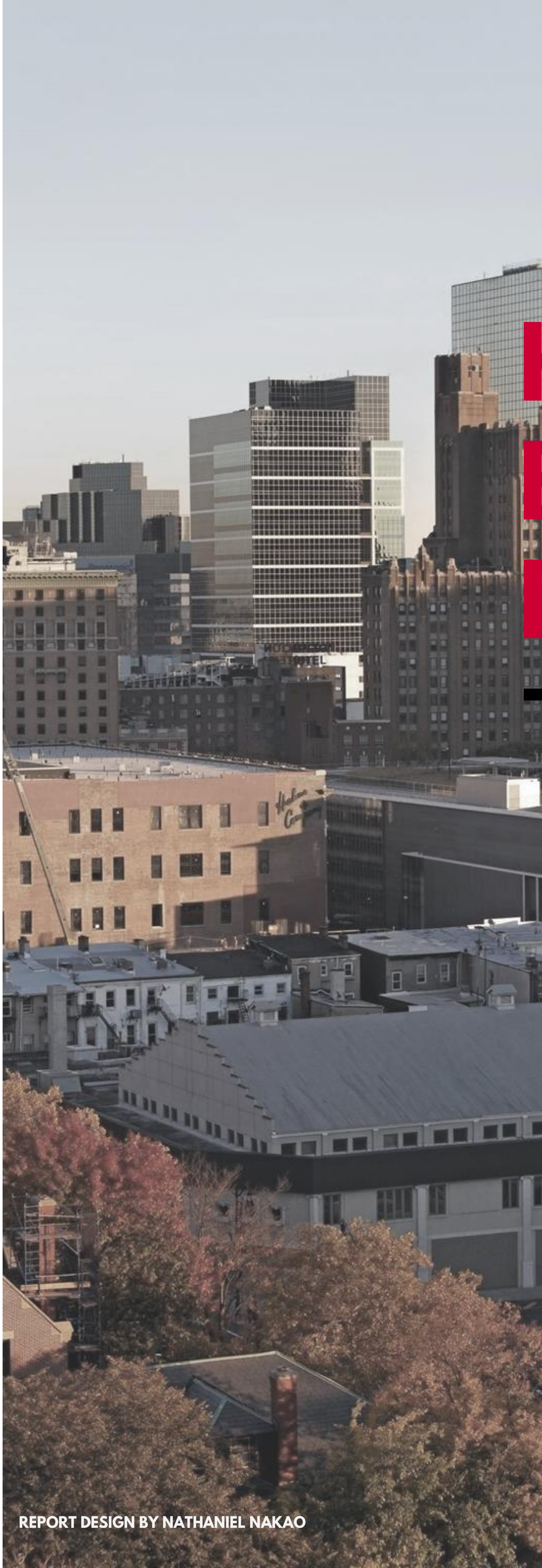

RUTGERS CLiME
Center on Law, Inequality and Metropolitan Equity

# HOMES BEYOND REACH

## AN ASSESSMENT & GAP ANALYSIS OF NEWARK'S AFFORDABLE RENTAL STOCK

FEBRUARY 2021

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# EXECUTIVE SUMMARY

CLiME conducted an affordability and gap analysis of Newark's housing stock and found a severe gap in low-rent units. We estimate that the City needs an additional 16,234 units renting for about $750 per month to meet residents' existing needs.

CLiME's approach to assessing affordability is rooted in the local context. We calculate a Newark Median Affordable Rent (NMAR) of $763 per month. This is $330 less than Newark's median market rent, and more than $600 less than Fair Market Rent (FMR), created by the Department of Housing and Urban Development. We also develop a methodological innovation to integrate the City's rental housing subsidies into the affordability analysis. This procedure, the first of its kind as far as we know, provides a much closer picture of affordability in a City where at least 28% of all units are subsidized.

Unit size matters. Newark's housing stock of studio and one-bedrooms is more affordable than the City's stock of larger units. CLiME found that 37% of studios and one-bedrooms are affordable to typical renter households, compared to just 25% of two-bedroom units, and 22% of larger units. An overriding explanation for why the City's smaller units are more affordable is because of the extra support they receive from rental subsidy programs. The largest gap in affordable units is for units with two-or-more bedrooms. We estimate that the City needs an additional 8,706 two-bedroom units, and 5,893 units with three or more bedrooms, renting for $750 or less to meet the affordability needs of Newark renters.

**Most Newarkers are rent-burdened—i.e., stretched to the limit by housing costs.**

- Before COVID started, 59% of all Newark renters were cost-burdened, meaning they are spending more than a third of their incomes for shelter. Almost one-third of Newark renters were

severely cost burdened, meaning they spent more than half of their incomes for shelter.

- The typical Newark renter can afford to pay $763 per month for housing.
- The typical renter is paying roughly $330 more per month than they can afford.
- The rent which is considered "fair" by housing subsidy programs for a 2-bedroom unit is $680 more per month than what the typical renter household can afford.
- The largest producer of affordable housing in the nation—the Low-Income Housing Tax Credit—produces units that are $400-$700 more expensive than what is affordable to the typical Newark renter.

Newark's competitive housing market is out of reach for most residents.

- Roughly half of Newark's households compete for less than a third of Newark's rental units that are affordable.
- Newark has almost 40,000 households who earn less than $30,000, but less than 20,000 low-rent units that are affordable to them
- Even at the cutoff of $40,000, there are roughly 46,000 households competing for roughly 32,000 affordable units that cost less than $1,000 per month.

Larger units for families are the most out of reach.

- 37% of Newark's studio and one-bedroom units cost less than $600 per month.
- Only 25% of Newark's two-bedroom units cost less than $750 per month.
- Only 22% of units with three or more bedrooms cost less than $750 per month.

The affordability gap is enormous.

- Newark has a shortage of 16,234 units that cost $750 per month or less.
- Most of this gap is in units with at least two bedrooms. CLiME estimates the City needs an additional 8,706 units with at least two-bedrooms, and 5,892 units with at least three-bedrooms.
- The analysis identified at least 1,177 households living in overcrowded units. This overcrowding is part of the need for more larger affordable units.

The rate of new affordable housing production over the past 5 years is low.

- Affordable housing production is often maintaining affordable units, rather than creating new ones. Out of 3,514 affordable units completed or in the pipeline since 2015, more than half of these are rehabilitations of aging units.
- The median rent on new construction since 2014 is $1,671, more than twice as high at the Newark Median Affordable Rent (NMAR).

The need is strongest in the Outer Wards.

- Each of the outer wards has a gap of more than 3,000 low-cost units that rent for less than $900.
- There is little demand for additional affordable housing that cost between $900 and $1250 per month. The need is for units with less expensive rents.
- The greatest need for very-low-cost units (less than $500 per month) is in the North, West, and East Wards.

Policy Conclusions and Preliminary Recommendations:

1. The City—mayor and city council—should set clear goals with unit and rent numbers attached based on the realities of Newark neighborhoods. This exercise may be aided by experts in maximizing unit design. There is a national movement of building innovation Newark should join.
2. Goal-setting should be bold and creative. The City should do all that it can, but should assume a leadership position in garnering political support for greater public investment in affordable housing at the state and federal level. The need is simply that great—and growing.
3. Affordable housing production—of new units, renovations and rehabbed—is fundamentally a private market business made possible by public subsidy. The City does not build its own affordable housing, though it can incentivize it. Those incentive programs must be intentional and strategic. We recommend prioritizing the hardest part of the market to attract private activity: low- and very low-income households at the City's median income of $30,000 per year.
4. Federal affordability thresholds drastically overstate what is affordable in Newark, and challenge the City's ability to create new affordable units. Only deep subsidies

are able to meet the needs of most Newark renters. We recommend the City prioritize 30% affordability where possible, no more than 50% in lieu of 60%, and look for creative avenues to bring the rents down further to what residents can afford.

5. Deep subsidies may only be possible with substantial layering or cross-subsidization. The City has been proactive in pursuing this through, for example, supporting small and emerging resident developers. More is needed. This means:
   - reducing land costs as much as possible (e.g., through the disposition of city-owned land held by the Land bank) and prioritizing deals with local CDCs;
   - strategically using gap financing mechanisms, incentivizing affordable housing developers;
   - deftly maximizing the use of statutorily mandated development fees and Inclusionary Zoning Ordinance funds in the City's Affordable Housing Trust Fund;
   - using studies like this one to seek increases in HUD's allocation to the Newark Housing Authority (especially the Housing Choice Voucher program); and,
   - soliciting private philanthropy in supporting housing options for target populations at greatest risk (e.g., the disabled, homeless youth).
6. The City should actively promote experimentation with price-restricted forms of housing beyond rent control in order to preserve the gains it creates, such as Community Land Trusts which can be marshalled for rental housing.
7. New Jersey's cities are a repository of affordable housing and affordable housing need. The depth of this crisis could have been averted with more consistent and rigorous fair housing enforcement as required by state law. As a strong and consistent advocate for equitable growth policies, Newark's mayor should use his bully pulpit to highlight the plight of cities like Newark in a state that has failed to adequately enforce the obligations of every municipality to provide its fair share of regional affordable housing need.
8. FEDERAL ADVOCACY: Newark's elected representatives should work hard to increase federal block grant distributions under an expansion of the national Housing Trust Fund. The Housing Choice Voucher (HCV) program can be an extremely effective subsidy for low- and extremely low-income households and

must be expanded through passage of the "Pathway to Stable and Affordable Housing for All Act." Additional federal reforms include:

- Passing the "Affordable Housing Tax Credit Improvement Act" would alleviate some of the problems we identify here around the unreasonably high thresholds for affordability under the Low Income Housing Tax Credit (LIHTC);
- Repealing the Faircloth Amendment as sought in the proposed "Homes for All Act" would remove the 1999 cap on public housing units and invest in the production of over 9 million new units;
- Increasing funding for project-based rental assistance in order to preserve existing affordable units and for badly needed capital investment in decaying public housing inventories in Newark and across the country.

# OVERVIEW

This is a quantitative analysis of housing need in one of the nation's poorest cities at a time of desperate need. Before the coronavirus pandemic killed over 2,300 Newarkers and increased unemployment from 7% to 17%, advocates for affordable housing and equitable growth were concerned with displacement, gentrification, eviction and homelessness. Now those concerns are even more acute. The Census Bureau reports that New Jersey leads the nation in the percentage of households currently behind in their rent, 23%; Newark no doubt is much worse. It is a City of low-income renters. In fact, half of the City's renters – roughly 40,000 households, or 104,000 people – have incomes of $30,000 or less. Housing advocates refer to these renters nationally as *extremely low income*.[1] Half the entire population pays more than it can afford on housing costs. CLiME's analysis finds a severe gap in units that are affordable to these 40,000 households. We estimate the City would need to produce roughly 16,000 additional units that rent for less than $750 per month to meet this tremendous need. Cities across the country face affordability crises. Few compare to Newark's.

This analysis of numbers offers two facts about methodology that speak to the reality of people's lives: rent burden and local determination. First, we define affordability

[1] National Low-Income Housing Coalition, *The Gap: A Shortage of Available Homes*, Mar. 2020, available at https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2020.pdf

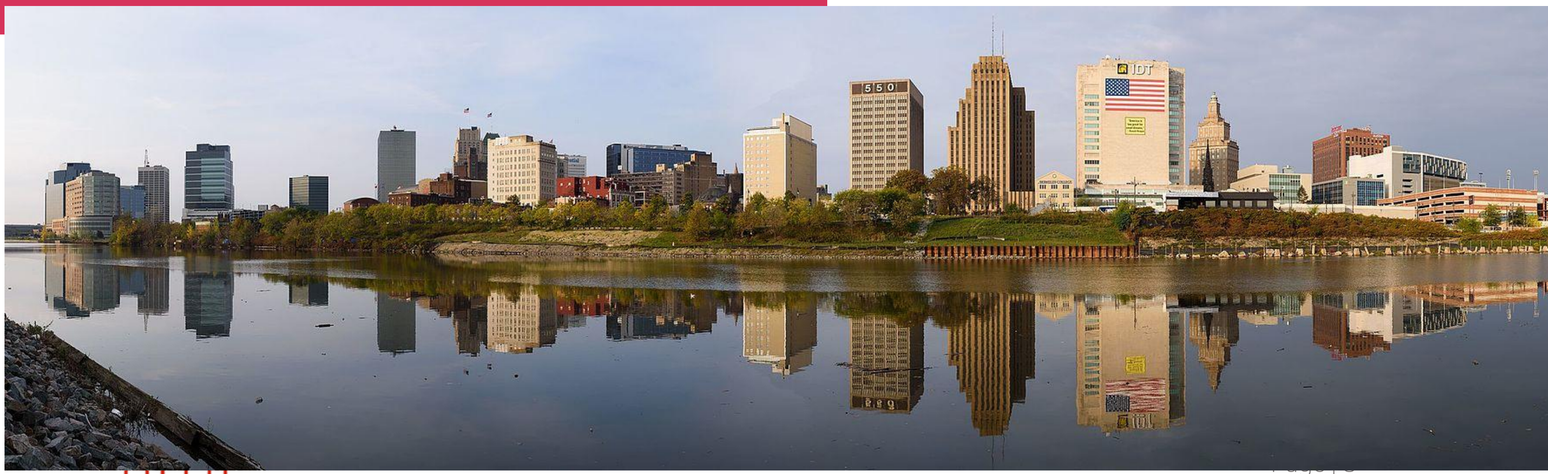
based upon federal guidelines of rent burden. Households that spend more than a third of their income on housing are “rent-burdened”, which means their ability to obtain other things suffers. Food, medical bills, clothing, utilities, transportation, a laptop for remote schooling and other expenses are all squeezed into what remains. A lost job or interrupted work schedule can throw everything into instability, threatening evictions. About 60% of Newark households are rent burdened. *A third pay at least half their incomes to live in the City*.

Yet overpaying for rent often means overcrowding for space, a fact of unaffordability that has become a lethal vector of disease in public health crisis. We found that people unable to afford housing often share it, which made sheltering in place during this pandemic much more perilous. Add in the inability to work from home and the greater exposure to the virus by working in public-facing retail and other low-wage jobs, Newarkers’ greater exposure to the virus put family members at greater risk. Meanwhile, the Newark Public Schools have postponed in-person learning since March. The negative impact of an affordability crisis on children’s educational growth is incalculable.

Second, CLiME replaces regional measures of affordability with local ones for a more accurate picture of need. As we explain more fully below, regional measures distort the level of instability Newarkers face in a housing market that forces them to compete for the few units they can afford. Because the regional market is so much more expensive, Newarkers have few options outside the City.

This picture is quantitative, the numbers carefully analyzed by Senior Research Fellow Katharine Nelson, with methodological notes mostly reserved for the appendices. Obviously, a more qualitative picture is needed, one that looks more closely at the types of household relationships in particular types of housing and neighborhoods, parses the experiences of tenants with different kinds of landlords and offers more about the specific causes of housing instability among people with, for example, mental or physical disabilities, the undocumented, returning citizens and multi-generational families. In this report, we offer a snapshot of demand against supply, using the best, though imperfect, statistical means available in order to provide the public and policymakers with a sound basis from which to address a problem that feeds upon itself.

The recommendations we offer should be considered preliminary and incomplete. More work needs to be done, more questions answered. Even then, the problem is too big and too structural for Newark to solve alone. Housing instability concentrated among the Black and Latino residents of an impoverished city sitting like an island in a region of white affluence reflects structural inequalities long in the making. A lack of housing affordable to households with median incomes of $30,000 begs the question, why do people make so little money? Part of it reflects the wages of Newark's many "essential workers"—in retail (10%), transportation and warehousing (12%), education/health care/social assistance (22%). Part of it reflects generations of racial segregation, poorly funded schools, white flight to locally sovereign suburbs and chronic underinvestment. This report shows a moment in time that captures decades of social and economic scarring before it and portends decades more if we don't act.



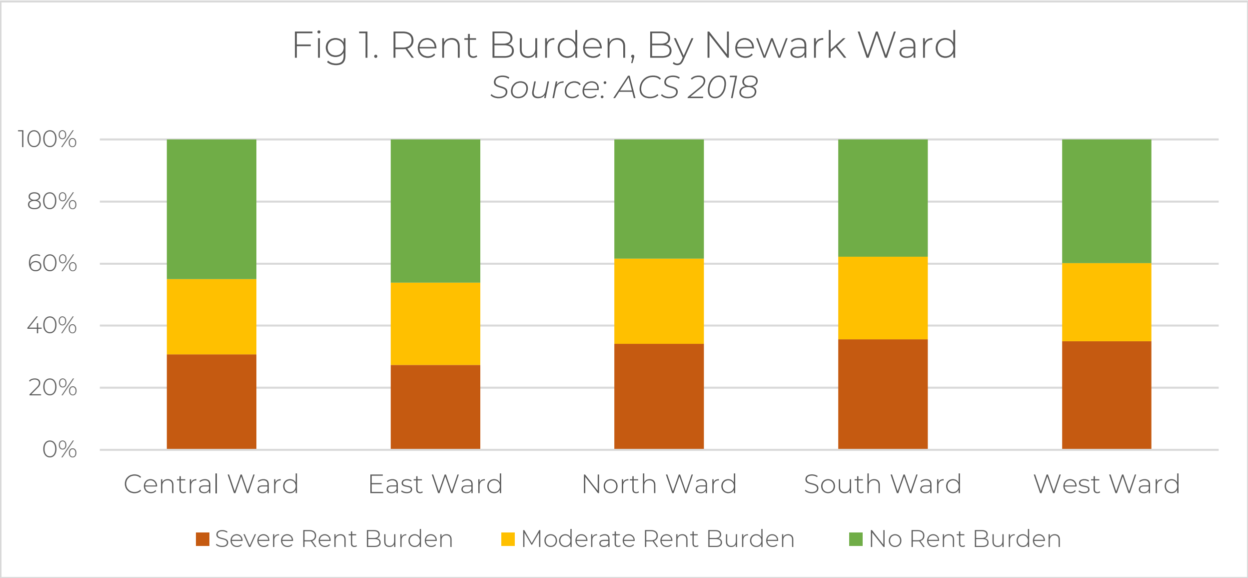
# I. UNMET NEED: THE AFFORDABILITY GAP IN NEWARK

Affordability describes the relationship between household incomes and housing costs. Tenants with higher incomes can afford to pay more in rent. The well-established benchmark for how much a household can afford to pay in rent is one-third of their income. Households who pay more than this share of their income in rent are said to be 'rent burdened', meaning that their rent is unaffordable. Households are considered 'severely rent burdened' if they pay more than half of their incomes in rent. Affordable housing is housing that rents for about one-third of a household's pre-tax income. The first section below shows the distribution of rent-burdened households across the City.

CLiME defines affordable to mean *affordable to Newark residents*. Conventional affordability language and housing subsidy programs are rooted in regional assessments of affordability. Regional approaches inflate incomes and rents beyond what most Newarkers can afford. After showing rent burdens, we define a concept called Newark Median Affordable Rent (NMAR) and compare it with the regional figures routinely used to assess affordability and produce affordable units. This number shows what Newark households can actually afford. Our analysis suggests that "affordable units" constructed using available public subsidies may in fact exacerbate Newark's rent burden because, remarkably, these new units are often more expensive than what many Newark renters can afford. Then we analyze affordability in terms of local need and offer a gap analysis that shows the extent of underproduction. We examine most of these variables by ward and neighborhood in the more detailed analysis in Section IV.

