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The Queens multifamily market: 2019 proposed rent laws, transactions and insight - by Rubin Isak and Mark Pietrogiacomo

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In June on this year, the current rent laws will expire. Given the current political climate in the state senate, a complete overhaul of these regulations appears to be on the horizon. The passage of any combination of the proposals on the table will lead to greater difficulty in managing multifamily properties, to what degree remains to be seen. This article intends to give an overview of the major proposals. This legislation will shape the future of the multifamily market for the foreseeable future and should be read by all who are affected by it, tenant and property owner alike.

Senator Michael Gianaris and assembly member Brian Barnwell have proposed Bill S3693, legislation that if passed would eliminate the Major Capital Improvements (MCI) provision and would instead leave it up to the owner to recoup their investment using government subsidies or on the sale of the property. The legislation would deny all pending MCI applications that are in the current pipeline as well as repeal any MCI increases levied over the past seven years.

The purpose of the MCI program is to incentivize the improvement of a depreciating asset, the building. MCI's are by definition, only depreciable improvements, they therefore need to be replaced at the end of their useful life, lest the building itself become uninhabitable. Removing MCI increases will only ensure that the remaining prewar housing stock falls into disrepair, like NYCHA, forcing current tenancy to live in subpar conditions and leaving landlords with little means to alter this inevitable reality.

Senator Liz Krueger introduced Bill S3712 to the senate floor, removing owner's ability to raise rents from preferential levels. Discretionary rent increases from a preferential rent was a hedge that owners needed to remain confident in their own solvency. Removing this will force many small owners to sell to institutional or larger landlords who have thousands of units; a small landlord cannot thrive in this kind of environment.

The argument against preferential rents stems from the inefficiencies of government intervention and regulation on the free market. Overarching rent regulation for the five boroughs that is controlled by a central authority is obviously the most efficient from an administrative point of view. Having one rent board control the increases from Astoria to Jamaica ignores the intricacies of individual neighborhoods and lumps them all together under one generic policy. These rent laws will only lead to the exodus of capital from housing stock in the city.

Vacancy decontrol has also been targeted by the state senate. Bill S3482 introduced by senator Andrea Stewart-Cousins would remove it entirely. Apartment turnover is a natural occurrence in New York among free market apartments. Situations change, new jobs are acquired, children are born, adult children move out and the family's living arrangements change accordingly. Tenants moving out allows for a unit to be renovated and depending on how long the past tenant occupied the unit, there could be a large amount of work that needs to be done; this costs the owner money in downtime and opportunity cost. The increase in rent allows the owner to recoup those losses and make it worthwhile to improve the quality of living in that building. If the city intends to put an artificial cap on the income increases of the buildings that pay for a disproportionate amount of tax income, then they should also seek to limit the expense increase as well.

Multifamily building owners are about to be in for a rude awakening, the current political climate is favoring tenants more so than ever. Property owners are losing more incentives to own regulated housing stock. Without these incentives, affordable housing falls into a state of disrepair and more people, tenants and owners alike, are harmed. Populist rhetoric, from either side of the political aisle is damaging and short-sighted. This legislation appears to be the state telling small time owners to cash out. It might just be the only way to achieve a return on your investment.

Until the rent laws of 2019 become a reality, deals are getting done in Queens at record numbers.

Two recent sales this year in Queens that highlight this point are the sale of 28-15 34th S. in Astoria. This property is a 52,300 s/f, 60-unit, pre-war, six-story elevator apartment building that sold for $25 million in January. The high sales price equates to $478 per s/f and $417,000 per unit.

Another sale was 23-23 Astoria Blvd. in Astoria. This property is a 13,500 s/f, 13-unit, newly built, six-story elevator apartment building that sold for $7.125 million in January. The sales price equates to $525 per s/f and $548,000 per unit.

Investors have always looked towards multifamily in this borough as a safe haven with constant upside in rental income; even with rising property taxes and expenses. These proposed rent laws will change that. It should be a heated summer. Stay tuned.

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