Workforce Housing in New York City: A Case Study of Urban American, LLC

by Rachel Wilson

The challenging task of providing high-quality workforce housing is further complicated in a rent-stabilized housing market such as New York City. Socially conscious, fiscally responsible landlords must conduct major capital improvements and apartment maintenance with an eye toward creating a safe and attractive living environment while also meeting investors' return expectations. How does a for-profit company add value to its portfolio while managing to keep rents affordable? This case study of Urban American, LLC, examines how one company's operational model works within rent stabilization laws to create healthy returns and reinvigorate the workforce housing stock in and around New York City.

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In 2004, New York City Mayor Michael Bloomberg and the Department of Housing Preservation and Development issued the *New Housing Marketplace Plan*, a 10-year strategic plan for creating and preserving 165,000 units of affordable housing (NHMP, 2004). Included in the plan is the Middle Class Housing Initiative, which specifically aims to produce housing for residents earning 80% or less of the Area Median Income (AMI). Among the policy steps intended to spur production are the creation of a not-for-profit development entity, expansion of public-private partnerships, and cross-subsidies in mixed-income multifamily properties. Although the initiative is not as clearly defined as policies and programs targeted toward lower-income households, it highlights the dearth of housing affordable to those earning 80-110% of AMI as well as the difficulty in directing funds toward this income group. By definition, this income group does not benefit from federal subsidy programs primarily directed at those earning 60% of AMI or lower; however, this group of middle-income earners by and large contains the city's "key workers," the school teachers, police officers, nurses, janitors and sales persons who benefit by living in the communities where they work as much as the community benefits from having them there (McIlwain, 2005).

Key workers are essential to the economic and societal well-being of any city. Without them, children cannot be educated, the streets are not as safe, quality of health care declines, and the service sector shrinks. However, if it is impossible for these workforce vanguards to find decent housing at a reasonable price, they may be forced to leave the area and may not be willing or able to commute to their existing jobs; thus, there is a

clear imperative that a metropolitan area be able to provide housing that is affordable to them. Still, as the *New Housing Marketplace Plan* indicates, it is not an easy task and there are no direct subsidies. How, then, might the private sector step in and meet key workers' needs by providing unsubsidized, decent, affordable housing? This paper examines one company in the New York City metropolitan area that aims to do just that. By dissecting the company's business model, acquisition and operating strategies, and then analyzing the outcomes vis-à-vis rent structure, what results will hopefully be a non-governmental success story in the realm of workforce housing.

Urban American, LLC

The subject company, Urban American, LLC, (Urban) was founded in 1997 in West New York, New Jersey by Philip M. Eisenberg. As an owner-operator of apartment buildings in the New York/New Jersey metropolitan area, its business model is to acquire multifamily properties and hold them in one of several portfolios, generating positive cash flows through operating income and eventual sale. The returns are distributed among the LLC, its partners, and investors. In other words, Urban is a typical real estate company, operating in a for-profit environment. However, the specific property type that defines its niche market is one well-known in the city: buildings which, through neglect or poor management, have declined to the point where major capital improvements (MCI) and in-unit renovations are needed in order to restore the assets to good condition. In almost every instance, the apartments are subject to rent stabilization, and here is where Urban's main investment strategy is brought to bear: through assiduous cost- and quality-controls, coupled with property management skills, the buildings are rehabilitated and returned to the portion of the housing stock that meets both decency and affordability standards. Within this framework, rent stabilization guidelines govern the extent to which rents can be raised on a per-unit basis. Unlike market-rate rental units, MCI costs must be amortized over a period of years through stipulated rent increases before the full value can be recaptured. Until a unit reaches the current "luxury" deregulation threshold of $2,000 per month, the company must abide by rent stabilization ordinances with respect to rent increases.

