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Investment Sales: Making a case for why we need the MCI Program - by Michael Weiser

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One of the hot-button political issues affecting New York City real estate is the proposal to eliminate landlords' ability to raise rents on rent-regulated units in buildings that have received major capital improvements (MCIs). The MCI program incentivizes landlords to

improve major building components that enhance quality of life for tenants and recoup those costs over time through additional rent. While the goals of the proposed changes—removing abuse and ensuring housing affordability—are noble, the politicians and tenant advocates pushing for these changes are overlooking a number of negative effects this would bring.

First and most obviously, the quality of the housing stock would suffer. Historically, there was a widespread—and often true—conception that New York City’s privately owned housing stock was in poor condition relative to other cities. However, after the MCI law was instituted in 1974, the city saw a noticeable uptick in the quality of housing, especially when adjusted for the age of the housing stock. If we eliminate the MCI provision, we can expect the quality of privately-owned, rent-regulated housing to decline significantly from its current state. We need no greater proof that the MCI program successfully achieves its objectives than the state of NYCHA housing when compared to privately owned apartment buildings.

Another factor that isn’t fully understood is that property pricing is determined based on the spread between in-place regulated rents and market rate rents. By eliminating a landlord’s ability to increase regulated rents over time through MCI or other formulas, rents will be more stagnant, which will reduce property values. While advocates for eliminating the law may not be concerned with the value of owners’ portfolios, lower values are likely to increase bankruptcies, which would reduce wages, construction spending and fees collected by the state and city on property sales and refinances. This would result in overall reduced revenue for the state and city, which is an undesirable outcome for tenants, landlords, lenders and residents of New York as a whole.

There is no question that some abuse of the MCI regulations exists, but city officials would do better to crack down on flagrant violators than to eliminate the commonsense regulation. In doing so, they would enable landlords to continue providing properties and tenants with essential improvements, while ensuring that they avoid the wide range of problems that would result from declining property values.

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