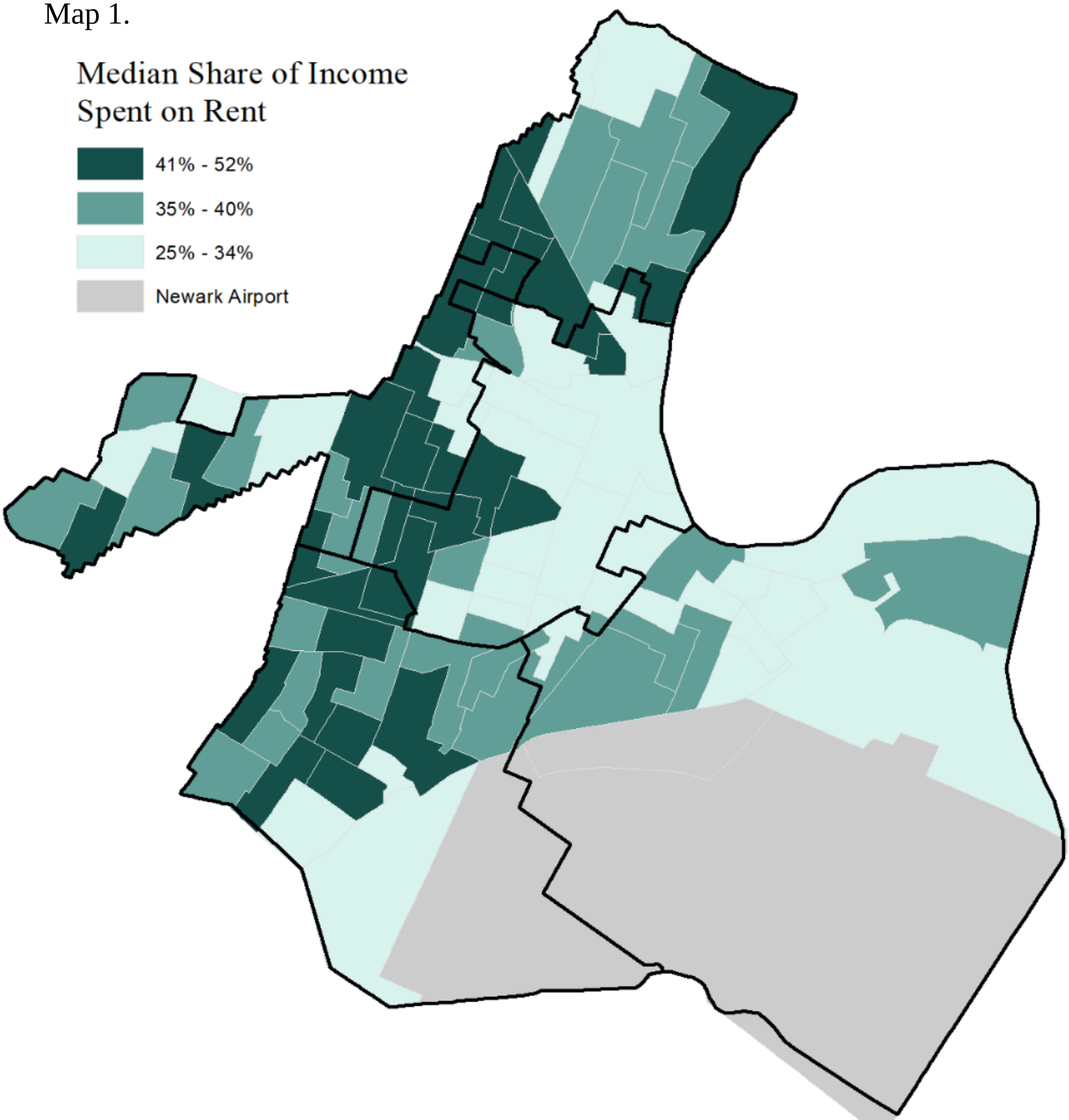
## *1. Rent Burdens Are High Across the City's Wards*

Households and families that pay more than a third of their income on rent—a whopping 60% of Newarkers—and often at least *half* of their incomes on rent—32.5%—instability often follows, especially if their overall incomes are very low. A lost job or hours reduction. A sick child's medical bills. A fender bender or cracked tooth. All of these daily surprises can threaten to displace a family from their housing through the trauma of eviction. The coronavirus pandemic brought many more of these factors into play, including the loss of breadwinners, unemployment and remote schooling without childcare.




As Map 1 below shows, all areas of the City have high rent burdens, but the highest are clustered on the western edge of the North, West and South Wards (ACS 2014-2018).

Map 1.



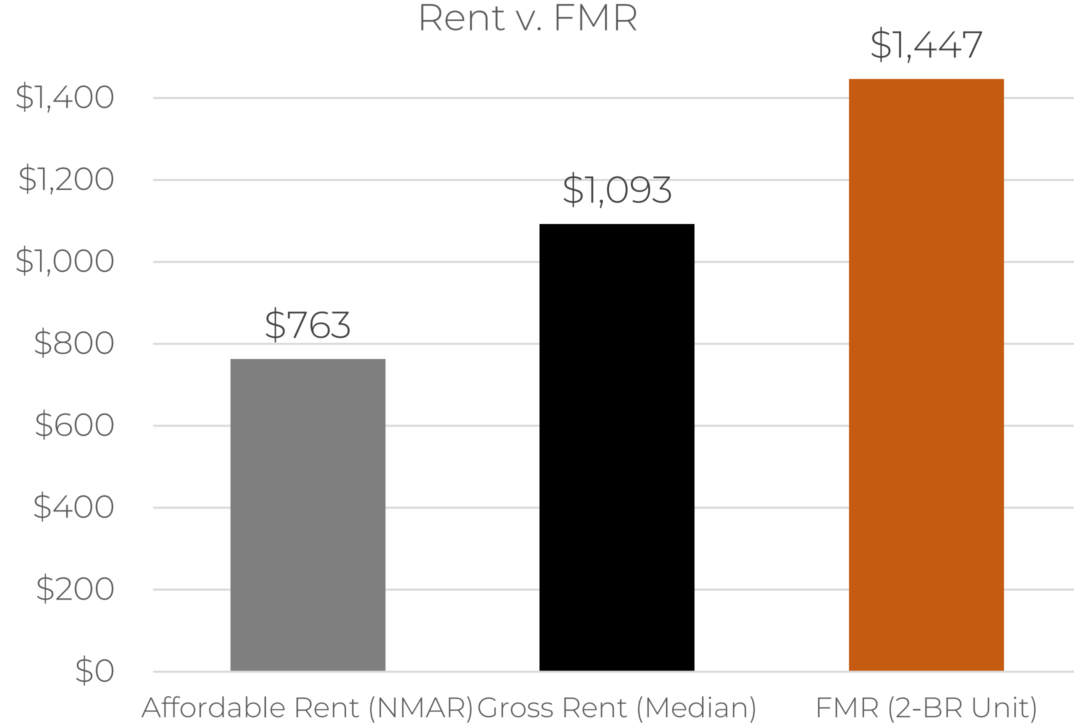
## 2. Newark Median Affordable Rent (NMAR): $763 per month

Incomes and housing costs vary significantly from place to place, and assessing affordability involves comparing these two variables in a particular location. CLiME's affordability analysis focuses on identifying housing need for Newark renters. So, we use Newarkers' incomes as our starting point to calculate Newark's median affordable rent (NMAR). Newark's median income as of 2018 was $37,642. However, the median renter income was lower, just $30,532, or "extremely low income" by national standards. Since affordability means that residents pay no more than 30% of their incomes on housing, CLiME calculates that Newark's median affordable rent (NMAR) is $763.

*The typical Newark renter can afford to pay $763 per month for housing*.

Using a localized measure of affordability shows a more accurate picture of the problem. It also demonstrates the inaccuracy of more conventional measures of affordability, such as Fair Market Rent and Median Gross Rent. (See Figure 2) Inaccurate measures produce skewed housing subsidy eligibility under LIHTC and other programs.

Figure 2. Newark Monthly Rents, NMAR vv Gross Rent v. FMR



## 3. Analysis of Affordability

Next we conducted an affordability analysis to determine what portion of Newark's rental stock is affordable, and a gap analysis to determine how many additional affordable units are required to meet the needs of Newark renters. To do this, we break down the housing stock by unit size using federal best-practice methodology, we employ PUMS data to estimate renter-incomes by size, and we develop a procedure to incorporate affordable units from the City's rental subsidy programs.

CLiME's affordability analysis follows best-practices offered by the US Department of Housing and Urban Development (HUD).[2] We assume units with certain numbers of rooms are appropriate to households of specific sizes. CLiME offers one innovation to affordability analysis best-practice: we adjust the count of affordable units to include rental housing subsidies.[3] At least 28% of Newark's housing stock is subsidized through one of HUD's programs, so if this adjustment is not made, we would underestimate the true affordability of Newark's rental inventory by a large margin. (See Appendix for a description of this methodology).

CLiME's affordability analysis focuses on low-income renters and the low-rent units that are affordable to them, according to NMAR[4]. The Census provides counts of units that rent for $750 or less, a very close approximation to Newark's $763 NMAR. In addition, based on HUD best-practices, we assume one and two-person households can afford somewhat less per month in rent. We adjust affordable low-income rents

[2] See: Paul Joice, Measuring Housing Affordability. (2014). *Cityscape: A Journal of Policy Development and Research*. Office of Policy Development and Research. US Department of Housing and Urban Development 16:1, pp. 299-307. This procedure to highlighted on the CHAS website where HUD grantees gather data to complete required Housing Needs Assessments.

Following convention, we assumed that a studio or one-bedroom apartment is suitable for one or two people; a two-bedroom unit is suitable for three people; and units with three or more bedrooms are suitable for four or more people. Affordable rents are adjusted based on the expected size of occupying households.

[3] As far as we know, no other study has attempted to make this adjustment.

[4] This is the "30% threshold" based on HAMFI. The findings at $50,000 and $80,000 income levels correspond to the 50% and 80% thresholds of HAMFI. We prefer to maintain dollar figures to simplify the interpretation of our results.

for these smaller households to $600 per month. The affordability analysis also shows what share of the housing stock is affordable for renters with $50,000 and $80,000 incomes.

Newark's studio and one-bedroom units are generally more affordable than its stock of larger units. One central explanation for this is that Newark has a larger stock of small subsidized units. Public housing and project-based subsidies disproportionately cover studio and one-bedroom units. CLiME finds that 25% of two-bedroom units and 22% of three-or-more-bedroom units are affordable to Newark's median renter, compared to 37% of Newark's studios and one-bedrooms.

***Affordability Results:***

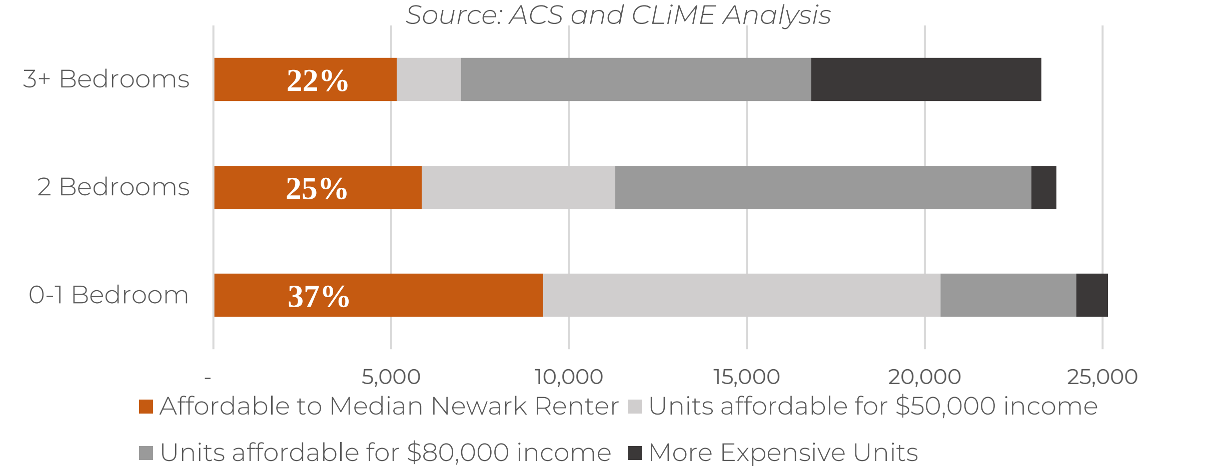
- ***37% of Newark's studio and one-bedroom units cost less than $600 per month.***
- ***Only 25% of Newark's two-bedroom units cost less than $750 per month.***
- ***Only 22% of units with three-or-more bedrooms cost less than $750 per month.***

*Roughly half of Newark's larger households are competing for less than a quarter of Newark's larger rental units that are affordable.*

The full of the affordability analysis are shown in red on Figure 3. In red at the units that are affordable to the typical Newark renter. These units cost less than the NAMR (roughly $750) for units with two-or-more bedrooms, and $600 for studios and one-bedrooms.

Figure 3. Affordability of Newark's Rental Stock, by Size

*Source: ACS and CLiME Analysis*



The analysis shows the share of units affordable to households with $50,000 incomes and $80,000 incomes. Most studios and one-bedrooms are affordable to a households with $50,000. But a household with $50,000 can afford only about half of two-bedrooms, and a third of three-bedrooms. Most of the housing stock affordable to households with $80,000 incomes. These results are summarized below:

Units Affordable to Households with $50,000 Incomes:

- roughly 80% of small studio and one-bedrooms are affordable
- roughly 50% of two-bedrooms units are affordable
- roughly 30% of units with three-or-more bedrooms are affordable

Units Affordable to Households with $80,000 Incomes:

- 97% of studios and one-bedrooms are affordable
- 97% of two-bedrooms are affordable
- 72% of units with three-or-more bedrooms are affordable

At each level, the results clearly show that larger units are less affordable.

In the next section, CLiME uses these affordability findings to produce an estimate of the gap in affordable units serving renter households with incomes under $30,000.

## 4. Gap Analysis of Affordable Units

A housing gap analysis estimates how many additional affordable units are needed at specific rent ranges. CLiME's gap analysis focuses on Newark's low-income renters and the NAMR rent of $763 per month. We compare the number of units of different sizes (adjusted to include Newark's subsidized properties) to the number of households of different incomes and sizes, and estimate how many additional affordable units are needed.[5]

[5] We used 2018 Census Public Use Microdata Sample (PUMS) to estimate the count of renter households broken down by size and income. The numbers reported here deviate somewhat from the ACS numbers reported in Figure 5 in the subsequent. This is because of the use of PUMS data, and because CLiME included in this analysis households with incomes less-than *or equal-to* $30,000, and units that rent for less-than *or equal-to* $750.

## *Gap Analysis Results:*

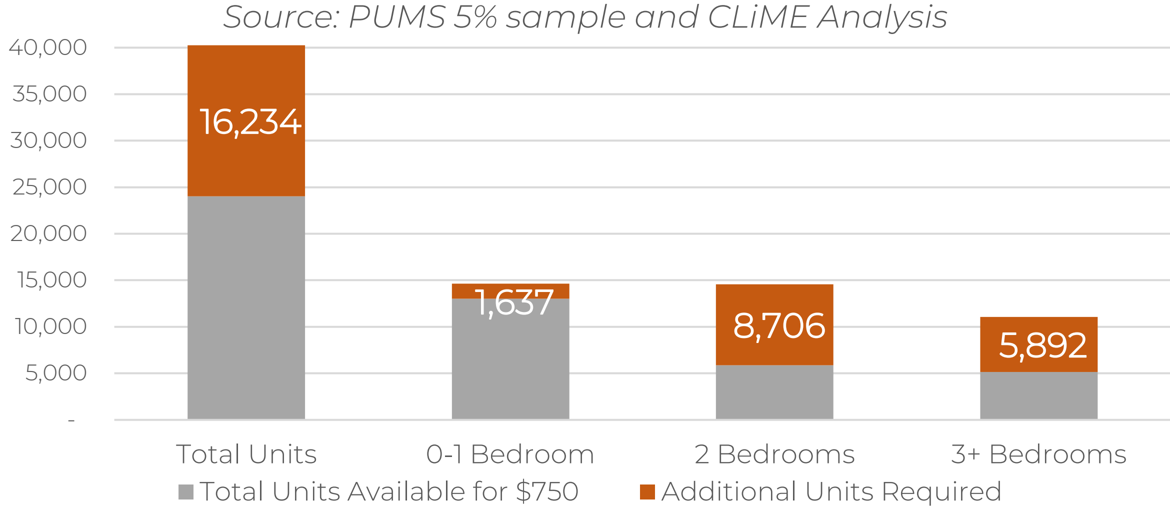
- ***Newark has a shortage of 16,234 units that cost $750 per month or less.***
- ***Most of this gap is in units with at least two bedrooms. CLiME estimates the City needs an additional 8,706 units with at least two-bedrooms, and 5,892 units with at least three-bedrooms.***
- ***The analysis identified at least 1,177 households living in overcrowded units. This overcrowding is part of the need for more larger affordable units.***

Our results are shown in Figure 4. CLiME estimates the City needs 16,234 additional units renting for less than $750 to fully meet the affordability needs of its low-income renters. The shortage in affordable units is most acute in larger units. CLiME's findings suggest roughly 14,600 units should be units that have at least two-bedrooms.

From the standpoint of public health during viral pandemic, our analysis identified 1,177 households (more than 3,500 people) living in overcrowded housing. Units are considered overcrowded if there are more than two people per bedroom. CLiME's analysis generally assumed households were living in an appropriately-sized unit, but we adjusted our estimates in cases of overcrowding.

Figure 4. Newark's Gap in Affordable Rental Stock for Low-Income Renters, by Size

*Source: PUMS 5% sample and CLiME Analysis*



The extreme shortage or larger affordable units is related to the fact that Newark's subsidy programs generally cover more small units. This leads to excess demand for affordable larger units. Most of the units in Newark that rent for $750 are subsidized in some way by the City,

Finally, the gap is larger affordable units has to do with the specifics of the renter population itself. As we describe in the next chapter, roughly 40% of all rent burdened households in Newark are single person households. Many of these single-person households have extremely low incomes and would need units significantly less expensive than $750 per month to be affordable. The gap in affordable small units grows considerably is CLiME runs the gap analysis using households earning $20,000 or less per year. This may indicate that addressing the needs of this population of low-income singles requires likely requires more significant services than affordable housing provision.

# II. UNREACHABLE SUPPLY: A MARKET PRODUCING HOUSING FOR OTHERS

Another way to view the affordability gap is through an analysis of the City's current housing inventory. In Newark, there is a severe gap in low-rent units. Roughly half of the renter population have incomes less than $30,000 per year, classifying them as extremely low-income households.[6] Using the one-third benchmark, these very low-income renter households can afford rents of $750 per month. Only 30% of units in Newark's housing inventory rent for that much. This means *roughly half of Newark's households compete for less than a third of Newark's rental units that are affordable.*

One theory of affordable housing production is "filtering." As new developments are built for the affluent, the middle-class takes their previous homes and poorer residents move into previously middle-class homes. This theory relies on housing market dynamics that do not apply to Newark. As the National Low-Income Housing

[6] In this report, CLiME will consistently use the term "low-income households" to refer to renters with incomes of $30,000 or less. The US Dept of Housing and Urban Development (HUD) has other highly specific definitions for income ranges. We adopt the simple $30,000 convention for this report for ease and clarity.

Coalition reported last March, filtering "fails to produce a sufficient supply of rental homes inexpensive enough for the lowest-income renters to afford. In strong markets, owners have an incentive to redevelop their properties to receive higher rents from higher-income households. In weak markets, owners have an incentive to abandon their rental properties or convert them to other uses when rental income is too low to cover basic operating costs and maintenance… The rental market is significantly losing low-cost rental homes while gaining high-cost ones."[7] As we show below, developers in Newark are building new housing primarily for more affluent renters, many of whom have yet to arrive.

## *1. Newark's housing stock is out of reach for most Newarkers*

Figure 5 compares Newark's rental stock to the incomes of the City's renter households. The distribution of Newark households by income are on the left, and the distribution of the City's rental stock by monthly rent are on the right. The incomes on the left roughly correlate with affordable units by monthly rent within the same band of color. For example, the lightest color band on the top captures the 16,000 renters with incomes higher than $60,000, and the 12,000 units with rents higher than $1500 that only this income group can afford.

The lines connecting the color bands of households with the same color bands of units identify gaps and surpluses in affordable units. Newark has a very large gap in the least expensive category (darkest shade) and surpluses in the two middle categories. Simply put, the City's rental stock is too expensive for the population that lives here.

[7] *See The Gap*, *supra* note 1.

