THE CITY OF NEW YORK
OFFICE OF THE PRESIDENT
BOROUGH OF MANHATTAN

BOROUGH PRESIDENT GALE A. BREWER TESTIMONY TO THE NYC RENT GUIDELINES BOARD JUNE 16, 2014

My name is Gale Brewer and I am the Manhattan Borough President. I would like to thank Chair Rachel Godsil and members of the Rent Guidelines Board for providing me with this opportunity to address you on behalf of the many thousands of Manhattan tenants whose regulated rents have been rising faster and higher than anywhere else in New York City.[1] While Manhattan is home to some of the wealthiest neighborhoods, it also has some of the poorest—and most rent burdened—community districts in the City.

Between 2002 and 2012, Manhattan lost nearly 100,000 units to destabilization.[2] This tremendous loss was not only the result of coop and condo conversion and vacancy "improvements" pushing the rents over the regulated limit, but it resulted also from the steady, inexorable climb of regulated rents over the years as a result of renewal guideline increases issued by this Board. Those increases have pushed regulated rents ever closer to the threshold for deregulation. They have made rents for many poor and working people in Manhattan less and less affordable, jeopardized the security of middle-income families, and threatened the stability of neighborhoods.

I understand that the Board has proposed annual adjustments of 0% to 3% for one-year lease renewals and 0.5% to 4.5% for two-year lease renewals commencing October 1, 2014. While I am relieved to see that the proposed adjustments are in a lower range than what they have been in previous years, I believe you must take the most responsible course and approve a rent freeze. While you may view a proposed three or four per cent rent increase as minimal or reasonable, I urge you not to evaluate that percentage in isolation, standing alone, but in the full context of the last ten or fifteen years of consistent, relentless, substantial rent increases that have been imposed on tenants in this City. These increases, granted to owners consistently—whether they were necessary or not, in lean years and good years, through booms and recession—combined with MCI's, enormous vacancy increases, and individual apartment increases (fraudulent and not) have brought average rents in ordinary low-income, working class, middle-income and mixed neighborhoods to the very brink of or beyond affordability.

It is this Board's responsibility to try and balance the rights and interests of tenants with those of the real estate industry. In New York, where "market rate" rent actually reflects a world-

[1] *State of NYC's Housing and Neighborhoods in 2013*, NYU Furman Center, p. 32 (hereafter *"NYC's Housing*")
[2] *NYC's Housing*, p.96.

wide, often highly subsidized and artificially inflated "market," the City's interest in protecting housing for its native population and workforce must be a major factor in your determination.

Increasing Unaffordability

One of the consequences of *continued and sustained* increases at rates that were at the mid- to higher-end of each year's proposed range is that the increases are compounded into steeper rises in rent payments. A tenant who moved into an apartment in 2002 with a monthly rent of $900, who regularly signed two year lease renewals since, and was lucky enough not to have had additional increases such as MCI's imposed on him would today be paying approximately $1,260 per month. Within five of the twelve community districts in Manhattan, the median household income is below $42,000, [3] and pursuant to generally accepted measures of budgeting, are able to pay just over $1,000 per month in rent. The median rents in those community districts now hover at or above affordability for thousands of families. Put simply, rents have risen beyond the point of affordability for average working New Yorkers.

Again, the reason the rents are at that level is, for the most part, due to regular lease renewal increases. Additional lease renewal increases at this point will push rents well above the affordable limit and have a drastically destabilizing effect on many neighborhoods. When rents rise above what the current tenants can afford, they are pushed out in favor of those able to pay the higher rent. The purpose of the rent regulatory system is to serve as a counterbalance against artificial market forces so that households will not be under constant pressure and threat of displacement and to keep our neighborhoods relatively stable. The relentless increases that this Board has imposed have pushed that stability to the brink.

Furthermore, while annual rent increases may be acceptable if workers' salaries are also being adjusted upwards at similar rates every year, this is simply not the case. According to the 2013 Furman Center Neighborhood and Housing Report released less than three weeks ago, New York City has seen rent increases of almost 11% in the last eight years while median household income during the same period rose by only 2%.[4]

The result is a widening of the affordability gap that pushes more households into becoming rent-burdened and extremely rent-burdened. In 2012, 54% of citywide renter households are considered rent-burdened. In Manhattan, low-income households that are rent-burdened pay on average 42.9% of their income toward rent and utilities.[5] For rent-burdened households, even a small economic hiccup by way of unexpected expenses can result in Housing Court action or potential eviction. And households who have become so overextended that they can no longer afford a home fall into homelessness. At a time when New York City has over 50,000 homeless people, freezing rent for regulated units is the only responsible decision to prevent further homelessness.

As I noted earlier, these year after year significant lease increases have led to large numbers of units at the brink of the destabilization threshold. In addition to decreasing

[3] *NYC's Housing*, pp. 98-109.
[4] *NYC's Housing*, p. 32.
[5] *NYC's Housing*, p. 12; Manhattan: p. 97.

affordability, these apartments also represent a nearly irresistible target to owners who now have a giant incentive to get those tenants out of their homes.

