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Testimony on Rent Regulation Renewal

Submitted to the New York State Assembly's Standing Committee on Housing

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The Citizens Budget Commission (CBC), a nonpartisan, nonprofit think tank whose mission is to achieve constructive change in the finances and services of New York State and New York City government, submits this testimony to the New York State Assembly's Standing Committee on Housing.

Over the next two weeks, the Committee will hold hearings on the extension and reform of New York's rent regulation system. The package of bills under consideration includes proposals to end high-rent vacancy decontrol, reregulate units that previously exited the stabilization system, restrict owners' ability to increase legal rents upon vacancy, eliminate the ability of property owners to increase rents following buildingwide capital improvements and apartment renovations, roll back previously awarded rent increases tied to capital improvements, and place limits on rent increases for tenants receiving preferential rents. If enacted, these proposals would dramatically alter the rent regulation system. When considering such dramatic reform, the Legislature should evaluate the potential to worsen rather than improve tenants' living conditions.

In January CBC released a report on the Governor's Executive Budget proposal to extend rent regulation with stronger protections against increasing rents and the loss of units. CBC's report highlighted two benefits of rent regulation:

- Access to below market rate units helps lessen otherwise severe rent burdens for low-income tenants, particularly for tenants with local and federal rental housing vouchers; and
- The right to lease renewals helps promote housing stability.

Despite these benefits, the report noted that the Executive Budget proposals would worsen many of rent regulation's flaws without making a meaningful impact on the affordability of rental housing for the most severely rent burdened households in New York City.

Drawing on data from the 2017 New York City Housing and Vacancy Survey (HVS), CBC found:

1. **Rent regulation does not guarantee affordability.** The majority of rent-stabilized apartments are not affordable to the low-income households who are most likely to be rent burdened. In fact, the HVS data show that without additional rental assistance, such as Section 8 Housing Choice Vouchers, low-income rent stabilized tenants are just as likely to be rent burdened as similar tenants in market-rate units. In 2017, 75 percent of unsubsidized rent-stabilized tenants earning less than 80 percent of Area Median Income (AMI) were rent burdened. This compared to 78 percent of similar market-rate tenants. The incidence of rent burden is even higher among renters earning less than 50 percent of AMI: 86 percent for unsubsidized rent-stabilized households and 88 percent for market-rate households.
2. **The benefits of rent regulation are not well targeted.** In 2017 about 100,000 upper-income households (defined as those earning more than 165 percent of AMI) lived in rent-stabilized units built before 1974, occupying 12 percent of the stabilized stock.[i] More than 28,000 of those upper-income households earned more than $200,000 per year, which is the income threshold for high-rent/high-income decontrol.[ii] For these households, monthly rents of at least $5,000 are considered affordable. Since the current vacancy decontrol threshold is $2,774.76, many upper income stabilized tenants benefit from substantially below market rents. On average rent stabilized households earning more than $200,000 per year have monthly rents that are $1,100 less than the average cost of a similarly sized market-rate unit in their neighborhood. Collectively, these households save $271 million each year.
3. **Stabilized units are in worse condition than the rest of the City's private housing stock.** Rent-stabilized units report 80 percent more maintenance deficiencies on average than market-rate units. This maintenance gap has persisted despite continued improvement in the overall quality of the city's housing stock.

Many of the bills currently before the Assembly would exacerbate these shortcomings.

Ending high-rent vacancy decontrol will not alleviate the rent burdens of lower-income New Yorkers and will not on its own preserve or increase the number of affordable units. Instead it will benefit higher-income households disproportionately. An affordable rent for a low-income family of three is $1,600 per month, a level that is far below the high-rent vacancy decontrol threshold of $2,774.76. Apartments that rent at or near that threshold are affordable only to households earning at least $111,000 per year. Middle- and upper-income tenants currently living in rent regulated units will continue to realize savings, and upon vacancy, units that otherwise would have been deregulated likely will be rented by households of similar economic status. The HVS showed that since 2015, middle- and upper-income households accounted for 60 percent of tenants who moved into stabilized renting for $2,000 or more per month. One way to address this issue would be to eliminate rent stabilization for upper-income households who earn more than $200,000 per year.

The Major Capital Improvement (MCI) and Individual Apartment Improvement (IAI) programs are imperfect; media reports suggest that State oversight and enforcement of existing rules has been lax.[iii] Improving these programs could be an important component of addressing apartment conditions. However, eliminating MCIs and IAIs without an alternative strategy that provides a reasonable incentive for property owners to maintain their buildings could result in deterioration of the existing housing stock, further exacerbating the gap in quality between stabilized and market-rate rental units. Preserving the conditions of regulated units would be well served by providing an incentive for investment and supporting better enforcement of the improvement allowances.

Rent regulation offers benefits to tenants, but it is important to distinguish between what rent regulation can and cannot be expected to achieve. For rent regulation to be more effective, reforms should focus on improving conditions for tenants and making the system better targeted to low-income, rent-burdened households.

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[i] According to the 2019 income limits for the New York metro region published by the U.S. Department of Housing and Urban Development, an upper-income household of three people in 2019 has an annual income of at least $158,503.

[ii] Under current law, units occupied by high-income households can be deregulated under the high-rent/high-income decontrol provision. High-rent/high income decontrol has a two-pronged test: a tenant's rent must exceed the decontrol threshold (currently $2,744.76); and 2) a tenant's federal adjusted gross income must exceed $200,000 for two consecutive years. The vast majority of stabilized households who earn more than $200,000 per year do not meet the rent prong of the test. The average rent of households earning more than $200,000 is $2,121 per month, well below the decontrol threshold. In 2017 only 107 units were deregulated through high-rent/high-income decontrol.

[iii] Daniel Geiger, "Landlords are exploiting a key loophole to raise rents on thousands of apartments," *Crain's New York Business* (April 8, 2019), https://www.crainsnewyork.com/features/landlords-are-exploiting-key-loophole-raise-rents-thousands-apartments.