As of April 2007, Urban owns nearly11,500 units, with concentrations in Hudson County, New Jersey (west of Manhattan), the Bronx, Brooklyn, and Queens. Potential acquisitions are evaluated on the basis of their current and potential rental incomes; whether the property can be purchased below replacement cost, and if so, whether improvements can be made such that the total value of the building is enhanced; and whether the property is physically located near existing properties in the portfolio, thereby making an easier and more efficient job of property management. Although there are several buildings or building complexes that consist of 1,000+ units, most of the properties are too small to be attractive to larger real-estate companies or institutional investors (UA Private Placement Memorandum, 2004). With acquisition costs ranging, on average, between $10 and $60 million (with several larger and smaller properties falling outside the range), Urban's acquisition strategy is to seek out buildings that are a good fit with their existing assets and that evince growth potential over the holding period.

Once a building is acquired, it rapidly comes under control of Urban's development and construction operations. Common improvements include replacing the roof,

painting the exterior trim and patching plaster or stucco, installing a new boiler system, and repairing and restoring the lobbies and stairwells (UA PPM, 2004). Since many of the buildings have fallen into disrepair and have a backlog of maintenance needs, attention is also given to fixing any outstanding complaints in the occupied units (patching holes in walls, replacing broken tiles, ensuring radiators and plumbing are in good working order). Vacant units are subject to complete renovation, which, depending on the current state of the building, results in per-unit expenditures between $6,000 and $8,000.

A typical renovation consists of removing old or torn carpets, exposing and/or refinishing wood floors, replacing tile and fixtures in the bathrooms, lead-based paint abatement, and wall and molding repair. Kitchens receive new ceramic tile floors and replacement cabinets, countertops, sinks, and appliances if necessary. Whenever possible, the character of the original design is allowed to come through, with attention paid to preserving hardwood floors, built-in cupboards and closets, and wall and window moldings (though these often must be removed due to lead-paint concerns). Urban is able to achieve economies of scale by warehousing common construction materials and finishes, which is not only cost efficient but also an effective branding technique that heralds consistent quality and style. Urban's signature exterior paint color, a silvery blue-green, is visible on nearly all of the properties. The remainder of the units are renovated as they become vacant through natural attrition. The company will take action to evict tenants who are disruptive or severely delinquent in rent payments, but does not actively try to remove tenants in order to speed up the renovation process. Ultimately, the renovation process is slow, and may not even be complete by the end of the holding period, but with each incremental improvement, the building increases in value and a better physical environment is created for the residents.

Moving from a property-driven discussion to a tenant-driven one brings us back to a restatement of the original question: Is a for-profit, unsubsidized company able to provide housing that is both satisfactory and affordable to key workers? A confidential private placement memorandum, prepared to attract potential equity investors to a REIT (the "Fund" mentioned in the quote), elaborates on the tenant component of Urban's investment strategy:

> "[Urban American's] philosophy is that both landlord and tenant have a long-term interest in the improvement and maintenance of the housing stock and their neighborhood…. [Urban American] believes that the Fund's success will be determined by its "mind set" i.e., its commitment to deliver improved quality work force apartments and tenant services on a cost-effective basis." (p. 20)

In the above quote, workforce housing refers to the housing stock targeted toward key workers. The market opportunity statement effectively captures Urban's governing logic:

> "Many metropolitan areas in the United States have stable, family oriented work force neighborhoods with low vacancy rates and growing demand for adequate housing. Factors driving demand include population growth due in part to immigration and proximity to public transportation. Supply is restricted in these areas because the high cost of land and new construction presents a formidable barrier to the development of new housing at competitive price points. These factors have already led to the

gradual rise in rents and are expected to continue to do so for years to come. Much of the multi-family housing stock in these areas consist of older, smaller buildings and apartment complexes. As a result, the buildings have deteriorated and current rents are far below what many residents of these neighborhoods are able and willing to pay for renovated apartments in safe, well maintained buildings with upgraded common areas." (p. 1)

