



“Unintended Consequences”: A STUDY

Supply Analysis

Data

Regulations designed to restrain price growth often have the opposite effect. This study is intended to demonstrate that the elimination of the Vacancy Factor by the Rent Stabilization Guidelines Board in 2019 had “Unintended Consequences” that resulted in higher, not lower, rents.

By measuring the average annual number of listings per building, by the year the building came to market, we determined that buildings that came to market from 2017 through 2019 were noticeably impacted. We used the average annual number of listings because a reduction in this number indicates higher levels of retention. The reduction in the number of available units, in turn, contributes to higher rent prices in the market.

Buildings that came to market from 2017 through 2019 were a larger than average annual number of buildings because they were planned to grandfather tax benefits under the expiring 421 a. The chart below shows the number of units that came to market annually since 2010.

Rental Units per Year in Brooklyn, Manhattan, Queens													
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Units	9,519	8,701	5,418	9,574	7,585	10,913	14,638	17,585	16,305	11,976	9,698	12,878	14,081

Not including 2017,2018 and 2019, an average of 10,301 rental units came to market each year in the three boroughs. The average number from 2017-2019 was 15,289 units, 48% more than in the other years.

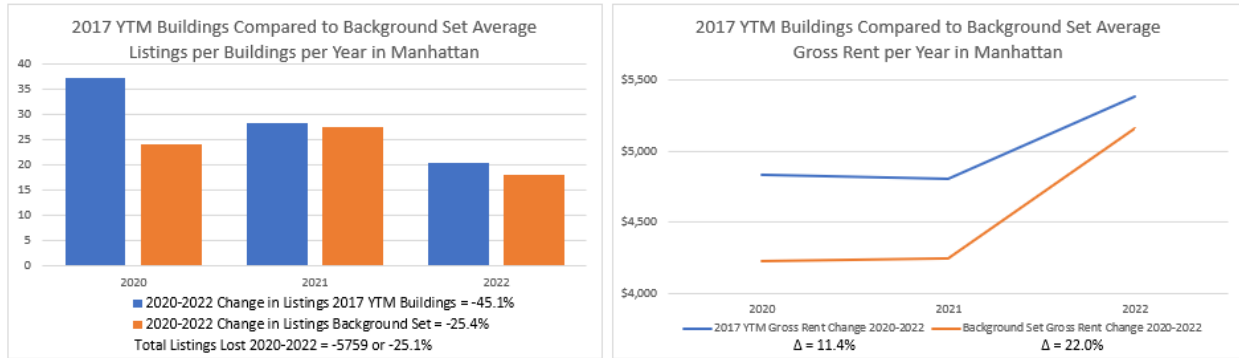
Compared to buildings that came to market earlier, these buildings were particularly impacted because they didn’t have time to accumulate the annual vacancy factor in their registered rents. So, as rents began to rise after Covid, with the return of the population to the City and the growth in employment, these buildings had higher rates of retention and lower levels of availability. The lower level of available units, in turn, contributed to the increase in rents in the market as a whole.

To demonstrate this, we analyzed data for these attended buildings in Manhattan, Brooklyn, and Queens. We used attended buildings for this analysis because they generally represent core locations and a longer history of supply. We did the same analysis with all buildings with a similar result regarding the decline in the number of listings but the impact on prices was greater in the attended buildings set.

All rental data are from the Nancy Packes Data Services Transactions Database.

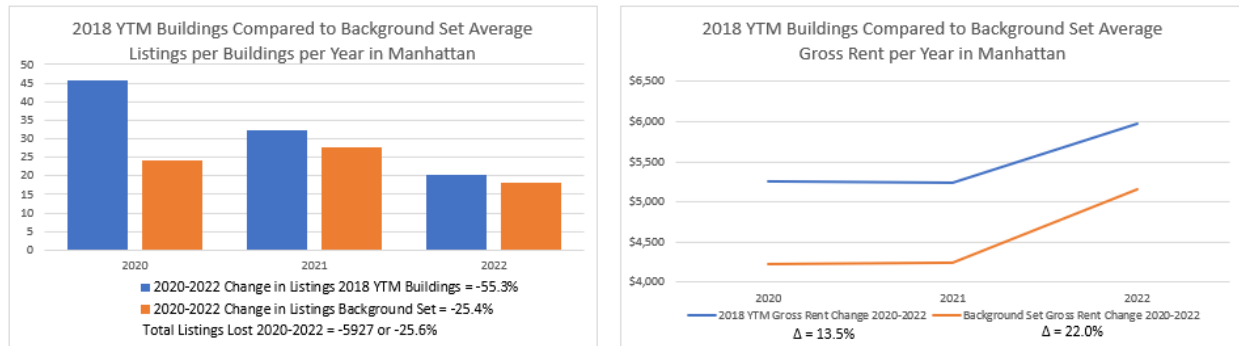
For Manhattan, the charts below demonstrate the declining level of availability in these buildings as reflected in their listings. Each chart displays the year the building came to market and the comparison of the decline in listings and rent growth compared to buildings that came to market prior to 2017 or after 2019.