The darkest red band on Figure 5 shows the City's greatest housing gap. According to the ACS, Newark has almost 40,000 households who earn less than $30,000, but only 20,000 low-rent units that are affordable to them.[8] There are nowhere near enough units on the market to meet the needs of low-income renters. Even at the cutoff of $40,000, there are roughly 46,000 households competing for roughly 32,000 affordable units that cost less than $1,000 per month.

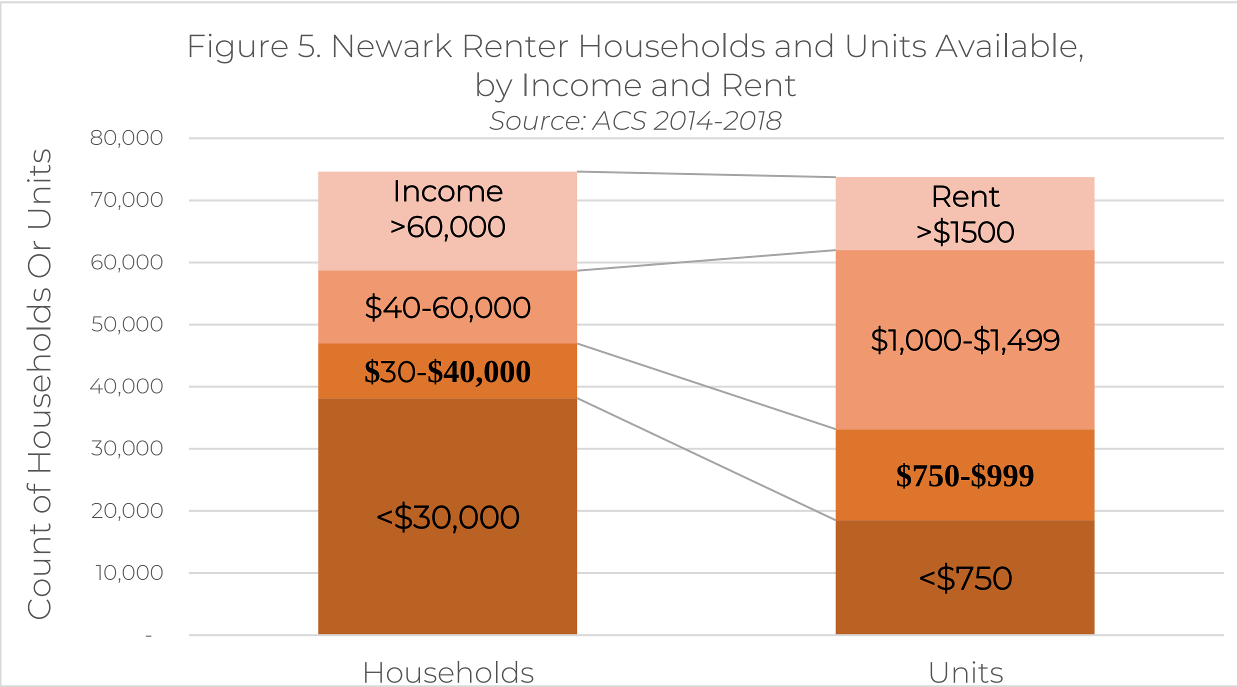



Figure 6 uses the same data and categories as Figure 5, but it arranges the count of households and units side-by-side within each affordability category. This allows us more easily to see the gaps and surpluses. The first set of bars show the darkest band from above – the households with incomes under $30,000 and the units that rent for less than $750. The gap is extraordinary. It shows 38,000 low-income renters competing for 18,000 low-rent units. Each of the next two sets of bars show a surplus of units. There's a small 6,000-unit surplus in the second grouping of units renting for $750-$999. However, by far the largest surplus is in units that rent for $1,000-$1,499.

Since each of the City's renter households occupies one of these rental units, it follows that many of Newark's low-income households are paying more than $1000 per

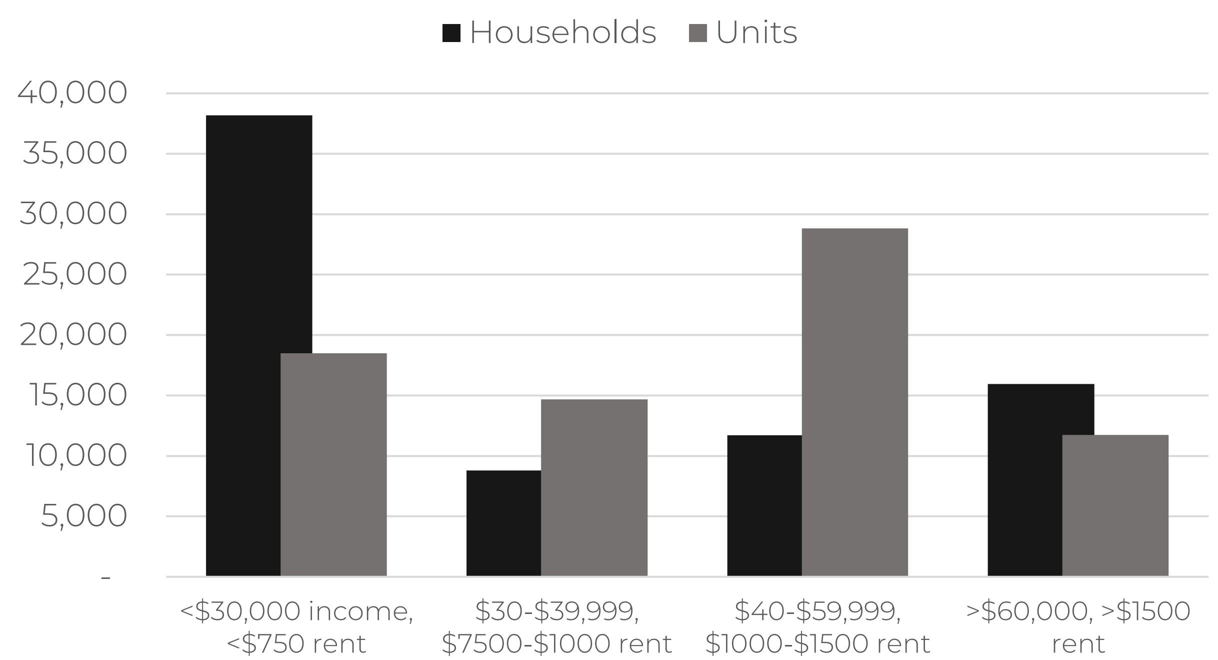
[8] This is data directly from the ACS. In this report, CLiME adjusts the counts in both columns to get a more accurate gage of the true gap in affordable units for these low-income renter households.

month in rent. This is a demonstration of how rent burdens operate. Thousands of low-income households are forced to pay well-beyond their means in order to live in one of the poorest cities in the State of New Jersey.

This mismatch between what people can afford to pay from their incomes in rent, and the amount they must pay in order to live in a unit, has been accelerating in Newark for decades. Rental affordability has now reached the point of crisis.

Figure 6. Newark Renters and Units, by Income and Rent Amount

*Source: ACS 2014-2018*




The affordability analysis finds that Newark's stock of small studio and one-bedroom units are generally more affordable than the stock of larger two-or-more bedrooms. CLiME attributes much of this difference to housing subsidy programs, in particular vouchers, public housing, and project-based subsidy programs. Newark's stock of subsidized units is disproportionately smaller units.

## 2. *Extremely limited production of affordable units in the last 5 years widens the gap*

Unfortunately, the extremely limited record of affordable housing production in Newark over the last five years illustrates the crisis many U.S. cities face and widens the affordability gap. Units created with substantial support from the City at various levels of affordability do more to preserve than expand inventory—at a fraction of the need. Newark's substantial network of community development corporations does its share to produce affordable housing consistent with their missions, but at about 2,400 units since 2000, demand rapidly outpaces supply (See Table 1 below).

According to the Department of Economic and Housing Development in Newark, there are 3,514 affordable units completed, under construction, or in the pipeline in Newark since 2015. CLiME's analysis shows that at least half of these affordable units are rehabilitation projects of older affordable units in disrepair rather than new affordable units to add to the inventory. This suggests the affordable housing development occurring is largely maintaining rather than expanding the City's affordable rental stock at the time when the need is expanding.

Meanwhile, public data on recent housing construction is deeply troubling. According to just released 2019 ACS data, the median rent on units constructed in Newark since 2014 is $1,671 per month. This figure is more than double the affordable rent figure NMAR of $763. This high number suggests the new units being built in the City are not affordable to the vast majority of the City's renters.

Newark has an old housing stock, and the emphasis on repair and upgrades of older affordable units is important work. Unfortunately, it means that a lot of the City's focus is on maintaining the existing affordable supply at a time when Newarkers desperately need additional affordable units added to the inventory. For example, the Garden Spires (544 units) and Spruce Spires (112 units) apartment complexes had amassed 2,700 fire and building code violations before they were finally rehabilitated in the last few years with $172 million in funds. Zion Towers, still under re-construction in Weequahic neighborhood in the South Ward, was similarly in a state of serious disrepair.

The problem of aging affordable units seriously undermines Newark's ability to create additional housing units at a time when the City desperately needs more affordable units. Limited resources are instead being thrown into trying to maintain the City's existing affordable inventory. The capital backlog for public housing units operated by the Newark Housing Authority is a jaw dropping $25 billion. NHA is currently in the process of converting its entire portfolio of public housing units into a different project-based subsidy program so that it can leverage state finance subsidies to repair the aging buildings. With finance subsidies so strongly directed at rehabilitating affordable units the City already has, the herculean task of creating 16,000 additional affordable units takes on an even harsher light.

Community development corporations and nonprofits are central players in the development of affordable housing. CLiME surveyed these community-based developers and found that combined these organizations have developed at least 2,400 affordable units since 2000. These community organizations often focus their work in specific neighborhoods in the City, and in this way can have a profound impact on affordability in parts of the City. We don’t have firm numbers of units constructed by these community organizations in the last five years, but what we do know from conversations is that affordable housing development has slowed significantly since the housing and foreclosure crisis that extended into the early 2010s in Newark.

According to the State Department of Community Affairs, there were only 328 permits issued for residential construction in Newark in 2018. This is nowhere near the annual permit rate in the mid 2000s when more than 2,000 residential construction permits were issued annually. In addition, the residential construction that is receiving permits is almost entirely for larger multifamily units. Many of these community organizations were focusing on smaller single and double family units. In 2018, only 27 permits for 1-2 unit residential construction were issued.

There is some movement in Newark to do smaller-scale scattered site development. The Community Asset Preservation Corporation (CAPC) is partnering with the City to redevelop 156 vacant and abandoned properties in several low-income neighborhoods. The City says it transferred 163 lots to developers for rehabilitation. These are great signs of new affordable housing development. In light of the massive gap in affordable units, these efforts would need to be redoubled and greatly expanded.

Finally, although Newark's inclusionary zoning ordinance (IZO) has been in effect since 2018, enacted to increase affordable housing and ensure economic integration, official numbers on units produced or in lieu contributions made are not publicly available. Therefore, we express no view on the IZO here.

Table 1. Affordable Production Statistics

| | |
|---|---|
| Current Gap in Low-Rent Units | 16,234 |
| Completed Affordable or in Pipeline since 2015 | 3,514 (>50% Rehab) |
| NHA capital backlog | $25 billion |
| Units constructed by Community Development Organizations | >2,400 |

# III. THE EFFECTS OF USING MISMEASURES ON HOUSING SUBSIDIES

As we noted earlier, the NMAR of $763 is considerably lower than the prevailing measures of affordable rent, Median Gross Rent and Fair Market Rent (FMR), both of which use HUD's guidelines for regional measures. However, this measure significantly undercounts Newark's affordability problem. It also negatively distorts subsidy eligibility, as we show next.

## *1. Median Gross Rent: $330 more expensive*

Gross rent is the total monthly payment charged for a rental unit. This includes rent and utilities. In Newark, gross rent exceeds affordable rent by a large margin. The median gross rent payment in the City in 2018 was $1,093, which is much higher than the NMAR of $763. The $330 difference between what Newarkers can afford and what they pay captures the scope of Newark's rent burden crisis. With insufficient affordable units on the market, renters must instead occupy units that charge more than they can afford.

*The typical renter is paying roughly $330 more per month than they can afford.*

## 2. *Fair Market Rent of $1,447: $680 more expensive and skews subsidy programs*

Fair Market Rent (FMR) is used to determine payment amounts for various housing subsidy programs. Newark's 2019 FMR for a 2-bedroom unit is an eye-popping $1,447. FMR is $350 more than the median rents charged in the City. FMR is $680 more than NMAR.

*The rent which is considered "fair" by housing subsidy programs for a 2-bedroom unit is $680 more per month than what the typical renter household can afford.*

FMR is supposed to quantify the 40th percentile of gross rents for typical, non-substandard rental units occupied by recent movers in a local housing market. In Newark's case, this is not what is happening. FMR exceeds the 50% percentile gross rent—of $1,093—by $354. In fact, since four-out-of-five units in Newark rent for less than $1500 per month, the rent limits that FMR sets for federal housing subsidy programs in Newark are closer to the 80$^{th}$ percentile than the 40$^{th}$ percentile.

This has serious implications for how Newark's subsidy programs operate. For example, FMR sets rent limits for tenants with Housing Choice Vouchers. The subsidy program pays the difference between what the tenant can afford to pay (30% of their income) and a unit that rents for up to the FMR limit. FMR should be high enough to give tenants options to choose a decent place to live. However, if it is set too high, it will subsidize expensive units and reduce the total number of tenants that can be supported with limited voucher resources.

The larger $680 difference between FMR and NMAR speaks to structural problems with the way federal affordability thresholds are developed and applied in Newark. FMR is calculated using regional rents, rather than local ones. As a result, higher incomes and rents in Morris County, Union County, Sussex County, and surrounding Essex County skew the City's FMR measure upward. The artificially high figure means that affordability policies end up being aimed at the upper end of the City's real estate market.

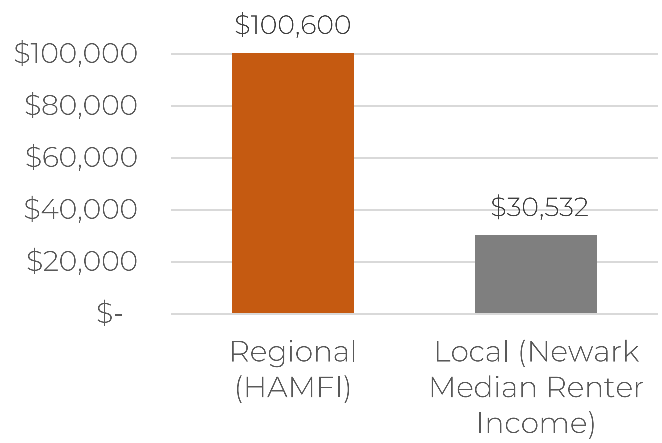
This regional approach to measuring affordability also affects the rents of newly constructed affordable units in Newark. We turn now to the supply-side, focusing on the Low-Income Housing Tax Credit (LIHTC) program. LIHTC is by far the largest public program supporting development of new affordable housing. It builds affordable units based on a regional median income calculation, called HAMFI.

## 3. The Supply Side: Newark's Inflated HAMFI

According to the Department of Housing and Urban Development (HUD), the Area Median Family Income (HAMFI) for the Newark area was $100,600 in 2019. As we saw in our calculation of NMAR, the median renter income in Newark is $30,532. HAMFI is more than three times larger than the median local renter income (See Figure 7).

Figure 7. Comparing Regional and Local Median Incomes

*Source: HUD, ACS, CLiME*




HAMFI is being used to set income and rent limits on new affordable rental units in Newark. Like FMR, it is calculated regionally rather than locally. So, the higher incomes in Morris, Union, Sussex and broader Essex Counties are pushing up the income numbers. In addition, HAMFI uses family income and includes the income of homeowners, which skew the incomes even further away from the actual incomes of renters in the City.

## 4. LIHTC: $400-$700 more expensive

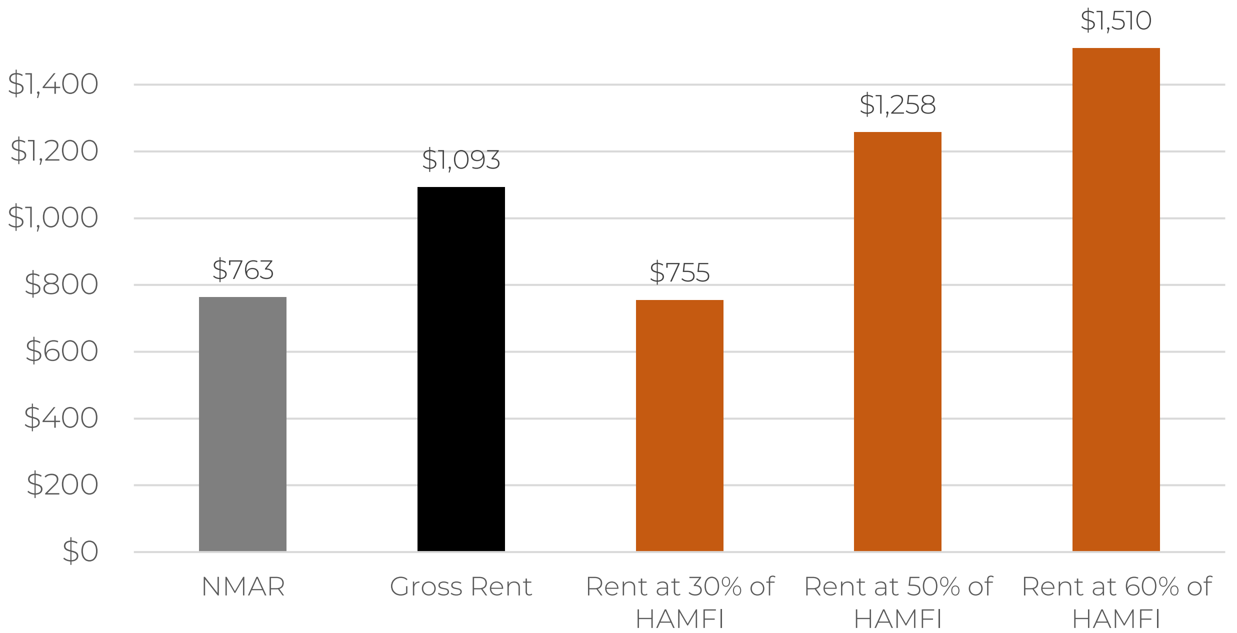
The largest affordable housing construction program, the Low-Income Housing Tax Credit (LIHTC), produces affordable units based on the inflated regional income figure, HAMFI. The result is that the units it develops are not affordable to many Newarkers. LIHTC develops affordable units at what's called "the 50% and 60% thresholds". These thresholds are percentages of the HAMFI. So, 50% of HAMFI is $50,300 and 60% is $60,400. Affordable rents at 50% come out to $1,258, and at 60% to $1,510.

*LIHTC produces units that are $400-$700 more expensive than what is affordable to the typical Newark renter.*

Figure 8 shows the NMAR and median gross rent figures we saw earlier. It also shows the rents created at HUD's 30%, 50% and 60% thresholds of HAMFI. The rent of a 50% affordable unit exceeds NMAR by nearly $500. The 60% threshold exceeds NMAR by $700.[9] They both also exceed the median gross rent, although the 50% threshold produces rents that are much closer to the true median of the market.

The implications are striking. LIHTC, the country's largest producer of affordable housing units, creates units that are not affordable to most Newark renters, at least not without additional subsidy. This has severe consequences for Newark. The City does not have the finance tools it needs to build rental housing that the population can afford.

Figure 8. Calculating Affordable Rents with HAMFI, and how they compare to NMAR and Gross Rent




The so-called "30% threshold" of HAMFI creates rents at $755. This monthly rent is roughly equivalent to the NMAR of $763. As we move to the affordability analysis in

[9] The rents charged using HAMFI are also adjusted based on the size of the unit. So, smaller studio and 1-bedroom units will rent for somewhat less than these figures.

the next section of this report, we focus in on this threshold because it is the one that captures true affordability to Newarkers.

