

The Rent Guidelines Board 1998 Recent Movers Study

August 6, 1998

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Chairman's Preface

Unfortunately, of all major areas of civic policy, fewer are less prominent in the thoughts and actions of public officials, the media and the electorate than are housing concerns. While officials and the media regularly concern themselves with issues impacting upon public safety, education, transportation and the "quality of life," it is only episodic that housing concerns receive priority attention.

Indeed, even in a complex and sophisticated city such as New York, while most major media outlets have numbers of full-time sports, gossip and entertainment reporters, few, if any, have even one reporter whose primary duty is to report upon housing issues.

Sadly, in New York the one instance in which the public and media's attention is drawn to housing issues involves those few occasions when the state's rent regulatory scheme is at issue.¹ Indeed, politicians find this issue so distasteful and potentially harmful to them at the polls that they avoid addressing these concerns whenever possible. As just one example, which is detailed below, having had to address the future of the state's rent regulatory scheme in 1997, the Legislature found the experience so traumatic that it assured, *by law*, that it would *not* have to revisit this issue at least until 2002.

This report seeks to analyze the impact that certain aspects of the Legislature's 1997 enactment have had to date. In reviewing this report, readers should bear in mind that:

- (1) the statistics set forth in the body of this report were compiled and/or collated by the non-partisan, highly acclaimed research staff of the New York City Rent Guidelines Board (the "RGB");
- (2) the opinions set forth in this preface are those solely of the RGB's chairman; and
- (3) above all, the policies, which gave rise to those statistics and opinions are entirely those of the New York State Legislature.

Moreover, the purpose of this report is neither to endorse nor criticize any legislative policy, but rather to attempt to gauge its effect.

Exegesis Of This Report

Last summer, after prolonged and often acrimonious debate, the New York State Legislature approved the Rent Regulation Reform Act of 1997, (hereafter referred to as the "Rent Act"). In January, when the memory of that legislative brouhaha still was relatively fresh in the public's mind, the RGB chairman and staff decided to attempt to analyze certain aspects of the Rent Act's complex, often poorly written, provisions. In conducting this study, the RGB sought to continue its

¹ Even though the rent regulatory scheme is a creature of state legislative policy, approximately 90% to 95% of all units affected are in New York City.

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policy under the current mayoral administration of undertaking at least one optional study per year of a topic which impacted upon the general condition of New York City's residential housing stock.

Although a number of the prior RGB special studies have been controversial, several contributed to a re-evaluation of city policy and, on occasion, helped serve as a catalyst to change. As one example, the RGB's 1995 study of the "*in rem*" housing policies of twenty major cities nationwide contributed to the current administration's overhaul of this city's decades-old, ineffective, shockingly costly, and largely self-defeating *in rem* housing policy. Indeed, as a result of this RGB study, several of the cities which assisted the RGB in gathering the necessary information for this study revisited their *in rem* policies as well.

Similarly, the RGB's 1995 study of "distressed housing" assisted the city's Department of Housing Preservation and Development to (a) compile a profile of the types of residential buildings likely to be financially distressed—and thus possibly abandoned, and (b) establish an "early warning" intervention system whereby city agencies could assist the private owner to maintain his building and avoid any abandonment.

It was in that spirit that the RGB has sought to analyze some of the Rent Act's effects *even though* the Rent Act itself sets forth that these and other issues will not be re-evaluated by the Legislature any earlier than the year 2002.

Initial Caveat

Gathering statistics almost always is easier than interpreting them. One initially notes that as this report is being issued, the Rent Act is barely one year old. Further, and as is detailed in the body of the report itself, the universe of renters surveyed included those who, (a) moved between June, 1997 and March, 1998, and (b) moved into an unregulated vacant unit or a unit rent regulated prior to the Rent Act's enactment in June, 1997.

Thus, as with the maxim that "all new brooms sweep clean," it may take several years, rather than the initial nine months, for analysts and statisticians to have a greater grasp of any benefits, demerits, unexpected glitches and unanticipated bonuses which the Rent Act in general, and the few specific aspects analyzed herein, may hold for the long-term.