However, Urban is not a government agency and does not employ subsidies to operate its properties (although they do honor existing Section 8 vouchers). As a for-profit entity, Urban attracts investors with internal rates of return between 14-16%, and to that end must be actively engaged in maximizing revenue streams. In a non-rent stabilized market, an effective strategy might be to raise rents dramatically when a lease expires, thereby driving out lower income tenants and hastening the renovation (and hence, profit maximization) process. But, as stated earlier, almost all units are regulated upon acquisition. That fact leads to the main questions examined herein: One, how does operating within a regulated environment both promote affordability and allow for profit? Accordingly, what amount of rent increase makes this type of endeavor profitable, and is it in fact affordable to key workers? Two, how integral is rent stabilization to the above business model? Conventional wisdom might dictate that all forms of rent stabilization are inherently anti-business and anti-profit, but it will be demonstrated that some of the most reviled aspects of rent stabilization are the very mechanisms by which companies such as Urban American can generate a profit while having a lasting impact on the metropolitan housing market.

Rent Stabilization

No discussion about the New York rental market can take place outside the specter of rent stabilization, and Urban's case is no different. Rent stabilization exists in one form or another in more than 1.1 million units in New York City, over half of the rental stock. Together, the Rent Stabilization Law of 1969 and the amendments made to it in 1993 comprise an intricate ladder by which rents are gradually escalated over time, with certain provisions for greater increases. Urban is able to implement increases under all of these provisions. Later in this paper, a typical rent-increase scenario will be constructed and analyzed. Therefore, the major increase provisions, current as of October 1, 2006, are outlined below.

Vacancy Increase. When a unit becomes vacant, the landlord can typically increase the last legal rent by 20% for a two-year lease, or 17% for a one-year lease.

Major Capital Improvement (MCI). If a landlord elects to undertake MCI, the cost can be passed through to all tenants, regardless of tenure (except in special circumstances), so long as the improvement is a depreciable expense that can be construed as benefiting all who live there. Typically MCI are amortized over a seven-year period, with annual associated rent increases capped at 6% of rent. If the MCI cost cannot be defrayed by the seven annual increases, the pass-through period can be extended. Once the rent increase takes effect, it becomes part of the base rent in perpetuity, i.e., the rent does not decrease once the MCI cost has been recovered (DHCR, 1969 and Fact Sheet #11). If the MCI cost is offset with J-51 tax abatements, which exempts improvements for real estate tax increases, a lower adjusted cost basis must be used when calculating rent increases.

Individual Apartment Improvement (IAI). If a landlord improves a unit, 1/40th of the cost of the improvement can be added to the monthly rent. A $400 improvement would escalate the monthly rent by an additional $10; an $8,000 renovation would indicate an escalation of $200.

Renewal Lease Adjustment. When the lease of a current tenant is renewed, the rent can be adjusted upward by 7.25% for a two-year renewal, or 4.25% for a one-year renewal.

Economists almost universally pan rent stabilization, arguing that it interferes with the self-adjusting nature of an efficient, competitive market. Among their arguments: Artificially low rents for those in regulated units, they argue, translate to higher rents in market-rate ones. Requiring landlords to carry the costs of MCI for many years hampers owners' ability to keep properties in good repair, leading to degradation of the controlled stock. After years of deferred maintenance, the properties become too expensive to operate due to their deteriorating structural and mechanical systems. The small incremental rent increases do not make up for the increased operating expenses and leave no replacement reserves. As a building falls deeper into disrepair, vacancies increase and income declines even further, perpetuating the cycle. That, of course, is a worst-case scenario. In a best-case scenario, landlords keep the building in basically good repair but do not expend extra revenues to keep buildings running optimally. Income streams stay generally flat. Replacement costs per unit (the average cost it would take to rebuild the building from an undeveloped piece of ground) stay relatively high, but an income-based valuation (the preferred method of estimating an income property's value) yields far less due to the stagnant rents.

A number of studies exist which outline the deleterious effects of rent controls, though not every outcome is universally agreed upon. The most basic argument about the physical plant of a building is that, faced with pressures to extract as much revenue as possible from deflated rents, landlords will provide fewer units of housing service, i.e., allow the units and common areas to go downhill (Gyourko and Linneman, 1990; Albon and Stafford, 1990). Rent stabilization then becomes a zero-sum game between landlord and tenant because the decline in housing quality outweighs the lower cost of rent (Olsen, 1969).

