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Gale A. Brewer, Borough President

Testimony of Gale A. Brewer, Manhattan Borough President
Before the New York City Rent Guidelines Board
June 20, 2016

My name is Gale A. Brewer and I am the Manhattan Borough President. I thank Chair Roberts and the Members of the Board for the opportunity to testify this afternoon.

I have testified before this Board every year for more than a decade. And each time, I have urged the Board to limit increases imposed on rent stabilized apartments. But until last year, substantial rent increases were ordered year after year. Today I ask this Board, in light of the data we have both seen, clearly showing that rent increases have substantially outpaced owners' costs, to order rent reductions of 4% for one-year, and 2 % for two-year renewal leases.

I believe that such a rent rollback is justified historically and based on the current building operating costs — namely, the PIOC calculations that the Rent Guidelines Board staff presented to the Board in April 2016. Calculating the changes in cost for seven operating components — taxes, labor, fuel, utilities, maintenance, administration, and insurance — “the PIOC for all rent stabilized apartment buildings decreased by 1.2%” between March 2015 and March 2016;¹ That is, buildings cost less to operate over the past year, mainly due to lower energy costs which decreased. The main driving factor was the cost of fuel, which saw a 45.5% decrease for oil, a 31.6% decrease for natural gas, and a 31.2% decrease for steam.²

Strictly on this year's data, it would be reasonable for the Board to grant at least a rent rollback that matches the -1.2% PIOC decrease. But two other factors also argue for

¹ Rent Guidelines Board, *2016 Price Index of Operating Costs*, p. 4.

² *Ibid.*, p. 6.

a decrease. First, building owners see substantial enhancement of rental income whenever there is a vacancy, and are regularly granted large, multiple increases for Major Capital Improvements. Second, testimony to the Board by experts has demonstrated that excessive increases approved since the 2008 recession have over-compensated owners at the expense of renters. Both factors take longer-term trends into consideration. Given that the increases over the last 8-10 years have consistently tipped the balance of the income-expense ratio in favor of building owners, the Board should correct this overcompensation, particularly when building owners have enjoyed substantial savings in energy costs. Therefore, I join tenants, affordable housing advocates, and many of my colleagues in government to call for a rent rollback of 4% for one-year lease renewals and 2% for two-year lease renewals.

I understand that the PIOC does not measure expenses such as a building's debt obligations, capital improvement, or repair costs. However, PIOC has never measured these expenses, and the Board must not allow a PIOC-based determination to cross-subsidize an owner's other expenses. This is like a worker arguing for a shorter work day because he has moved and now has a longer commute time — as burdensome as an owner's monthly loan repayment or an unexpected bill for replacing the boiler may be, these are not factors that are proper or reasonable for this Board to consider.

Furthermore, the determinations of the Board *do* indirectly ensure that there is a margin of net operating income beyond what keeps an owner whole in operating expenses. By contextualizing operating expense with rental income, RGB staff has maintained year-to-year calculations of Operating and Maintenance ratios (O&M) that reflect an owner's projected net earnings after operating expenses. In the past 10 years, O&M has been in the sixtieth-percentile range, with 2014 cost-to-income ratio at 60.6%, or a net earning of 39.4 cents out of every dollar of rental income collected.³ Owners who responsibly split their net earning between debt service and savings would be able to build up a healthy reserve to cover costs resulting from capital repairs or other unplanned emergencies.

³ Rent Guidelines Board, *2016 Income and Expense Study*, p. 15.

Finally, even though PIOC and O&M ratios indicate that a rent rollback would leave owners financially whole, should a particular owner encounter difficulty in maintaining their building, they can apply for assistance due to hardship. This is not an option available to tenants facing increased housing costs while their wages remain stagnant. And rather than making a decision based on individual scenarios, the Board must rule on what statistics have shown to be the most sensible determination for all stabilized units, which is a rent rollback.

So I am supporting the rollback of stabilized rents for renewals this year, both because current owner operating expenses justify such a rollback, and because, when seen in the context of unjustified increases, such a rollback becomes compelling.

I also urge you to vote for the rollback of rents as an essential element in the city's efforts to preserve our existing affordable housing. We must not pretend that last year's freeze on one-year renewals, coupled with a rollback this year, can make up for the tremendous loss that was in part the result of the substantial, unjustified increases awarded over the past 20 years. But it will help stem the ongoing loss of stabilized apartments.

While the lease increases that your predecessor Boards imposed on tenants over the years may not have seemed high enough to cause the loss of homes, they played a crucial part in the inexorable climb of stabilized rents. The Board's actions pushed rents, during a time of genuine economic hardship, beyond the affordability and stability that is the very goal and purpose of the system.

I would like to walk through an example of how many rent stabilized tenants have experienced this rent rise. Throughout the city, and especially among my constituents in Manhattan, rent increases by prior Boards were accompanied by MCI increases, often multiple times — \$15, \$25 per room — that became part of the permanent rent. So, to take the example of a tenant, in 2010, living in a four-room stabilized apartment for many years with a rent of \$900: she signs a two-year lease, at the then-RGB increase of 6%.⁴ Her rent is now \$954.00. But a year into that lease there is an MCI increase of \$10 per room. So, for this four-room apartment, the rent is now \$994. Her lease is up for

⁴ New York City Rent Guidelines Board Order #41.

renewal in 2012, and pursuant to the Board's Order #43, the tenant signs a two-year lease with a 7.25% increase. The rent is now \$1,066.10. And a year later comes another MCI. This one is smaller — maybe just a new boiler — for \$7 per room. And now the rent is \$1,094.10. In 2014, still believing that two year renewals are always the best choice, the tenant signs a renewal, pursuant to Guideline Order #45, imposing a 7.75% increase. The rent is now \$1,179. In just four years, the tenant's rent has increased by 31%.

We know that this kind of rent increase history is common among my constituents. I believe it explains how so many stabilized apartments have seen their rents rise by 30% or more over the past five or six years. Too many families simply could not absorb this kind of increase, especially during times of major economic stress. Of course, there is no “hardship” provision for tenants whose rents have risen higher and faster than their incomes.

Add to this scenario the tremendous incentive that owners have to obtain a vacancy — through whatever means. The rewards granted to an owner when an apartment becomes vacant are imbedded in the Rent Stabilization Law itself — by way of both the vacancy bonus as well as the opportunity to make (legitimately or not) and add to the rent increases for “individual apartment improvements” during a vacancy.

So while the Board's increases may not have seemed high enough to play a significant role in our affordable housing (and related homeless crisis), in fact they have. Families were evicted; apartments were lost to affordability, and the crisis has continued to grow.

I commend the Board for keeping SRO rents at the same level for another year. SRO tenants are a particularly vulnerable segment of the rent-stabilized population, with many aging tenants relying on fixed income in a housing market without comparable housing. I urge the Board to finalize its SRO vote at 0%.

I hope that this Board will do its part to help us address our affordable housing crisis, vote for a rollback, and recognize the multiplier effect its increases have had on the present crisis in affordable housing.

Thank you.