# IV. AFFORDABILITY AND GAP ANALYSES BY WARDS AND NEIGHBORHOODS, INCLUDING SOURCE OF SUBSIDIES

This section offers both gap and affordability analyses in much greater detail, including the specific role of different types of subsidy programs. We received subsidy information from the City which we used in concert with federal subsidy data acquired from the Department of Housing and Urban Development (HUD). Importantly, our affordability thresholds are slightly different than earlier in this report. Because we rely here on ACS Census data at the tract level rather than the more flexible but less geographically specific PUMS data, we were forced to adjust our Newark affordability cut off to units renting for less than $900 per month, not $763. The difference points to a slightly worse competition for affordable units among very low-income households in the City.

Here is what we found:

*There is a large gap of more than 3,000 low-rent units (less than $900 per month) in each of the Outer Wards*. In the North, South and West Wards, roughly 35% of renters spend half or more of their incomes on rent and another roughly 25% of renters spend more than a third of their incomes on rent (See Figure 1 from earlier in the report). At first glance, the affordability crisis in the East Ward looked better than the other outer wards. However, once CLiME adjusted the ACS data to incorporate the

City's housing subsidies,[10] it became clear that the East Ward houses thousands of low-income renter households but has almost no low-rent units.

**Summary Findings for the Outer Wards**

*The North Ward* has the greatest gap in affordable units. The North Ward would need an additional 3,594 low-rent units (renting for less than $900) to meet the demand. The North Ward also has the greatest gap in the number of very low-rent units that cost less than $500. Most units with rents this low are publicly subsidized, and the level of housing subsidy in the North Ward is lower than some others despite having many very low-income renters.

*The West Ward* has great variation from neighborhood to neighborhood, but tremendous need for low-rent units throughout. The West Ward would need an additional 3,282 low-rent units to meet the demand. Vailsburg and Ivy Hill have lower poverty rates and higher incomes than other places, but they have the lowest level of subsidy. Fairmount is receiving more subsidy than the others, but since a greater share of its renters are low-income, there is still significant need. Compared to other Wards, the West Ward is the most dependent on vouchers as a source of subsidy.

*The East Ward* receives far and away less subsidy than any other Ward. Even though there is a greater mix of incomes, and more moderate- and middle-income residents, the gap in low-rent affordable units is large. There are very few low-rent units to serve very low-income renters in South Ironbound in particular. The gap in low-rent units in the East Ward is 3,156 units.

*The South Ward* receives more housing subsidy than the other Outer Wards, but there are more low-income renters, and a larger population in general. This leaves an affordable unit gap in the South Ward that is comparable to size to the others. The South Ward has a gap of 3,249 low-rent units to meet the demand.

[10] We used the procedure described in the Appendix.

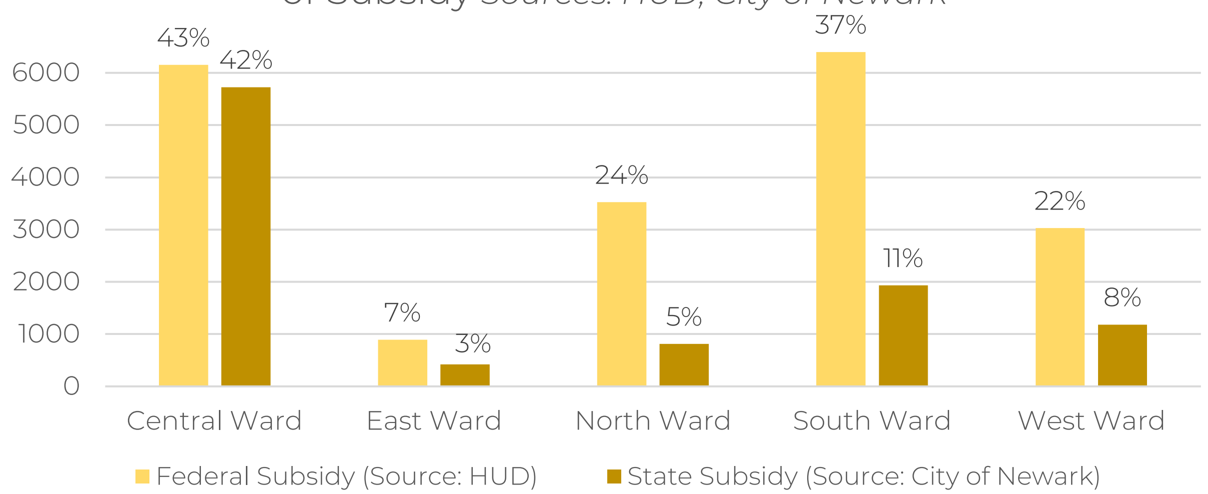
*The greatest gap in very low-rent units (<$500) is in the North Ward, as well as well as in the Clinton Hill, Ivy Hill, and South Ironbound neighborhoods.* These areas with the strongest need for very low-rent units are generally those receiving fewer deep housing subsidies, such as public housing, vouchers and project-based subsidies. Ivy Hill and Ironbound have higher median incomes than most of the City. However, both neighborhoods have minorities of very low-income renters, and neither receives much deep subsidy support for those residents.

*There is very little affordability gap for units that rent for $1250 per month.* In some wards there is actually surplus of units available on the market for this amount. Newark renters need units that are less expensive than this to be affordable.

## *Housing Subsidy Rates and Affordability*

More than a third of Newark's rental stock is subsidized. Differences in subsidy rates among wards play a large role in the relative affordability of the housing stock throughout the City. In particular, the fact that the Central Ward receives a significantly greater share of subsidies than the outer wards is a major explanation for its better affordability outcomes. Figure 9 shows the rates of federal subsidy and state subsidy by ward, and it's clear that the Central Ward is easily the greatest recipient. The South Ward receives significant federal subsidy, but much less State-level subsidy.

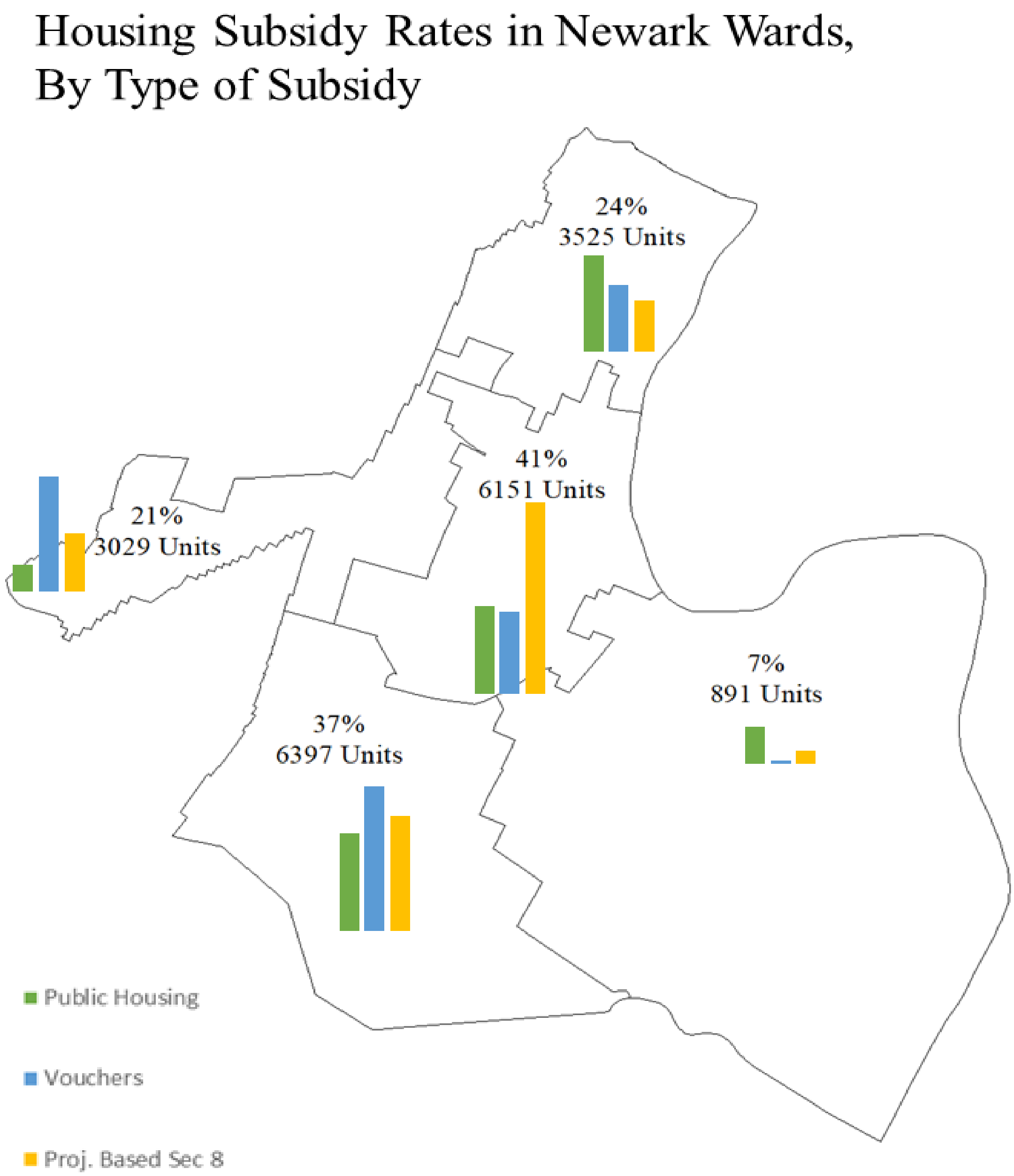
Fig 9: Newark Subsidized Housing Units, By Source of Subsidy *Sources: HUD, City of Newark*



Federal subsidies include the various programs operated through HUD, and generally operated through the Newark Housing Authority. These are Public Housing, Housing Choice Vouchers, Project-Based Section 8 and several smaller HUD programs for the elderly and disabled. Forty-three percent of rental units in the Central Ward receive subsidies from at least one of these programs. The South Ward receives almost as much federal subsidy; 37% of properties have at least one subsidy. Each of the other Wards is much less subsidized: 24% in the North Ward, 22% in the West Ward, and just 7% in the East Ward.

The subsidies through the State are even more heavily skewed toward the Central Ward. These state-level subsidies, which CLiME acquired from the City's Department of Economic & Housing Development, include the program operated through the New Jersey Housing Finance Agency (NJHFA) such as LIHTC and tax-exempt bonds, as well as state funding through the Housing Trust Fund and Mount Laurel Programs. The Central Ward has received well over half of all the subsidies that have come into Newark through these sources. Forty-two percent of Central Ward units have one of these subsidies attached, compared to 11% in the South Ward, 8% in the west Ward, 5% in the North Ward and 3% in the East Ward.

Many of these subsidies likely cover the same units as the federal ones, so CLiME is unable to provide an estimate of the full subsidy rate by Ward. There are also several different local subsidies for affordable housing. However, there is less funding coming from local sources, and these subsidies are generally combined with others. For example, the City dispenses HOME funds, which it currently is planning to use in gap finance for affordable housing. The City also offers tax abatements on most real estate development, and free or reduced land for affordable housing development. These two forms of subsidy are significant levers of local control over affordability; the City's policies here are mostly independent of other levels of government. However, CLiME does not have firm numbers on how many units have been covered by each and where in the City they are located. Understanding these subsidies and the policy guidance behind their deployment would be an important step Newark's efforts to address the crisis.




The map shows rates of HUD federal subsidy by the source. Most of the subsidized units in the North and East Wards are through Public Housing. On the other hand, the largest source of subsidy in the South and West Wards is through Housing Choice Vouchers. The Central Ward is unique in having so many project-based subsidies. These project-based subsidies are often used in concert with the state-level housing finance subsidies (LIHTC, bonds). This is very likely a big piece of the explanation for why subsidies in Central Ward are more voluminous.

## *5. Gap Analysis for Wards*

To do our gap analysis in affordable units by ward and neighborhood, CLiME estimated the number of missing subsidized units, and manually added them into the database.[11] Due to data limitations described earlier, we are forced to use income and rent thresholds that are a little different from the Citywide analysis.[12] The results are shown in Table 2.

Table 2. Gap in Affordable Rental Units, by Monthly Rent and Ward

| | Central Ward | East Ward | North Ward | South Ward | West Ward | Total Units Needed |
|---|---|---|---|---|---|---|
| Units that rent for < $500 | 1004 | 1844 | 2348 | 1415 | 1905 | 8516 |
| Units that rent for < $900 | 1085 | 3156 | 3594 | 3249 | 3282 | 14,366 |
| Units that rent for < 1250 | -788 | -243 | 394 | 1202 | 200 | 765 |

[11] See Appendix.
[12] We compare: 1) the count of households with incomes below $20,000 to the number of affordable units that rent for $500 or less; 2) the count households with incomes below $35,000 to the count of affordable units that rent for less than $900; and 3) the count of households with incomes under $50,000 with the count of affordable units for less than $1250 per month.

*Each of the outer wards has a large gap of more than 3,000 units that rent for less than $900.* The gap in the Central Ward is much smaller than the others. The gap in units that rent for $900 or less can be seen by comparing the two darkest shades of color in the charts. The gap in the Central Ward is relatively small, only roughly 1,000 units. Each of the others in quite high, above 3,000 units.

*Main Findings:*

1. Each of the outer wards has a gap of more than 3,000 low-cost units that rent for less than $900.
2. There is little demand for additional affordable housing that cost between $900 and $1250 per month. The need is for units with less expensive rents.
3. The greatest need for very-low-cost units (less than $500 per month) is in the North, West, and East Wards.
4. North Ward has the largest gap in affordable units. However, each of the outer wards have a desperate need for affordable units.

The North and West Wards have relatively similar numbers of low-income renters (roughly 8,000) and low-rent units (close to 5,000). The South Ward has more low-income renters (11,000) but has more low-rent units available (7,000). The overall gap is similar to the one in the North and West. The East Ward has fewer low-incomer renter households, (5,500), but it also has by far the fewest low-rent units (2,700). The overall gap is similar to the one in the North, West and South.

*There is little demand for additional affordable housing that cost between $900 and $1250 per month. The need is for units with less expensive rents.* The gaps in units that rent for less than $1250 per month are generally very small. The Central and East Wards each report a surplus in units at this rent. Only the South Ward has a unit gap above 1,000 units, but here to the unmet need is primarily in $500-$900 per month units.

*The greatest need for very low-cost units (less than $500 per month) is in the North, West, and East Wards.* The South Ward and the Central Ward have much larger populations of very-low-income renters with incomes less than $20,000. However, they also have larger rental stocks of very-low-rent units renting for $500 per month or less. A primary explanation for this is that the Central and South Wards have more federal housing subsidies serving these lowest income households (see Figure 9).

Each of the other Wards also has thousands of very low-income renters. The East Ward has 2,500 very low-income renters. The West Ward has over 4,000 very low-income renters. The North Ward has over 5,000 very low-income renters. However, these Wards have fewer housing subsidies. Therefore, the gap in very low-rent units is higher.

*North Ward has the largest gap in affordable units. However, each of the outer wards has a desperate need for affordable units.* The North Ward has the largest gap at both rent affordability thresholds. It edges out the other Wards with a gap of 2,348 very-low-rent units that rent for $500 or less; and 3,594 low-rent units that rent for $900 or less.

## 6. Gap Analysis for Neighborhoods

CLiME also ran our gap analysis for Newark neighborhoods.[13] The results are displayed in the maps and table below.

*Map 3 shows the gap in affordable units that rent for less than $900 per month.* In order to keep the data comparable across neighborhoods of different sizes, CLiME standardized the gap to additional units needed per 100 renters.

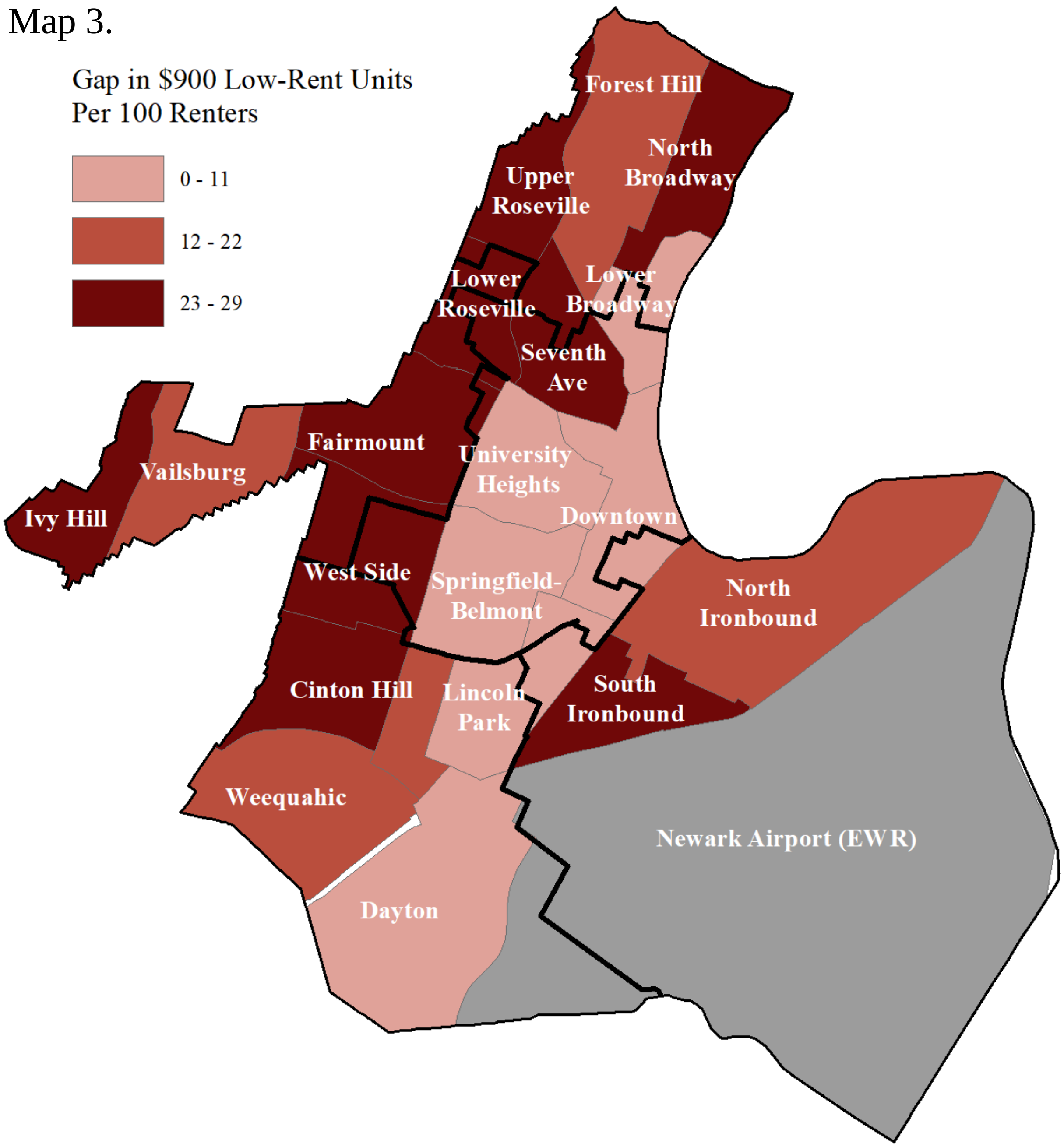
The neighborhoods with the greatest need for additional units are shown in the darkest red. In North Broadway, Upper Roseville, Lower Roseville, Seventh Ave, Fairmount, West Side, Clinton Hill, Ivy Hill and South Ironbound, there is a need for more than 22 additional affordable units for every 100 renters.

The neighborhoods colored in a slightly lighter shade also have great need. Most of these neighborhoods would need between 17 and 21 additional low-rent units for every 100 renters. These include Forest Hill, Vailsburg, Weequahic, and North Ironbound. While the need is somewhat lower than the previous category, there are still large gaps in these areas.