Key Consideration

As noted above, this report is not intended to endorse or criticize any actions taken in 1997 by the Legislature in enacting the Rent Act. All such actions were entirely within that elected body's prerogative, and this report accepts that the final enactment, as reflected by the Rent Act's provisions, must be deemed to represent the public policies which the Legislature deemed to be in the best interests of this state. While neither landlords nor tenants were completely (perhaps not even "mostly") satisfied with the Rent Act's final form, it will be state law for at least the next half-decade.

The Vacancy Allowance

This report analyzes three specific Rent Act policies. The first is the "*vacancy allowance*." Contrary to a misunderstanding by some, when a rent regulated unit becomes vacant, most landlords may *not* charge an incoming tenant any rent the landlord wishes.^{II} That is, generally a landlord may *not* charge "whatever the market can bear." Rather, as has been prescribed by state law since rent stabilization first was enacted, the overwhelming majority of landlords could increase the previous legal rent *only* if the RGB so allowed. In fact, but for one year, the RGB always has approved a vacancy allowance -- sometime generous, sometimes modest.

The RGB's approval of vacancy allowances was in keeping with the Legislature's intention to (a) provide strong protections for any *in-place* tenant, while (b) shifting any additional burden to an *incoming* tenant (who obviously has the option to agree beforehand to rent at the increased level), thereby helping to gradually move New York City's residential housing stock back to market levels.

In 1997, the Legislature essentially preempted the RGB by enacting a statutory vacancy allowance.^{III} This provision allows a landlord of a rent regulated unit to add 18% (for a one-year lease) to the previously legal rent of the apartment when offering that apartment to rent to a new tenant.^{IV} As an example:

II. Analysis of the exceptions to this rule constitutes a part of this report.

III. Although the RGB remains at liberty to authorize a vacancy allowance in addition to the allowance provided by state law, it declined to do so in 1997 and in 1998.

IV. In fact, that convoluted, horribly written provision allows for a vacancy allowance of 20% when a tenant chooses a two-year lease, and for more than 20% in some other instances, especially when the prior tenant had been in occupancy of that unit for more than eight years. For simplicity sake, though, this report will assume that all vacant units were eligible to receive a flat 18% vacancy allowance which is the *minimum* available given the RGB guidelines which were in effect for 1997/98.

Step 1: The *in-place* tenant is paying \$600 in rent (i.e. slightly less than the approximate median rent for all rent regulated units in New York City);

Step 2: That *in-place* tenant then vacates that \$600 unit;

Step 3: The landlord then may add 18% of the legal rent of \$600 (for a one year lease)—in this instance, \$108—to the legal rent, and thus offer that unit to an incoming tenant for a minimum rent of \$708.

Added to this new \$708 "legal rent" would be any qualifying individual apartment improvements, (a topic discussed in greater detail below). For instance, if the landlord installed a new stove costing \$800, 1/40th of this amount (\$20) could be added to the \$708 legal rent for a total of \$728.

While landlord advocates were disappointed that the Legislature didn't opt for full vacancy decontrol—that is, allowing landlords to charge incoming tenants whatever the market would bear—and while tenant advocates claim this minimum 18% increase was too generous, one overriding consideration is indisputable:

- (1) by enacting this 18% statutory vacancy allowance; and
- (2) knowing that this statutory allowance would be coupled with any guideline increases approved by the RGB,

the Legislature presumed that rents for vacant rent-stabilized apartments would mostly rise a minimum of 18%.

As will be seen from the statistics set forth in this report, though, the most striking finding is that in most parts of the city, rents for vacant rent-stabilized units did *not* rise by the percentages which the Legislature presumed would come to pass.

Luxury Decontrol

This "Movers Report" distinguishes this second Rent Act policy, under analysis (so-called "Luxury Decontrol") from the third Rent Act policy (so-called "Vacancy Decontrol"). As a caveat, there are reports and housing experts who group these two policies together.

As detailed in the "Chairman's Letter" to the 1997 compendium of RGB reports,^V many were at a loss to understand why the Legislature wasted so much time, energy and political capital on this issue. It proved to be "sound and fury, signifying nothing."

