2022 New York City Housing Report:

A case for reasonable rent adjustments

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New York City relies on rent-stabilized housing. It provides affordable housing to hundreds of thousands of hard working New Yorkers. But rising costs are putting these buildings at risk.

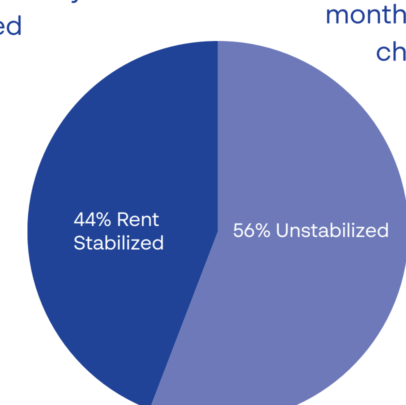
The NYC Rent Guidelines Board (RGB) is mandated to establish rent adjustments for these nearly one million rent stabilized dwelling units. These make up approximately 44% of the total rental market. **Given the importance of this apartment stock, it is essential to preserve its quality.** But the majority of rent-stabilized buildings in New York City are old–more than 80 years old. They need constant maintenance and repairs.

The average building has many necessary operational costs to maintain it, including property taxes, utilities, maintenance, labor, insurance, fuel and administrative fees. The majority of rent-stabilized apartments are in older buildings where almost all of the apartments are stabilized.

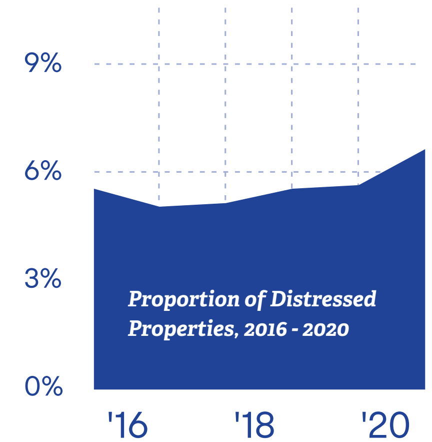
This year, the RGB issued a special memo detailing the income and expense of these specific properties, which make up most buildings in the Bronx, Queens, Brooklyn and Northern Manhattan. It found that rent checks don't cover expenses. The average operational costs are $889, and the average mortgage payment is $331. In these buildings, the average monthly rent is $1,173. That means the rent check falls $47 short of covering a housing provider's costs right now, using data compiled by the NYC Rent Guidelines Board.

2022 Rental Stock

Nearly 1 million NYC dwelling units are rent stabilized



The Share of Distressed Properties in NYC is Increasing



According to the NYC Department of Finance, 1990-2020 RPIE (Real Property and Expense) Data, the share of distressed properties has increased for the past four years. These are buildings where the rental income doesn't cover the costs. But this report doesn't factor in mortgage payments. When you do, it plunges thousands of rent-stabilized buildings into a desperate situation. When these buildings are not properly funded, they fall into disrepair. Necessary maintenance gets deferred and living conditions for renters get worse.

The Impacts of Inflation on Housing in New York City

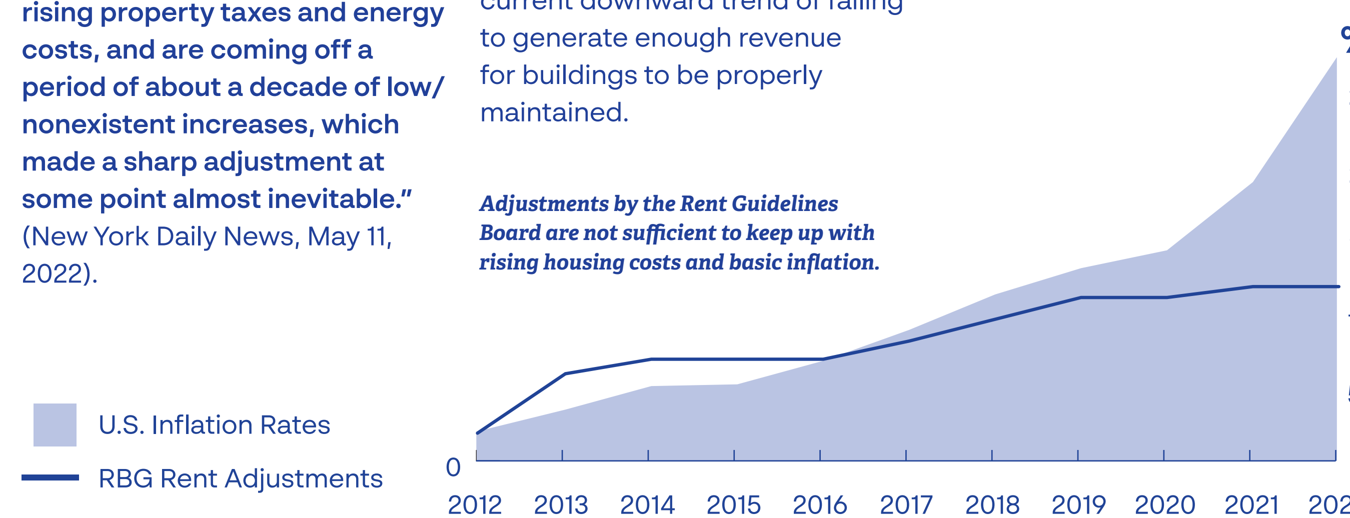
The NYU Furman Center, a leading institution on housing policy, recently authored a report saying: "If rent increases are insufficient to cover increased operating costs and to compensate for the impact of inflation, then negative consequences are almost certain to follow over time."