[13] The boundaries were acquired through Open Data Newark. Neighborhood boundaries routinely cross ward boundaries, so neighborhood values will not sum to ward values.

The areas colored in the lightest shade all require fewer than 11 additional low-rent units for every 100 renters. These include Downtown and University Heights, as well as Lower Broadway, Springfield-Belmont, Lincoln Park, and Dayton. More than 70% of Dayton's units are subsidized, most of it through Public Housing, which explains its low level of additional need.

The Central Ward neighborhoods have the smallest gap in affordable units. The Dayton neighborhood, all the way in the South of the City, also has a very low need for additional units. Each of these neighborhoods are the most heavily subsidized in the City, which explains their relative affordability.




*Map 4 shows the gap in very low-rent units that cost less than $500 per month.* Units that rent for this little will require very deep subsidies and serve households with incomes less than $20,000 per year. Like the previous map, the numbers are standardized to correct for the different neighborhood sizes.

The North Ward stands out for its very high level of need. There are significant number of very low-income renters with incomes under $20,000 who do not have access to units they can afford. North Broadway, Upper and Roseville, and Seventh Avenue all need more than 15 additional very low-rent units for every 100 renter households. Forest Hill and Lower Broadway both require more than 10 additional very low-rent-units for every 100 renter households. Other neighborhoods with very high levels of need for very low-rent units are Clinton Hill, Ivy Hill, and Ironbound.

Map 4.

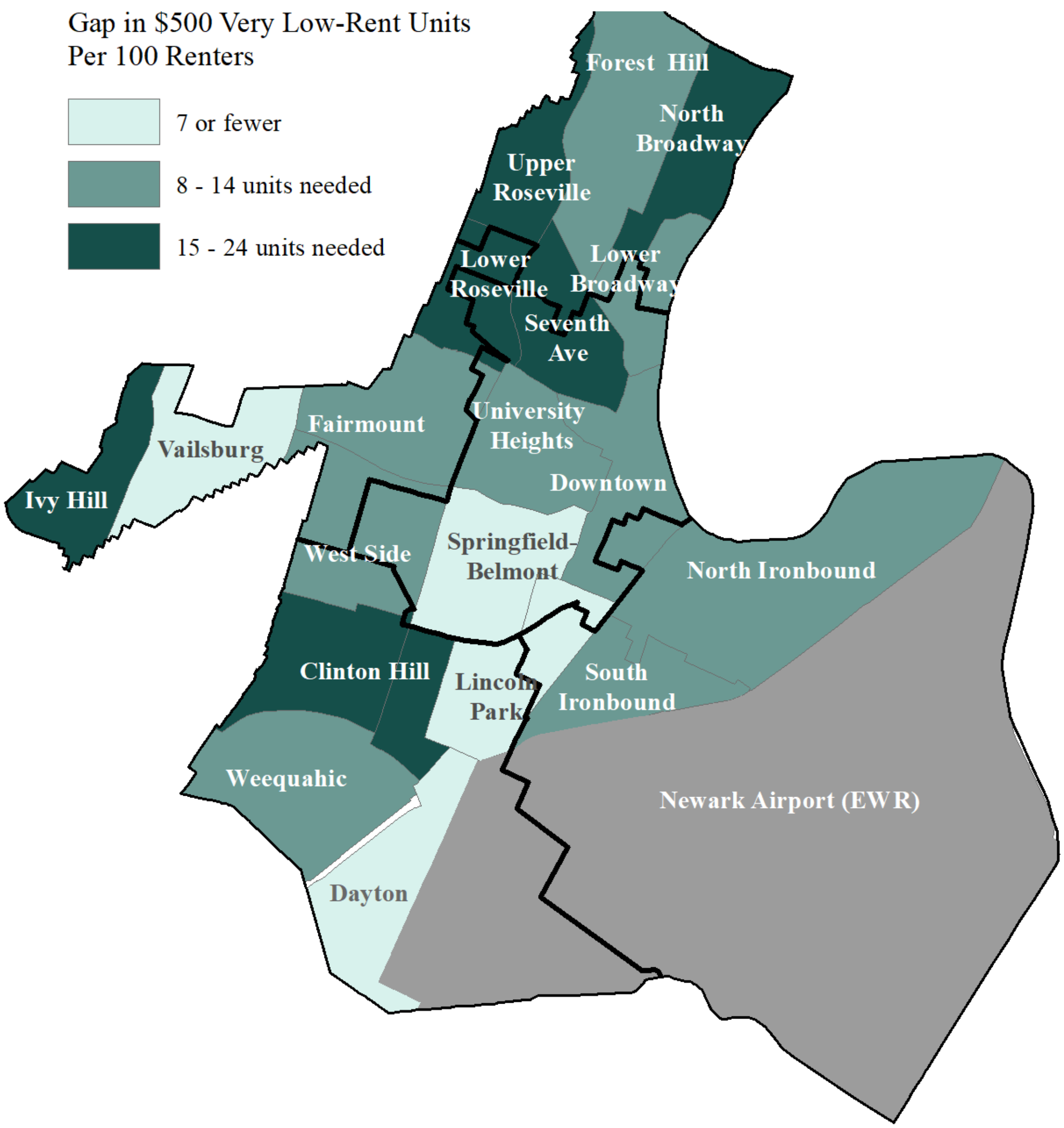


Figure 10 displays this data as a table so that readers can see the actual rates for each of the neighborhoods. The figure shows very clearly the strong level of need for additional units that rent for less than $900 per month in almost every neighborhood outside of the Central Ward. The demand for units that are more expensive than this is small or even negative across almost all of the neighborhoods.

In this final section of this report, we present more detailed profiles of affordability and gaps in affordable units for each ward and its neighborhoods. Several neighborhoods cross ward boundaries, so CLiME chose to present the neighborhood within the ward covering the largest portion of its boundaries.

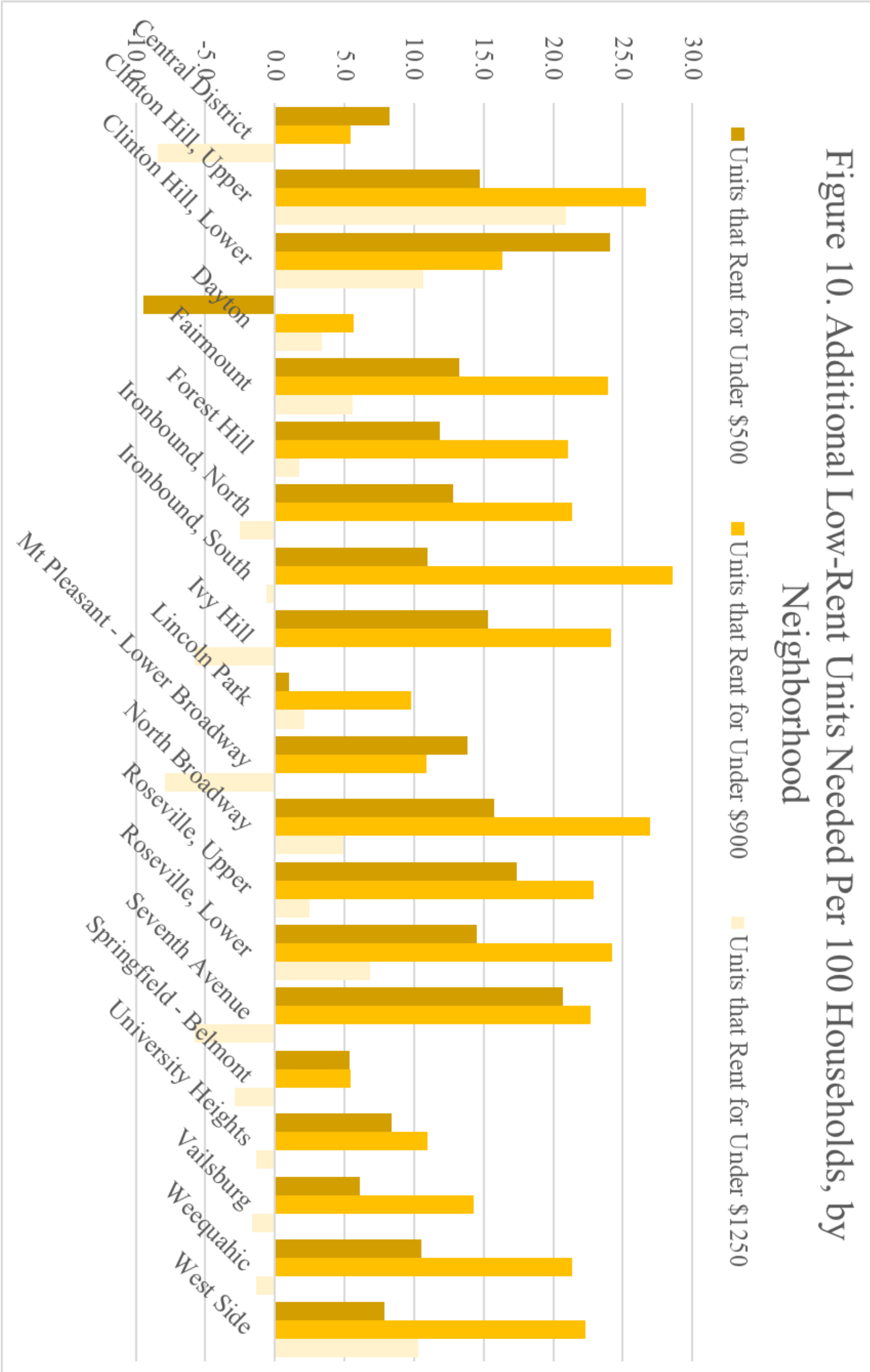


Figure 10. Additional Low-Rent Units Needed Per 100 Households, by Neighborhood

## *Central Ward*

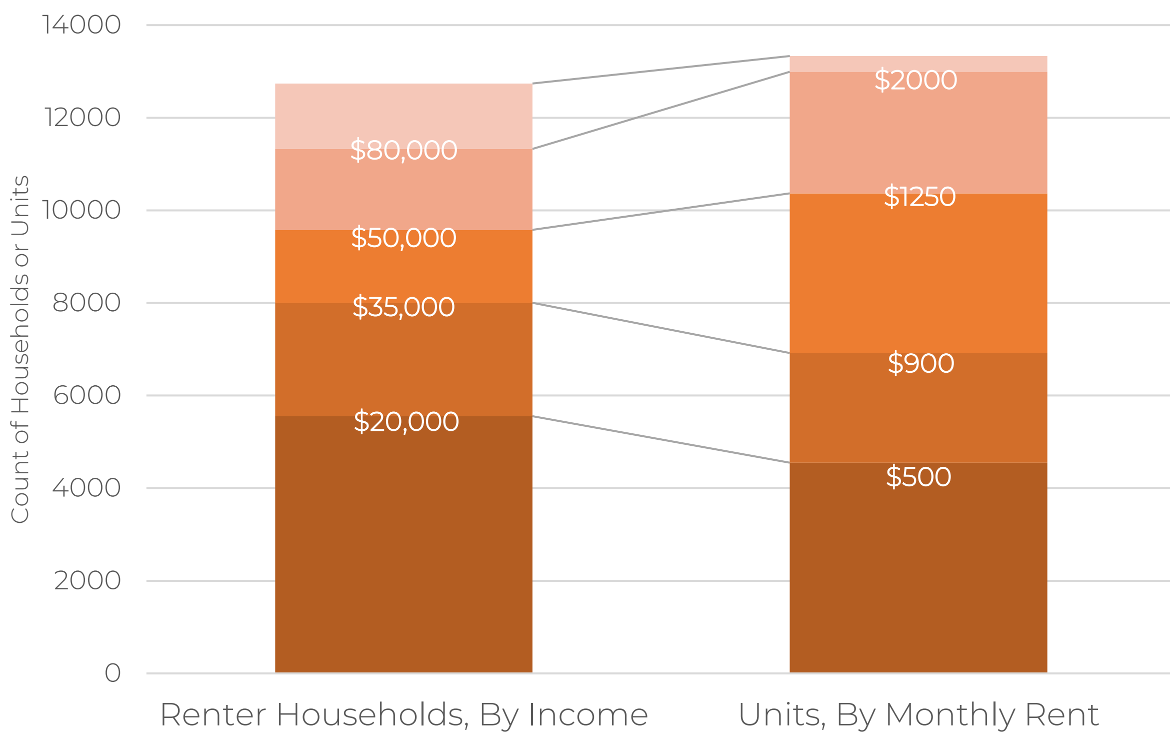
*Low incomes, smallest gap in affordable units, highest rates of housing subsidy.*

CLiME estimates that in the Central Ward, there is a gap of 1004 very-low-rent units that rent for less than $500, and another 779 low-rent units that rent for $500-$900 per month.

Figure 11 shows Central Ward renter households by income in the left column, and the units available at affordable rents in the right column. The lines connecting the two columns identify gaps in affordable units at certain rent thresholds.

At moderate rents, there are sufficient units. For example, there are a little less than 10,000 households earning less than $50,000, and slightly more than 10,000 units available for less than $1,250 per month. This indicates sufficient affordable units for those with $50,000 incomes.

Figure 11. Central Ward, Affordable Housing Gap Analysis
*Source: ACS 2014-2018*

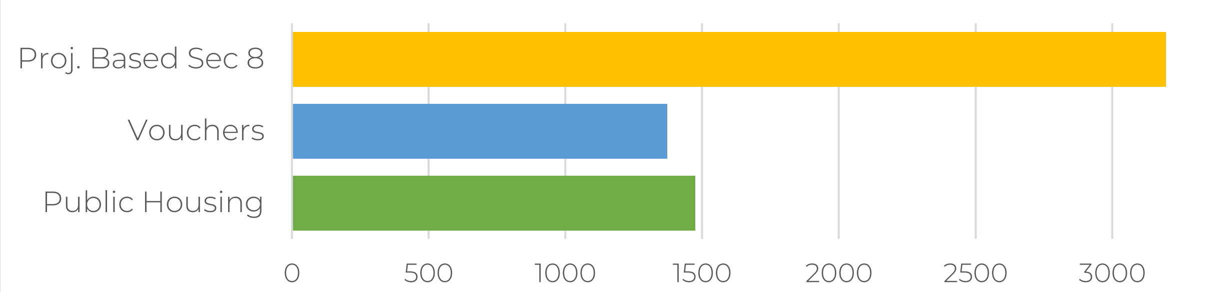


However, there are small gaps in units affordable to those with low and very low incomes. CLiME estimates the Central Ward would need an additional 1,085 low-rent units for less than $900, and that most of the gap is in very low-rent units that cost less than $500 per month.

Compared to other wards, the Central Ward has a lot of low-income renter households. However, the gap in affordable housing units here is smaller than other parts of the City because the Central Ward enjoys the greatest rate of housing subsidy. In fact, the data suggest that virtually all of the affordable units that rent for less than $900 in this Ward are receiving some form of housing subsidy.

According to the most recent data, 6,151 rental units in the Central Ward are subsidized through one or more of the federal housing subsidy programs, and 5,726 are subsidized through state-level subsidies. Combined, this means that a minimum of 43% of units are receiving some subsidy. But the true rate of subsidies depends on the amount of overlap and cross-subsidization, which we cannot tell from the data.

Figure 12. Central Ward, Subsidized Units by Program




The Central Ward is unique in the amount of project-based Section 8 funding it received (compared to Public Housing or Housing Choice Vouchers). More than half of the units subsidized receive project-based Section 8 subsidies (See Figure 12). These are often paired with state-level housing finance subsidies.

### Central Ward Neighborhoods: Downtown, Springfield/Belmont, University Heights

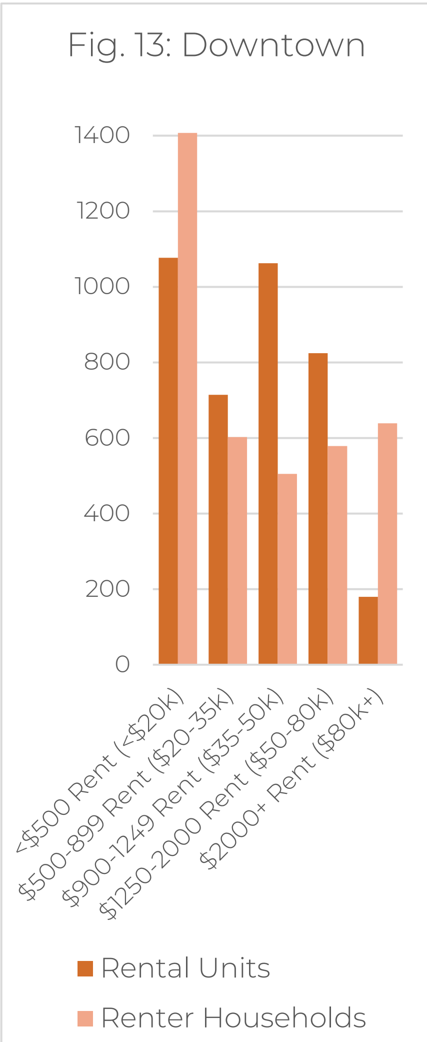
Each of the neighborhoods in the Central Ward has a large renter population with very low incomes under $20,000. These income challenges are most pronounced in Springfield/Belmont, where 51% of renter households earn less than $20,000, and in University Heights, where 45% of renter households have less than $20,000. However, the gap in affordable units is relatively small because these central neighborhoods receive significant housing subsidies (See Figures 12-14).

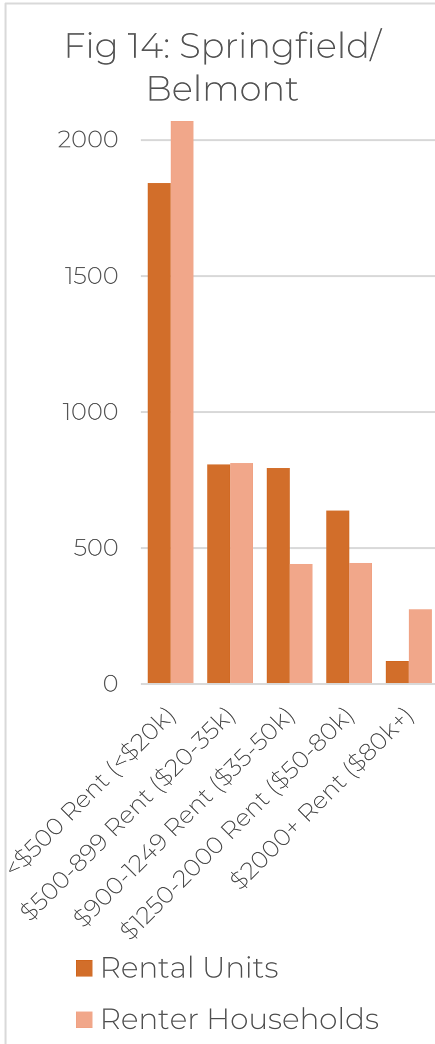
CLiME estimates there is a gap of 330 very low-income units renting for less than $500 Downtown; 168 in University Heights; and 227 in Springfield/Belmont. In each neighborhood, most of the gap is for these lowest rent units.