Gyourko and Linneman's 1990 study of quality in rent-stabilized housing versus uncontrolled housing attempts to quantify the building typologies upon which rent stabilization has had the greatest negative impact. In this examination, based on data collected in 1968 just prior to the passage of Rent Stabilization Law of 1969, the controlled properties were subject to so-called "first-generation" rent control, the price ceiling that was instituted in New York City in 1947 as a result of the Emergency Tenant Protection Act. They found that across the spectrum of housing types, those with rent control were more likely to be in deteriorating or dilapidated condition. However, they also identified the key factors that, in combination, were most likely to indicate a building in distress. According to their findings, if a building had fewer than 300 rental units, was less than six stories tall, was built before 1947, and was rent controlled, it stood a significantly higher chance of being in deteriorating or dilapidated condition than any other type of building.

Economist Edgar Olsen in 1988 proposed that when rent stabilization laws allow for rent increases when a landlord makes improvements—as is the case in New

York City—there is incentive for landlords to spend more on maintenance, thereby preventing the precipitous declines engendered by "first-generation" rent controls. However, this overlooks the fact that many landlords only own one or two smaller buildings (the so-called "mom and pop shops"), and may have done so for decades. In this scenario, the landlord may not have the sophistication or financial ability to undertake capital improvements whose costs must be recovered over many years. If a building is sufficiently undervalued due to stagnant cash flows and physical deterioration, conventional financing may not be an option or might be perceived as too risky if the landlord fears that future rents will not provide sufficient debt service coverage. Therefore, cost-recovery incentives are not always enough to spur necessary maintenance.

The above criticisms of rent stabilization and its perceived flaws are meant to explain the prevalence of a particular condition existing in New York City: devalued buildings clustered in less than desirable neighborhoods, in need of improvements and regular maintenance, typically resembling 4-5 story buildings built prior to 1947 and having fewer than 300 units. That description, in a nutshell, is the asset class comprising much of Urban American's holdings. Thus, a supply-side answer to the second question posed in this paper is addressed: rent stabilization, with its presumed ignominious effects on buildings, neighborhoods, and tenant quality of living, has created a niche market in New York City, a class of buildings ripe for renovation by a savvy, well-capitalized owner. By purchasing properties below replacement cost and targeting specific neighborhoods with the aim of creating physical adjacencies that allow for property-management consolidation, Urban is able to recover the value that rent stabilization has supposedly drained from these assets. The next part of the answer, then, is to determine to what extent it is possible to give these assets a new life, what changes the rent roll undergoes when an owner such as Urban begins making improvements, and whether the target market is able to afford the higher quality of the product.

Rent and Renovation

The most recent iteration of rent stabilization in New York City has a built-in sunset clause. If the luxury-decontrol threshold remains unchanged (as a law, it is subject to periodic revision), it is currently estimated that all units will be deregulated in the next 20 to 30 years (Early and Phelps, 1999). At that point, when all units are in play, it is presumed that the market will enter a state of equilibrium; the most desirable units will command a premium (as expected), while the lesser ones will rent for whatever amount the market dictates. In this scenario, the need for affordable housing will supposedly be no more dire than it is currently because of a filtering effect that will create a tiered rent structure (Olsen, 1990). Whether this will actually be the case—whether the least affluent will actually see their purchasing power increase—only time will tell. Until that day, landlords who wish to increase their rents through improvements or turnover are subject to the strictures of the incremental increases enumerated above. Altogether, the allowable increases determine the Maximum Base Rent (MBR); presumably, the apartment could rent for less, if no renter is willing to pay the maximum. However, given that in 2005 the 3% vacancy rate in New York City was well below the 5% rate that justifies a "housing shortage," that probability is effectively zero (Housing Vacancy Survey, 2005). Therefore, it is assumed that an apartment under Urban's management will be able to command the MBR, and that the apartment will be leased without delay.