Prior to the Rent Act, the Legislature's policy had been that a tenant would not be entitled to the protections offered to other rent-stabilized tenants if that person (a) enjoyed a gross income of \$250,000 or more for two consecutive years, and (b) that person's apartment rented for \$2,000 or more per month.^{VI} At least as reported by the media, the Legislature spent a disproportionate amount of time debating this issue before agreeing to lower the income levels from \$250,000 to \$175,000.^{VII}

At the time this reduction in income levels was being enacted, the RGB noted that this change would affect a maximum of 2,699 households out of a rent-regulated universe of over one million households. In fact, only about fifteen hundred apartments have been "luxury decontrolled" since this general policy was first enacted in 1993.

Vacancy Decontrol

The Rent Act allows landlords of units with legal rents *at or above* \$2,000 to charge market level prices *for incoming tenants*. It is important to note that if an *in-place* tenant were paying \$1,999 when the next RGB guidelines increase pushed that unit's rent level over \$2,000, that tenant nevertheless would *continue* to enjoy the protections of rent regulation. In that scenario, the landlord would be able to charge market rate prices *only after* that *in-place* tenant finally vacated his or her rent stabilized unit.^{VIII}

V. Copies of all such reports and compendiums can be purchased from the RGB.

VI. As is not uncommon with many aspects of this city's and state's housing policies, at first blush this second factor seems counter-intuitive. Because this second factor establishes \$2,000 as a floor, rather than a ceiling, a person who earned \$300,000, but paid \$5,000 in rent (i.e. 20% of gross income in rent) would have his or her apartment decontrolled. Conversely, if that same person earned the same \$300,000, but paid only \$1,500 for that same apartment (i.e. 6% of gross income in rent), that tenant still would continue to enjoy the protections offered by the rent regulatory scheme. Such inanity is not uncommon throughout the Rent Act and related laws.

VII. The actress Mia Farrow had the dubious honor to become the "poster girl" for this provision when the media repeatedly reported that her ten or so room suite on Central Park West cost her only \$1,500 or so per month in rent. Ms. Farrow's reported decision to vacate that unit apparently was based upon "luxury decontrol" considerations. After the landlord made various upgrades to that apartment—a process described herein—that unit then reportedly became subject to "vacancy decontrol."

VIII. As with the "Mia Farrow" example in footnote (VII), this assumes, of course, that the tenant enjoyed a gross income of less than \$175,000 for two consecutive years. Otherwise, the tenant might be subject to "luxury decontrol."

Given the Rent Act's minimum 18% statutory vacancy allowance, any apartment now renting for at least \$1,695 will reach the \$2,000 mark when it next becomes vacant, and thus be eligible for vacancy decontrol. As with the Legislature's other efforts in this area, one must presume that the Legislature intended this result. Notably, with the exception of pockets of upscale housing in "outer borough" neighborhoods such as Brooklyn Heights, this scenario essentially impacts *only* upon units in the so-called "Core Manhattan" area.

"The Dog That Didn't Bark"

In a classic Arthur Conan Doyle tale about a watch dog which didn't bark, Sherlock Holmes solved a mystery based *not* upon what *did* happen, but upon what *didn't*. Similarly, what is most striking about the statistics set forth in this report is not what did happen, but what didn't.

Given New York City's current boom economy, the much heated real estate market, the skyrocketing prices in the cooperative and condominium markets (which are not subject to any price controls), the anticipated pressures on residential rents in the most desirable neighborhoods,^{IX} the statutory minimum 18% vacancy allowance, the likelihood of an increasing number of apartments going to market due to vacancy decontrol, the effect of the RGB's guidelines adjustments, and other factors discussed below (such as the so-called "1/40th" increases), many observers had predicted a "crushing" increase in rents citywide.

While it is not this author's intent to minimize the impact of any increase in legal rents, particularly since a good number of tenants are struggling to find affordable housing, *the fact as supported by the data herein is that citywide, rent for the typical vacant rent regulated unit did not even rise by the minimum 18% amount anticipated when the Legislature enacted the statutory vacancy allowance.*

That is, on a citywide basis, the average landlord could not obtain from an *incoming* tenant the rent levels which the Legislature in its enactment of the Rent Act anticipated that landlords would be able to obtain. Indeed, except for the so-called "Core Manhattan," i.e. those much-desired neighborhoods in Manhattan (generally) south of 96th on the East

side and 110th Street on the West side, *few* areas in the city could support an 18% increase in the rents of the rent-regulated units.

