NEW YORK UNIVERSITY
FINANCIAL TASKFORCE

Housing Subcommittee
Report
May 26, 2009

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The Report of the Housing Subcommittee of the University Financial Task Force

Goals

The charge to the Financial Task Force, chaired by Dean Thomas Cooley, is to recommend change and improvement of all University financial systems and functions. The charge, in part, directs the Financial Task Force to:

- Analyze the finance systems and identify areas for improvement; review of University financial and budget policies to determine the extent of alignment with long-term University objectives; identify areas of underperformance, unnecessary expense, or missed revenue potential; and to recommend specific actions and time horizons to address the opportunities for improvement.

The objectives of the Housing Subcommittee of the Financial Task Force are to:

1. Ensure policies and practices are aligned with university goals;
2. Analyze the financial impact of the faculty housing program on the University's budget, interfacing as appropriate with both the Revenue Task Force and the HR Taskforce;
3. Improve the impact of faculty housing on the University's budget and introduce practices so that NYU’s rental housing is fiscally neutral; and
4. Advise on possible approaches to both enhance the quality of faculty housing including expanding alternatives to rental housing to meet the recruitment and retention needs of schools and the university.

Introduction

NYU’s rental housing is a significant strategic resource that supports the University’s objective of recruiting and retaining an outstanding faculty. NYU is located in one of the most expensive housing markets in the United States, yet faculty salaries at NYU are similar to those paid to like faculty at competitive universities. NYU has long recognized that providing access to below-market rental housing enables the University to mitigate the challenges presented by the local housing market. Rental housing is also a valuable endowment asset. A major challenge for NYU, as with any university that provides below-market housing to faculty, is to strike the right balance between the goal of a residential university and maintaining fiscal neutrality. Rental revenue from apartments leased to NYU affiliates does not cover operating expenses and deferred maintenance. (See Appendix 1 for an overview of NYU’s rental housing revenues and expenditures for Academic Year 2008.)

If moving toward fiscal neutrality means closing the net operating income gap, current policies will need to change. Specifically, we believe that rental rates to tenants will have to continue to increase, and Schools will have to share some of the costs for housing
occupied by their active faculty. We believe that modifying current practices in combination with reasonable rent charges will enable significant progress toward fiscal neutrality without sacrificing programmatic values. We expect that these two steps will proceed incrementally, yet note that modest changes will not be sufficient to address the substantial deferred maintenance backlog to the rental housing stock. Complete fiscal neutrality would require a radical solution such as selling one of the buildings and using the funds to accelerate remediation of deferred maintenance.

Objective 1. Ensure policies and practices are aligned with University goals.

The purpose of NYU’s housing programs is to support the University’s objective of recruiting and retaining an outstanding faculty. In our discussions, the Housing Subcommittee identified practices and policies that may conflict with current University goals.¹ We recognize that guidelines that served NYU well in the past may need to be revised to meet the University’s needs today and in the future. Resources to support affordable housing are limited. Clearly defined objectives are needed to ensure optimal use of available funds. To ensure that policies and practices are aligned with University goals, we recommend that the administration review its priorities for faculty housing, identify conflicting policies, and revise its practices in accord with the reassessment.

Traditionally, NYU housing relied on permanent, below market rental housing to meet the needs of faculty at various life stages. This paradigm supported a residential community and assumed apartments would be available to accommodate incoming faculty, growing families, and in some cases retirees. Leases of non-faculty tenants are extended. Apartments are allocated centrally considering family size and academic merit. When the tenant’s family size decreases, occupants of large apartments are not expected to downsize. A pilot studio retirement program started in 1987 became an entitlement. Home purchase loans are available only on a very limited basis. Currently, about 23% of the rental stock is occupied by staff, retirees, post doctoral fellows, visitors, and graduate students. (See Appendix 2 for the distribution of apartments by tenant category).

