



NEW YORK STATE SENATOR

Liz Krueger

# **Testimony Before the New York City Rent Guidelines Board Regarding Proposed Rent Increases on June 16 , 2008**

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My name is Liz Krueger and I represent the 26th Senate District, which includes the Upper East Side, East Midtown and Midtown areas of Manhattan. I want to thank you for providing me with this opportunity to testify on the range of proposed rent increases for rent stabilized tenants- anywhere from 3.5 to 7.0% for one-year leases and 5.5 to 9.5% for two year leases. Even if the rent increases ultimately approved are at the low end of the proposed ranges, I have many serious concerns about what this decision would mean for the more than one million low, moderate and middle-income rent stabilized residents of New York City who are already facing a crisis of affordability and tremendous cost of living increases.

I fear that rent increases of 3.5% and 5.5% will lead to further hardships, and even evictions, for tens of thousands of New York City's families, many of whom are

barely making their current rents. The effects of these increases on seniors, the disabled and other vulnerable New Yorkers on fixed incomes would be especially grave. New York City is facing a tremendous escalation in the loss of its rent regulated housing and is currently undergoing the largest loss of all different types of affordable housing seen in recent times. Between 2002 and 2005, NYC lost 44,135 regulated units in buildings constructed before 1947 to high rent vacancy decontrol and condo/co-op conversions. Over one third of the city's subsidized apartments were lost between 1990 and 2006, with substantial losses in Mitchell-Lama housing. Over 26,000 units have already been lost, many of them being rentals. And the situation will only continue to get worse.

I strongly encourage the board to reconsider its preliminary vote and to enact significantly lower guidelines. Such a decision would be entirely consistent with the legislative mandate and jurisdiction of the Rent Guidelines Board, which was established in 1969 to set rent guidelines that counteract the effects of an acute housing shortage. Free market conditions and the rules of supply and demand do not apply to the NYC rental market. This shortage still exists—according to the 2005 Housing and Vacancy Survey, the vacancy rate is 3.09%. A vacancy rate of less than 5% creates abnormal market conditions. The RGB's mission is to construct or stimulate "normal" or "fair" rent levels in a market driven by chronic scarcity and instability. Below are the key justifications for my position, as well as suggestions about how the RGB can expand its role in preserving affordable housing in New York City.

### **The Rent Guidelines Board Process Should Be Fundamentally Reformed**

The current process for determining rents through the rent guidelines process is fundamentally flawed and is in dire need of reform. That is why I strongly support and co-sponsor my colleague State Senator Tom Duane's proposed legislation, S83235/A11097, which would address many of the problems in the current system in a comprehensive way. It would simplify the system in terms of administrative burdens and impose a more trustworthy, reliable and fairer methodology to determine rents. S8235 would reform the rent guidelines process in New York City and the surrounding counties by mandating several critical changes. Instead of merely relying on the Income and Expense data and the flawed Price Index of Operating Costs (PIOC) it would also require the use of the Income and Expense report in determining rent adjustments. This provides a far more complete picture because it takes into account landlord's actual expenses and incomes and indicates

whether or not their net operating incomes have increased or not. The PIOC is an extremely imprecise and controversial measurement of owners' income and expenses. The NYC RGB should have the ability to make decisions based on owners' actual yearly data. The rent guidelines boards of Nassau, Westchester and Rockland counties, which have the power to subpoena owners' revenue and income data, consistently pass significantly lower increases than the NYC board. Tenants in NYC should have the same right as tenants in Nassau, Westchester and Rockland counties to know that the increases on their apartments are based upon their landlords' income and costs. This bill would also bar owners with serious code impairing violations from collecting the annual rent increase. One of the most important changes that would go a long way towards simplifying the entire process is the elimination of lease renewals and making all rent stabilized and rent controlled tenants statutory tenants and to provide for just on annual rent adjustment that would begin on the same base date for all tenants on January 1st.