No doubt the causes and ramifications of this striking finding will be open to debate, including the unavoidable conclusion that in many areas, the regulated rents and unregulated rents of similarly situated units are fairly close to each other. This may prove to be an especially contentious assertion since 2,400,000 New Yorkers are rent regulated, but 4,800,000 are not. Moreover, some landlord advocates no doubt may argue that the relevant "housing market" no longer is just the five boroughs, but should include the surrounding suburbs, thereby further diluting the impact of the Rent Act upon the ability of the average person to find suitable and affordable housing.

Individual Apartment Improvements - The So-Called "1/40ths"

For many years, landlords were -- and remain -- able to raise the legal rents of their apartments by means of an "individual apartment improvement," which in housing policy jargon commonly is called a "1/40th." While a 1/40th may be done while a tenant is in occupancy, the New York State Division of Housing and Community Renewal (DHCR), which monitors all rent regulated units throughout the state, estimates that a large proportion of 1/40ths are performed after a tenant vacates the unit.

Essentially, this policy, which the Legislature envisioned as a means to provide landlords with inducements to further maintain and upgrade their apartment units, allows a landlord to add 1/40th of the cost of certain improvements to the unit's legal rent. Thus, if a tenant vacated a unit with a legal rent of \$600, and the landlord made \$4,000 in improvements (e.g. upgraded a kitchen's cabinets, fixtures, etc.), the landlord would be entitled to add 1/40th of the cost of those improvements -- or \$100 -- to the legal rent, raising it in our example to \$700.

Such a 1/40th increase would be *in addition* to any other allowable increases, such as those provided by vacancy allowances and/or RGB guidelines adjustments.

Tenant advocates often argue that 1/40ths are too generous because after the landlord recoups the cost of the improvements, the 1/40th increase remains a permanent part of the legal rent. Landlord advocates conversely argue that especially in boom economic times such as these, having to wait nearly three and one-half years to recoup one's investment

IX. In 1997, when the possible end of rent regulation loomed, tabloid headlines screamed that average rents in areas such as Manhattan's Upper West side might soar 50% to 100%.

hardly is much of an incentive to make these repairs. Smaller, less affluent landlords, especially those who own buildings in economically marginal neighborhoods, further note that they often don't have the financial resources to make significant upgrades anyway.

The inability of the average landlord to obtain the statutory minimum 18% vacancy allowance likely will have a profound impact upon the number of 1/40th upgrades being undertaken. Moreover, it may have an unanticipated, almost perverse effect that runs counter to what reasonable public policy should be.

Initially on this point, tenant advocates on the RGB regularly note that the average citywide increases in rent levels far exceed the increases which would have resulted were such increases to be calculated solely upon vacancy allowances and RGB guidelines adjustments. The clear implication to this truism is that landlords have other means to raise rents, including, and perhaps especially, the 1/40ths.

Notably, the average increase in citywide rents as demonstrated by this "post-Rent Act" report is not that much greater than the average yearly increase which occurred prior to the Rent Act's enactment. This is important for two reasons. First, any allegation of "skyrocketing" rent increases clearly must be dismissed on two grounds. Post-Rent Act yearly increases, while greater than the pre-Rent Act yearly increases, are not so much more as to "shock the conscience." Moreover, as noted earlier, the average increases fall *below* that which the Legislature expected and approved when it enacted the minimum 18% vacancy allowance.

The second point is one of common sense which only future statistics can bear out: if the average landlord is unable to obtain even the minimum 18%, he will have little incentive to make individual apartment improvements since he won't be able to recoup his costs via any increased rents. Thus, even though individual apartment improvements are enormously important if New York City is to maintain and modernize its housing stock—one in which the average building is over fifty years old—under the trends likely to be spawned by the Rent Act, there likely (and understandably) will be a decrease in the number of 1/40ths undertaken.

Finally on this point, during the 1997 Legislative debates, many assumed that landlords of "vacancy decontrolled" units would have little incentive to make 1/40ths since they already could charge what the market could bear, while landlords of lower- to middle-rent units would have a great incentive to

make 1/40ths in order to raise rent levels to the presumed "astronomic" free market levels. Based upon the admittedly scant post-Rent Act evidence to date, it appears that the *opposite* already is beginning to happen: namely, high-end landlords in highly-desirable neighborhoods (particularly in Manhattan) are making enormous improvements in order to justify the large rent increases that they hope this booming economy can support. Conversely, landlords of low- to middle level units (especially outside Manhattan) are beginning to realize that from a straight economic standpoint, it makes little sense for them to make upgrades when they will have difficulty recovering those costs.

