We have to (recognize that we as a tax paying body have an obligation to) understand the effect that those increases may have on rent and ***we can't just say to landlords, you have to absorb them and not pass them on to the tenants, because that's just an unsustainable system.***

Vicki Been, NYC Deputy Mayor, May 2019

I think that ***vouchers are a tried-and-true method of giving rental relief*** *to people who can't afford their rent and might otherwise face housing insecurity.*

Brian Kavanagh, NYS Senator, March 2020

The Rent Guidelines Board looks at absolute data and expenses. ***I have faith*** *that the people on the Rent Guidelines Board will do what they think is appropriate, and* ***you can't take those past increases as any indication.***

Louise Carroll, HPD Commissioner, October 2019

This Administration has pursued a misguided and politically motivated effort to freeze rents for all types of rent-stabilized housing. *Ultimately, the price for this approach will be paid in the slow but* ***inevitable decline in the quality of the regulated stock.***

Jack Freund, RSA Executive Vice President, May 2017

PANDEMIC POLITICS

RENT FREEZES ARE NOT THE ANSWER

Comments on the Preliminary Rent Guidelines for Order 52 | June 2020

RSA We House New York
Rent Stabilization Association

Joseph Strasburg, President
Jack Freund, Executive Vice President
Vito Signorile, Director of Communications

My message to the Rent Guidelines Board is clear: issue your reports, do your research, that's great. Hold your hearings as quickly as possible, take your vote and give the tenants who are rent stabilized in the City, over two million New Yorkers, give them a rent freeze. They need it. It's clear, the facts are clear. Let's get this done.

New York City Mayor Bill de Blasio

Members of the Rent Guidelines Board:

On behalf of the 25,000 rental property owners that we represent, RSA would like to present this submission to highlight important facts that we believe justify a return to fair rent guidelines this year and are necessary to sustain the nearly one million affordable rent-stabilized apartments in New York City.

It is no secret that the unprecedented COVID-19 (Coronavirus) pandemic has affected everyday life, leaving thousands of New York City tenants without jobs, either temporarily or for the long term. As State officials begin to take appropriate measures to ensure that our economy returns to a degree of normalcy, owners of rent-stabilized properties are left wondering how they will meet their operating expenses and invest back into their buildings as costs continue to rise and their income reserves continues to shrink.

Despite what most elected officials believe, the vast majority of building owners have taken it upon themselves to work with their tenants, coming up with plans and agreements that allow tenants to pay rents in increments, or use and replenish security deposits. Most rent-regulated building owners have developed excellent relationships with their tenants and want to help them during this difficult time. However, our elected officials continue to paint a picture of landlord versus tenant, even during an unprecedented time that calls for unity.

Federal and local governments should do more to provide relief for struggling renters. However, significant financial relief has already been provided to them. By the time this Board conducts its Final Vote, stay-at-home and business restrictions will have already started to loosen and thousands of New Yorkers would have already returned to work. Furthermore, by the time this new set of rent guidelines actually goes into effect in October, we will be well on the road to economic recovery.

As always, long-forgotten are the City's affordable housing providers. Under the de Blasio Administration, these same building owners have been made the scapegoat of the City's decades-old, failed affordable housing policies. This Board is now considering a third rent freeze in the last seven years, this time in spite of data that shows how much of a negative impact previously enacted inadequate guidelines have had on the City's aging affordable housing stock.

The two-year old data the Board is now considering shows the increased difficulties that owners are facing after a new norm of inadequate guidelines. The negative impact of the Housing Stability and Tenant Protection Act (HSTPA) of 2019 will soon be reflected in subsequent data and with another rent freeze on the horizon, as well as the negative effects imposed by COVID-19, the future of the City's existing affordable housing stock is very bleak.

We warned this Board in 2015 to take caution as they honored political campaign promises and that by enacting rent freezes, net operating income would gradually decline as rents remained stagnant and operating expenses continued to rise. We have now reached that point and with all signs pointing to a further decline in net operating income, this Board is once again attempting to satisfy a political wish list.

The Members of this Board know that rent freezes are not the solution to aid tenants during this unprecedented time and it is certainly not the answer for some tenants who may face difficulties returning to the work force. However, political pressures have once again placed many Members of this Board in a difficult position, allowing them to believe that by keeping rents at current levels, it will alleviate affordability issues that existed for low-income tenants well before this unfortunate pandemic affected our beloved City.

The data produced by the Board this year not only justifies the need for adequate rent increases, but with severe limitations imposed by the latest State rent laws, the need for investment back into aging buildings has never been more dependent on rent guideline increases. In fact, many members of this Administration have supported that notion and understand that the HSTPA has in fact gone too far. This is an opportunity for this Board to return back to a state of normalcy and follow the mandate that requires them to consider a fair balance between building owners and tenants.

When rent-stabilized property owners do not have a steady revenue stream as operating costs rise, tenant living conditions are affected. In order to maintain the best possible living conditions for their tenants, owners need reasonable rent guideline increases. By refusing to enact these increases, the RGB further jeopardizes the City's already-fragile economy.

The everyday operations and maintenance of rental properties significantly contributes to the City's economy in numerous ways. Aside from billions of dollars that is generated from property tax and water and sewer payments to fund essential City services, thousands of other jobs rely on the rental housing industry, such as building management and caretaking, contractor and construction employment, and small businesses where building owners purchase necessary materials. Many of these jobs were already at stake following the passing of the HSTPA and now, more than ever, it will be even more critical to ensure that these jobs are maintained.

