



Could New York's new rent control laws only benefit existing tenants? - by Jonathan Lewis

August 20, 2019 - Spotlights

Jonathan Lewis,
JLJ Capital

There's really no better current example of the rippling unintended consequences that result when well-meaning legislators try to fix a societal problem without considering all the potential fallout than the recent radical revision of New York's rent control laws. Although the stated intent was to protect tenants and increase the supply of affordable housing for working families, in fact the result may be just the opposite.

Under the previous regulations, when tenants vacated a rent-controlled apartment the landlord could create more value for their property by investing in renovations and improvements that would justify a rent increase to bring the apartment closer to fair market value. There was an incentive, which no longer exists, to spend money to make money and multi-unit buildings were improved one apartment at a time. It was an arrangement that allowed property owners to maximize the value of their investments and made sure that tenants had modern, well-maintained living space.

Now it seems that some landlords are taking the opposite tack—hoping that their tenants don't move out and spending as little as possible to maintain their buildings. In many cases this is because without the prospect of rent increases, they can't get loans to improve their buildings or if they do, will have a hard time paying them back.

With the removal of incentives to maintain and improve their properties, I wouldn't be surprised to see more landlords keeping rent control apartments vacant when tenants move out. Those who can afford it are likely to keep apartments vacant in the hopes that sometime soon the legislators will come to their senses and correct the flaws in the current regulations. In the meantime, rather than rent to a tenant who in essence has a lifetime guarantee that their rent will never go up and watch the value of their investment further decline, landlords will want to keep apartments vacant.

I believe that as people leave rent controlled buildings, fewer and fewer of those units are going to wind up back on the market. So rather than increase the stock of affordable housing, which is what revising the rent control regulations were supposed to do, there will actually be a further reduction in the number of rent stabilized units in New York City. And with no incentive to invest in

improvements, it's inevitable that the existing rent-controlled apartments will continue deteriorating.

This legislation that was supposed to create more affordable housing but all it looks like it's going to do is protect the people already in those apartments.

Sure, there's still new construction going on, but for how long and how much of it will be affordable remains to be seen. Right now, interest rates remain extremely low, which is one of the only bright spots here, but that's not likely to continue forever. And when the cost of borrowing money rises, it will be disastrous for the real estate market. There are already fewer traditional lenders willing to work with developers, which means the cost of money and thus the cost of building in New York is going to rise. And that means that free market rents are going to have come up or developers won't be able to afford to build here, which seems like the most likely scenario.

And although they were shut out by legislators when the new laws were being drafted, landlords are fighting back. A group of seven landlords, joined by the Rent Stabilization Association and the Community Housing Improvement Program have just filed a lawsuit claiming that the new laws are unconstitutional and that the government-mandated caps on rent increase amount to an unlawful taking of property. These petitioners are in it for the long haul and prepared to fight all the way to the Supreme Court.

But lawsuits and appeals take time, often a long time. And while this and other suits work their way through the federal court system, the number of available apartments and the quality of the buildings they are in will continue to decline.

Jonathan Lewis is the founder of JLJ Capital, Pine Brook, N.J.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540