NYU is in a growth mode, both due to the Partners Program and NYU’s plans to become the Global Network University. This is placing additional demand on NYU’s limited housing resources. To accommodate faculty demand, the percentage of units occupied by faculty needs to increase significantly from its current 50%. Increasing faculty utilization requires reducing other categories of tenants. Since the cost of building new apartments is prohibitive, a revised paradigm is needed to increase the percentage of rental apartments dedicated to faculty, free larger apartments for families, and provide alternatives to renting from NYU. Reviewing past assumptions and exploring new options will ensure that future practices are aligned with goals. In addition to reassessing and perhaps adjusting current policies and practices, if rental is the dominant housing option, NYU should continue to invest in improving the quality of apartments and in converting studios into larger apartments.

¹The Provost’s Statement of Policy on Faculty Housing, July 2007, provides a clear statement of NYU’s housing policies. http://www.nyu.edu/provost/pdf/FacultyHousing-07-07.pdf
Objective 2: Analyze the Financial Impact of Faculty Housing Programs

NYU faculty housing programs include access to University rental housing and limited mortgage loan programs. Stern and the Law School pay all costs associated with apartments allocated to them for their exclusive use. Since 2006, all Dental School housing has been located in non-NYU housing with the Dental School covering 100% of the difference between market rent and the rent charged to the faculty member. Fund raising covered the cost of renovations of rental housing allocated to FAS, IFA, and Courant Partners hires. On occasion, Schools cover the cost of custom renovations for select faculty. At present, other than these instances, Schools and administrative units do not contribute to the cost of rental housing provided to faculty, staff, retirees, or visitors. Approximately 65% of rental housing is a “free good” to most Schools. Schools can request housing for their faculty without having to share the cost of covering the gap between revenues and expenditures.

Unlike rental housing, since 2002, the Trustees required that Schools cover the cost of loans made to their faculty. The cost of loan programs originated by the University (e.g., Riverwalk and the Home Ownership Program (“HOP”) auction) is absorbed by the University’s operating budget. Funds loaned in the programs are not available for other University projects. Initially, there is an opportunity cost on the investment return on working capital. With shared appreciation loans, the expectation is that this cost will be reimbursed when the loan is repaid.

1. Cost of Loan Programs

University loan programs increase affordability by reducing borrowing costs for faculty purchasing primary residences. Unlike conventional mortgages, NYU’s loans are interest only and do not amortize. The full amount of the principal is due when the loan is repaid. Most loans have a shared appreciation feature. The borrower pays low Current Interest during the loan term. In addition, Contingent Interest (usually a share of appreciation) is due when the loan principal is repaid. On average, over time, Current Interest plus Contingent Interest should approximate the working capital opportunity cost. Other than administrative overhead, the cost to the central University budget is zero for School sponsored loans provided that the University charges the Schools its true cost of funds. While loans are a cost effective and tax efficient alternative to rental housing, there are limits on the total amount that NYU can lend. The outstanding principal balance of the loan portfolio affects NYU’s debt capacity.

Table 1 is an example of the calculation of the charge to Schools for loans funded by the University. The annual cost to Schools for a typical shared appreciation loan is the difference between the proxy rate charged by University and the current interest paid by faculty.

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2 The Stern School of Business provides a Housing Allowance that can be used for purchase or rental of housing. Since 2005, the Dental School has covered the full subsidy for off campus leases.
3 The current outstanding loan portfolio, excluding Law School loans, is about $30 million.
Table 1. Cost to Schools of a typical shared appreciation loan

<table>
<thead>
<tr>
<th>Cost of Shared Appreciation Loan</th>
<th>School Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Principal</td>
<td>$400,000</td>
</tr>
<tr>
<td>Working capital opportunity cost at</td>
<td>8.0%</td>
</tr>
<tr>
<td>Current Interest (paid by faculty)</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Net annual interest rate (paid by school)</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Net annual cost to school $22,000

If charge to Schools is 8%

- 25 loans $550,000
- 50 loans $1,100,000
- 75 loans $1,650,000
- 100 loans $2,200,000

2. The Cost to the University of Rental Programs

Excluding deferred maintenance, in AY 2008 rental operating expenses exceeded revenue by $2.2 million. With deferred maintenance, expenses exceeded revenue by $9.2 million. See Appendix 1 for budget detail. We note, however, that this budgetary accounting of the revenue and costs of the program is inadequate in many ways and urge in Section 2A, Recommendations for Rental Programs, that the central administration prepare and circulate for discussion more comprehensive financial analyses of rental housing.