Fair and reasonable rent guidelines are now the only way to preserve the City's rent-stabilized housing stock. Another rent freeze cannot alleviate housing affordability problems, certainly not without threatening the living conditions of tenants and jeopardizing future investments in the City's aging buildings. They allow tenants to live in decent, affordable housing, and allow rental property owners to generate the money they need to meet all City and State mandates and keep a steady flow of money into a City economy that is in desperate need of an economic boost.

Contents

RSA We House New York
Rent Stabilization Association
123 William Street
New York, NY 10038-3814
Tel: 212.214.9200, Fax: 212.732.0617
http://www.rsanyc.org

NOI TREND IS ALARMING AND ONE THAT WILL CONTINUE

In 2014, the Rent Guidelines Board under the current Administration began a trend that is now having a negative and long-term impact on the City's aging affordable housing stock. By approving a 1% guideline increase in the face of a Price Index of Operating Cost (PIOC) increase of 5.7%, former Chairwoman Rachel Godsil sent a clear message that politically-motivated rent freezes were inevitable. Fast forward to 2020, just four years following consecutive rent freezes, the stark warning that RSA gave to this Board has now come into fruition: inadequate guidelines lead to decreased NOI. That formula is a recipe for housing disaster.

State law requires the RGB to consider a number of factors when setting the basic annual adjustment that owners of rent stabilized units can make to rents of one and two-year leases. The Board has a task of balancing the goals of affordability **and fair returns** to owners when setting the basic annual adjustment.[1] Under the current Administration, there has not been any balance and the impact of politically-motivated rent guidelines are showing.

Over a six-year period, this Board has approved an average of 0.87% in one-year guideline increases. That number is set to drop to 0.75% as this Board is once again on the verge of approving an unheard of third rent freeze over a seven-year period. Since the second rent freeze in 2016, rents have increased only 4.25% while operating expenses have increased nearly 20%. Over that same period, we have watched NOI increases gradually shrink to its current point, which is now a 0.6 decrease in 2017-2018 and the first decrease in NOI in 15 years (**see Figure 1 on page 7**).

Even more alarming are additional patterns that began two years ago, such as operating expenses increasing faster than building income, rent collections decreasing and the number of distressed buildings increasing for the first time in five years.[2] The pattern of historically-low guidelines, coupled with consistent PIOC increases, ensures that it is no coincidence that NOI continues to shrink.

Now, after the draconian changes to the State rent laws last summer, we entered this year's guideline setting process cautiously optimistic that a return to fair and adequate guidelines was inevitably on the horizon. Dangerous provisions, such as

NOI Trend Post-Rent Freezes

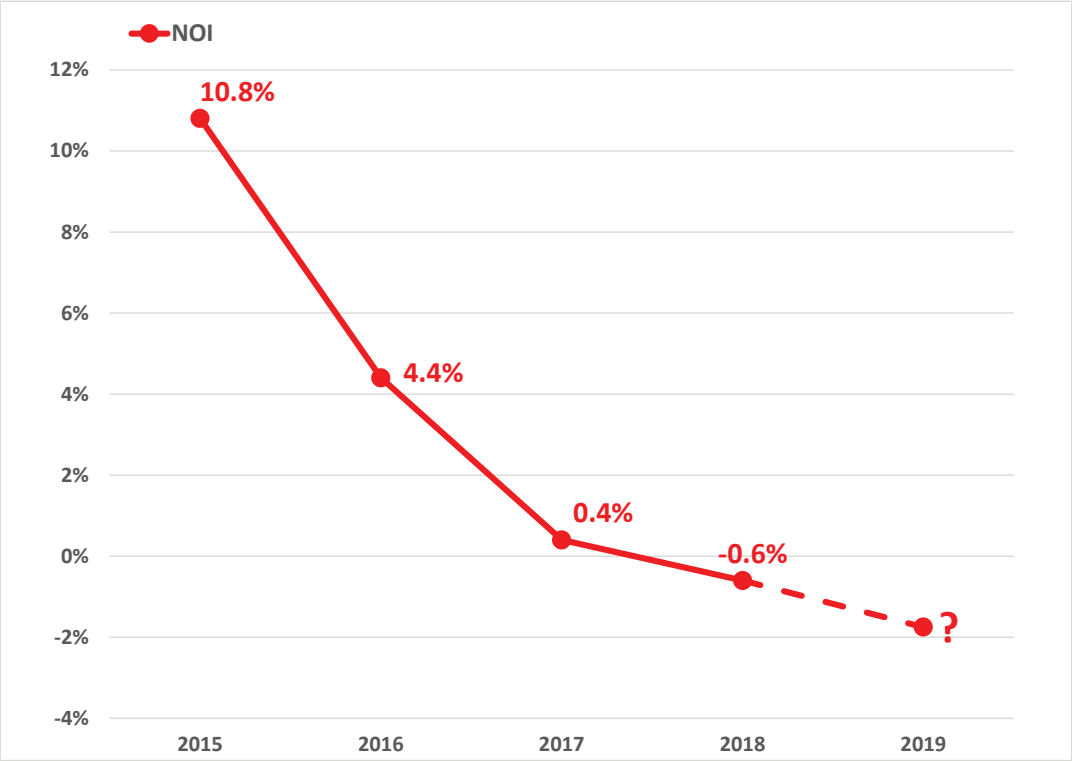

Figure 1
Source: RGB Income and Expense Study 2017-2020

extreme limitations to Major Capital Improvements (MCIs), Individual Apartment Improvements (IAIs) and vacancy allowances, prevent rent-stabilized property owners from attaining necessary income dedicated to improving apartments that have not been upgraded in decades. In the face of ever-increasing operating expenses, an owner's only source of much-needed income to balance these cost increases now lies through this Board.