To quote the Daily News Editorial Board, **"Landlords are contending with the very same inflation, mostly in the form of rising property taxes and energy costs, and are coming off a period of about a decade of low/nonexistent increases, which made a sharp adjustment at some point almost inevitable."** (New York Daily News, May 11, 2022).

Currently inflation is over 8% nationally. The NYU Furman Center suggests inflation should be a starting point for the New York City Rent Guidelines Board. But the RGB chose to ignore the skyrocketing inflation when setting a preliminary range of rent adjustments. In May of 2022 they cast a preliminary vote in favor of increases of 2% to 4% on a one-year lease and 4% to 6% on a two-year lease. Unfortunately this is not sufficient to fix the current downward trend of failing to generate enough revenue for buildings to be properly maintained.

Any adjustment in these ranges will not keep up with rising operating costs like property taxes, utilities, maintenance, labor, insurance, fuel and administrative fees. That means the rent will continue to fall short of operating costs for the majority of rent-stabilized buildings in the city that are relied upon to provide housing to working class New Yorkers.

Adjustments by the Rent Guidelines Board are not sufficient to keep up with rising housing costs and basic inflation.



According to the Rent Guidelines Board the average rent-stabilized apartment* in New York City operates at a loss of $104 every month

*The Rent Guidelines Board calculates these incomes and costs from all buildings that include at least 1 rent-stabilized unit. So, if a building is 95% free market units, it is still calculated into these numbers.

Source: https://rentguidelinesboard.cityofnewyork.us/wp-content/uploads/2022/03/2022-IE-Study.pdf

Property Taxes The New York City Department of Finance increased the assessed value of apartment buildings by 7% this year, which translates to an increase in tax payments of $869 Million across the city. The RGB prediction of a 5.1% increase is skewed by tax breaks given to new construction that has voluntarily added stabilized units in exchange.

Maintenance: The majority of rent-stabilized buildings were built before 1946, with many of them over 100 years old. These properties need constant maintenance to operate properly.

Fuel: The cost of natural gas has skyrocketed this year due to world events. The price of heating oil has more than doubled in the past few months. Industry experts expect these costs to continue to trend upward for future years, contrary to RGB's predictions.

Adminstrative Costs: In order to comply with State and City laws and regulations, property owners employ internal staff and/or outside counsel and accountants.

Labor: Inflation has had a dramatic impact on labor costs. A decline in unemployment has led to higher wages for workers, which is great. But that means higher costs for building owners.

Utilities: This year, the New York City Water Board approved a nearly 5% increase on water and sewer costs. This is on top of an increase of 3% the previous year. These costs will be realized in coming RGB reports. Electricity prices—at their highest levels since 2014, and among the highest rates in the country—are expected to climb up another 12%.

Insurance: The RGB Income & Expense data lags behind the reality facing property owners. Insurance costs have more than doubled in the past few years and there is no sign that they are going to stop increasing.

Capital Costs: The Rent Guidelines Board does not look at a host of capital costs required to maintain a building and stay in compliance with New York City laws. This includes boiler maintenance and repair, mandatory façade work, roof repairs, and a host of other costs that are paid out over many years. CHIP estimates that a responsible building owner is spending $200 a month per apartment on these costs.

Debt Service: Apartment buildings refinance every five to seven years. The RGB estimates the debt service ratio to be 1.24. In real dollars, this is about 25% of the average rent-stabilized rent check each month.