Objective 3. Improve the impact of faculty housing on the University's budget and introduce practices so that NYU’s rental housing is fiscally neutral.

Our recommendations for improving the budgetary impact of faculty housing fall into two categories: Housing Purchase and Faculty Rental Housing.

Housing Purchase Loan Programs – Recommendations

1. Expand Access: Expanding access to loan programs provides faculty with a lifestyle choice, and helps the University by reducing demand for its rental housing. Buyers accrue the benefits of home ownership including the chance to develop equity, tax advantages, and a desirable place to live when they retire. The recent federal Economic Stimulus Program includes benefits to home buyers: First-time Home Buyer Tax Credit was expanded to $8,000 or homes purchased between January 1, 2009, and December 1, 2009. The credit is worth 10% of the home’s values up to a maximum of $8,000, and
income limitations are $75,000 for single tax payers claiming the full credit and $150,000 for married tax payers. In addition, the FHA and Conforming Loan Limits in High Cost Areas were raised to $729,750.

In September 2003, the Trustees passed a resolution allowing the University to use $20,000,000 for home purchase loans. Additional funds were approved in 2007. Loans were offered on a limited basis to selected recruits, current faculty, and tenants who agreed to vacate NYU rental housing.

Loan programs are an attractive alternative to rental housing. Beginning in the early 1990’s, the Law School has successfully used purchase loans as a recruiting tool and as a way to reduce demand for the School’s rental housing stock. Since September 2003, loans were funded for 85 non-Law faculty and senior staff. The average NYU loan was $312,000 with an average purchase price of $1,087,000. Sixty-four buyers vacated NYU housing returning 25 one bedroom, 17 two bedroom, 20 three bedroom, and 2 four bedroom apartments. Nineteen faculty accepted loans in lieu of rental housing. Thirty-six percent of all buyers purchased homes within two years of commencing employment at NYU. (See Appendix 3 for the number of years between hire date and purchase date for faculty.)

Administrative costs can be offset if a 1% loan origination fee is charged. Depending on the loan amount, most or all of the cost to the borrower would be covered by the $5,000 mortgage assistance program administered by the Benefits Office. Points are usually tax deductible.

Continue occasional centrally sponsored special loan programs similar to the Home Ownership Program (HOP auction) loans for tenants in NYU housing. Design programs to encourage new senior faculty to buy before entering NYU rental housing. A small pool of temporary housing may be required to accommodate these faculty while they look for a permanent residence. For some types of loans, there is a tax benefit if a purchase is linked to a job relocation. For borrowers qualifying for an Employee Relocation Loan, Section 1.7872-5T of the regulations that interpret the Internal Revenue Code provides that Employee Relocation Loans have no imputed income or interest. Generally, the home purchase must be made within one year of the relocation.

While loans meet the needs of many faculty, there are limits on the effectiveness of purchase programs. The New York real estate is extremely expensive. Most co-ops (80% of the for-sale inventory) require a 20% to 40% down payment. NYU has limited funds to loan. The cost of renting a NYU apartment is low compared to ownership costs. Loans will become a more attractive option if the University increases the maximum amount that can be loaned to senior recruits.

4 Beginning in AY 2008-09, Stern has offered loans to all new tenure line hires.
5 The Law School manages a separate loan program.
2. Allow buyers, not the University, to select location: In 2007, interest was minimal in buildings identified by NYU even though the program included generous financing. The distribution of where people have bought shows that preferences vary widely about location. NYU borrowers purchased homes in 45 different zip codes. Individuals preferences vary about price, commute time, building amenities, schools, and a myriad of other factors. See Appendix 5 for a 5-mile map showing where faculty purchased homes.

3. Rate Charged to Schools: Schools reimburse the operating budget for the difference between the proxy rate set by the University and the interest paid by the faculty member. This rate is reset each year and loan charges are conveyed to each School annually. For the past four years, the charge to Schools has been between 8% and 8.5% which significantly exceeded the opportunity cost on working capital. The cost to Schools should be set at a level that encourages them to offer loans to faculty in lieu of rental housing. The Committee recommends basing the charge to Schools on the Applicable Federal Rate, and fixing it for the entire loan term rather than adjusting it annually. The current policy of revising the rate annually creates uncertainty and along with the high rate has been a disincentive for School to offer loans. The University is better equipped to manage interest rate risk than individual schools. The University can hedge the interest rate risk by adding 50 basis points to the AFR.