Some tenant advocates no doubt will argue that it made little policy sense to allow landlords to enjoy a minimum 18% vacancy allowance without requiring them to upgrade their units. Some landlord advocates no doubt will counter that in addition to the general policy of allowing vacancy allowances to help gradually move the residential housing universe back to market, the 18% vacancy allowance in fact allows smaller, poorer landlords, particularly in the Bronx, Brooklyn and Queens, to realize a greater revenue stream that will enable them to maintain their buildings in general.

Intuitive Concerns

Several months preceding this report, the *New York Times* noted the difficulty many New York City tenants were having paying rent, even during this general boom time. That same article noted that many household incomes were only \$20,000 to \$30,000.

Thus, even though the average rise in rent citywide for vacant apartments was "only" 12%—as opposed to the 40%, 50% and 60% horror stories which the tabloids had touted during the 1997 legislative debates—such an increase on a \$600 unit still would raise the legal rent to \$672. This \$864 per year increase, (\$72 x 12), no doubt can cause hardships and financial strains for many households.^X

No doubt one reason why rents haven't risen to the higher levels anticipated by the Legislature when it enacted the Rent Act is that market forces have

X. Tenant advocates often note this fact when arguing that the RGB should endeavor to keep guideline increases as modest as possible, almost as if the RGB's mandate required it to serve as a de facto social service agency. Conversely, landlord advocates will argue that (1) it is unwise policy to place the burden for providing "affordable" housing on private sector landlords who, in economically depressed neighborhoods, often are not much better off financially than their tenants, and (2) in any event, the burden for insuring that poorer tenants that do not have sufficient means to afford housing should fall on the public at large.

begun to prevail in many areas. That is, many tenants simply cannot afford to pay more, and while landlords understandably want to maximize the rents they receive, if an apartment's rent is at a level at which the landlord can make some profit, that landlord will continue to rent that unit, rather than keeping it vacant while awaiting a tenant willing to pay a rent which would be unreasonably high for that neighborhood.

In many parts of the city and particularly outside "Core Manhattan," rents thus may be approaching market levels simply because tenants can't afford to pay more. Indeed, the minimal difference in the rent levels of regulated and unregulated units in a number of neighborhoods may substantiate this hypothesis.

Disturbingly, increasing numbers of poorer tenants may be "doubling up," with two families living in an apartment designed for one. This development serves no one's best interests. Tenants are cramped, often in overcrowded, occasionally unsafe conditions, while the strain on a building's services and infrastructure acts against a landlord's interest. Indeed, if there is one financial time bomb which all middle-sized to smaller landlords especially fear will drive them out of business, it is the potential catastrophic increase in water and sewer rates. Thus, in an apartment designed for two or three persons, having six or seven persons flush toilets, take showers, open sink taps, etc. could prove to be a crushing blow to many smaller and poorer landlords.^{XI}

Finally, there is a category of poor, exploited tenant for whom rent regulation has little import. Perhaps there is no more recent, tragic example of this than the four immigrants who burned to death last year in Maspeth. They had been among ten or so tenants who had been living in an illegally converted basement unit when a fire erupted. While many officials and the media predictably issued sanctimonious condemnations of the conditions which led to this tragedy, little further has been done to alleviate the lack of inexpensive accommodations which contributed to this incident.

Ironically, such illegal housing arguably may be an unofficially welcomed resource—at least in the short run—until legal, code-compliant, low rent housing can be constructed. This unfortunate fact

may be better understood if one considers that the alternative to this overcrowding and/or rental of illegal units would be homelessness altogether.

Although it is a topic not germane to this report and certainly too complex to detail in this commentary, one hopes that state and city leaders will revisit the entire issue of the "residential hotel and single room occupancy" universe. Even as it shrinks in size due to notable economic pressures, the present "hotel and SRO" system continues to fester, and advocates for it have proven incapable to date of coalescing sufficient political opinion to bring about a much needed change in policy.