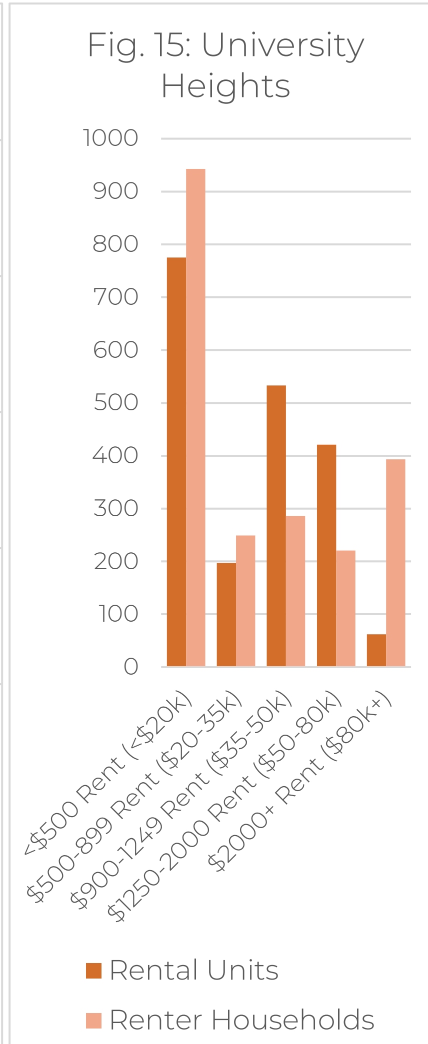
Table 3. Additional Units Needed in Central Ward Neighborhoods

| | Springfield/Belmont | Downtown | University Heights |
|---|---|---|---|
| Units that Rent for Under $500 | 227 | 330 | 168 |
| Units that Rent for Under $900 | 231 | 218 | 220 |
| Units that Rent for Under $1250 | -122 | -339 | -27 |

Figures 13-15 show the number of renter households by income (light red) with the number of units that are affordable that are on the market. There is a slight mismatch in the Downtown and University Heights areas. In each case, there are more very low-income households than there are very low-rent units. Each neighborhood has a corresponding surplus in units that rent for $900-$1249 per month.



## East Ward

*Low subsidy levels. Significant gap in low- and very low-rent units.*

The East Ward has more higher income renters than other Wards. However, there is a tremendous need for low-rent units in the East Ward. CLiME estimates that the East Ward has a deficit of 3,156 low-rent units that cost less than $900.

Figure 16 shows East Ward renter households by income in the left column, and units by rent in the right column. The lines connecting the two columns identify surpluses and gaps in affordability for units at specific rents. The figure shows that there is an ample supply of affordable housing in the East Ward for those making $50,000 per year. The East Ward has roughly 8,000 residents with incomes under $50,000, and somewhat more than 8000 units renting for less than $1,250 per month. However, there are large gaps in units that are affordable to the low-income renter population. There are fewer than 3,000 low-rent units that cost less than $900 per month, enough for only half of the low-income renters that live here.

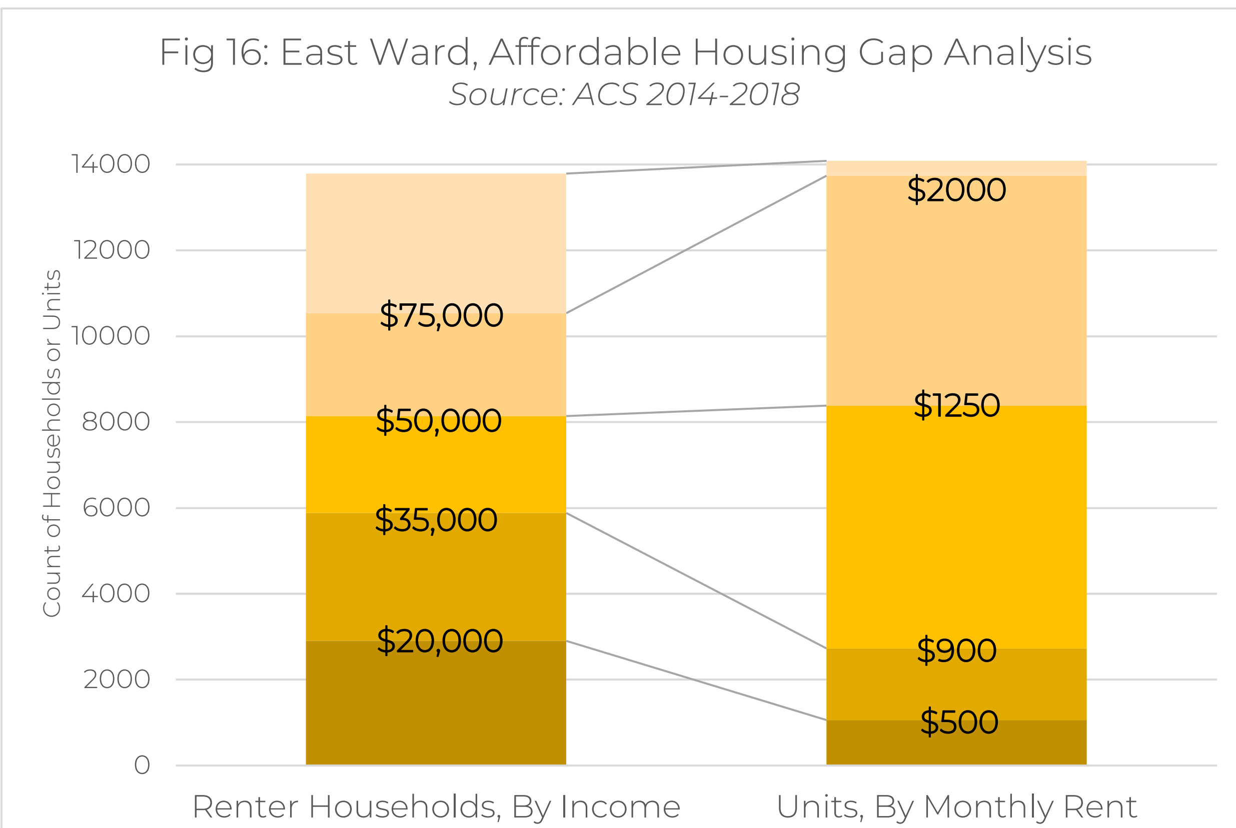
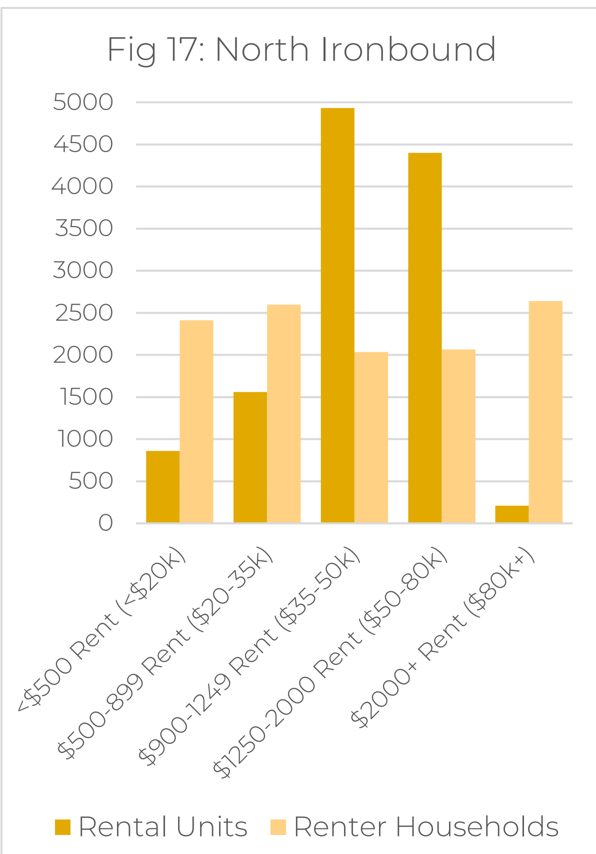
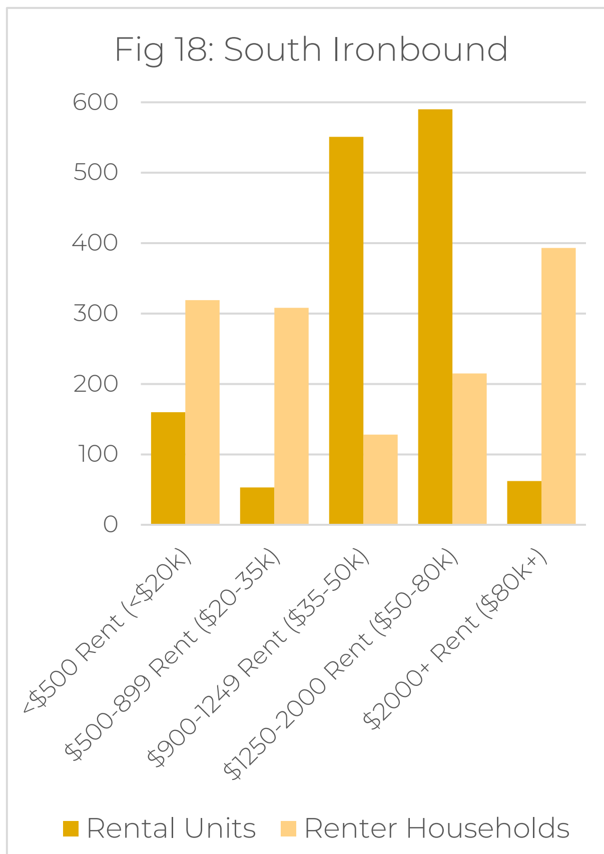


Table 4. Additional Units Needed in East Ward Neighborhoods

| | North Ironbound | South Ironbound |
|---|---|---|
| Units that Rent for Under $500 | 1,555 | 159 |
| Units that Rent for Under $900 | 2,596 | 414 |
| Units that Rent for Under $1250 | -303 | -9 |

The two neighborhoods that make up the East Ward are North and South Ironbound, although the North is geographically much larger than the South (See figures 17 and 18). Ironbound has a mix of incomes, with comparable numbers of renters falling into each of the income buckets. However, almost all of the housing stock falls into the upper-middle range ($900-$2000). There are very few low-rent units available. This gap is particularly acute in South Ironbound, needs the highest rate of additional low-income units (<$900 per month) per 100 renters in the whole City.



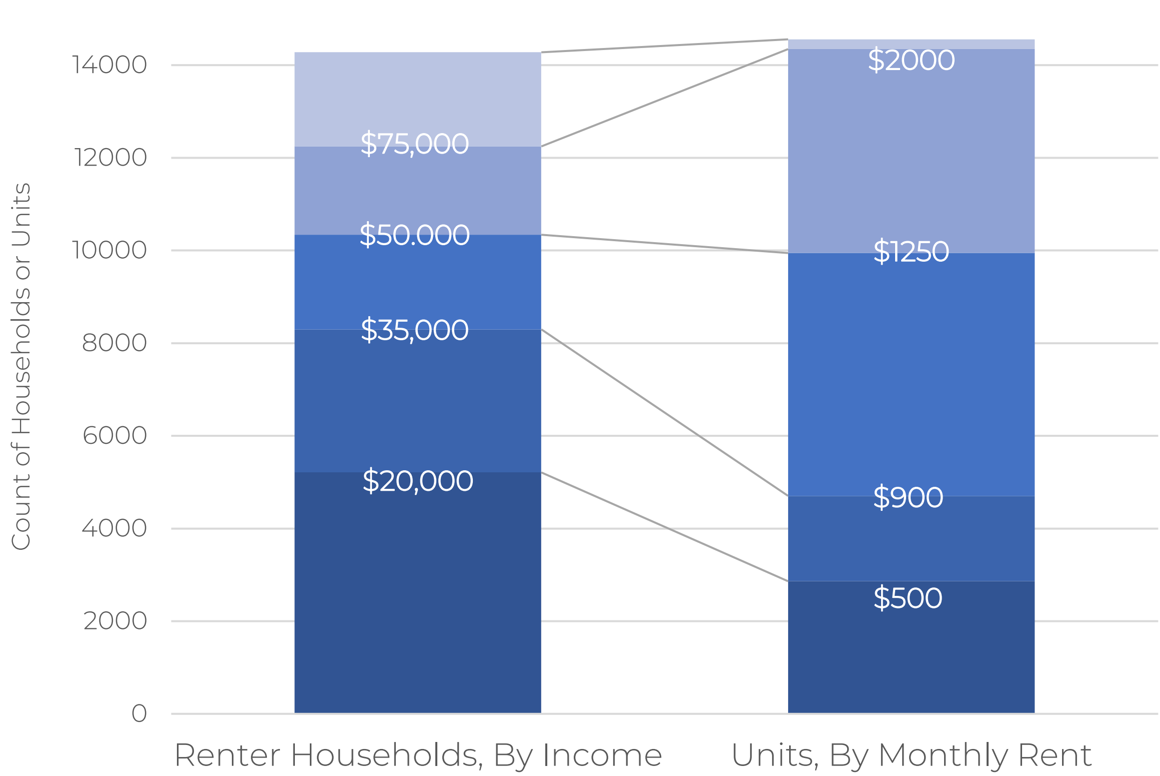
## *North Ward*

*Largest gap in affordable units, high rents and fewer subsidies*

The North Ward also has the greatest gap in low-rent units of any Ward. Figure 19 shows North Ward renter households by income in the left column, and units by rent in the right column. The lines connecting the two columns identify surpluses and gaps in affordability for units at specific rents. The figure shows that there is enough affordable housing for those making $50,000 per year, but there are very large gaps for households earning less than $35,000 per year. CLiME estimates the North Ward would need an additional 3,594 low-rent units (renting for less than $900) to meet the demand. The North Ward also has the greatest gap in the number of very low-rent units that cost less than $500. Most units with rents this low are publicly subsidized, and the level of housing subsidy in the North Ward is lower than some others despite having many extremely low-income renters.

Fig 19. North Ward Affordable Housing Gap Analysis

*Source: ACS 2014-2018*



Median renter income in the North Ward is somewhat higher than the Central and South Wards, and there are fewer low-income renter households living here. However, the rents in the North Ward are also higher, and there are fewer subsidized units in this part of the City. The median rent in the North Ward is $1,042, which is almost as high as the West and East Wards. At the same time, there are only 3,525 units (24%) subsidized in the North Ward through HUD's various rental assistance programs. This rate of subsidy is much lower than the South Ward (37%) and Central Ward (41%).

The gap in low-rent (<$900 per month) and very low-rent (<$500 per month) units by North Ward neighborhood is shown in Table 5. The gaps in very low-rent units are large in all of them. Forest Hill, North Broadway, and Lower Roseville also have large gaps of more than 300 low-rent units that rent for $500-$900 per month. Forest Hill, Roseville, North Broadway and Lower Broadway all have gaps of more than 600 very low-rent units.

Table 5. Additional Units Needed in North Ward Neighborhoods

| | Upper Roseville | Forest Hill | North Broadway | Lower Roseville | Seventh Avenue | Lower Broadway/ Mt Pleasant |
|---|---|---|---|---|---|---|
| Units that Rent for Under $500 | 560 | 716 | 628 | 529 | 530 | 194 |
| Units that Rent for Under $900 | 739 | 1275 | 1078 | 885 | 581 | 152 |
| Units that Rent for Under $1250 | 80 | 106 | 196 | 250 | -148 | -111 |

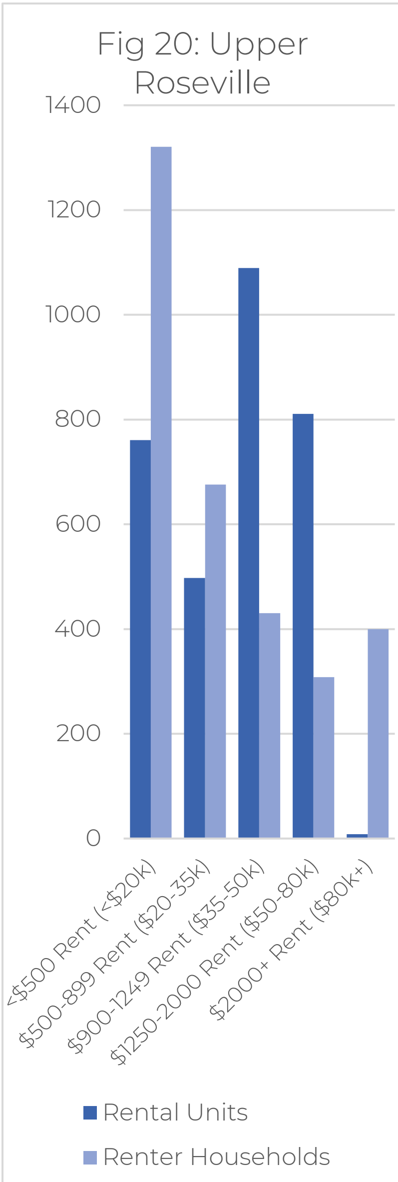


Fig 20: Upper Roseville
1400
1200
1000
800
600
400
200
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

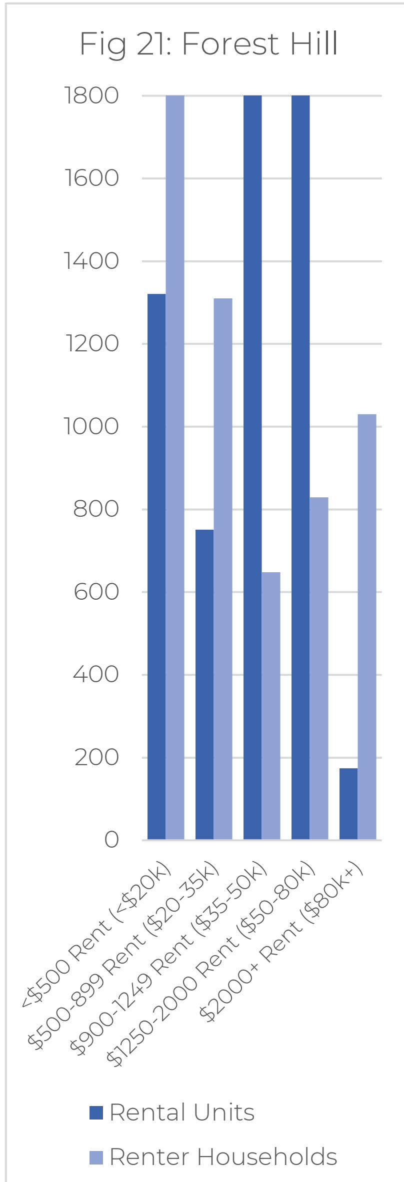


Fig 21: Forest Hill
1800
1600
1400
1200
1000
800
600
400
200
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

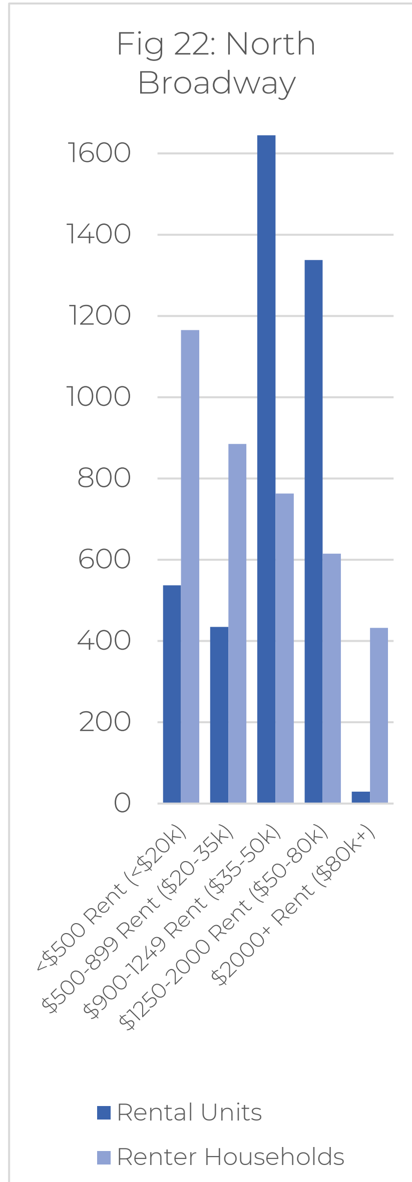


Fig 22: North Broadway
1600
1400
1200
1000
800
600
400
200
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