Tenant advocates believe that the changes to the laws are nothing short of necessary protections for tenants that allows them to stay in their homes. However, just one year after the passing of the Housing Stability and Tenant Protection (HSTPA) of 2019, rents are still unaffordable for low-income tenants and property owners are now struggling to invest back into their buildings and meet daily operating expenses. Because this year's Income and Expense Report includes data from 2017-2018, we are yet to see the catastrophic effects that the HSTPA has had on the City's aging housing stock. There is no question it will ultimately be reflected in subsequent RGB reports and data from DHCR.

The idea that building owners should not make any sort of profit on their buildings is a dangerous ideology. Tenant advocates and elected officials have created a

perception that NOI is simply profit made by an owner and is money in their pocket. In reality, NOI is the gross revenue a property produces minus operating costs, not including debt service. If a building produces positive NOI, the income can be used to pay back any debt, such as a mortgage, or any investment used to buy or rehabilitate the building. Furthermore, with some level of profitability, owners are capable of allocating funds towards the excess State and City mandates that are still not included in the PIOC. We will dive deeper into these additional expenses in a subsequent section of this submission.

In addition to funds that are needed to cover operating expense increases and additional annual mandates, owners must be in a position to maintain reserves in the event of unexpected and catastrophic expenses that again, are not considered by the PIOC. These expenses and events, such as those imposed by the COVID-19 (Coronavirus) pandemic, cannot be assumed by this Board to have only affected tenants.

Federal and local government mandated shutdowns as a result of the pandemic forced our City's economy to go on hold for approximately three months. It is no secret that this caused thousands of tenants to lose their jobs and for some, much longer than temporarily. What is forgotten and ignored is the ripple effect that these job losses would have on building owners. If rents are not paid, major building expenses cannot be paid. It is also important to remember the extreme measures that all rental property owners have taken to maintain sanitary conditions in buildings. City agencies have required building owners to ensure that building staff are consistently disinfecting and cleaning all building areas. Despite these unexpected expenses, these will also be costs ignored by the Board in future staff reports.

According to the NYU Furman Center[3], "...the Rent Guidelines Board's annual decisions on basic allowed rent adjustments are critical to both affordability and the long-term quality of New York City's rent stabilized housing stock." The New York City Housing Authority (NYCHA) is a perfect example of what depleted revenue streams and reserves can do to the health and condition of affordable housing. The State Legislature blatantly ignored these warnings when they reformed the State's rent laws last June. This year's Income and Expense Study shows what inadequate guidelines alone have done to NOI. The Members of this Board must now ask themselves whether or not further risking any owner profitability is worth risking the health of the City's private housing stock.

PROMISING TENANT TRENDS, DESPITE COVID-19

As we entered 2020, our City and country as a whole were enjoying one of the greatest economic booms we have ever seen in history. Preceding the 2020 Income & Affordability (I&A) Study, the two previous I&A studies, as well as the 2017 New York City Housing and Vacancy Survey (HVS), demonstrated that economic conditions were greatly improving for tenants year over year. As conditions improved for tenants, owner operating expenses continued to rise and NOI continued to shrink. Although the unprecedented effects of COVID-19 are alarming, enhanced government assistance, as well as the lifting of stay-at-home orders, will allow economic conditions to improve for tenants and slowly return to similar highs that we experienced leading up to the pandemic.

In 2019, workers' wages rose and the New York City unemployment rate fell from 4.2% in 2018 to 3.9%. The City itself gained 95,000 jobs, a 2.1% increase from the year before. Non-payment filings in Housing Court decreased an astounding 24% and cases that were actually heard also dropped 22%. Total evictions also fell 15%[4]. Many factors contributed to all of these positive numbers, especially nearly $250 million invested into emergency rental assistance and tens of millions of dollars invested annually into Tenants' Right to Counsel. However, there is no denying the fact that the pre-pandemic economic conditions have played a significant role in improved conditions for the City's rent-stabilized tenants.

These positive numbers produced by the 2020 I&A are now ignored in the face of record unemployment caused by the COVID-19 pandemic. The staggering number of New Yorkers that have filed for unemployment are no doubt historic, but are certainly skewed. In the week ending April 18, 2020, approximately 1.4 million New Yorkers filed for unemployment benefits. Approximately 604,000 of those jobs (**see figure 2 on page 10**), or around 43%, were in the food service, retail or construction industries[5]. These are all industries that were directly forced to shut down due to the New York State on Pause Executive Order and have since taken necessary measures to begin safely re-opening.

Although it is now too soon to say how many of those jobs have been reinstated, there is no question that employees in these industries who were furloughed will begin going back to work in full capacity by the end of June. Furthermore, out of the nearly 1.4 million unemployment assistance claims, approximately 624,277

Industry	2020
Accommodation and Food Services	280,845
Administrative and Support Services	121,635
Agriculture, Forestry, Fishing and Hunting	1,315
Arts, Entertainment and Recreation	52,786
Construction/Utilities	131,202
Educational Services	34,149
Finance and Insurance	10,223
Health Care and Social Assistance	155,377
Information	37,736
Management of Companies and Enterprises	6,680
Manufacturing	73,652
Mining	989
Other Services	81,867
Professional, Scientific and Technical Services	48,601
Public Administration (Including Government)	6,633
Real Estate and Rental and Leasing	20,878
Retail Trade	192,138
Transportation and Warehousing	58,886
Unclassified	55,214
Wholesale Trade	47,313
Total (Including Out-of-State Residents)	1,418,119

Figure 2
Source: New York State Department of Labor

of those were made by New York City residents[6]. These workers are not broken down into homeowners and renters, so it is impossible to determine how many of these residents live in stabilized apartments, which are the only apartments this Board has jurisdiction over.