Using an average unit as an example, how much will rents increase over time, and when will the unit reach the decontrol threshold? A property recently acquired by Urban will serve as basis for a rent-roll analysis.

Affordability

The rent roll for any rent-stabilized apartment building is likely to lack consistency, owing to the fact that newly vacant apartments are subject to dramatic rent increases, whereas units occupied by longtime residents experience more moderate increases over time. The subject property for rent roll analysis, 25-35 Tennis Court in Flatbush, Brooklyn, highlights this variance. Consisting of two adjoining buildings, Tennis Court (the street name, not an amenity) has one studio apartment, 52 one-bedrooms, 38 two-bedrooms, and 10 each of three-, four-, and five-bedrooms. The six-story, pre-war elevator building once housed affluent families and was a residential hotel for the Brooklyn Dodgers; however, the rent roll prior to acquisition reflects a much deflated income stream.

Using the one- and two-bedrooms as primary samples highlights the wide variance in rents. One-bedroom units range from a high monthly rent of $998 to a low of $351. The two-bedroom units show an even greater range, from a high of $1200 to a low of $491. The median rent for a one-bedroom is $756, and the median rent for a two-bedroom is $887. The median change in rent, in the time between the broker's report (estimated March 2005) and December 2006 is $39 for a one-bedroom and $42 for a two bedroom. The greatest increase for an individual unit is $232/month for a one-bedroom, and $487/month for a two-bedroom. In the following affordability analysis, two sample rents are used: the highest rent and the median rent for the two-bedroom apartments.
In the first analysis (summarized in Figure 1), the median rent and the highest rent are projected for seven years. The scenario assumes that each unit remains occupied by the current tenant and that rent is subject to a biannual renewal lease increase of 7.25%. A $25/month increase has been assigned to each unit, assuming $250,000 in

Rent Increase over Seven Years, 2-bedroom Unit, Renewal Increase, MCI of $250,000

Median Rent $887 / month

	2007	2008	2009	2010	2011	2012	2013
Base Rent	$887	$951	$951	$1,020	$1,020	$1,094	$1,094
MCI Increase	$25	$25	$25	$25	$25	$25	$25
Total Monthly Rent	$912	$976	$976	$1,045	$1,045	$1,119	$1,119
Total Annual Rent	$10,944	$11,716	$11,716	$12,543	$12,543	$13,431	$13,431
Affordable on a salary of:	$36,480	$39,052	$39,052	$41,811	$41,811	$44,770	$44,770
% AMI	67%	72%	72%	77%	77%	82%	82%

Rent Increase over Seven Years, 2-bedroom Unit, Renewal Increase, MCI of $250,000

High Rent $1200 / month

	2007	2008	2009	2010	2011	2012	2013
Base Rent	$1,200	$1,287	$1,287	$1,380	$1,380	$1,480	$1,480
MCI Increase	$25	$25	$25	$25	$25	$25	$25
Total Monthly Rent	$1,225	$1,312	$1,312	$1,405	$1,405	$1,505	$1,505
Total Annual Rent	$14,700	$15,744	$15,744	$16,864	$16,864	$18,065	$18,065
Affordable on a salary of:	$49,000	$52,480	$52,480	$56,212	$56,212	$60,215	$60,215
% AMI	90%	96%	96%	103%	103%	111%	111%

figure 1

Affordability Analysis

MCI amortized over seven years and distributed across all units. For each unit, a decontrol date has been estimated. As demonstrated, the median-rent unit displays a remarkably long horizon, reaching $2,000 per month as late as 2030 (analysis for all years not displayed). While many factors could influence the rent over time—notably, a new tenant or a succession of many tenants—the modest increases permitted by law help keep the unit below $2,000 for many years.

In the case of the $1,200 unit, the benchmark of $2,000 would be reached nearly a decade earlier, by 2021. Again, it is worth noting that this analysis assumes that the decontrol threshold remains constant, which is at best a dicey assumption, given the political nature of rent stabilizations laws.

