New York City Rent Guidelines Board

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Statement by Nestor Davidson, Chair of the New York City Rent Guidelines Board Released at the June 17, 2024, Public Meeting of the Board

The New York City Rent Stabilization Law of 1969 (RSL) and the New York State Emergency Tenant Protection Act of 1974 (ETPA) each made findings of "a serious public emergency" in housing, an emergency that unfortunately continues to this day. The law accordingly charged the New York City Rent Guidelines Board (the Board) with "prevent[ing] speculative, unwarranted and abnormal increases in rents," "prevent[ing] exaction of unjust, unreasonable and oppressive rents and rental agreements," and "forestall[ing] profiteering, speculation and other disruptive practices." ETPA § 2; RSL § 26-501.

To achieve these goals, the law tasks the Board with setting annual guidelines for the "adjustment of the level of fair rents," RSL § 26-510(h). In doing so, the law directs the Board to review and consider:

> (1) the economic condition of the residential real estate industry in New York City including such factors as the prevailing and projected (i) real estate taxes and sewer and water rates, (ii) gross operating maintenance costs, (iii) cost and availability of financing and interest rates and (iv) supply of housing and vacancy rates;
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> (2) relevant data from the current and projected cost of living indices for New York City; and
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> (3) such other data as has been made available to us.

Importantly, among the "other data" that the Board has long considered is affordability for tenants.

As I noted last year—and past Chairs have emphasized—there is no simple formula for determining fair rent adjustments based on the significant and detailed data presented to the Board. As I have considered this year's guidelines, I am mindful of the deep affordability challenges facing tenants in rent-stabilized housing. The data before the Board certainly reflect New York City's general recovery from the pandemic. The RGB's *2024 Income and Affordability Study* (*I&A Study*), for example, noted that NYC's Gross City Product was forecasted to increase by 2.6% in inflation-adjusted ("real") terms in 2023 and the city's overall unemployment rate fell from 5.7% to 5.2%, although it remained materially higher than the 4.0% rate the city had before the pandemic in 2019, and the city's recovery has been uneven. Inflation in the NYC metro area also rose at a slower level than in 2022, rising 3.8%, down from 6.1% in the prior year.

However, the *I&A Study* also highlighted persistent and growing challenges for tenants. Average wages and total wages earned within NYC decreased in real terms in the most recent 12-month period, falling by 6.1% and 2.6%, respectively.

The rent burden tenants face, moreover, continues to be significant. The 2023 *Housing and Vacancy Survey* (*HVS*) reported that the median gross rent for rent-stabilized tenants was 30.5% of household income in 2023, down from 36.2% in 2021. The *HVS* also reported that the proportion of rent stabilized tenants that do not receive rental assistance that were considered rent burdened was 45.5% which includes 18.3% paying more than 30% of their income in rent and 27.2% paying more than 50% of their income in contract rent. While rental assistance can mitigate this burden for some tenants—with the median gross rent-to-income ratio for rent-stabilized tenants excluding those receiving rental assistance currently at 28.8%—the data nonetheless indicate a steep rent burden for many rent-stabilized tenants.

The supply of housing available to rent remains extremely tight, with a citywide vacancy rate of 0.98% for rent stabilized apartments in 2023, down from 4.57% in 2021. And relief from this housing shortage is unlikely in the near term. Although the RGB's *2024 Housing Supply Report* reported an 8.0% increase in housing completions this past year, the city experienced a 76.2% decrease in the number of newly issued housing permits. In addition, the RGB's *Changes to the Rent Stabilized Housing Stock in NYC in 2023* report showed a net loss of nearly 4,200 units from the rent stabilized stock.

At the same time, it is important to recognize that owners face significant challenges maintaining the quality of rent-stabilized housing and preserving this vital stock for tenants in the long run. As measured by the RGB's *2024 Price Index of Operating Costs Report*, prices facing owners rose 3.9% from April 2023 through March 2024, following the previous year's increase of 8.1%. It is likely that elements of these trends, including rising insurance costs and property taxes, will persist, with RGB staff projecting that the rise in prices will increase to 4.4% next year.

Moreover, the RGB's *2024 Income and Expense Study* (*I&E Study*) showed evidence that owners are having trouble mitigating rising costs with available revenue. At first glance, this might not be evident. From 2021 to 2022, the most recent data available to the Board, average net operating income (NOI) in buildings with rent-stabilized units citywide increased by 10.4%. However, this increase follows two years of decline in NOI of 7.8% and 9.1% respectively.

Importantly, much of the most recent growth in NOI can be attributed to factors distinctive to Core Manhattan, where NOI rose 42.3%. NOI in the remainder of the city was nearly flat, rising 0.3% over the same period. A closer examination shows that buildings built before 1974 outside of Core Manhattan saw NOI decline 7.0% and buildings with 80-100% of their units rent stabilized experienced an NOI decline of 8.0-9.1%. And putting this together, older buildings that are predominantly rent stabilized outside Core Manhattan experienced an NOI decline of between 7.0% and 9.1%.

A related metric of the ability of owners to maintain their buildings is the ratio between operating and maintenance (O&M) costs and income. The *I&E Study* reported that the citywide adjusted O&M cost-to-income ratio (a figure that excludes any consideration of debt service) increased 0.7% from 2021, to 62.9% in 2022.

Finally, reflecting recent Fed policies, the *2024 Mortgage Survey Report* showed that interest rates for new-financing loans for buildings with rent-stabilized units increased by an average of 98 basis points, from 6.02% last year to 7.00% this year, posing potential constraints on financing. And empirical evidence underscores that financing constraints are correlated to a decline in housing quality. *See* Lee Seltzer, *Financing Constraints and Maintenance Investments: Evidence from Apartments*, Federal Reserve Bank of New York Staff Reports, no. 1000 (December 2021; revised February 2023).

In evaluating these immediate concerns, it bears noting that according to the *I&E Study*, from 1990 to 2022, adjusting for inflation, NOI across the entire stock of rent-stabilized housing saw a cumulative increase of 48.4% while owner costs increased cumulatively by 36.1%, indicating that revenues outpaced expenses across that timeframe.

In sum, the data noted above as well as additional data presented to the Board underscore that tenants in rent-stabilized housing are facing genuine precarity, owner costs are continuing to rise, and there is reason to be concerned about the long-term health of the stock of rent-stabilized housing. Our long-standing practice as a Board reflects that in weighing these considerations, we seek to ensure the stability of the rent stabilization system for tenants and owners and preserve this truly foundational aspect of housing in our city, and I believe this year's guidelines strike the appropriate balance.