RSA is not, by any means, minimizing the fact that some tenants are in dire need of temporary relief. However, a one-size fits all approach by enacting another rent freeze, assuming that all stabilized tenants have lost their jobs, does not actually provide the immediate assistance that some tenants are in need of right now. Because of financial shortfalls in the State and local government, it is extremely unlikely that rental subsidies will be provided without federal financial aid.

Nevertheless, the Supplement to the 2020 Income and Affordability Study acknowledges that substantial assistance has been provided for New Yorkers who have lost their job or have been furloughed due to the pandemic. For one, stimulus payments of up to $3,400 for a household of four have been issued. At a minimum, individuals making less than $75,000 have been provided with $1,200 stimulus payments. To gauge how significant these stimulus payments are, the 2020 Income and Expense Study notes that the median monthly rent in 2018 was $1,260 and was under $1,300 in four boroughs and parts of Upper Manhattan.

We would also be remiss not to detail how much unemployment benefits have been greatly expanded for New Yorkers. After President Donald Trump signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020, unemployed individuals began earning as much as $4,800 per month, or as little as $3,400 per month, through the end of July. Partisan disagreement has stalled any extension of these unemployment benefits. However, it is possible that these expanded benefits could last well beyond July or at a minimum, a second stimulus check could be sent to taxpayers. If Congress ultimately elects not to extend these benefits, it will likely be a result of unemployment numbers dramatically decreasing as people return to the workforce over the next eight weeks.

It also cannot be ignored that households with average annual incomes of $31,200 are now earning double the amount of monthly income under increased unemployment assistance and households averaging $49,000 in annual income are now earning approximately $1,000 more per month under these benefits (**see figure 3 on page 12**). These benefits will continue well beyond the lifting of statewide restrictions and can most definitely allow tenants to balance paying their rents and provide for their families.

Additionally, pending federal funding, the State Legislature recently passed legislation that will allow up to $100 million to cover missed rent payments between April 1, 2020 and July 31, 2020 for tenants who pay more than 30 percent of their salary in rent and make up to 80 percent of the area median income. Another measure passed by the Legislature would extend the eviction moratorium indefinitely for tenants who can document hardship caused by the COVID-19 pandemic. Although it would not cancel rent payments completely, it is certainly additional assistance solely for tenants who were truly affected by the economic fallout of the pandemic.

The rent freeze considered by this Board will also not go into effect until nearly four months following its Final Vote. On the surface, a rent freeze might sound like rental relief, but for the tenants who are in desperate need of additional aid now, a freeze on rent they already cannot afford will not provide help. Furthermore, for tenants whose current lease does not come up for renewal until 2021, a rent freeze might not provide any real relief at all as they attempt to financially recover from the effects of COVID-19 now.

That is why RSA proposed a staggered one-year guideline where a freeze would be enacted between October 1, 2020 and December 31, 2020, followed by a reasonable and justified increase for the remaining nine months of the lease term. A proposal like this would certainly allow for "balancing the goals of affordability **and fair returns** to owners." The proposed two-year staggered guideline of 0% and 1% is a poor assumption that tenants will take nearly a year and half to financially recover from the pandemic. By October, the national and local economies will not necessarily return to pre-pandemic levels, but they will certainly improve dramatically.

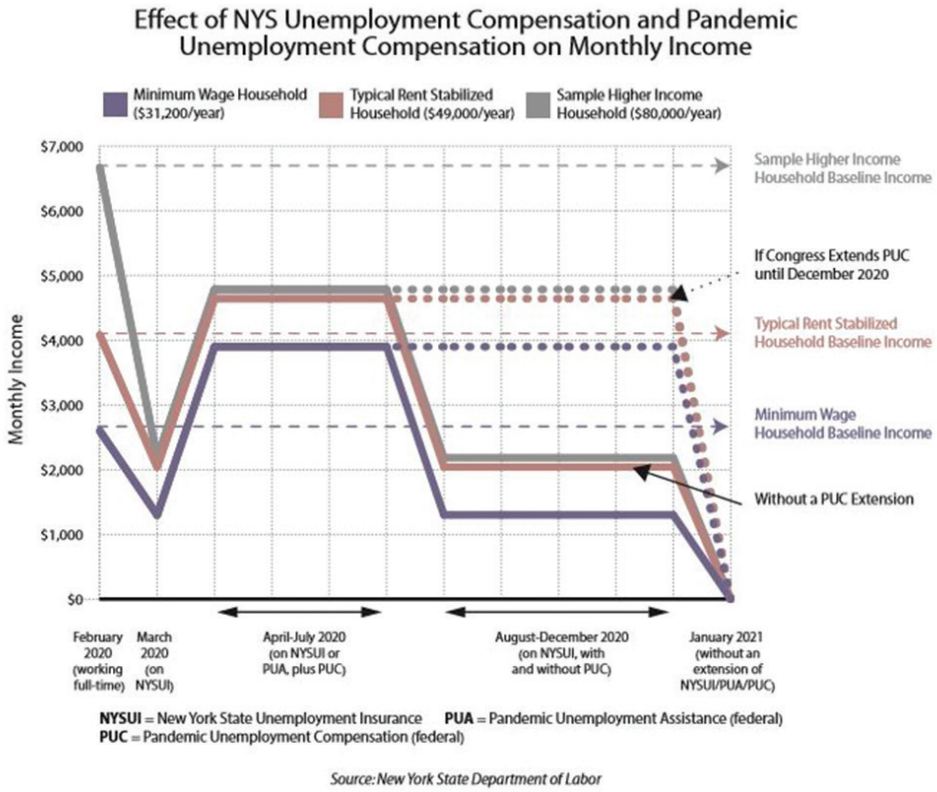

Figure 3
Source: Supplement to the 2020 Income and Affordability Study

At the same time, while many tenants will return back to work, rental property owners will still owe mortgages and property taxes and it is all but a guarantee that federal and local governments will not provide any financial relief for property owners to make up for any missed rent payments or operating cost increases.