Each unit's affordability, expressed as a percentage of Area Median Income (AMI) as defined by the Department of Housing and Urban Development, was derived by calculating the gross monthly and annual income needed to rent the unit, assuming that rent should exceed no more than 30% of a household's income. The resulting minimum income required to make the unit affordable was then benchmarked against New York City's 2005 AMI of $54,400 (held constant for the purposes of analysis). The resulting percentage indicates what income level the unit is affordable to as a percent of AMI. For the median rent, the unit is relatively affordable to those earning 60-80% AMI, even after seven years. The higher rent unit is more affordable to the "key worker" segment, falling within the earning range of 80-110% AMI.

A second, similar analysis was performed for each sample unit, this time anticipating a lease rolling over to a new tenant. Since vacancy leases represent a major increase—given the 17% vacancy increase as well as the opportunity for a full-scale renovation (the cost of which is indicated by the IAI line item)—it is appropriate to see how leasing to a new tenant will impact the affordability, both for a unit being renovated for the first time as in the median rent scenario, and for a renovated unit being re-leased in the case of the $1,200/month unit. Figure two summarizes the impact of a renovation and

figure 2

Affordability Analysis Anticipating a Lease Rolling Over to a New Tenant

Rent Increase over Seven Years, 2-bedroom Unit, Vacancy Increase, IAI $8,000, MCI of $250,000							
Median Rent $887 / month							
	2007	**2008***	**2009**	**2010**	**2011**	**2012**	**2013**
Base Rent	$887	$1,038	$1,038	$1,354	$1,354	$1,694	$1,694
IAI Increase	$0	$200	$200	$200	$200		
MCI Increase	$25	$25	$25	$25	$25	$25	$25
Total Monthly Rent	$912	$1,263	$1,263	$1,579	$1,579	$1,719	$1,719
Total Annual Rent	$10,944	$15,153	$15,153	$18,952	$18,952	$20,626	$20,626
Affordable at this Income	$36,480	$50,512	$50,512	$63,174	$63,174	$68,754	$68,754
% AMI	67%	93%	93%	116%	116%	126%	126%

* 2-Year Vacancy Lease Signed after IAI, 2-Year Renewal Increases thereafter

Rent Increase over Seven Years, 2-bedroom Unit, Vacancy Increase, MCI of $250,000							
High Rent $1200 / month							
	2007*	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Base Rent	$1,200	$1,200	$1,433	$1,433	$1,706	$1,706	$1,996
MCI Increase	$25	$25	$25	$25	$25	$25	$25
Total Monthly Rent	$1,225	$1,225	$1,458	$1,458	$1,731	$1,731	$2,021
Total Annual Rent	$14,700	$14,700	$17,499	$17,499	$20,774	$20,774	$24,254
Affordable at this Income	$49,000	$49,000	$58,330	$58,330	$69,246	$69,246	$80,848
% AMI	90%	90%	107%	107%	127%	127%	149%

* Assume this is a new lease on a renovated unit

vacancy increase. In this scenario, the median rent escalates to $2,000/month in the year 2018, while the $1,200 unit reaches that level in just seven years.

The percentage AMI to which each unit is affordable is clearly most sensitive to the combined effects of the renovation and successive vacancy increases. In the above scenario, the median-rent unit remains affordable at less than 110% AMI for only three years. The $1,200 unit fares slightly better in this case, remaining within that range for four years.

These two analyses illustrate the main points of this case study. The first is that the renovated units are somewhat within the affordability range indicated for key workers, assuming that the tenants receiving the renovated unit remain in the unit over a period of years. However, when the unit is vacated and the rent is increased by an additional 17%, the unit quickly escalates above the affordability level. As a provision of the rent-stabilization law, this same effect can be seen whenever a regulated unit is leased to a new tenant, and therefore is not unique to Urban's operational strategy.

Clearly, the marginal benefit of a renovated and re-leased unit goes mainly to the first tenant to sign the lease after the renovation, before the first renewal increase takes effect. In the case of an $8,000 renovation, the first tenant receives the full benefit of the renovation for a monthly cost of $200, amortized over 40 months. The amount of the vacancy increase brings the full incremental cost to $351/month. However, if the unit is re-leased under a new vacancy lease, the increment increases by an additional 17% to $411, and so on down the line, even as the useful lives of the finishes decline.

