New York City: Luxury housing market recovers as homelessness rises

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The impact of the economic crisis on housing in New York City has once again laid bare the nature of class relations that exist in America's largest city and the capital of global finance. While the crisis has devastated the standard of living for many workers—with further ominous threats looming—the wealthy of the city are now recovering their pre-crisis affluence.

Thanks to the massive government bailout of the financial system, the city's financial aristocracy is awash in bonuses and stock market profits. Wall Street dished out tens of billions in bonuses this past year, a record increase from the previous year. The Dow Jones Industrial Average recently rose above 11,000, reaching the highest point since September 2008, the month when Lehman Brothers collapsed.

Flush with these gains, the city's wealthy residents have resumed much of their lavish spending. The clearest indication is in the revival of the luxury housing market covering large sections of Manhattan. During the first quarter of 2010, the average price of a Manhattan apartment rose to a staggering $1.4 million. While still well below the peak of $1.8 million in 2008, the increase last quarter represents a significant improvement from the previous quarter, signaling a turn-around. Similarly, the average monthly rent for a Manhattan apartment increased quarter-over-quarter and now stands above $3,800.

"We're firmly on track with the recovery," Diane M. Ramirez, president of Manhattan-based real estate firm Halstead Property, told the *Wall Street Journal*. "I'm breathing again. It's great." Attracted by "bargains," Manhattan buyers nearly doubled sales relative to the first quarter in 2009.

Howard Margolis, managing director of Prudential Douglas Elliman, sounded an optimistic note in an interview with BusinessWeek. "The luxury market has started to resurge," he said. "People are starting to feel more confident." Margolis was fresh from a $33 million sale of an apartment in the Trump Tower, adjacent to Central Park. It was the largest sale of the year thus far.

In another extraordinary example of excess, the Mark Hotel on Manhattan's upper east side recently placed its luxury penthouse condo on the market. The asking price for the five-bedroom, eight-bath duplex is an incredible $60 million.

But it's not only high-end apartment sales that are recovering. Overall, luxury goods sales have increased 23 percent year over year last month. Luxury jewelers Tiffany & Co. more than quadrupled profit last quarter, with sales in its New York flagship store up 22 percent. The *New York Times* reported recently that sales of yachts, private jets and extravagant vacations are also recovering.

The level of wealth possessed by this social layer, which affords them multi-million dollar homes, lavish jewelry, private jets and art collections that make museums jealous, is beyond the comprehension of most workers during so-called good times, let alone in the midst of the worst economic disaster in 70 years.

The conditions imposed upon the majority of the population stands in sharp distinction. For them, no hint of a recovery can be seen. The economic downturn has provoked double-digit official unemployment in New York, along with devastating attacks on wages and cuts in desperately needed public services.

In contrast to the exorbitant sums thrown around by Manhattan real estate moguls, many ordinary New Yorkers are finding it tougher to pay rents and mortgages amidst falling wages, reduction in hours and job losses. Nearly a third of adult workers citywide are now employed in low wage jobs, making less than $11.54 an hour (equivalent to about $24,000 a year). In the Bronx the number of low wage workers stands at an extraordinary 42 percent.

Consequently, many residents are forced to pay out even more disproportionate shares of their income towards housing. The New York State comptroller estimates that nearly half of all households paid more than 30 percent of their income on rent. A recent study by the National Low Income Housing Coalition found that approximately 60 percent of renters in the New York City metropolitan area are unable to afford "fair market rent."

Working class homeowners have borne the brunt of the crisis in the city, which saw 20,000 foreclosure filings last year. Working class and predominantly minority neighborhoods in southern Queens, such as Springfield Gardens, St. Albans and Jamaica lead the entire state in the share of foreclosures.

According to estimates by housing advocates, "4,700 apartments in dozens of buildings across New York City are in foreclosure, and ... about 110,000 apartments are at risk," the *New York Times* reported last week.

In a number of cases, these foreclosures are the result of failed speculative ventures in which private equity firms bought up buildings in poorer city neighbourhoods in the expectation that the booming real estate market would allow them to "flip" the properties, driving out low-income renters and bringing in better-heeled residents paying far more for the apartments.

Such was the case with Milbank Real Estate, which secured a $35 million mortgage from Deutsche Bank to buy 10 buildings in the Bronx. Deutsche Bank in turn securitized the mortgage, selling it to Wells Fargo.

Milbank laid out its rapacious strategy on its web site, declaring that it had "identified the Bronx borough of New York as one of the last boroughs to offer affordable rent, which would also be positioned to undergo significant gentrification.” It promised that by “aggressively pursuing the collection of past-due rents” and “litigation related to evictions” the company could secure “an improved tenant base and increased rental income from the properties.”