NO OPERATING EXPENSE RELIEF FOR BUILDING OWNERS

As the federal government takes all necessary measures to provide financial relief for individuals who have lost their jobs or were furloughed until the end of lockdown, our State and City governments have advocated for or enacted various forms of tenant protections without any consideration for rental property owners. With an eviction moratorium in place through the end of August, rent-stabilized property owners could potentially go at least five months without rent payments while increased property tax bills, water and sewer bills, and mortgage payments will still be owed.

Rather than have a genuine understanding of how owning and operating rental properties works, our local elected officials continue to politicize the relationship of property owners and tenants even in the midst of an unprecedented global pandemic.

Since the crisis began to worsen at the beginning of March, various elected officials and tenant advocates have called for extreme measures, such as rent strikes and rent forgiveness. There is no question that the vast majority of rental property owners have expressed sympathy for their tenants in the midst of this ongoing crisis and are working with them in many ways. However, with rent collections in jeopardy, tenant activists forget about the financial obligations that building owners have that rely on timely rental payments. Not only have owner operating expenses increased in the last year, but these operating expenses must still be paid as well.

The City has extended certain deadlines, such as filing Real Property Income and Expense (RPIE) reports, Local Law 84 Benchmarking Reports and other deadlines that still must be met down the road with financial penalties if they are not. However, these insufficient measures are all that have been done. The City has not taken any necessary measures, such as freezing property tax payments at last year's rate, or at least delaying tax payments in general beyond the July 1, 2021 due date.

Why? Because as the City deals with immense budget holes created by the pandemic, property tax payments, particularly from Class 2 residential properties, play a major role in filling City coffers that fund essential services such as the fire department (FDNY), police department (NYPD), education, and many others. Approximately 33 cents of every dollar allocated in the projected

Fiscal Year (FY) 2021 budget will come from property taxes.[7] In fact, as increased property tax bills were set to go out in early June despite the ongoing pandemic (**see Figure 4**), a spokeswoman for the Mayor bluntly admitted there will be no property tax relief for building owners, stating "*we must balance the very real needs of the City, which relies on property taxes to fund essential city services like hospitals and our first responders.*"[8]

The City Office of Management and Budget (OMB) has also announced that the City has already set aside $180 million to cover property tax delinquencies that they are expecting to come in July. However, Francesco Brindisi, OMB's Deputy Director for City Revenues, acknowledged that this shortfall assumes that only 2% of property tax payers will be delinquent and that the true number could be much higher. As the financial situation worsens, the larger shortfall should not be a farfetched expectation. This is by no means a result of property owners participating in a tax strike, this is because of simple logic: if rent collections become worse on a month-to-month basis, building owners will have no means to meet their property tax obligations.

This is where adequate rent increases are vital for rental property owners. Many Members of this Board believe that not enough has been done to provide relief for tenants. On the contrary, much more financial relief has already been

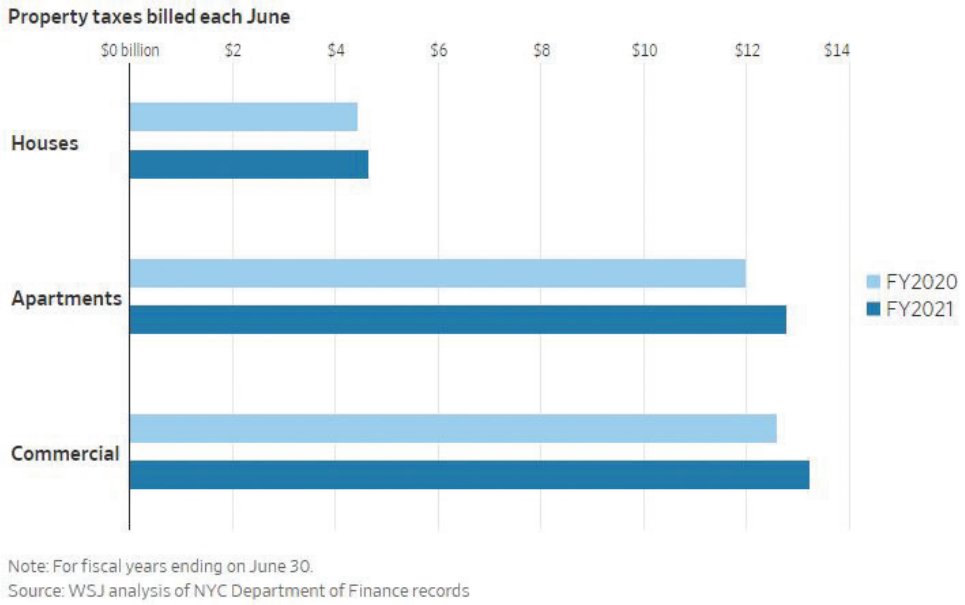

Figure 4
Source: Wall Street Journal Analysis of NYC DOF Records

provided for individuals to help them meet their daily expenses, as opposed to rental property owners, who have not seen any assistance from the federal and local governments. As expanded unemployment benefits remain in place and as tenants begin returning to work, a reasonable rent increase to, at a minimum, offset rising property taxes is essential for affordable housing providers.

