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TESTIMONY OF STATE SENATOR LIZ KRUEGER
BEFORE THE NEW YORK CITY RENT GUIDELINES BOARD
REGARDING PROPOSED RENT INCREASES
JUNE 20, 2016

My name is Liz Krueger and I represent the 28th Senate District, which includes the Upper East Side, East Midtown, and Midtown areas of Manhattan. I want to thank you for providing me an opportunity to testify on the range of proposed rent increases for rent stabilized tenants: anywhere from 0% to 2% for one year leases and .5% to 3.5% for two year leases.

Even if the rent increases ultimately approved are at the low end of the proposed ranges, I have serious concerns about what this decision would mean for the more than 2 million low-, moderate-, and middle-income rent stabilized New York City who are already facing who are already facing unprecedented rent burdens. Over past two decades, the Rent Guidelines Board (RGB) has approved rent increases that dramatically outpaced both landlords' expenses and tenants' incomes. I fear that any additional increases will lead to further hardships, and even evictions, for tens of thousands of households who are already having great difficulty paying their current rents. The impacts of any increase on seniors, the disabled, and other vulnerable New Yorkers on fixed incomes would be especially grave.

I strongly encourage the RGB to enact 0% increases for both one and two-year leases. Such a decision would be entirely consistent with the legislative mandate and jurisdiction of the RGB, which was established in 1969 to set rent guidelines which counteract the effects of an acute housing shortage. This shortage still exists—according to the 2014 Housing and Vacancy Survey, the vacancy rate is 3.45%. A vacancy rate of less than 5% creates abnormal market conditions. Free market conditions and the rules of supply and demand do not apply to the New York City rental market. 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 existing process for determining rent increases for rent stabilized apartments in New York City is fundamentally flawed and is in dire need of reform. That is why I strongly support my colleague State Senator Adriano Espaillat's legislation, S.3704, which would address many of the problems in the

current system in a comprehensive way. This bill would reform the rent guidelines process in New York City and the surrounding counties by mandating several critical changes.

The RGB staff currently conducts a number of comprehensive studies each year in order to estimate current market conditions, landlords' incomes and expenses, and the demographics of rent regulated tenants. However, the RGB members do not need to base their decisions on any of the results. Furthermore, because building owners are not required to provide their actual income and expenses to the RGB, the RGB staff is only able to generate very imprecise estimates. The rent guidelines boards of Nassau, Westchester and Rockland Counties, which have the power to subpoena owners' revenue and expenses, consistently pass significantly lower increases than the New York City Board. S.3704 would require landlords to provide the RGB data on their actual income and expenses and for RGB members to make decisions based on analyses of this data. Tenants in New York City 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.

This legislation also seeks to change the composition of the RGB to include more tenant and landlord members. Tenants and landlords would each be represented by three members. The number of public members, who now effectively control the vote, would be reduced from five to three. The bill would ensure that all members have knowledge of affordable housing issues, and allow for the appointment of public members with backgrounds in social services, public service, or not-for-profits. In addition, all of these appointees would have to be approved by the City Council. This change would require greater negotiation between all parties and less control over the public members by City Hall. All of these changes are critical to a more effective and balanced system which 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 a Rent Freeze is 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 rent stabilized tenants who have a median household income \$40,600 and are facing an extremely difficult economic climate. Between 2011 and 2014 the average amount of rent paid by stabilized tenants rose from 34.9% to 36.4%—the highest rent burden ever documented. More than one in three stabilized households are now forced to devote more than half of their income to rent. While the unemployment rate has decreased in New York City since the highs of recent years, real wages for private sector workers declined between 2009-2015 after adjusting for inflation. In 2015, almost 600,000 New York City residents received cash assistance at some point during the year and more than 1.7 million people relied on food stamps.

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. The market for rentals is so strong that owners are able to demand for rents and prices well above what the median renter can afford – in every neighborhood of the city.

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. The 2014 Housing and Vacancy Survey found that the proportion of renter-

occupied units with five or more maintenance deficiencies was only 4.3%, one of the lowest percentages since such conditions were first measured in 1991.

Owners of rent regulated buildings in all five boroughs have done extremely well during the past two decades—they have seen both their profits and the value of their properties rise exponentially. According to the RGB's 2016 Income and Expense study, owners' net operating incomes (the amount of income remaining after all operating and maintenance expenses have been paid) are 42.8% higher today after adjusting for inflation than they were in 1990. In 2014, net operating income grew by 3.5% citywide, with owners seeing average increases of 3.9% in Manhattan, 3.6% in the Bronx, and 3.8% in Brooklyn.

Fuel costs declined 41% this past year, more than offsetting increases in other expenses, including taxes, insurance, and labor costs. The RGB's 2016 Price Index of Operating Costs (PIOC) study, found that the overall operating costs for rent stabilized buildings decreased 1.2% in 2015. This decrease in operating costs means that landlords are likely to see an increase in net operating income this year even without rent increases on lease renewals. The data clearly indicate that a rent freeze is economically justified and would not place an undue burden on building owners.

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.

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. According to the New York State Office of Homes and Community Renewal's rent registration records, almost 8,049 rent regulated units were lost in 2015 due to high rent and vacancy control, up 29% from the previous year. Each night more than 60,000 people—including more than 23,000 children—experience homelessness. During the course of the last year, more than 109,000 New Yorkers slept in city shelters. Research shows that the primary cause of homelessness, particularly among families, is a lack of affordable housing. Even small rent increases would exacerbate the already dire circumstances facing New York's low- and moderate-income families.

Any rent increases 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 our city 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 which 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.