Instead, it was unable to even cover the maintenance of the buildings, not to mention the mortgage payments and defaulted, walking away from the properties last year. Since then, they have been left to deteriorate, with tenants left without hot water or heat, enduring leaks, rat and roach infestations and other abysmal conditions. Bronx tenant organizations are now suing the banks, demanding that they take responsibility for fixing these conditions, which their predatory lending policies did so much to create.

Meanwhile, under the stress of growing budget deficits, the city, state and federal governments are scaling back their housing assistance programs, even as demand soars.

Funding cuts by the federal government may compel the New York City Housing Authority (NYCHA) to eliminate Section 8 vouchers for thousands of residents. According to the *New York Times*, the federal Department of Housing and Urban Development (HUD) has provided the Housing Authority less money than expected for vouchers.

Tenants under Section 8 usually pay 30 percent of their income toward rent while a voucher pays for the rest. In New York City, over 100,000 families have vouchers from the NYCHA. These vouchers permit families to live in privately owned buildings and complexes that accept Section 8 benefits.

Last year the Housing Authority had continued to issue new vouchers through most of 2009 due to the large number of emergency cases, including homeless families as well as victims of domestic violence. This continued even after HUD warned them to stop because the program was running out of money. Finally, in December of last year, the Housing Authority ceased issuing new vouchers and even voided 2,600 outstanding vouchers, causing widespread anger among the affected families.

The current budget gap for the Section 8 program administered by the New York City Housing Authority stands at $21.5 million, even after a recent decision by HUD to provide a limited amount of additional funding. It is unclear exactly how many Section 8 recipients will be affected.

Individuals with newer vouchers have expressed concern at the possibility of losing their Section 8 benefits. The *Times* spoke with an elderly immigrant couple from Ukraine. Izolda Mandelblat and her husband, Moisey Frenkel, live in a one-bedroom apartment in upper Manhattan. The couple had been on the Section 8 waiting list for over a decade before receiving their apartment. Prior to receiving the apartment, the couple struggled to pay the bills and pay for their medications. According to their granddaughter, the pair has been more hopeful since they moved into their new apartment.

When asked by the *Times* what she would do if her voucher was revoked, Ms. Mandelblat said, “Oh no, oh no. I would be homeless. I would die.”

Another woman, Sagario Mendez, discussed the possibility of losing her voucher with *BusinessWeek*. “If they cut Section 8 for me, I would have to use the money I get from Social Security to pay for my rent. So after I pay rent, I would have no money, not even to pay for the bus or pay for food.” Mendez is a 61 year-old disabled former factory worker. She first applied for rental assistance vouchers in 1990 and had to wait 19 years to finally get a voucher. Now she fears she may lose her studio apartment in Queens if her voucher is revoked.

After vouchers were cut last year, the Housing Authority told affected individuals to apply for public housing. However, the waiting list for public housing can be many years long, and it is not uncommon for families to wait over a decade before they receive a unit. While the waiting list for Section 8 housing in New York is over 120,000 families long, the list for public housing is even longer. Approximately 178,000 families live in public housing complexes owned by the Housing Authority.

For those not eligible, or waiting for public housing or vouchers, the only option is often stints of homelessness. According to the Coalition for the Homeless, an all time record number now depend on the shelter system, nearly 40,000 at present and approximately 120,000 at some time during the past year.

Between July and September of last year alone, the number of people seeking emergency housing from the city’s shelter system soared by 34 percent. The estimated number of people sleeping on the city’s streets, according to a head count done annually by the city, has risen by 34 percent since last year to 3,111. While this number is far from complete—including only those who were physically counted by some 2,500 volunteers over the space of four hours on one night last January—the rate of increase is indicative of deteriorating social conditions in the city.

To make matters worse, New York City is now demanding rent of up to 45 percent of gross monthly salary for those in the shelter system who hold jobs. Steven Banks, chief attorney of the Legal Aid Society, told the *New York Daily News*, “This is an extreme policy that has no discernible benefit, that will end up hurting the families and costing the taxpayers money.”

The city had planned to impose this policy last year but backed off after the Legal Aid Society threatened a lawsuit. As the budget deficit has ballooned along with the number seeking aid, the city is apparently no longer daunted by threats of litigation.

Section 8 vouchers, public housing and homeless assistance were implemented not as gifts from above, but rather as a response to decades-long militant struggles by the working class to improve living standards and provide a safety net in times of need. The economic crisis is now being used to scale back these programs. While politicians often invoke refrains of shared sacrifice, the resurgent opulence of the financial aristocracy, side-by-side with growing misery for large sections of the working class, reveals who is really made to pay for the economic crisis.