Increased Operating Expenses Precedes this Administration, Yet Has Extended Well into It

For nearly two terms of the de Blasio Administration, the rental housing industry was told that rent-stabilized property owners were over-compensated through rent increases, particularly under the Bloomberg Administration. That belief could not be any further from the truth, as the average one-year guideline between 2002 and 2013 was approximately 3.3%, while the average PIOC was 5.8%[9]. Nevertheless, during that 12-year period, the RGB acted independently of City Hall as they are mandated to do and properly analyzed data which showed that in order for building owners to offset the historically high property tax and water and sewer rate increases enacted by the Bloomberg Administration, a reasonable return through rent guideline increases was a necessity.

With the exception of two irregular years where fuel costs plummeted, owner operating expenses have consistently increased over the last seven years. This is mostly a direct result of annual increases in property taxes and water and sewer rates. Under the current Administration, the average PIOC has been 3.5% while the average one-year guideline, including this year's expected rent freeze, has averaged an abysmal 0.75%. One may argue that the average PIOC over the last seven years is lower than the average under the previous Administration. However, the outdated calculation of the so called "market basket of goods and services" has not properly painted a complete picture of additional operating expenses that owners have sustained under this Administration and over the last 40 years in general. Over the last few decades (**see figure 5, page 16**), dozens of local and State mandates have been enacted that have added to the annual expenses of rent-stabilized property owners.

Now, as the COVID-19 crisis continues to strangle the rental housing industry, these everyday expenses have become increasingly difficult. Over the last few years, RSA welcomed Public Members of this Board, past and present, to participate in roundtable discussions with our members and engage in conversations about real expenses for the City's "mom and pop" building owners. These Public Members, including now-Chairman David Reiss, consistently left these meetings with a better understanding of the real, everyday and unexpected expenses that building owners are faced with. In the midst of a pandemic that has economically devastated the rental housing industry, these everyday burdens have only been exacerbated.

Government Mandates Not Included in the Price Index of Operating Costs
• Code Enforcement Re-inspection Fees
• DEP Recycling Regulation Costs
• New York State DEC Oil Tank Registration Fees
• DOB Standpipe Sprinkler Coding
• DHCR Annual Registration Fees
• Local Law 11 of 1998 (Façade Inspections)
• NYC Fire Department Fire Safety Notice Requirements
• NYC Fire Department Monthly Sprinkler Inspections
• Local Law 38 (Lead Hazard Reduction)
• Local Law 77 of 2015 (regulation of cooling towers)
• Conversion to Natural Gas or No. 2 heating oil
• Local Law 87: Energy Audits and Retro-commissioning
• Third-Party Elevator Inspections
• Lead paint certifications for workers in the building
• DOF Annual Preparation of Income and Expense Reports
• Local Law 84 (Benchmarking) + 2019 Amendment
• Local Law 10 of 2008 (Section 8 Processing)
• Local Law 69 of 2017 (Bedbug Infestation History)
• Local Law 55 of 2018 (Mold & Indoor Allergen Removal).

Figure 5

There is no question that the COVID-19 pandemic has taken a toll on low-income tenants, but if this Board blatantly ignores the data this has been provided to them this year that justifies rent guideline increases, then you are setting a dangerous precedent for subsequent guideline setting orders that could further show the negative economic effects of the current crisis. Continued under-compensation with another rent freeze will only make matters worse as operating expenses are clearly rising.

Until the time comes when political influence is removed, or when this Board's outdated method of determining rent adjustments is replaced with a proper formula, the Members of this Board must continue to rely on the recommended commensurate ranges put forth by RGB data. According to the PIOC report, "throughout its history, the Rent Guidelines Board has used a formula, known as the commensurate rent adjustment, to help determine annual rent guidelines for rent stabilized apartments… In its simplest form, the commensurate rent adjustment is the amount of rent change needed to maintain owners' current dollar NOI at a constant level."

COMMENSURATES		
	1-Year Lease	2-Year Lease
"Net Revenue" Commensurate Adjustment	2.75%	5.5%
"Net Revenue" Commensurate Adjustment with Vacancy Increase	2.5%	4.25%
"CPI-Adjusted NOI" Commensurate Adjustment	3.5%	6.75%
"CPI-Adjusted NOI" Commensurate Adjustment with Vacancy Increase	3.0%	6.0%
"Traditional" Commensurate Adjustment	2.5%	3.3%

Figure 6
Source: 2020 RGB PIOC Report

Over the last seven years, the Members of this Board have deliberately ignored these commensurate ranges. This year, commensurate adjustments range from as little as 2.5% for a one-year lease and as little as 3.3% for a two-year lease (**see Figure 6**). Once again, these commensurate numbers have been ignored as another rent freeze is inevitable. The virtual elimination of rent increases under this Administration has become particularly egregious and the inability to keep NOI at a constant level is a direct result.

This must be reversed as the City's aging affordable housing faces excess challenges amidst COVID-19, historically inadequate rent guidelines, and the HSTPA of 2019. A quick rebound of our City's economy will be dependent on the rental housing industry. When rent-stabilized buildings are healthy, local economies are healthy.

HEALTHY HOUSING WILL PRODUCE A HEALTHIER ECONOMY

Thousands of New Yorkers whose jobs were affected by the COVID-19 pandemic economic shutdown are slowly but surely returning back to work. At some point in the summer when New York City has reached Phase Four of our State's re-opening plan, we will have a better idea of how many tenants were able to safely return to the workforce or whose jobs have been completely eliminated. Although many jobs came from industries that were forced to only shut down temporarily, thousands of other jobs substantially rely on the rental housing industry and an owner's ability to maintain and improve their buildings. With no operating expense relief on the horizon, only reasonable rent increases will allow property owners to invest back into this sector of the economy.