This legislation also seeks to change the composition of the Board to include more tenant and landlord members by increasing their representation to three members each and to reduce the amount of public members who now effectively control the vote, from five to three. This change would require greater negotiation between all parties and less control over the public members by City Hall. In addition, all of these appointees would have to be approved by the City Council. A major problem with the current board is the lack of representation of those knowledgeable about affordable housing issues. This bill would expand the qualifications of Board members for board membership by requiring they have some knowledge of affordable housing issues and allow for the appointment of public members with a background in social services, public service, or not-for-profits. All of these changes are critical to a more effective and balanced system that not only takes into the accounts of owners, but of tenants and the important issue of maintaining New York city's precious affordable housing stock.

### **Why Are Lower Guidelines Appropriate This Year?**

While it is reasonable to expect tenants and landlords to share the burden of increased operating expenses, this burden must be shared equitably. It is unconscionable for building owners in one of the most profitable economic sectors of our economy to pass all of their expenses onto tenants who have a median household income under \$32,000 and are facing numerous other regressive taxes and fees ranging from increased food prices, the recent fare hike and exploding

costs in gas and fuel. Based on HVS data in 2004 which is the latest available, 43% of renters paid 50% or more for their rent. The poorest rent regulated tenants are facing the heaviest rent burdens – the bottom third of the city’s rent regulated renters have a median rent burden of 45%. The median low income renter household in Manhattan spends 53% of its monthly income on rent

Rent stabilized housing is the only affordable housing resource left to most low and moderate-income tenants. However, once they have been priced out of their apartments, many rent stabilized tenants have few other options. Currently, the market for rentals and coops/condos is so strong that owners are able to ask for rents and prices well above what the median renter can afford – in every neighborhood of the city. In my district, most of the new developments being built are luxury condos and an increasing number of the conversions of what were once largely rent regulated building are these types of plans which are unaffordable to many of the remaining tenants.

Owners of rent regulated buildings have done extremely well during the past decade – they have seen both their profits and the value of their properties rise exponentially, particularly those with properties in Manhattan. According to the RGB’s 2008 Income and Expense Study, owners’ Net Operating Income (the amount of income remaining after all operating and maintenance expenses have been paid) increased by 8.8% overall citywide, with Manhattan seeing an even greater increase of 9.5%. It also showed that from 2005 to 2006, the increases in owner income outpaced the increase in operating costs.

One of the most important factors the RGB must consider is whether owners of regulated properties have the necessary income to maintain their buildings. The overall condition of the city’s rent regulated housing stock is healthy and continues to improve; the RGB’s 2008 Income and Expense Study reveals that only 10.7% of all properties are distressed, down from 14% in 1990.

### **Larger Implications and Economic Context of RGB’s Decision**

Section 26-510(b) of the Rent Stabilization Law requires the RGB to consider “relevant data from the current and projected cost of living indices” in its deliberations; the RGB members are also permitted to consider the effects of their decisions on the availability of affordable housing throughout the city. New York State continues to have one of the highest unemployment rates in the country—with

the highest rates of unemployment being in the five boroughs of New York City. Unemployment rates increased during the early months in 2007. The NYC jobless rate was 6.1% in January and 4.4% in February, which was slightly higher than the 2007 rate of 5.0%.

There is a direct correlation between RGB increases with the loss of affordable housing as more units become subject to vacancy decontrol, and increased levels of homelessness. Approximately 14,204 rent-stabilized units were deregulated last year, more than 10,342 of these due to high rent/vacancy decontrol, going up by 4% from 9,983 in 2006. In 2007, an average of 35,124 people stayed in city homeless shelters each night; the number of families staying in shelters increased to 9,296, significantly higher than its levels in the 1980s and 1990s. The RGB's proposed guidelines would exacerbate the already dire circumstances of New York's low and moderate-income families.

The proposed guidelines would also have significantly deleterious effects on middle-income families. The preservation of affordable rent regulated units is essential to efforts to keep middle-class families in NYC and to the maintenance of healthy stable communities. If we truly want the city to maintain its vitality and diversity, we must do all can to ensure an effective rent protection system.

The RGB should seriously consider the reforms that are obviously necessary to make this yearly process more effective and fairer to all parties in this system. As the crisis in affordable housing deepens and becomes more widespread, the RGB must address this issue and become more engaged in a proactive way to keep our housing stock as affordable as possible so that we can maintain the economic diversity of our city. Thank you.