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According to the RGB's reports 62% of rent-stabilized apartments are in heavily stabilized buildings older than 1974.

These buildings are mostly in the Bronx, Queens and Brooklyn, where working-class New Yorkers live, and where the rents are low. But the costs of operating these buildings continues to go up, putting their long-term viability at risk.

This situation is just going to get worse in the future years.

A rent adjustment of 4% this year would raise the average rent for apartments in highly-stabilized buildings by less than $50 per month to $1,220.

In its Price Index of Operating Costs (PIOC)* report, the RGB says a 4.5% increase on a one-year lease would be necessary to keep up with rising costs. But this number was calculated with inflation at 4%. Currently inflation is over 8%, and showing no sign of declining.

Operating costs are estimated to go up by 5% next year according to the RGB. But that is only if inflation drops back down to 4%. If inflation stays above 8%, the operating costs will rise by closer to 9% in the coming year. That would be an $80 increase each month for the average apartment in the highly-stabilized buildings.

But the situation gets even worse for housing providers. In an effort to combat high inflation, the Federal Reserve Bank is moving quickly to increase interest rates. That means that rent-stabilized buildings are going to see their mortgage payments increase dramatically when they are required to refinance every 5 to 7 years, leaving buildings with less money for maintenance, fuel, capital costs, or property tax payments.

Reasonable rent adjustments from the RGB based on operating costs are absolutely necessary if we are to maintain the quality of rent-stabilized housing, especially in these buildings.

*Source: rentguidelinesboard.cityofnewyork.us/wp-content/uploads/2022/04/2022-PIOC.pdf

We Need an Honest Conversation About How to Fund Housing in New York City

By Jay Martin

The New York City Rent Guidelines Board is currently considering rent adjustments for the upcoming year. Its own data, supporting research and analysis from the Furman Center at New York University, and expert opinions from other housing experts have reached the same conclusion. **A modest rent adjustment from the RGB is necessary to stabilize New York City housing.**

We want to work with the Mayor, the New York City Council and other partners to create a sustainable pathway to better and more housing in New York City, things New Yorkers desperately need.

This is why we fought for an additional $2,000,000,000 in funding for the Emergency Rental Assistance Program (ERAP) – including registering thousands of tenants to get the help they needed and prevent evictions.

We went to Albany to push for $800,000,000 in funding for the Housing Access Voucher Program. Because we believe struggling New Yorkers need housing and dignity.

We want to build more housing. We want to invest in our current housing. We want tenants to have reasonable rights. We actually want many of the same things as the folks that disagree with us. We also just want to be able to survive.

Our goal is to give as many New Yorkers access to the best and most affordable housing there is by an equal effort from our members and our government partners. Demonizing property ownership won't get us there.

But after a decade of rent freezes and de minimis increases, we need real relief. The heating bills have doubled. Water bills have increased. Property taxes have gone up double digits. Inflation is over 8%. After years of bending, we are finally breaking. A reasonable correction is desperately needed from this RGB to allow our members the breathing room to ensure we can continue to provide safe and high quality housing.

Whether it is the Haitian-American family who owns several buildings in Flatbush, the third generation Chinese-American woman who manages properties in Chinatown, or the Mexican brothers who own 18 units in Corona, the numbers aren't adding up for owners and property managers across New York City.

Our members are small business owners. We employ tens of thousands of New Yorkers, and are an immense part of the New York City economy. According to all available data our request for a small rent adjustment is modest, and is key to keeping folks employed with good housing and contributing to the New York City economy.

We'll continue to advocate for better housing policy, more government investment, more money for vouchers, better low- to mid-income housing, and more. We can't do that if all our members have to sell to vulture hedge funds, who care nothing of the communities they own in.

A reasonable increase from the RGB will help our members just keep up with costs. Not one cent will become profit. It is a vital step in the right direction to the all-of-the-above housing approach New York City needs.

Millions of New Yorkers rely on affordable rent-stabilized housing. But these apartments are at risk.

Without a reasonable rent adjustment, hundreds of owners and property managers won't be able to keep up with skyrocketing costs.

Small owners of aging rent-stabilized buildings are particularly at risk. Owners have seen their heating bills double, water taxes increased, property taxes have gone up, with inflation over 8%. According to the City's own report the numbers simply don't add up.

It's time for a reasonable adjustment from the Rent Guidelines Board. New York needs this to keep moving forward.

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