It is still too soon to determine how many of the jobs lost due to the pandemic are temporary or permanent. However, the local economy is not expected to start adding jobs for at least another year while approximately 475,000 jobs could be lost between now and the first quarter of 2021.[10]

Aside from the negative economic effects caused by the pandemic, jobs and businesses that relied on the rental housing industry were already in a delicate position as a result of previous inadequate rent guidelines and the HSTPA of 2019. Zero-to-minimal rent guidelines and stringent rent laws have limited rental property owners' ability to properly maintain their buildings, which has a had a domino effect on local businesses and residents, where owners purchase materials and who they hire to perform the maintenance on their buildings. This includes contractors, electricians, painters, plumbers, hardware stores, and many others. Working with our City's small businesses undoubtedly has a major impact on the City's economy and the ability to help boost this sector of the economy will rely on reasonable rent increases.

It is important to remember that many of these repairs and necessary upgrades that owners perform on their buildings do not qualify for state-permitted programs, such as Major Capital Improvements (MCIs) or Individual Apartment Improvements (IAIs). In fact, many of these upgrades and repairs are mandated and are not accounted for in the PIOC. Also, with regard to MCI and IAI work,

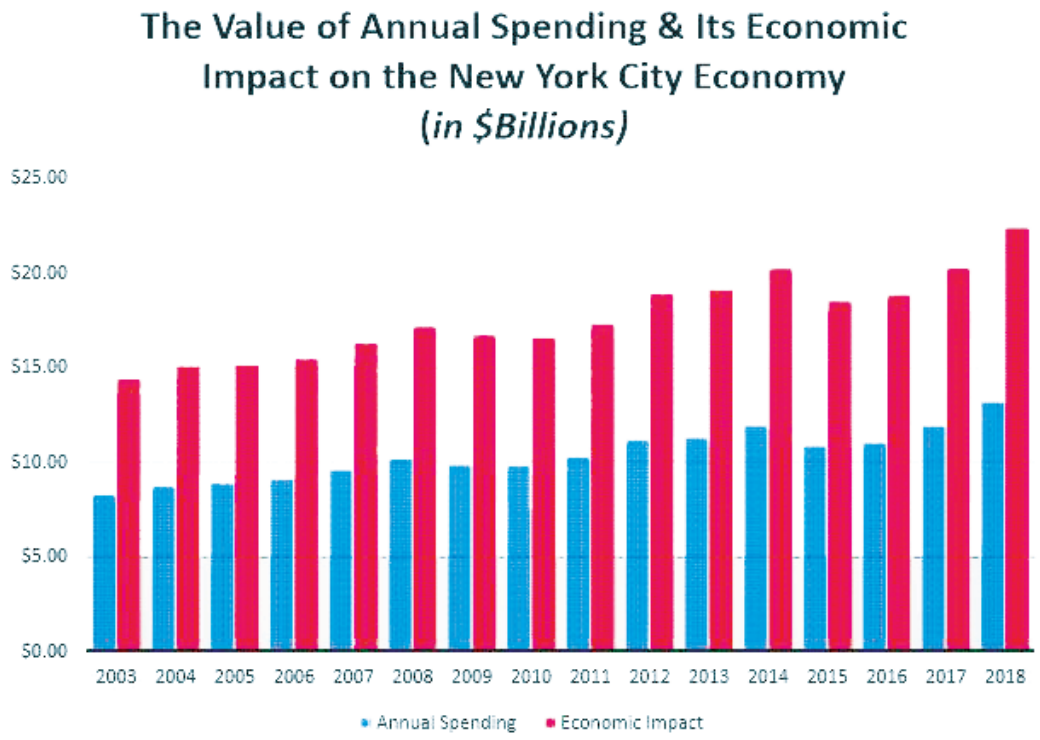

Figure 7
Source: Urbanomics: The Economic Impact of Capital Improvements & Annual Operations of Rent Stabilized Buildings on the Economy of New York City, 2003-2018

many rent-stabilized property owners no longer have the financial ability to perform these major upgrades and repairs as a result of the latest amendments to the rent laws. As a result, any work done on these buildings and apartments come from an owner's reserves, which are already in jeopardy as NOI continues to shrink.

As a source of employment between 2003 and 2018, repairs and maintenance conducted by the rental housing industry created approximately 2.5 million man-years of full-time labor. On average per year in that 16-year period, the total job impact exceeded 155,000 jobs per year in New York City. Furthermore, each man-year of direct employment generated an additional 0.38 man-years of indirect and induced employment. Annual worker earnings for direct labor in rent stabilized building operations and capital improvement averaged $62,300 in 2018.[11] As you can see from **Figure 7**, the economic impact that the rental housing industry had on the City's economy leading up to the HSTPA was staggering and is unlikely to have continued through June 2020.

By the beginning of June, DHCR had not yet provided updated statistics with regard to MCI and IAI work performed in rent-stabilized buildings between June 15, 2019 (enactment of the HSTPA) and June 15, 2020. However, we can safely assume that during this 12-month period, IAI work and applications for MCIs declined due to the draconian changes to the rent laws. This is not because owners have chosen not to invest back into their buildings, but because they are financially incapable of doing so. A decline in reinvestment means a decline in work for local workers and businesses, as well as money pumped into the City's economy. It's also important to note that during this 12-month period, the City workforce was virtually shut down for three months due to COVID-19, which will further impact these numbers.