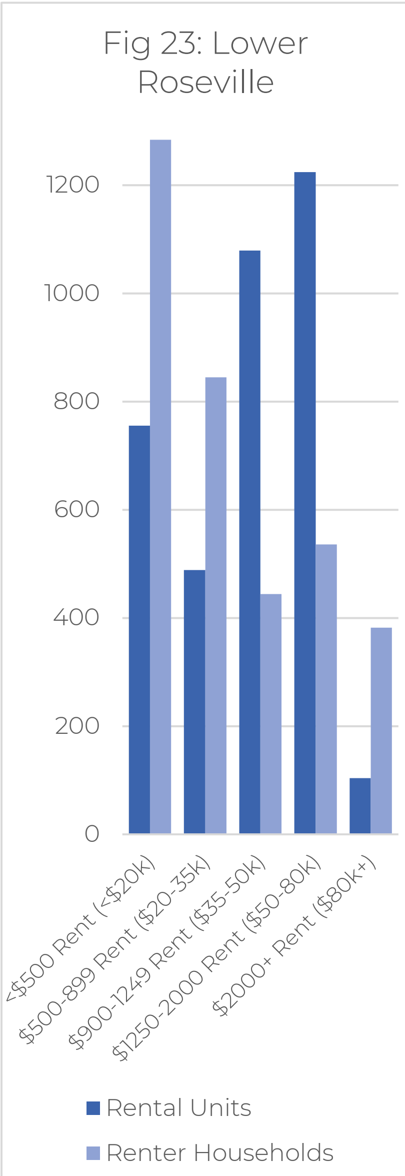


Fig 23: Lower Roseville
1200
1000
800
600
400
200
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

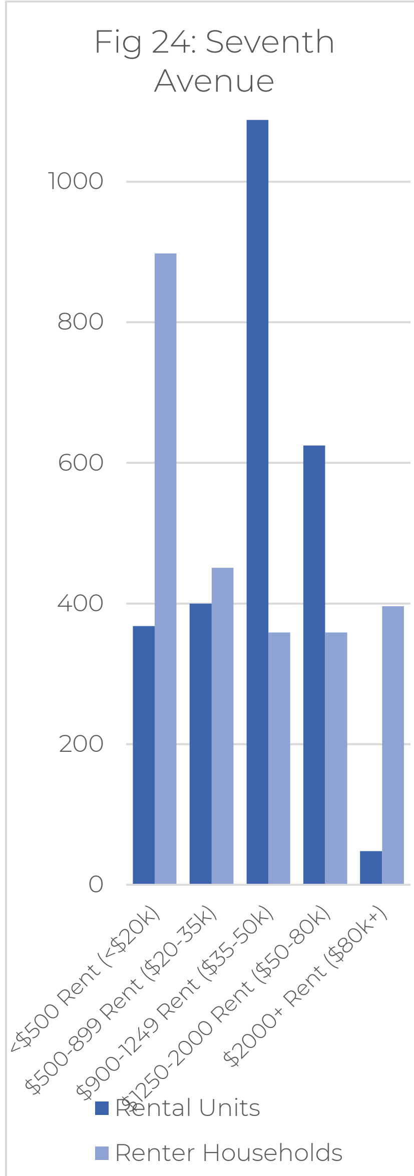


Fig 24: Seventh Avenue
1000
800
600
400
200
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

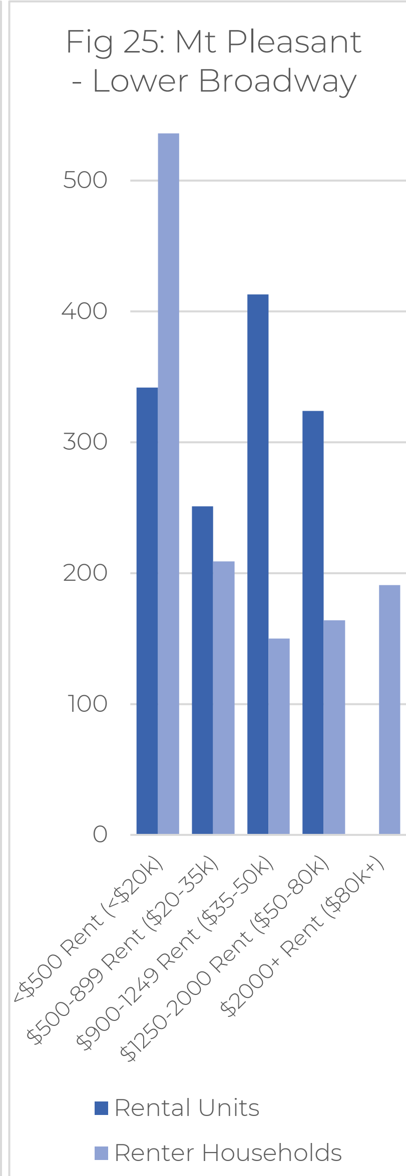


Fig 25: Mt Pleasant - Lower Broadway
500
400
300
200
100
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

## *South Ward*

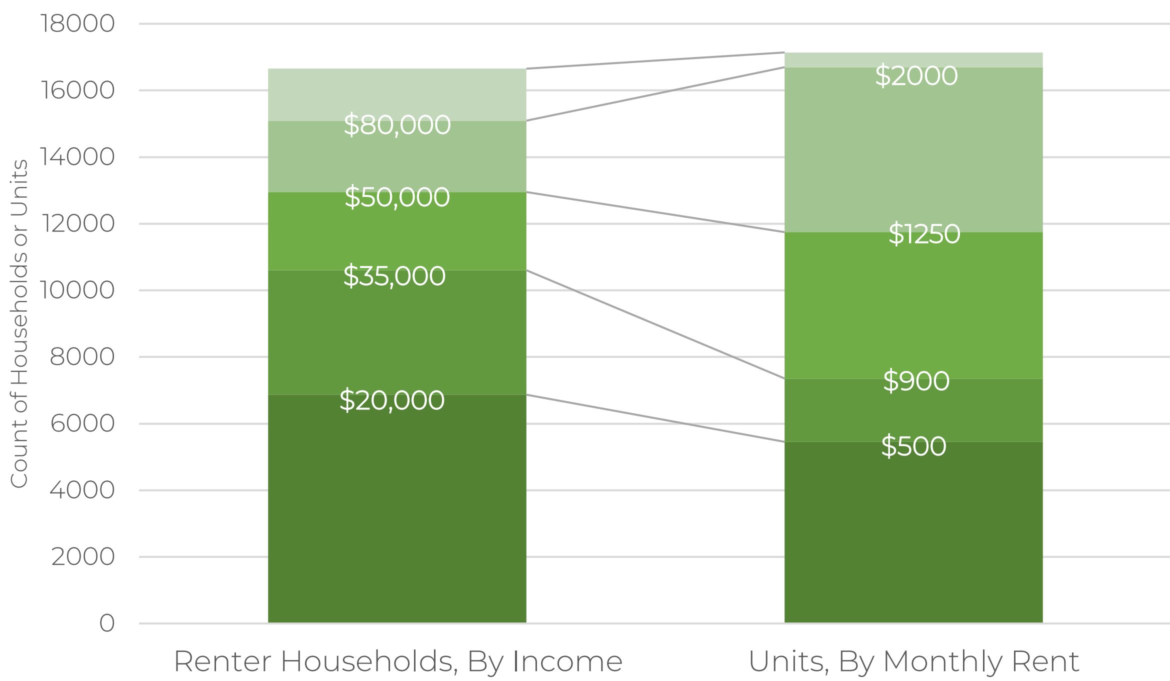
*Greatest population of low-income renters. Housing subsidies meet the needs of many residents, but large gaps remains.*

The South Ward has more low-income renter households than any other. Roughly 7000 households have incomes under $20,000 and another 4000 households have slightly higher incomes between $20,000 and $35,000. Fortunately, it also has more low-rent units than any other outer ward. Nevertheless, CLiME estimates there is still a large gap of 3,249 affordable units renting for less than $900 per month in the South Ward. Of these, there is a demand from extremely low-income households for roughly 1400 additional very-low-rent units that are less than $500 per month.

Figure 26 shows South Ward renter households by income in the left column, and units by rent in the right column. The lines connecting the two columns identify surpluses and gaps in affordability for units at specific rents. At the $50,000 income threshold, there is a small gap in affordable units that rent for $1,250. However, all of the need is for lower cost units, especially for units that rent for $500-$900 per month.

Fig 26. South Ward, Affordable Housing Gap Analysis

*Source: ACS 2014-2018*

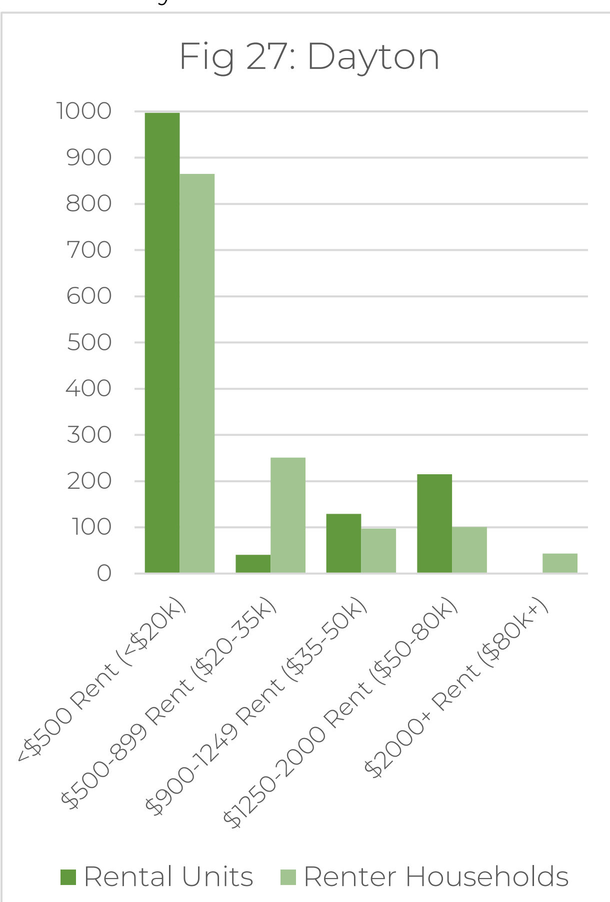


The magnitude of the affordable housing gap for each neighborhood in the South Ward is shown in Table 6. With the exception of Dayton, which is more than 70% subsidized primarily through public housing, each of the neighborhoods has a gap in low-rent and very low-rent units.

Table 6. Additional Units Needed in South Ward Neighborhoods

| | Clinton Hill, Upper | Clinton Hill, Lower | Dayton | Lincoln Park | Weequahic |
|---|---|---|---|---|---|
| Units that Rent for Under $500 | 643 | 199 | -132 | 41 | 601 |
| Units that Rent for Under $900 | 1165 | 135 | 79 | 402 | 1216 |
| Units that Rent for Under $1250 | 914 | 88 | 47 | 88 | -75 |

Figures 27-31 show the rent and income affordability cohorts for Newark's South Ward neighborhoods: Upper and Lower Clinton Hill, Weequahic, Dayton, and Lincoln Park. The dark green are the units, and the light green are the households at each affordability cohort.



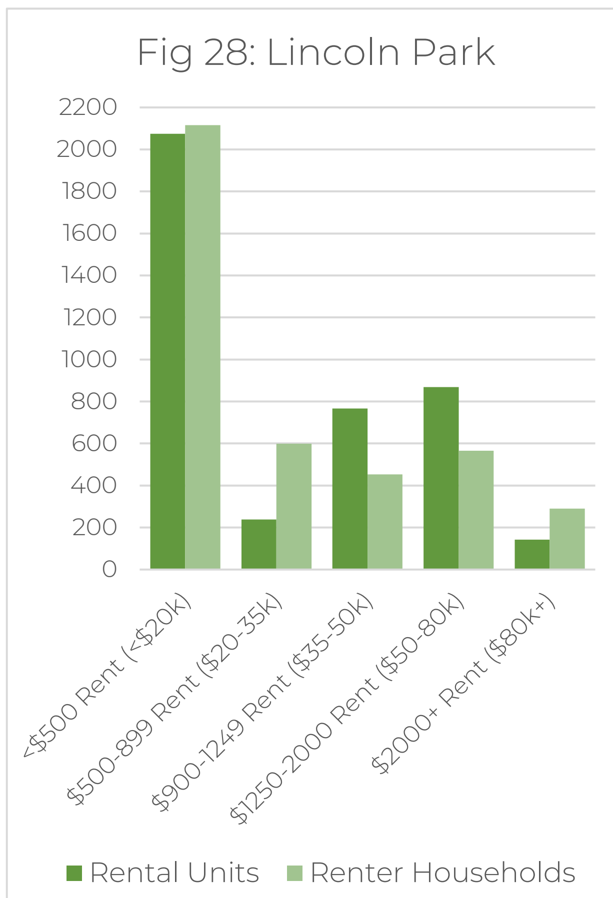



Fig 29: Lower Clinton Hill

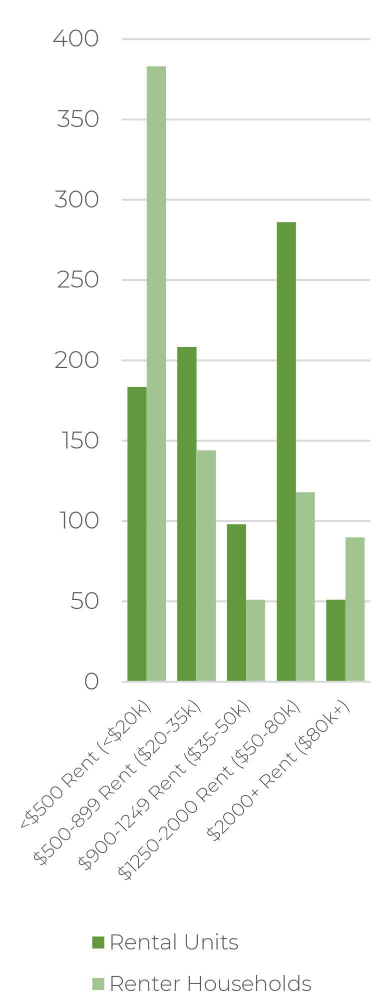



Fig 30: Upper Clinton Hill

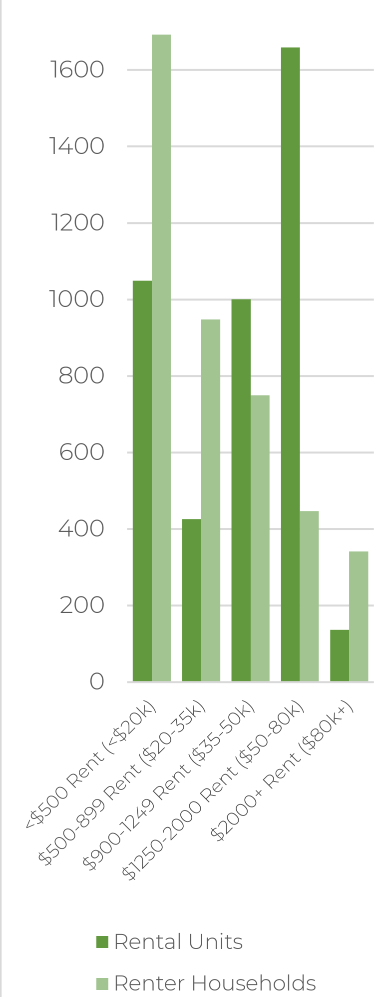



Fig 31: Weequahic

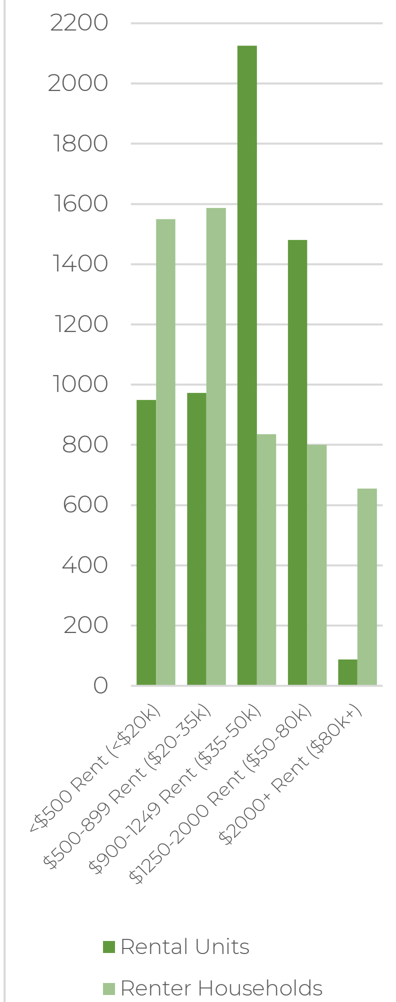



Figure 27 and 28 show the Dayton and Lincoln Park neighborhoods, which have relatively small gaps in affordable units. These neighborhoods share a similar pattern of having a lot of very low-income renters, but also having a large share of subsidized units. More than 70% of Dayton's rental supply is subsidized, as is 57% of Lincoln Park's. The largest affordability gap in Lincoln Park is for units that rent for between $500 and $900 per month; CLiME estimates a gap of roughly 400 units.

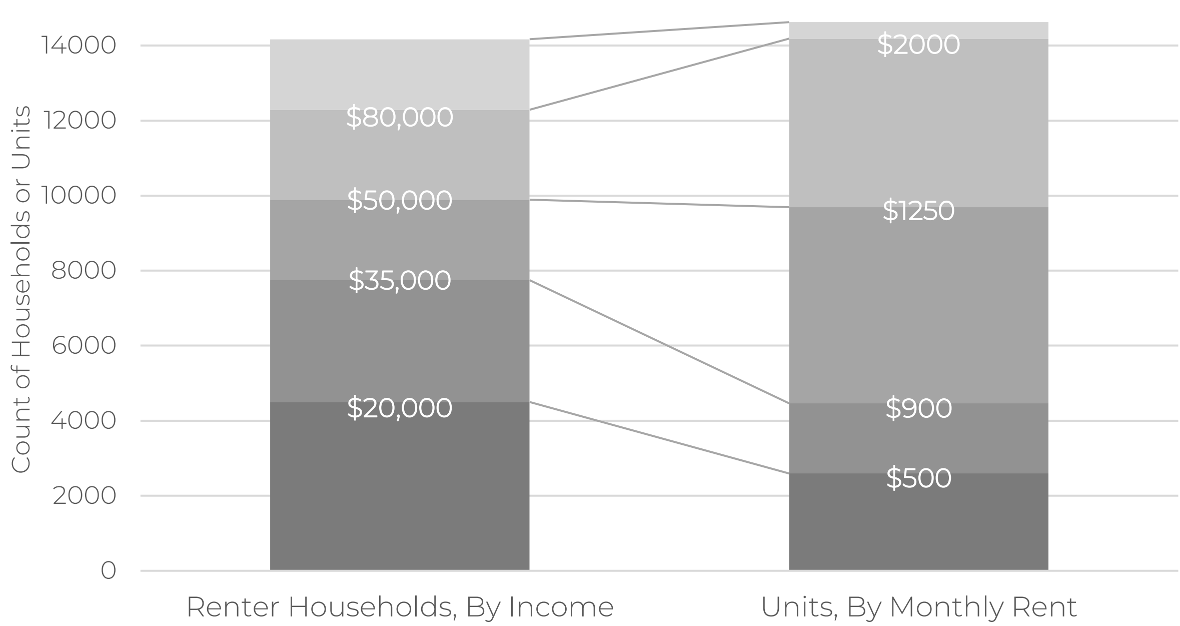
Figure 29 through 31 show the Upper and Lower Clinton Hill, and Weequahic neighborhoods. They each have large gaps in affordable units. Lower Clinton Hill has a large population of very low-income renters and most of the need here is for very low-rent units; CLiME estimates gap is roughly 200. Upper Clinton Hill and Weequahic have gaps in both very-low and low-rent units. In each case the gap in very low-rent units is more than 600, and the gap in low-rent units is more than 500. Figure 30 suggests the rental stock in Upper Clinton Hill is particularly unaffordable. More than 40% of its units rent for more than $1,250 per month, which are out of reach for most of the neighborhood's renters. Weequahic has a larger stock of units that rent for between $900-$1,250 per month.

## West Ward

*Lower rates of subsidy and greater reliance on vouchers. The neighborhoods vary a lot, but they all lack low-rent units.*

Figure 32 shows West Ward renter households by income in the left column, and units by rent in the right column. The lines connecting the two columns identify surpluses and gaps in affordability for units at specific rents. At the $50,000 income threshold, there is a very small gap in affordable units that rent for $1,250. The gaps are much larger for low- and very low-rent units. CLiME estimates there is a gap of 3,284 low-rent units that cost less than $900 per month. Of those, roughly 1,900 would need to cost less than $500 to fully meet the demand of the Ward's lowest-income renters with less than $20,000 in income.