Challenges for Working Families and Community Residents

Prior to my becoming Manhattan Borough President, I served for many years on the New York City Council, and my staff assisted thousands of tenants with rent and general housing problems. We are now becoming familiar with just how devastating rent increases are to communities that are lower income than those I previously represented.

As you know, we also lose many affordable units when an apartment becomes vacant. Owners will immediately register a rent above the destabilization limit. Since that rent is far higher than the neighborhood will bear, they then rent the apartment at a lower rent that they label "preferential." Tenants are usually not aware of how precarious their situation is until an owner chooses to discontinue that "preferential" rent amount. This recently happened to an uptown constituent, Josefina, who lives with her son. Their income consists of her Social Security and his Disability. They struggled every month to pay their rent of just over a thousand dollars. But when their lease recently came up for renewal, the landlord decided that the neighborhood could support a much higher rent, and withdrew the "preferential" rent level and offered them a lease at nearly twice the prior rent. They now cannot afford their home and have no alternative housing. I'm sure that the guideline increases issued over the years by this Board raised the overall rent level of regulated units in Josefina's neighborhood and contributed to her landlord seeking the exorbitant amount that the new lease now demands.

My staff is also trying to assist a family with three children and a single mother, Dilcia. Their rent of over $1,100 is about to be increased. But Dilcia is out of work right now. So what seems like an "affordable" rent is beyond the reach of this family, and they too are in danger of eviction.

And when these families and others like them are evicted, the stability of the entire neighborhood of working households is put at risk. Both these households are in Community District 12 in Upper Manhattan, where median neighborhood income is $36,872—ranked 44th among New York City's 59 community districts.[6] The people living and working in that neighborhood of Manhattan, and in others like it, simply cannot carry the rent burden that is being imposed on them. And so long-time community residents, often working families with children, suffer from displacement and neighborhood disruption.

Context for RGB Annual Adjustments

It is the Rent Guideline Board's responsibility to maintain normal rental market conditions in a city that has long had abnormal conditions where regulated housing is concerned. Charged with this task, it is imperative that the determinations you make be impartial and do not overly favor either the renters or the landlords. I recognize that it is no small undertaking, which is why I come before you today to call for the only solution that will shift the regulated housing market back toward more of a normal condition—an annual adjustment of 0% increase for both one- and two-year lease renewals.

[6] *NYC's Housing*, p. 109.

In recent years, annual adjustments have favored landlords. According to the Board's 2014 Income and Expenses Study published in April 2014, the Net Operating Income (NOI) of New York City rent-regulated buildings increased by 9.6% in 2012, with Manhattan having the steepest increase at 11.0%.[7] The increase was part of a larger trend: NOI has gone up for eight years in a row. To put it simply, since 2004, building owners of rent-regulated buildings have *made larger pre-tax profits year after year* through operating their buildings.

This happened because regulated units' rental income has increased at a higher rate than the rise in costs for operating buildings. It is common knowledge that projections for a future year's building expenses are based on the theoretical price change in "a market basket of goods and services" required to operate a building, or the PIOC.[8] When measured against actual rises in building operation costs as published by Department of Finance records, we see that the PIOC has consistently over-projected.

The result is that tenants are made to stomach rent increases that do not simply cover the rise in building expenses—that would be a right reason to increase regulated units' rent—but also to increase the profit for landlords. This happened even during one of the toughest recessions in the City's recent history. In 2008, the increase for one-year lease renewals was 4.5% and, for two-year renewals, it was a steep 8.5%. This determination was made based on a projected 7.3% PIOC calculation of building costs increase. When the Department of Finance later published the actual figures for 2008-2009, rent-regulated building operations were shown to have only increased by 4%. So during the heart of the recession, landlords defied all trends and made more profit at renters' expenses. With eight years of what amounted to overpayment to subsidize landlords' profits, the only reasonable action is to freeze all rent increases until landlords' building profit margin returns to closer than what it was in the mid-2000s.

Another factor also leads to tenants paying more than they ought. PIOC currently measures building operation costs. It does not consider non-operating factors that bring in additional income for the building such as revenues from market-rate rental units, including those in coop and condo buildings. Until the Board implements methods to more accurately project net operating income based on disaggregated calculations that take the presence of market-rate units into account, I am calling for the exemption of all buildings with both regulated and market rate units from being subjected to annual rate adjustments.

Finally, I am grateful to the Board for its recognition that our shrinking pool of SRO units, housing among the most fragile populations, cannot bear further rent increases. Thank you for approving a rent freeze for those units.

To summarize: I urge this Board to live up to its responsibility to the tenants of New York City and, in light of the levels to which rents have risen through increases over the years, grant them a reprieve in the form of a rent freeze.

Thank you for your time and attention.

[7] http://www.nycrgb.org/downloads/research/pdf_reports/ie14.pdf

[8] The Price Index of Operating Costs