop disposition plans for other publicly owned property, initial capital investments will likely continue to affect building—and hence tenant—outcomes.

Written by Molly Wasow Park

END NOTES

[1] We considered two other ways to measure the success of HPD's *in rem* disposition programs, neither of which proved to be viable. The first was to compare rates of property tax delinquency, but because most of the privatized *in rem* buildings receive tax exemptions and/or abatements, that was not a viable measure. Alternatively, we considered using the number of housing code violations issued to each property, but it would have required distinguishing between old and new violations, and between classes A, B, and C violations, data which HPD was unable to provide over the relevant period. HPD was able to provide us with data on ERP repairs for the relevant time period, and we adopted this measure as our proxy for condition of housing. While emergency repairs are only a partial measure of housing condition—a building may be in poor maintenance but have only a limited number of ERP repairs—it does provide one indicator of the status, both physical and financial, of the former *in rem* buildings.

[2] The difference in repair rates for TIL and NEP and NRP (considered jointly) is significant at the 0.06 level including the TIL outlier, and at the 0.12 level excluding this building.