The second main point to be considered is that the analyses reveal that two different income groups in need of affordable housing are currently being served by this property. The median rent is affordable to those households earning 60-80% of AMI, another income range that has difficulty finding housing to fit their incomes. Once a unit is vacated and renovated, however, the affordability landscape shifts to the key-worker range of 80-110%. This illustrates the unfortunate fact that these two income groups are basically in competition for housing, and that affordability at the lower level is extremely sensitive to any cost increases as a result of vacancy or renovation.

A third issue highlighted by the analyses is the momentum toward the deregulation threshold. For apartments with continuing tenants, subject to modest year-by-year increases, the point at which the $2,000 monthly rent will be achieved is 15-20 years in the future. However, once a unit has had an initial vacancy and IAI increase allocated, the time horizon to deregulation hastens appreciably. These units may be expected to reach a $2,000 per month rent in as little as seven years.

One potential factor in deferring rent increases is the J-51 tax abatement, the use of which offsets a portion of the rent increase for 14 years. This measure has the potential to significantly forestall deregulation, however, it must be assumed that abatements are not requested in all circumstances, specifically for this reason. Tennis Court, for example, had only undergone $128,633 in capital improvements as of December 2006, and for an amount this small it may not be worth it to the company to pursue the abatement and correlating tax exemption. However, on a larger property with many millions of dollars scheduled in improvements and many apartments over which the MCI pass-throughs would be distributed anyway, the abatements may be an appropriate incentive to maintain rent-stabilization.

Conclusion

The purpose of this paper was to examine Urban American's business model of acquiring and renovating older, often distressed apartment buildings in the New York metro area; to find out if they are able to meet their stated goal of providing workforce housing aimed at key workers earning 80-110% of AMI; to ascertain to what extent and for how long the apartments are affordable at that income level; and to account for rent-stabilization's role in the process.

The company profile demonstrates Urban's business and operational strategies and illustrates that employing physical adjacencies and economies of scale can help maximize value in individual properties. Although an individual landlord might be averse to taking on the perceived risk of costly improvements, Urban is able to deploy capital and personnel in an efficient, cost-effective way. In doing so, they are able to produce a high-quality product that is affordable at 80-110% of AMI. Although renovated units generally exceed rents affordable to those earning less, there is a stated shortage of good-quality housing affordable to the middle class in New York City; by improving the individual units, buildings, and neighborhoods, Urban is successfully creating a product in high demand in the metro area, and therefore able to charge the maximum rent allowable under rent stabilization.

The legacy of rent stabilization on the physical landscape of New York has in essence created the niche asset class the Urban is now acquiring. Rent stabilization continues to play an important role in Urban's investment strategy, by permitting rent increases that are flexible enough to make renovation a viable option yet preserve immediate affordability. Although the time horizon to deregulation is foreshortened by Urban's strategy of capital improvement and apartment renovation, eventual deregulation is a reality for most apartments; the question is, what condition will those apartments be in when deregulation is achieved? For those properties which Urban has acquired, it is safe to say that they are being and will continue to be upgraded and preserved, thereby assuring that they will remain a viable portion of the housing stock for many years to come.

All told, there is no easy solution to the shortage of affordable housing in New York City or the country at large. In the metro area, the problem is exacerbated by the scarcity and high cost of land, guaranteeing that very little new housing construction will be affordable for most households. This puts the majority of residents in competition for whatever affordable stock there is, and usually, the highest of the middle-income earners are likely to edge out their lower-earning counterparts. Neither a pure public-sector approach via subsidies, nor a pure private-sector approach is able or suited to meet the full demand. However, by taking a fuller view of the capabilities of the private sector to meet some of the demand where government subsidies leave off, it is realistic to believe that a company such as Urban American can both do well and do good, and has a vital role to play in the provision of workforce housing.

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