Need For New Housing

The current rent regulatory scheme, which had its origins in the 1940s, arose from a legislative determination that the demand for housing in New York City so exceeded the supply that it would be poor public policy to rely upon "normal" market mechanisms alone to alleviate this "crisis." Therefore, the Legislature decided to institute rent controls to prevent what it feared would be the imposition by too many landlords of unduly high rents upon too many tenants who lacked any reasonable alternative for their housing needs.

More than fifty years later, this acute supply shortage remains. Indeed, by law rent regulation would end if the citywide vacancy rate (as determined by the "Housing and Vacancy Survey," a special triennial study conducted by the Census Bureau) were ever to exceed 5%. In the past decade or so, this vacancy rate hovered between 3.5% and 4%, and no one should underestimate the enormous amount of additional housing which would be required to reach that 5% mark.

The fact thus remains that whether one favors yet stricter rent controls or, conversely, a more rapid return to free market status, New York City's tight housing market will continue until new stock is built. Unfortunately, the trends auger in the other direction.

In the 1970s, for instance, even as adverse economic times swept many parts of the nation and New York City in particular,^{XII} each year tens of thousands of new housing units were constructed citywide. In depressing contrast, during the 1990s, yearly construction starts averaged 6,000 or so.

Indeed, it is questionable whether these new

XI. In a 1993/94 survey, the RGB asked landlords to name the one -- and only one -- factor affecting their profitability that they most would like see changed. 25% said rent regulation, while 30% said the travesty that parades as New York City's housing court. 40% said water/sewer charges and taxes were their greatest concerns. In the intervening years, like Mark Twain's weather, many people have talked about this problem, but few people have tried to do anything.

XII. Among other factors, the "oil crisis" was crippling many parts of the nation while New York City, (for other reasons including decades of governmental profligacy), was teetering on the brink of bankruptcy.

starts are sufficient even to replace the number of units lost in the normal course to age, abandonment, fire, conversion to other purposes, etc. Even worse, virtually all major construction projects in the 1990s were in Manhattan, which alone among the boroughs offered a builder the likelihood of obtaining the high rents necessary to make these construction projects economically feasible.

At the risk of understatement, this is not an encouraging trend.

While suggestions such as the following one are easier said than done, one hopes that City and State officials will conduct a "housing summit" to consider any and all measures that might induce private sector builders to construct more housing, including units at rent levels necessary to service and thereby retain in New York City the much-maligned "middle class." No such conference could produce reasonable, effective proposals without the input of those very private sector builders on whom the city traditionally has relied to create most of its housing stock.^{XIII}

Given this City's growing crisis—half the stock is more than fifty years old, while a shocking percentage was constructed 75 to 100 years ago—such a summit could not occur too soon.

Conclusion

Given the many predictions that the Rent Act's "vacancy allowance" and "decontrol" provisions would lead to skyrocketing rent levels for recent movers, the Chairman was somewhat surprised by the relatively moderate increases in citywide rent levels. This finding, however, should not mislead anyone into believing that New York City has largely resolved its housing shortage or that all tenants ready have access to "affordable" housing. In fact, when this Recent Movers Study is read in conjunction with other RGB reports, a grim picture continues to emerge.

Even in the presence of legislatively-imposed price controls, some market forces inevitably will continue to act. In the circumstances which gave rise to this report, the relatively moderate rent increases resulted not from either an increase in the general supply of apartments and/or a decline in general demand for housing, but apparently from the inability of many tenants to pay more in rent. Thus, landlords, who understandably wish to maximize their profits, often were obliged to temper their demands because incoming tenants simply could not pay those rents, even though such rent levels were authorized by the Rent Act. As noted, this development may have several unanticipated, and, possibly unfortunate consequences.

If landlords are unable to command higher rents—indeed, many had been unable to command even the minimum vacancy allowances authorized by statute—it is doubtful that landlords will be able to generate the increased incomes which many had anticipated when the Rent Act was enacted. This may well translate into an inability to upgrade particular apartment units and their buildings in general. This does not portend well given that (1) New York City's housing stock continues to age, (2) half of all units are over 50 years old, and (3)

XIII. One notes that even in during the economic boom times which the city, state and national governments have enjoyed during the last five or so years, government funds to support housing construction and/or underwrite the ability of poorer tenants to afford housing have either remained constant in absolute dollars or, in many instances, been reduced. This factor alone would suggest that if significant amounts of new housing are to be built in New York City, the private sector will have to bear most of this burden, either with or without the encouragement of government programs, tax breaks and/or subsidies.

yearly construction of new units has been insufficient for at least a decade to replace those lost to abandonment, fire, and other causes. Smaller owners of older buildings in marginal areas may especially be vulnerable.

