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Gale A. Brewer, Borough President

Testimony of Gale A. Brewer, Manhattan Borough President On Extending Rent Stabilization Laws for New York City March 2, 2015

Good morning. My name is Gale A. Brewer and I am the Manhattan Borough President. Thank you to Chair Williams and the members of the Housing and Buildings Committee for the opportunity to testify today on the issue of the ongoing housing emergency in New York City and seeking renewal of the New York State Rent Stabilization Law.

On February 24, 2015, the U.S. Census Bureau released early findings from the latest Housing and Vacancy Survey that is expected to be published in June of this year. According to these preliminary statistics, an estimated 3.45% of New York City residential units are classified as vacant in 2014, after adjusting for inflation. While this is a slight increase from the 3.12% in figure from 2011, it is still well below the 5% vacancy threshold generally deemed necessary to declare a housing emergency requiring ongoing rent regulation.

Additionally, preliminary numbers show that the median rent in New York City has increased 3.4% in the three years between the two latest Housing and Vacancy Reports, rising to a median rent of \$1,200 a month for rent-regulated units. Yet the median household income in the City only increased 1.1% between 2010 and 2013. So clearly rents have risen at a much higher rate than the increase in household income. Most importantly, statistics show that in light of stagnant household income and steadily rising rents, at least half of the New York City households spend more than 30% of their annual income on housing expenses.

The need to extend Rent Stabilization for New York City is part of a larger conversation of rent regulation reform taking place this spring in Albany. To ensure more equitable and affordable housing, the larger conversation must address the following issues:

Eliminate Vacancy Deregulation

The bullseye on the back of every rent regulated tenant is vacancy high rent deregulation. Virtually every vacancy that occurs in a regulated apartment can result in deregulation. The temptation that is dangled before owners in the event of a vacancy creates a predator-prey relationship between landlords and tenants. Currently, deregulation occurs where an owner can, during a vacancy, impose rent increases (legitimately or otherwise) that bring the rent to a \$2,500.00 level. These increases are taken through a combination of statutory vacancy bonuses (usually 20%) plus whatever Individual Apartment Increases are imposed, and then lease increases. While it is important that the vacancy bonus be repealed, and the Individual Apartment Increases system be reformed, eliminating the reward for deregulation is imperative.

Based on past experience, a compromise may be made by way of simply increasing the deregulation threshold. This will merely set the goalpost further out, and owners will continue to impose increases through vacancies or capital improvements to reach the deregulation threshold.

Eliminate Vacancy Increase

Each time a regulated unit becomes vacant, landlords are entitled to increase the base rent by up to 20% of the amount that the previous tenant was paying. Eliminating this large bonus that is imposed with every vacancy would slow down one of the driving forces behind rapidly rising rents.

Mr. Walter M. of West Harlem understands first-hand the impact that vacancy deregulation has on the ability to afford a home. In May 2014, Walter, a Spanish-speaking constituent, sought help from my office to better understand why his landlord was charging him \$2,050 per month for a one-bedroom apartment he and his wife lived in when the previous tenant paid \$670 a month under Senior Citizen Rent Increase Exemption (SCRIE) on the same unit with a legal rent of only \$875 per month. After my staff inquired of the NYS Homes and Community Renewal (HCR), we found out that due to a two-year vacancy and individual unit capital improvements (see “Reform the IAI Procedure” section below), the unit was legally deregulated to above the then-deregulation threshold of \$2,000 a month. As a result, Walter needed to pay \$6,000 in back rent for the time he was disputing his rent, and only then did he understand the impact of deregulation on him and his family.

Reform the IAI Procedure

Individual Apartment Increases (IAIs) are the second step by which most rents rise to the level of deregulation. When an apartment is vacant, owners impose an increase representing $1/40^{\text{th}}$ or $1/60^{\text{th}}$ of the actual cost of so-called “improvements” completed during the vacancy. As advocates from the housing legal services sector can attest, there is a lack of oversight on the state level that allows landlords to remain unaccountable for their actual apartment capital improvements. There have been instances when landlords claimed IAIs for fictitious “improvements”; in other cases, work was performed but associated costs were exaggerated.

On the other hand, I recognize the importance of IAIs for improving housing conditions for rent-regulated tenants. But problems arise when owners impose increases for the performance of long needed repairs and maintenance without accountability. This is why it is imperative that

IAIs be granted *only* with 1) an oversight procedure that requires an owner to apply for the increase, and requires NYS HCR to grant approval only after an inspection to verify that the claimed work was performed; and 2) the elimination of the four-year challenge period that currently bars disputes over IAI rent increases once the period expires.

MCI Reform

Major Capital Improvement (MCI) increases are incurred when an owner performs building-wide capital improvement to the building and then is permitted to pass the cost of such work on to the tenants. MCIs currently become part of a tenant's permanent base rent. The amount supposedly spent by the owner is never amortized. Serial, compounded MCIs are another means by which rents have been rapidly rising out of control. They must be separated from the base rent calculation and terminate when the cost of the improvement is recouped.

Rent Control Reform

I am advocating for an end of the annual 7.5% increases and fuel pass-alongs that have been imposed on rent controlled tenancies over the last 20 years. Rent control increases should be calculated based on average Rent Guidelines Board rent increases.

Thank you for the opportunity to testify today. I look forward to working with members of this committee and other advocates in working in Albany to see reauthorization and reform of the State's Rent Stabilization Law.