4. Down payment assistance: Many faculty find it difficult to assemble a down payment. This is especially true in New York City where most co-ops require down payments of 20% to 40%.

   A. Access to retirement accounts: The University should inform prospective buyers how their supplemental retirement accounts can be used for a down payment. We recommend asking the Benefits Office to assess expanding access to TIAA/CREF and Vanguard base accounts.

   B. NYU sponsored down payment assistance program: Down payment assistance could motivate tenants to choose home ownership. Creating a down payment savings program could also serve as a retention tool.

5. The Housing Subcommittee concurs with the Housing Committee’s policy that requires that Schools offer an “appropriate” loan package if the school requests housing for an “exception”. (For example, requesting a three-bedroom for a family with only one child.)

6. Rental or Mortgage Subsidy: As an alternative to loans, a subsidy can be offered to help with the cost of mortgage payments or open market rental. The Stern School has used this successfully for 2009-10 new faculty, with 4 of its 10 new hires opting for open

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6 The IRS limits loans for the purchase of a primary residence to the lesser of $50,000 or 50% of the retirement account. For employees age 59½ and older, NYU and not the IRS currently restricts any withdrawals before retirement.
market rentals. The success of this program depends on the relative rents of NYU Faculty Rental housing and rents on the open market, which in the current economy are moving closer to each other.

NYU Faculty Rental Programs - Recommendations

1. Policies

Review policies and amend them as needed to ensure practices are consistent with NYU’s current academic goals. For example, rental housing for some faculty could be transitional rather than permanent. This point is discussed in Objective 1 above.

2. Fiscal Neutrality

NYU is not a for-profit landlord. It is an academic institution that uses its real estate assets to help achieve programmatic goals. The housing stock is managed and allocated to support recruiting and retaining outstanding faculty. Given the substantial backlog of deferred maintenance, achieving fiscal neutrality may not be feasible in the near term. We believe it is essential for the University to contract for a thorough and systematic assessment of the residential building systems to document the magnitude of the deferred maintenance. By deferred maintenance we mean the cost of bringing all building systems to an acceptable level such that normal repairs and maintenance can be budgeted for and covered by on-going rental revenues. A Sight Line report in 2007 speculated that deferred maintenance for the residential buildings could total about $200 million. Establishing the facts is a necessary first step. If implemented, the following steps could substantially mitigate the shortfall.

A. Rebase the residential budget to establish a new base budget that accurately targets what maintenance and other expenses (including staff headcount) should be for properties of like size and age to NYU’s residential properties. Included in this budget should be line items for deferred maintenance and other reserves on a building by building basis. The Rental Housing budget should follow the best practices used by commercial landlords. Revenue and expense oversight should be integrated. All revenues from properties in residential buildings should be recognized in the rental budget (e.g., office leases) as offsets to operating expenses.

B. On a phased basis over 5 years, charge Schools and administrative units for use of rental housing for current utilization and incremental requests for active faculty members. The purpose of the charge is threefold: (1) to recognize the cost of providing rental housing; (2) to fund reserves for capital projects and deferred maintenance; and (3) to make loan and rental charges approximately equal so Schools have an incentive to offer ownership as an alternative to renting. Determining a fair and appropriate charge to Schools and administrative units is
complex and requires further analysis, but should be comprised of several parts to reduce the deferred maintenance deficit:

a. Charge Schools/units the rent of any apartment held vacant at the unit’s request for an incoming tenant.
b. Charge Schools/units a “user fee” based on square footage occupied by the unit’s faculty (see Appendix 4)
c. Charge Schools/units a “unit fee” when an additional unit is occupied by that unit, at perhaps the cost of turnover plus 20%.

C. Continue current program of increasing rental rates for tenants using amenity pricing. Target rents should allow NYU to be competitive with peer institutions without providing unnecessary subsidies.