Speculative investment (in the non-pejorative sense) in housing may diminish many areas outside Core Manhattan. In the last few decades, especially, New York City has experienced economic cycles wherein investors have purchased seemingly awfully maintained buildings in marginal economic neighborhoods in hopes of profiting during an anticipated boom cycle. Given the findings of this Recent Movers Study, if investors now realize that they will never be able to enjoy significant profits from rehabilitating those buildings due to tenant inability to pay the rents necessary to pay for the costs of those upgrades, perhaps such investment will taper off.

As for tenants, at least two salient considerations result from our "tale of two cities." First, even prior to the Rent Act's passage, it was common knowledge in housing circles that tenants in Core Manhattan (1) paid the highest rents, but (2) also enjoyed the greatest protections offered by the rent-regulatory laws. Were those restraints not in effect, rents in Core Manhattan would have risen significantly.

The Recent Movers Study largely confirms this, but further underscores that recent movers to Core Manhattan—unquestionably among the most desirable residential real estate in the world—are more than willing to pay a premium for living in that area.

As for tenants outside Core Manhattan, a different story emerges. Some are affluent, many are comfortable and are paying rents they can afford, while others are hard pressed. It is the inelastic nature of those tenants' incomes which has served to restrain rent increases. Indeed, as set forth in this report, while the rents for 28% of all apartments outside Core Manhattan increased by 18% (and presumably could have increased even more for at least some of those tenants), the rents for another 27% of those same recent movers stayed the same or decreased.

Ideally, if tenants could afford to comfortably pay more for their units, then landlords could use more of those monies to maintain and upgrade their buildings and individual apartments. Unfortunately, for too many tenants and landlords, this simply isn't possible.

One notes that for several reasons, this study could not definitively draw conclusions about the percentage of recent movers who are paying more than 30% of their income for rent (i.e. the HUD standard of "affordability.") In keeping with standard research principles, the RGB sought to insure the maximum number of responses and thus did not include questions about the tenant's race, religion or income, all of which drive down response rates. Thus, until the RGB can obtain accurate income levels for these recent movers, it will be unable to state with any degree of certainty what percentage of those tenants pay more than 30% of their income in rent.

As for the truly indigent tenants, it probably would be better public policy for all levels of government to increase the amount of stipends and other credits applied to those rents. Taking the opposite approach—i.e. forbidding rents to rise sufficiently in many instances—too often has led to declining housing stock and, at the extreme, outright abandonment by owners.

Finally, and falling well within the category of "easier said than done," the principal long-term cure for the many problems plaguing New York City's residential housing market would be the construction of vast numbers of new units for middle class and poorer tenants. If nothing else, such construction increasingly is needed simply to offset the loss of current housing due to the various reasons set forth above. Given the relatively moderate rent levels which landlords can obtain outside Core Manhattan, it is highly unlikely that private sector developers will build any significant amounts of new housing in those areas absent government incentives and/or subsidies to do so.

Even in Core Manhattan, no small number of large-scale developers have stated that they need to receive rents of \$1,500 to \$1,800 per one-bedroom apartment to recover their costs and make a profit sufficient enough to induce them to undertake the effort and risk of such projects. Indeed, one reason that large scale construction is unlikely to occur outside Manhattan is that, but for site acquisition costs (which are expensive outside Core Manhattan, but exorbitant within it), virtually all construction costs and other considerations remain constant (labor costs, materials, financial charges, legal and architectural fees, etc.) As indicated by this report, since only Manhattan offers the possibility of a builder attracting tenants willing to pay \$1,500 to \$1,800 on up, virtually all large-scale construction projects which primarily are privately funded will occur in Manhattan.

Thus unfortunately, large-scale private sector projects aimed at building housing units for the middle class and poor likely will be few and far between.

As always, it ultimately remains within the province of public officials to establish those policies and to create those conditions necessary to address these issues. Thus, as far as housing issues are concerned, one hopes that the New York State Legislature and the New York City Council prove better guardians of the public interest in the future than they have been in the past.

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