Manhattan Buildings 2017 YTM: 17 buildings 2,968 units



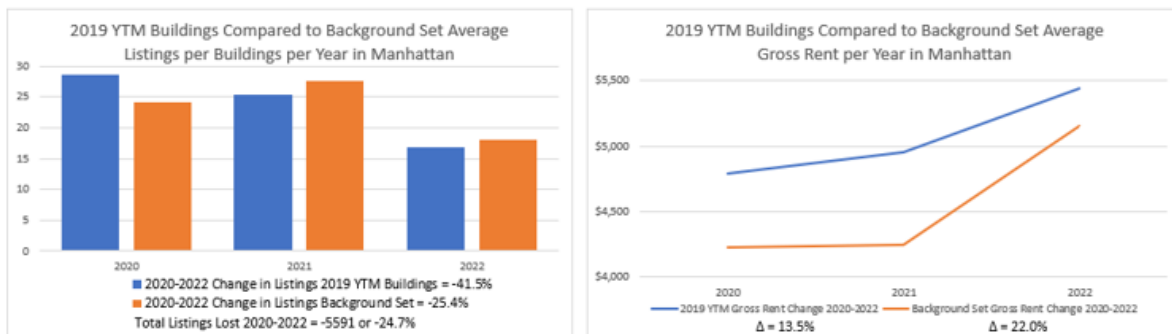
The 2017 YTM buildings had almost double the rate of decline in availabilities and half the rent growth. Isn't that the desired result, lower rent growth? No, is the answer, because the number of buildings in the background set is so much larger that overall rents increased in the market.

Manhattan buildings 2018 YTM: 18 buildings and 3,961 units



For the 2018 YTM buildings. The results were very similar.

Manhattan buildings 2019 YTM: 10 buildings and 1,386 units



All Data are from the Nancy Packes Data Services Transactions Database

Like the prior YTM buildings, substantially fewer availabilities. Please note that in the year after a building’s initial lease-up, there may be a higher level of availabilities because tenants who received a rent concession during the initial lease-up may choose or not be able to renew. This effect is evident here, and not in the charts for the earlier years because of the smaller number of buildings.

So, in Manhattan, attended rental buildings that came to market from 2017 through 2019 had both a greater decline in listings as well as smaller rent growth compared to other attended rental buildings in Manhattan. On average, buildings that came to market from 2017 through 2019 had a 21.9% greater decrease in listings and 9.2% less rent growth compared to all other attended rental buildings in Manhattan. In total, attended rental buildings had a decrease of 6,333 rental listings from 2020 through 2022.

Similar effects were demonstrated in Brooklyn and Queens.

Data for Brooklyn and Queens can be [downloaded here](#).

Observations

As is to be expected, the decline in listings has an almost perfect correlation to the increase in rents as seen in the charts below.

Total Listings to Gross Rent Correlation Manhattan				Total Listings to Gross Rent Correlation Brooklyn				Total Listings to Gross Rent Correlation Queens			
Year	2020	2021	2022	Year	2020	2021	2022	Year	2020	2021	2022
Listings	24,011	26,662	17,419	Listings	5,895	5,477	3,340	Listings	4,599	4,866	3,015
Gross Rent	\$4,289	\$4,281	\$5,170	Gross Rent	\$3,527	\$3,526	\$4,174	Gross Rent	\$3,218	\$3,385	\$3,823
Correlation	-0.963			Correlation	-0.988			Correlation	-0.919		

So, while a few lucky tenants benefitted from lower rents on renewal, the much larger market suffered.

As the City struggles to meet the need for housing, the regulatory environment has been a major contributor to the problem, suppressing supply in newer and older buildings.

Annual Rent Stabilization Board rent increases have averaged 1.6% over the past 10 years while the average annual rent increase in the market has been 3.2% for all rental buildings in Brooklyn, Manhattan, and Queens. This also promotes retention and increases rent.

Also, in 2019, the rules were changed regarding the return on investment for renovating apartments. Estimates in the press have ranged from 30,000 to 40,000 units affected and off the market. It should not be difficult to address this problem with a rational return on investment in an economy where wealth creation is based on investment risk and return.

Finally, the failure to provide tax benefits for rental buildings in a market where land prices are set by the condominium market is the last nail in the coffin of the housing problem on the supply side and all these problems are the result of faulty regulations.

Conclusion

It should be obvious, with our market-driven economy, that efforts to control prices through regulation always backfire. Affordable New York was a step in the right direction by allowing market rate, not stabilized rental apartments. But rents in these newer buildings have skyrocketed because of the regulation of the vastly greater number of older buildings. It seems an impossible dream, but regulators must recognize that the market sets the lowest price through supply and demand. So, now, let's look at demand.

Demand Analysis

Data

On this side of the equation, there are three major industries that support the need for market-rate housing: Technology, Finance, and Business Services. While the rest of the country has been struggling with job losses, New York City has not! In recent years, New York City has gained jobs in all three industries.