D. Commercial tenants in residential buildings should pay market rate rents. When appropriate, opportunities for revenue producing tenants should be explored.

E. Enhance efficiency and reduce operating costs. This includes reducing the vacancy rate, seeking greater efficiencies with turnovers, and renegotiating the management contract with the residential management company.

F. Explore ways to address the deferred maintenance budget. For example, a rough estimate suggests that converting 15 Washington Place (60-65 units) to market housing would yield an additional $750,000 annually. This may have undesirable tax consequences, and the impact on base rent calculation must be considered. Also, renting out these units would make them unavailable for faculty.

Objective 3. Advise on possible approaches to both enhance the quality of faculty housing including recommending alternatives to rental housing.

1. Recommendations to enhance the quality of rental housing.

A. Take steps to achieve a balance between supply and demand within the existing housing stock. Growing families often have long waits for larger apartments. Suggestions include introducing fixed term rentals, reassessing non-faculty eligibility, and continuing the program of converting studios into larger apartments. Of the 2000 apartments in the NYU rental inventory, relative to the requirement of faculty, and especially those with children, a disproportionate number are studios. Faculty living in New York City accept that their homes may be smaller than ones they could have near competitive universities. However, to recruit and retain faculty, NYU must be able to offer housing with configurations that are reasonable in size and condition.

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7 The capital budget assumes five conversions per year at a cost of $25 million over ten years.
Family size determines the size apartment assigned to faculty. There are too many studios (561 or 27% of the total) and an insufficient number of 2 and 3 bedroom apartments for families. (See Appendix 2 for the distribution of apartments by size.) For example, forty 2-bedroom and forty 3-bedroom apartments could be created by combining 200 studios into larger apartments.

B. NYU should phase out the use of below market housing for non-tenure line tenants including administrators and retirees.

C. Continue program of upgrading apartments at turnover. When apartments become vacant, they are assessed to determine whether they require minor cosmetic work or more involved renovation.

D. Continue program of common area improvements. Hallways in all buildings should be brought up to the standard of Washington Square Village. A modest investment should be made to entrances to Washington Square Village which appear designed for cars rather than people. Lighting, plants, and resurfacing the sidewalk in front of each building entrance would be a major enhancement.

2. Increase options to provide alternatives to rental housing, as outlined above in “Recommendations for Loan Programs.”

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8 Single person and couples = 1 bedroom; households with 1 child or 2 children of the same gender = 2 bedrooms; households with 2 children of different gender or with 3 children = 3 bedroom.

9 In addition to tenured and tenure line faculty, Tisch Arts Faculty should remain eligible for NYU rental housing.
Appendix 1. AY 2008 Actual Rental Revenue and Expenditures

<table>
<thead>
<tr>
<th>Revenue</th>
<th>$34,378,158</th>
</tr>
</thead>
</table>

**Non-capital Expenditures**

<table>
<thead>
<tr>
<th>Expenses</th>
<th>$11,396,583</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>$8,590,778</td>
</tr>
<tr>
<td>Uncontrollable expenses</td>
<td>$8,916,675</td>
</tr>
</tbody>
</table>

Subtotal $28,904,036

**Capital Expenditures**

| Turnovers | $6,280,000 |
| Common Area | $1,400,000 |
| Provost | $500,000 |

Deferred maintenance | $6,919,138 |

Subtotal $15,099,138

Total expenditures $44,003,174

Net Operating Expenditures ([$9,625,016])

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1. Examples of expenses include building maintenance, professional services, legal, office supplies, and managing agent fee.

2. Examples of uncontrollable expenses include utilities, internal and external debt, guard service, insurance, and taxes.

3. The deferred maintenance number is the amount spent in AY2008. Unlike other expense line items, rental housing does not have a specific allocation for deferred maintenance. Deferred maintenance for all NYU academic and residential buildings is managed centrally by Operations. Operations set priorities and allocates available funds.
Appendix 2.

NYU Apartment Occupancy by Tenant Category
N=2,007

- Faculty: 50%
- Rent Regulated: 18%
- Vacant: 7%
- Post Doc: 8%
- Retiree: 5%
- Administrators: 4%
- Graduate Students: 3%
- Academic Staff: 2%
- Visitor: 2%
- Conversion: 1%

Appendix 3.

