



Testimony from STATE SENATOR

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New York State Senate • 26th District

TESTIMONY OF STATE SENATOR LIZ KRUEGER
BEFORE THE NEW YORK CITY RENT GUIDELINES BOARD REGARDING
PROPOSED RENT INCREASES
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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% to 5.75% for one year leases and 6% to 9% 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 2.5 million low-, moderate- and middle-income rent stabilized residents of New York City who are already facing a crisis of affordability and the aftermath of the worst recession since the Great Depression.

I fear that such increases will lead to further hardships, and even evictions, for tens of thousands of New York City's families, many of whom are barely able to pay 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 losing more of all its forms of affordable housing each year. According to the Rent Guidelines Board's (RGB) own 2011 study of the rent stabilization stock, New York City lost 16,907 rent stabilized units in 2010, the second highest number since the RGB began analyzing this information. More than one third of the city's subsidized apartments were lost between 1990 and 2006, with substantial losses in Mitchell-Lama housing. Over 42,000 Mitchell-Lama units have already been lost due to buyouts since 1985. And the situation will only continue to get worse as more and more government subsidized homes reach the end of their required affordability periods each year.

I strongly encourage the RGB to reconsider its preliminary vote and to enact lower guidelines. 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 2008 Housing and Vacancy Survey, the vacancy rate is 2.91%. 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 and co-sponsor my colleague State Senator Tom Duane's legislation, S.5057/A.5567, 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.5057 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 Lower Guidelines Are 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 \$36,000 and are facing an extremely difficult economic climate. Based on data from the city's 2008 Housing and Vacancy Survey, 29.4% of renters in rent stabilized apartments pay 50% or more of their income for their rent. While unemployment has decreased slightly since last year's highs, New York City's May unemployment rate was still 8.6%. In 2009, the latest year for which statistics are available, inflation adjusted wages decreased 8.4%. The number of New York City residents receiving food stamps increased in 2010 for the eighth straight year to 1.74 million.

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. Despite the economic slowdown, the market for rentals is still 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.

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 2011 Income and Expense Study, owners' net operating income (the amount of income remaining after all operating and maintenance expenses have been paid) increased by 5.8% citywide, with owners seeing average increases of 32.5% in the Bronx and 14.6% in Brooklyn. At the neighborhood level, owners in 85% of community districts across the city experienced increases in their net operating income.

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 2008 Housing and Vacancy Survey found that the proportion of renter-occupied units with five or more maintenance deficiencies was only 4.4%, one of the lowest percentages since such conditions were first measured in 1991.

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.

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, 16,907 rent regulated units were lost in 2010 due to high rent and vacancy control. In 2010, an average of 36,175 people stayed in city homeless shelters each night, the second highest number on record, 14,788 of them children. 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 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.