Also at the beginning of June, Mayor Bill de Blasio, who has made building and preserving affordable housing the focal point of his Administration, announced that nearly $1 billion allocated for his affordable housing plan would likely be cut in Fiscal Years 2020 and 2021 in order to fill budget gaps created by the COVID-19 pandemic. This substantial cut once again shifts the burden back to the mom and pop owners of existing and aging buildings and puts pressure on them to ensure that they provide safe and adequate housing for their tenants. As the burden is shifted, the Mayor continues to advocate for another rent freeze.

Despite a pause in building new affordable housing, there is no question that the vast majority of the City's rent-stabilized units exist in the City's oldest privately-owned buildings. Out of nearly 963,000 rent-stabilized units throughout the five boroughs, 150,998 of them were built between 1947 and 1974 and a staggering 587,590 units were built before 1947. With a total of approximately 738,588 units, that means 77% of the City's rent-stabilized units were built at least 45 years ago.[12]

The negative effects of the HSPTA will only become worse over the next few years and unless this Board acts now to restore a pattern of reasonable guidelines, the City cannot expect the private sector to be able to continue providing adequate housing if they cannot maintain their aging buildings. This Board, by mandate, is required to enact rent guidelines that not only compensate owners for increased operating costs, but to ensure the future health of the City's existing rent-stabilized housing stock. When owners are provided with the rent increases that they need, they invest into their buildings and our now fragile local economy.

The current crisis also hits landlords, small ones especially, who may now struggle to meet mortgage payments, property taxes, and other essential expenses.

Alex Schwartz, RGB Public Member,
Expanding Housing Vouchers: A Covid-19 Prescription for Both Tenants and Landlords,
May 20, 2020

RECOMMENDATIONS FROM RSA

After six years of unsustainable rent guidelines that have averaged only 0.87%, this Board must reverse course and properly compensate owners for their continued increases in operating costs and correct the declining trend in NOI. The effects of recent inadequate guidelines, the latest stringent rent laws, and the effects of the COVID-19 pandemic, all threaten the quality of the City's affordable housing stock. Rent increases through the RGB are now realistically the only source of income to offset these operating expenses. Another politically-motivated and unjustified rent freeze will further expedite the deterioration of the housing stock.

Four straight years of PIOC increases reflect long-term increases in building operating costs and NOI will continue to shrink in subsequent Income and Expense Studies as they will soon reflect 2019 and 2020 data.

The PIOC forms the basis for the commensurate rent adjustments calculated each year by the Board staff. The commensurate rent adjustments result in a range of rent increases intended to keep building owners whole. Under the current Administration, this Board has blatantly ignored the commensurate adjustments and that could not be any more obvious when this Board is close to enacting a third rent freeze in the last seven years.

Despite commensurate adjustments calling for no less than a 2.5% percent increase for one-year leases, this Board has once again succumbed to political pressures and neglected to consider an adequate preliminary range. The COVID-19 pandemic has certainly reversed many positive economic trends that rent-stabilized tenants benefitted from prior to March. However, by the time this Board votes on Rent Guideline Order No. 52, many negative effects imposed by the pandemic will have disappeared and by the time this Order goes into effect in October, our economy will long be on the road to recovery.

Therefore, we strongly believe that a one-year rent freeze beginning on October 1, 2020 is excessive. We do not believe a rent freeze is the best way to address the current situation. But, if there is to be rent freeze, at most, it should only include the three-month period from October 1 through December 31, 2020

In line with the commensurate adjustments, this year's PIOC, NOI calculated between 2017-2018, and the effects of the HSTPA of 2019, RSA believes that an increase of **2% for a one-year lease** and a **4% increase for a two-year lease** is justifiable. The time to make up for historically-low and inadequate guidelines since 2014 that have burdened rent-stabilized property owners is long overdue.

Furthermore, pursuant to clarification issued by DHCR last fall with regard to the HSTPA of 2019, these renewal guidelines must also apply to vacancy and renewal leases. Adequate guidelines that also include vacancy increases would be a starting point for owners to recoup from recent inadequate guidelines and reverse the recent trend in which the RGB's own commensurate rent adjustments have been deliberately ignored under the current Administration.

Housing affordability continues to be a concern for low-income tenants and tenants who have been financially affected by COVID-19. However, as we have noted in the past, that concern must be addressed by Federal, State and City governments **only** and must be met by providing temporary and in some cases, permanent, rental subsidy assistance to those most in need of it. The mandate of this Board cannot continue to be ignored at the expense of the health of the City's aging housing stock. **Politically-motivated rent guidelines must come to an end this year.**

Endnotes

1. An Introduction to the NYC Rent Guidelines Board and the Rent Stabilization System, by Timothy Collins, January, 2020

2. RGB 2020 Income and Expense Study

3. The Challenges of Balancing Rent Stability, Fair Return, and Predictability under New York's Rent Stabilization System, May 2019

4. 2020 RGB Income and Affordability Study

5. New York State Department of Labor

6. Supplement to the 2020 Income and Affordability Study

7. Message of the Mayor, The City of New York Executive Budget Fiscal Year 2021

8. New York City Property Taxes Rise as Coronavirus Pushes Values Down, Wall Street Journal, June 1, 2020

9. RGB Price Index of Operating Costs 2002-2013

10. COVID-19's Toll on the Local Economy: A Preliminary Estimate of Job Losses & Tax Revenue Declines, New York City Independent Budget Office Fiscal Brief, April 2020

11. Urbanomics: The Economic Impact of Capital Improvements & Annual Operations of Rent Stabilized Buildings on the Economy of New York City, 2003-2018

12. New York City Rental Housing Landscape Analysis, Prepared by HR&A Advisors, Inc, June 2019.