Years Between Hire Date and Home Purchase Date
(Excluding Law School. N=99)

- 36% in <2 years
- 8% in 2-3 years
- 14% in 4-5 years
- 10% in 6-7 years
- 7% in 8-9 years
- 5% in 10-11 years
- 5% in 12-13 years
- 4% in 14-15 years
- 4% in 16-17 years
- 2% in 18-19 years
- 10% in 20+ years
Appendix 4.

Sample User Fee

based on square feet occupied as of February 2009

<table>
<thead>
<tr>
<th>Unit</th>
<th>% of SF</th>
<th>Total SF</th>
<th>$ 1,000,000</th>
<th>$ 3,000,000</th>
<th>$ 5,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admin</td>
<td>22%</td>
<td>1,538,270</td>
<td>$218,051</td>
<td>$654,152</td>
<td>$1,090,254</td>
</tr>
<tr>
<td>CIM</td>
<td>6%</td>
<td></td>
<td>$59,973</td>
<td>$179,918</td>
<td>$299,863</td>
</tr>
<tr>
<td>COMM'L</td>
<td>1%</td>
<td></td>
<td>$10,309</td>
<td>$30,927</td>
<td>$51,545</td>
</tr>
<tr>
<td>DEN</td>
<td>4%</td>
<td></td>
<td>$36,849</td>
<td>$110,548</td>
<td>$184,246</td>
</tr>
<tr>
<td>FAS</td>
<td>33%</td>
<td></td>
<td>$328,810</td>
<td>$986,431</td>
<td>$1,644,051</td>
</tr>
<tr>
<td>GAL</td>
<td>1%</td>
<td></td>
<td>$8,557</td>
<td>$25,671</td>
<td>$42,785</td>
</tr>
<tr>
<td>IFA</td>
<td>1%</td>
<td></td>
<td>$7,929</td>
<td>$23,787</td>
<td>$39,645</td>
</tr>
<tr>
<td>LAW</td>
<td>3%</td>
<td></td>
<td>$34,406</td>
<td>$103,219</td>
<td>$172,031</td>
</tr>
<tr>
<td>LIB</td>
<td>1%</td>
<td></td>
<td>$8,687</td>
<td>$26,061</td>
<td>$43,435</td>
</tr>
<tr>
<td>MED</td>
<td>5%</td>
<td></td>
<td>$53,608</td>
<td>$160,825</td>
<td>$268,041</td>
</tr>
<tr>
<td>SCPS</td>
<td>1%</td>
<td></td>
<td>$8,824</td>
<td>$26,471</td>
<td>$44,118</td>
</tr>
<tr>
<td>SOE</td>
<td>7%</td>
<td></td>
<td>$72,892</td>
<td>$218,677</td>
<td>$364,461</td>
</tr>
<tr>
<td>SSW</td>
<td>1%</td>
<td></td>
<td>$8,834</td>
<td>$26,502</td>
<td>$44,170</td>
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<tr>
<td>STERN</td>
<td>8%</td>
<td></td>
<td>$77,656</td>
<td>$232,968</td>
<td>$388,280</td>
</tr>
<tr>
<td>TIS</td>
<td>5%</td>
<td></td>
<td>$46,531</td>
<td>$139,594</td>
<td>$232,657</td>
</tr>
<tr>
<td>WAG</td>
<td>2%</td>
<td></td>
<td>$18,083</td>
<td>$54,250</td>
<td>$90,417</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td></td>
<td>$1,000,000</td>
<td>$3,000,000</td>
<td>$5,000,000</td>
</tr>
</tbody>
</table>

Breakdown of Administration S/F
Graduate students 34,824
Office 34,565
Staff in housing 42,870
Retirees 71,569
Vacant 151,593
335,421
Appendix 5. Where Faculty Purchased Homes\textsuperscript{10}

This map shows home purchases within 5 miles of NYU. 66\% bought within 5 miles; 16\%, 5 to 10 miles; and 18\% more than 10 miles.