Fig 32. West Ward, Affordable Housing Gap Analysis
*Source: ACS 2014-2018*



The West Ward neighborhoods include Fairmount, West Side, Ivy Hill, and Vailsburg. The gap in affordable units is shown in Table 7 below.

Table 7. Additional Units Needed in West Ward Neighborhoods

| | Fairmount | Ivy Hill | Vailsburg | West Side |
|---|---|---|---|---|
| Units that Rent for Under $500 | 425 | 753 | 175 | 216 |
| Units that Rent for Under $900 | 768 | 1187 | 411 | 614 |
| Units that Rent for Under $1250 | 178 | -284 | -48 | 284 |

The neighborhoods of Ivy Hill and Vailsburg, which extend out from the City to the West, are distinct from the others in having higher incomes, lower poverty rates, more homeowners and large populations of foreign-born residents. These are shown in Figures 33 and 34. 36% of Ivy Hill's population was born aborad, as was 27% of Vailsburg's. CLiME's analysis identifies a large gap of 753 very low-rent units in Ivy Hill, and a much smaller 216 very low-income unit gap in Vailsburg. This difference seems to be explained by the amount of federal housing subsidy. 24% of Vailsburg's units are subsidized comapred to just 12% in Ivy Hill. Ivy Hill also has has a unmet need of more than 400 low-rent units that go for $500-$900. Vailsburg has an unmet need for 236 low-rent units.

Fairmount has much higher poverty rates (32%) and high rates of residents with diabilities (16%). This neighborhood receives more subsidy than the others (36% of properties receive some form of subsidy) but has a greater amount of need because of the large population of low-income renters. CLiME estimates there is a gap of 768 low-rent units, and that a little more than half of this gap is for very low-rent units that cost less than $500 per month.

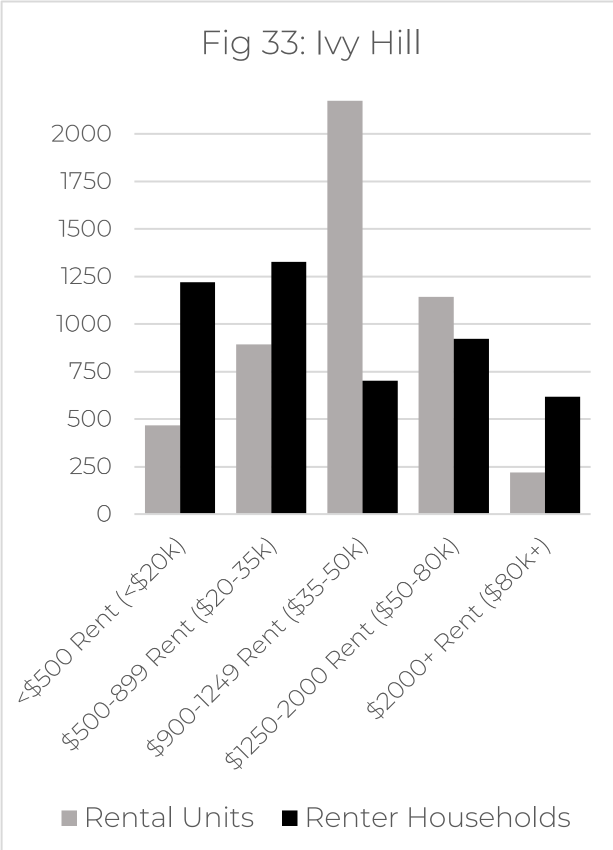


Fig 33: Ivy Hill
2000
1750
1500
1250
1000
750
500
250
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

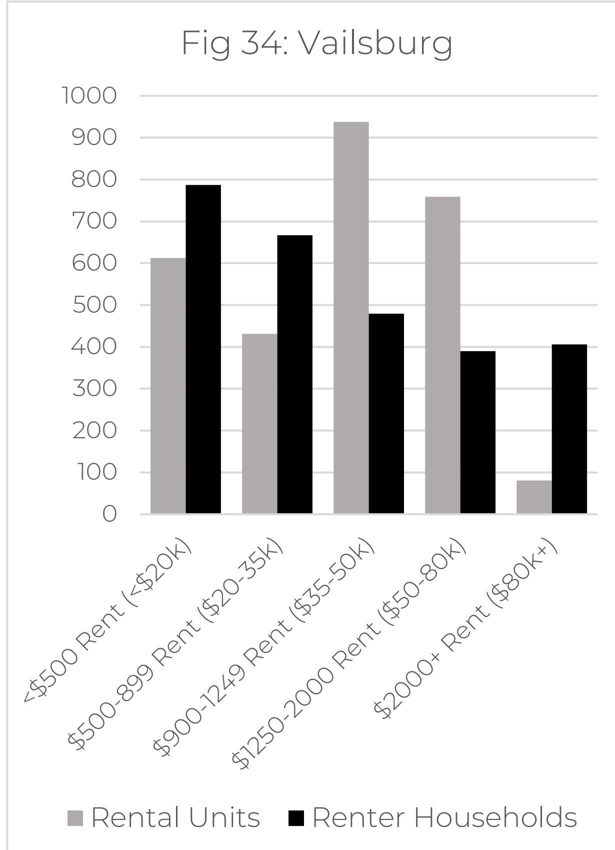



Fig 34: Vailsburg
1000
900
800
700
600
500
400
300
200
100
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

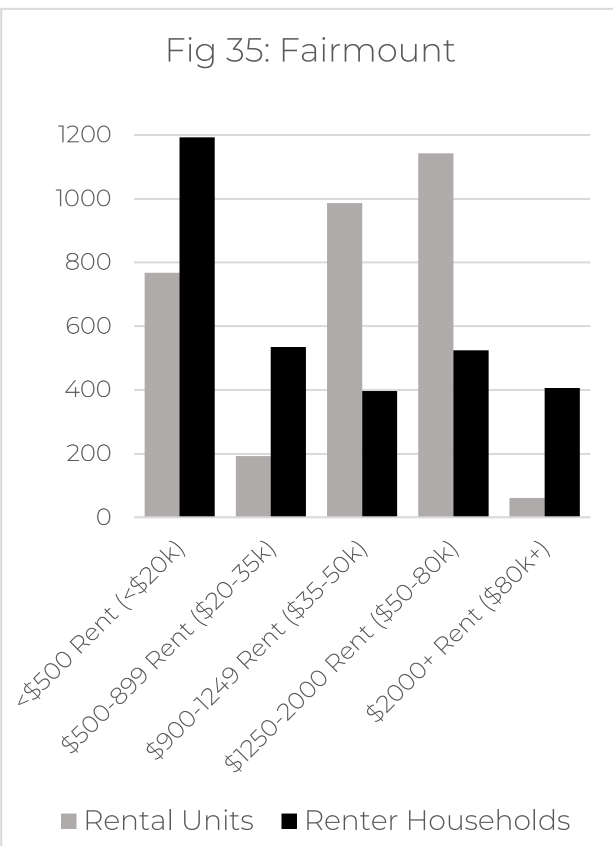



Fig 35: Fairmount
1200
1000
800
600
400
200
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

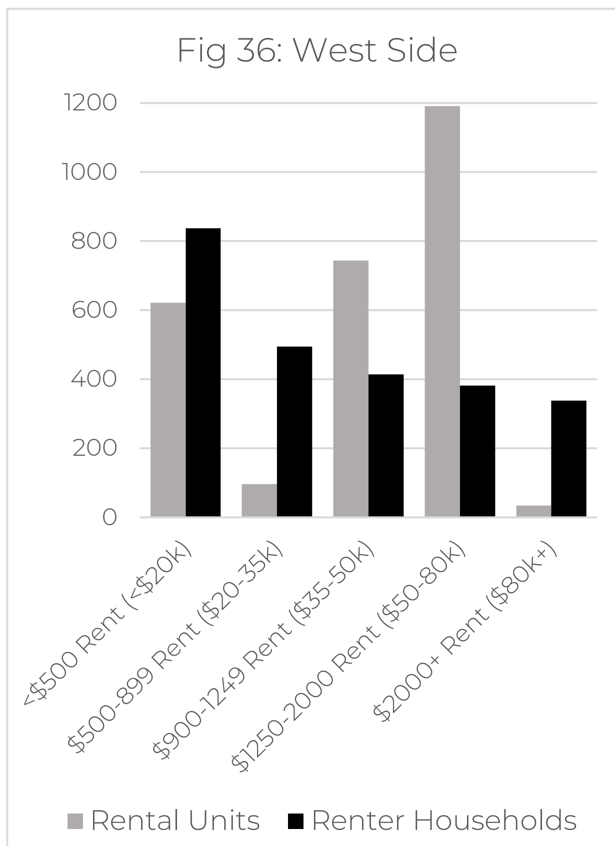



Fig 36: West Side
1200
1000
800
600
400
200
0
<$500 Rent (<$20k)
$500-899 Rent ($20-35k)
$900-1249 Rent ($35-50k)
$1250-2000 Rent ($50-80k)
$2000+ Rent ($80k+)
Rental Units
Renter Households

West Side is unique among these neighborhoods in having a greater demand for low-rent units ($500-$900) than for additional ver low-rent units (less than $500). The West Side has an unmet demand of 614 units that rent for less than $900, of which 216 is for very low-rent units.

# V. POLICY CONCLUSIONS AND PRELIMINARY RECOMMENDATIONS

1. The City—mayor and city council—should set clear goals with unit and rent numbers attached based on the realities of Newark neighborhoods. This exercise may be aided by experts in maximizing unit design. There is a national movement of building innovation Newark should join.
2. Goal-setting should be bold and creative. The City should do all that it can, but should assume a leadership position in garnering political support for greater public investment in affordable housing at the state and federal level. The need is simply that great—and growing.
3. Affordable housing production—of new units, renovations and rehabbed—is fundamentally a private market business made possible by public subsidy. The City does not build its own affordable housing, though it can incentivize it. Those incentive programs must be intentional and strategic. We recommend prioritizing the hardest part of the market to attract private activity: low- and very low-income households at the City's median income of $30,000 per year.
4. Federal affordability thresholds drastically overstate what is affordable in Newark, and challenge the City's ability to create new affordable units. Only deep subsidies are able to meet the needs of most Newark renters. We recommend the City prioritize 30% affordability where possible, no more than 50% in lieu of 60%, and look for creative avenues to bring the rents down further to what residents can afford.
5. Deep subsidies may only be possible with substantial layering or cross-subsidization. The City has been proactive in pursuing this through, for example, supporting small and emerging resident developers. More is needed. This means:

- reducing land costs as much as possible (e.g., through the disposition of city-owned land held by the Land bank) and prioritizing deals with local CDCs;
- strategically using gap financing mechanisms, incentivizing affordable housing developers;
- deftly maximizing the use of statutorily mandated development fees and Inclusionary Zoning Ordinance funds in the City's Affordable Housing Trust Fund;
- using studies like this one to seek increases in HUD's allocation to the Newark Housing Authority (especially the Housing Choice Voucher program); and,
- soliciting private philanthropy in supporting housing options for target populations at greatest risk (e.g., the disabled, homeless youth).

6. The City should actively promote experimentation with price-restricted forms of housing beyond rent control in order to preserve the gains it creates, such as Community Land Trusts, which can be marshalled for rental housing.
7. New Jersey's cities are a repository of affordable housing and affordable housing need. The depth of this crisis could have been averted with more consistent and rigorous fair housing enforcement as required by state law. As a strong and consistent advocate for equitable growth policies, Newark's mayor should use his bully pulpit to highlight the plight of cities like Newark in a state that has failed to adequately enforce the obligations of every municipality to provide its fair share of regional affordable housing need.
8. FEDERAL ADVOCACY: Newark's elected representatives should work hard to increase federal block grant distributions under an expansion of the national Housing Trust Fund. The Housing Choice Voucher (HCV) program can be an extremely effective subsidy for low- and extremely low-income households and must be expanded through passage of the "Pathway to Stable and Affordable Housing for All Act." Additional federal reforms include:
   - Passing the "Affordable Housing Tax Credit Improvement Act" would alleviate some of the problems we identify here around the unreasonably high thresholds for affordability under the Low Income Housing Tax Credit (LIHTC);

- Repealing the Faircloth Amendment as sought in the proposed “Homes for All Act” would remove the 1999 cap on public housing units and invest in the production of over 9 million new units;
- Increasing funding for project-based rental assistance in order to preserve existing affordable units and for badly needed capital investment in decaying public housing inventories in Newark and across the country.

# APPENDIX: ADJUSTING AFFORDABILITY ESTIMATES FOR RENTAL SUBSIDIES

This adjustment procedure is necessary because the American Community Survey (ACS) does not consistently capture subsidized units. Some subsidized households report their entire contract rent for their unit, while others report just the portion of the rent that they (the tenant) is paying each month. Tenants that report the entire contract rent – rather than just the subsidized portion they pay -- will be reported by ACS with an elevated rent beyond what they are actually paying. This leads to an under-estimation of the affordability of the rental stock.

CLiME’s adjustment estimates the share of tenants reporting the full contract rent – rather than just the subsidized portion they pay, and then manually adding those units to Newark’s affordable inventory. For this adjustment, CLiME focused on HUD’s deep subsidy programs. Specifically, we include Public Housing, Project-based Section 8, and Housing Choice Vouchers. These three programs cover more than 95% of all the deep subsidy units covered by HUD. We rely on HUD’s Picture of Subsidized Households (PSHH) data, which offers counts of units and households covered by various programs, broken down by unit size.

CLiME’s adjustment does not take Low-Income Housing Tax Credit (LIHTC) units into account because, as we have seen, LIHTC produces units that are too expensive for Newark’s NMAR without additional subsidy. In addition, LIHTC is often used in tandem with the deep subsidy programs operated out of HUD. Therefore, including LIHTC units would create a problem with double-counting. CLiME considered adding in units covered by FHA multifamily financing, but found that almost all of these units were already counted in the PSSH dataset. HUD's multi-family contract database was also cross-checked, and these units were also counted by PSHH.

To incorporate these missing subsidies into the assessment, CLiME borrowed from a recent study by Wade Kingkade at the US Census Bureau.[14] This study uses private individual information to link the administrative data collected by HUD on tenant payments with the Census' household data on contract rent. The study provides an estimated share of households reporting the full contract rent, and the share reporting only their tenant payment, broken down by program. Based on these findings, CLiME makes the following adjustments:

- *Public Housing: No Adjustment*.
- *Project-Based Section 8: an estimated 20% of units need to be added*.
- *Housing Choice Vouchers: an estimated 60% of units need to be added*.

Public Housing tenants pay the monthly full rent to the Newark Housing Authority, so no adjustment to ACS data is necessary. However, the project-based and voucher programs involve private ownership of the property, with separate tenant and subsidy streams paying portions of the contract rent. We estimate that roughly 20% of project-based subsidy recipients, and 60% of voucher households, report their contract rent, so we must add these units to the affordable supply.

CLiME estimates that 5,523 additional affordable units need to be added to the affordable inventory. Most of these missing units are uncounted vouchers (4,102) and the rest of project-based Section 8 subsidies (1453). An estimate of missing units, broken down by program and unit size, is shown in Figure 34.

The median household expenditure for these programs was $346 per month for project-based Section 8 and $426 for tenant vouchers. With these deep levels of subsidy, CLiME assumed these units would be affordable at the lowest 30% income threshold and counted them in this most affordable category.

[14] https://www.census.gov/content/dam/Census/library/working-papers/2019/demo/SEHSD-WP2019-37.pdf. One limitation of this approach is that it relies on national patterns in Census reporting. We have to assume that the patterns for reporting rent versus tenant payment only apply in Newark.

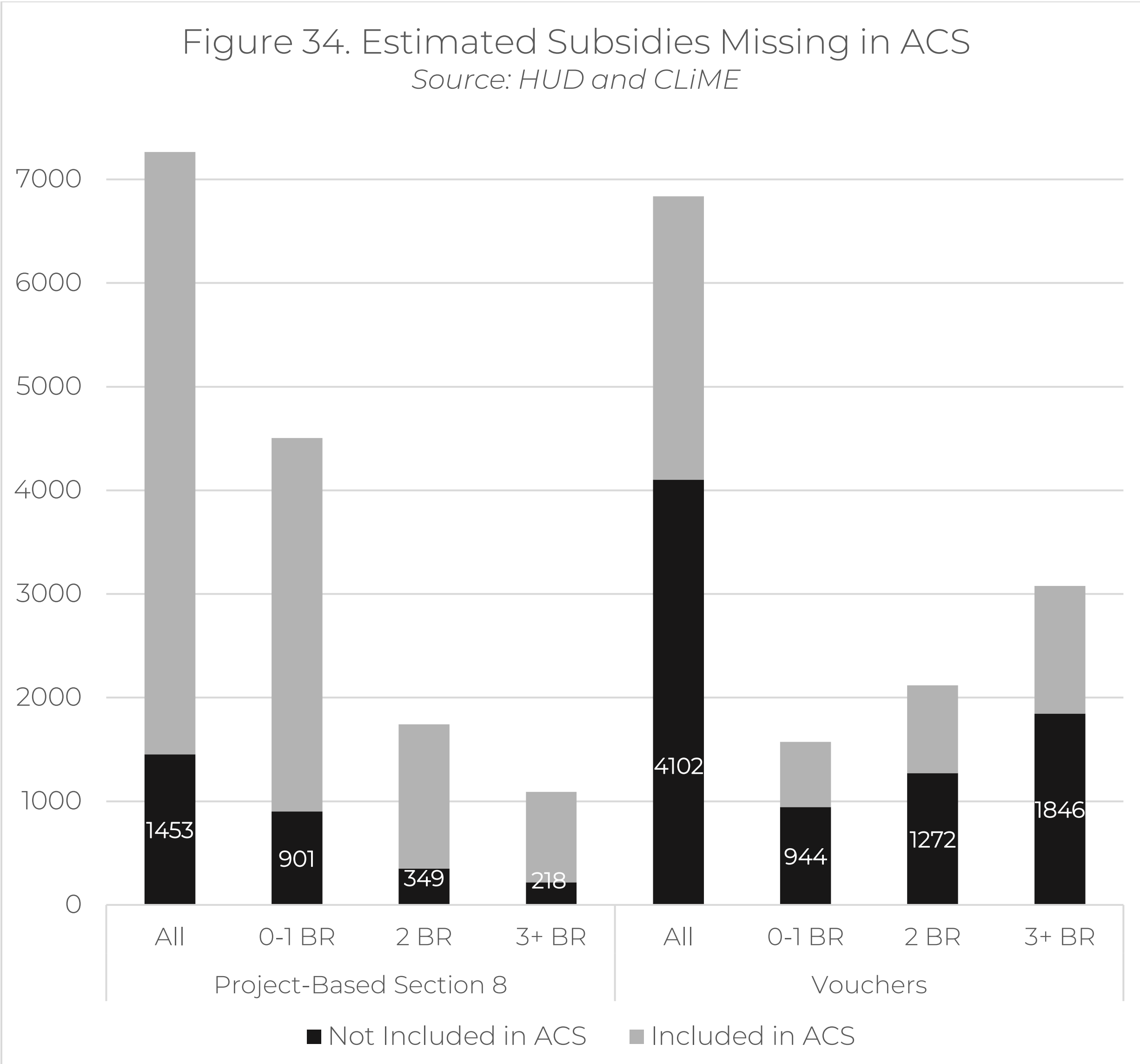


Figure 34. Estimated Subsidies Missing in ACS
Source: HUD and CLiME
7000
6000
5000
4000
3000
2000
1000
0
1453
901
349
218
4102
944
1272
1846
All
0-1 BR
2 BR
3+ BR
All
0-1 BR
2 BR
3+ BR
Project-Based Section 8
Vouchers
Not Included in ACS
Included in ACS