To analyze the job market in NYC, we used wage and employment data from the NYS Department of Labor and the Bureau of Labor Statistics for these three industries from 2010 through the present. Please find below a table with the wage and employment growth rates.

NYC Wage and Employment Statistics by Industry							
	Avg Hourly Wage			Annual % Wage Increase		Annual Employment Growth	Annual % Employment Increase
	2010	2019	2023	2010-2019	2019-2023	2019-2023	2019-2023
Finance	\$43.24	\$51.76	\$63.86	2.19%	5.84%	2,525	0.53%
Tech	\$47.20	\$49.81	\$64.12	0.61%	7.18%	3,975	1.83%
Business Services	\$40.13	\$47.10	\$56.38	1.93%	4.93%	6,350	0.83%

*Most Recent DOL Data

To further understand the data, industry subgroups were then categorized into high-wage and entry-level jobs, based on the average income of each profession. The Technology industry does not have subcategories in the BLS data, so we were only able to analyze Finance and Business Services. These reports were last updated in 2022. Please see below.

Finance High-Wage Versus Entry-Level Jobs		
	2019-2022 Annual Wage Growth	2019-2022 Annual Employment Growth
High-Wage	12.4%	2.9%
Entry-Level	12.5%	-0.5%

*Data from BLS

Business Services High-Wage Versus Entry-Level Jobs		
	2019-2022 Annual Wage Growth	2019-2022 Annual Employment Growth
High-Wage	7.3%	11.3%
Entry-Level	3.4%	-1.0%

Observations

The data indicate that from 2010 through 2019 wages in the Finance industry grew the fastest at 2.2%, followed closely by wages in the Business Services industry at 1.9%. The technology industry had the slowest growth rate at 0.6% per year. However, since 2019, wage growth in the Technology industry has outpaced both other industries, and the average Tech wage is above the average Finance wage by \$0.26 per hour.

The BLS averages wage data in high and low categories for Finance and Business Services but only gives an average number for Technology. This seemingly slim increase in Technology wages above Finance is not a head-to-head comparison. A Bloomberg article indicates that Technology contractors are typically paid \$120 per hour, while the high-end Finance worker is paid \$103 per hour.

Technology has also surpassed the other two industries in terms of job growth. Since 2019, the Technology employment growth rate has tripled the finance rate and more than doubled the Business Services growth rate.

And, over the past 12 months, while the rest of the country has been losing employment in these three industries, NYC has continued to flourish with the addition of approximately 43,000 jobs combined in the three industries.

Conclusion

The “Unintended Consequence” of the Pandemic was the drop in land and office prices that facilitated the tech migration. In the post Pandemic environment, employment in the City has shifted, with the Technology industry having the fastest growth in wages as well as jobs.

While population migration into big cities has been notable in the South and West parts of the country in recent years, the phenomenon occurring in NYC is not simply about population growth. It is about the growth of the three leading demand source industries for luxury multifamily housing. This is despite job losses in these industries across the nation.

The Technology industry, that was born in west coast campuses, has graduated. These workers want to be in big cities and particularly in New York. Why? Because their main cultural value is sharing.

Computer code addressing major functions, like Linux, is available for free. If a programmer faces an issue, someone has probably posted the solution, or a participant in a chat group will supply it. This group wants to share culture and cultural values at the frontier, New York City. The greatness of the City is not its buildings, it's the culture. Here, no one cares where you come from as long as you have something interesting to say. For this group, the main goal is not to get a good job, get married, have children, and raise your children to a better future than your own. Those things are still important. But these people have a level of personal power never possible before. They create the future. Technology is the second and much more revolutionary Industrial Revolution. The first one liberated our bodies. This one has expanded our minds.

The individual is now the seat of innovation. Once it was Euclid, Newton, and countless other heroes who changed the world. And, we have always had artists and scientists in the field of discovery and

innovation. But now, a much larger class of individuals is reinventing our reality. Just as important as the rise of the individual as creator is that they are not part of any special interest group using its economic clout to suppress the truth from its own ends. The effort to perpetuate the notion that the world is flat would probably not last very long if it were floated today.

And the individual, as creator, has embraced the idea of sharing. This is how art operates: groups and schools of innovation. Technology is the new art. With creativity now germinating at the level of the individual in the sharing culture, it is an evolutionary certainty that life will improve.

All evolution has been coming to this: the rise of individual consciousness. From the pre-Renaissance flat canvases to perspective, to mental Impressionism and Abstraction, it's all been coming to this. See Leonard Schlain: Art and Physics for an amazing analysis of the parallel evolution of art and science.

Conclusion

We think the message is clear. The need for housing is humanitarian and economic. The child of today's immigrant is tomorrow's professional. They all want to be here. They need homes. Regulations affecting supply and pricing are seriously flawed. If this can be realized at the level of policy creation, then there can be a rational dialog to promote the creation of housing.

Thank you for taking the time to read this study. Please feel free to contact me with any questions or comments.

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6/26/2023