\textsuperscript{10} This map shows home purchases within 5 miles of NYU. 66\% bought within 5 miles; 16\%, 5 to 10 miles; and 18\% more than 10 miles.
NYU Faculty Housing Overview
- Align incentives
  - Schools & units assume fair share of housing costs (loan or rental)
  - Encourage faculty ownership as alternative to renting
- Achieve fiscal neutrality
- Catch up on rental housing deferred maintenance and capital investment

Housing Purchase
- Loan Programs
  - Expand access
  - Increase loan amounts
  - Allow buyers, not NYU, to select property
  - Charge Schools at Applicable Federal Rate (3.58% for May 2009) + X basis points
  - Set School charge for entire term when loan is funded

Housing Purchase – Benefits to Faculty
- Security at retirement and for lifetime of partner
- Build equity
- Opportunity for appreciation
- Tax deductions (mortgage interest and property tax)
- Increased choice of where and how to live

Housing Purchase – Benefits to Faculty
- Economic Stimulus Program Benefits
  - First-time Home Buyer Tax Credit expanded to $8,000
    - For homes purchased between January 1, 2009, and December 1, 2009.
    - Credit worth 10% of their home’s value up to a maximum of $8,000.
    - Income limitations are $75,000 for single taxpayers claiming the full credit and $150,000 for married tax payers.
- $729,750 FHA and Conforming Loan Limits in High Cost Areas.

Housing Purchase
- Down Payment Assistance
  - Allow access to IRS-eligible retirement savings in 403b
    - IRS limit: 50% of savings, up to $50,000
  - Create down payment savings program
NYU Faculty Housing Rentals

- Is rental housing permanent or transitional?
  - If transitional
    - Leases should reflect lifecycle
    - Determine based on family size
    - Rental rates accelerate over time
  - If permanent, increase supply
    - Shift stock from studios to 2 and 3 bedrooms via conversions
    - Reduce occupancy by non-faculty NYU tenants

NYU Faculty Housing Deficit

- **Budget** needs thorough reassessment
- **Revenues** approaching current operating costs (if current spending is at correct level)
- **Annual capital deficit** of approximately $8-10 million
- Cost to update all **infrastructure** could be $250-$300 million including deferred maintenance

NYU Faculty Rental Housing: Solution 1

- **Challenge**: Make Best Use of Existing Stock
- **Solution**:
  - Continue normalizing rents with amenity pricing
  - Continue program of upgrading apartments at turnover
  - Achieve equilibrium between demand and supply by converting studios into 2, 3, and 4-bedroom apartments
  - Move administrators out

NYU Faculty Rental Housing: Two Challenges

- 1: Make best use of existing stock
- 2: Cover operating costs and close capital and deferred maintenance deficit

NYU Faculty Rental Housing: Solution 2

- **Challenge**: Cover operating costs and close capital and deferred maintenance deficit
- **Solution**:
  - Determine appropriate expenditure level
  - Set rents at operating costs
  - Commercial tenants should pay market rates
  - Charge Schools and administrative units (see next slide)

NYU Faculty Rental Housing: Solution 2 (continued)

- Schools & administrative units pay for usage
  - **User fee** phased in over 10 years (e.g. based on square footage)
  - **Unit fee** charged or credited for incremental units added or returned
    - e.g. average turnover cost plus 20%
    - No transfer of control
    - Must determine baseline
  - Provides incentive for Schools to offer loans
### Other Issues

- Development (purchase or construction) of Additional Apartments
  - Not Recommended
- Rental Subsidy
  - Not compatible with existing NYU rent levels
  - Not tax efficient

### NYU Faculty Housing Summary 2 of 2

1. Make Best Use of Existing Stock
   - Continue normalizing rents with amenity pricing
   - Reduce non-faculty tenants
2. Cover Operating Costs and Close Capital Deficit
   - Rents should cover operating costs
   - Schools pay User Fee on all apartments
   - Schools pay Unit Fee on incremental apartments

### NYU Faculty Housing Summary 1 of 2

- Housing Purchase Programs
  - Loan Programs
  - Down Payment Assistance
- Faculty Rental Housing Philosophy
  - Transitional vs. Permanent?
- Capital Deficit
  - Annual capital maintenance needs of $8.10 million
  - Outdated infrastructure $250-$300 mm