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Keeping regulated units vacant - by Aaron Weber

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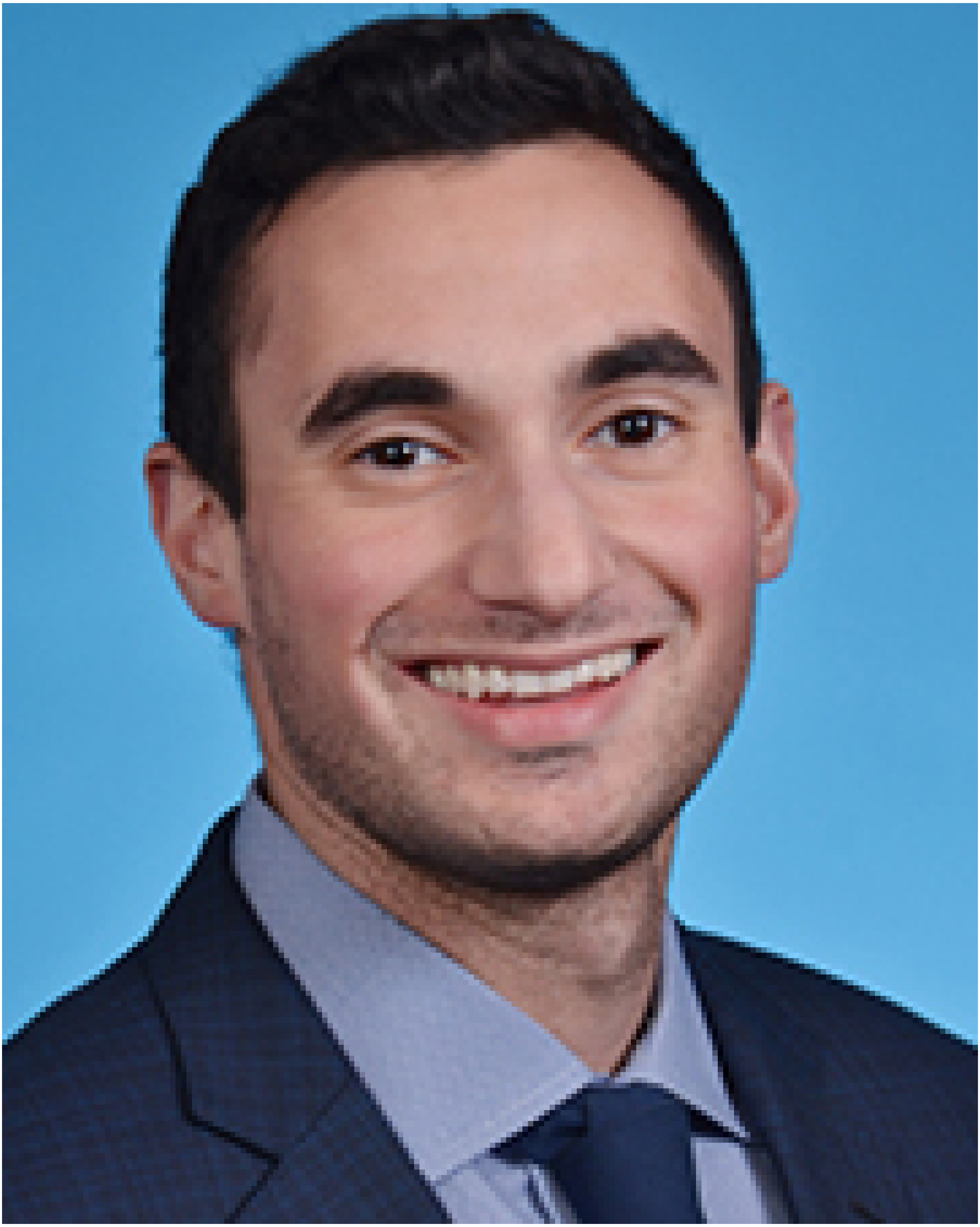

Aaron Weber

With over two million renters, NYC has the most stringent housing regulations in the country. The Housing Stability and Tenant Protection Act (HSTPA) of 2019 added more red tape for property owners when it dramatically reduced an owner's ability to increase rent based on an Individual Apartment Improvements (IAI) or through a building Major Capital Improvement (MCI). Three years later, Weber Realty found that these caps on IAIs and MCIs are disincentivizing renovations and eliminating jobs for contractors/workers.

Property owners now need to keep regulated apartments vacant after long-term tenants move out or face big losses. For example, in a seven unit building in the Chelsea neighborhood of Manhattan (managed by Weber Realty), two regulated units voluntarily vacated during the summer of 2021 as people were fleeing NYC from COVID19. One tenant was an elderly man living in a large 3-bedroom apartment for over 50 years. The apartment is now extremely outdated and needs a gut renovation in order to bring it up to code. Between inspections, permits, and construction expenses, the job is estimated to cost between $70,000- $100,000. However, with the new rent laws, the owner could perform no more than $15,000.00 in improvements, with their only incentive being a maximum rent increase of $89.29. At best, it will take an owner 14 years to recoup that cost. Furthermore, regardless of any improvements, under the HSTPA, this unit is forever regulated at a below market rate of $1,093.47/month. In 2021, the owner needed at least $1,163.28/month to break even on taxes, insurance, maintenance, utilities, etc. Therefore the unit is already operating at a 6% loss every month. It is financially unsustainable to put the apartment back on the market since a renovation is an investment guaranteed to lose money.

Jay Martin, executive director of The Community Housing Improvement Program (CHIP), stated that "20,000 regulated units across NYC sit vacant because of the 2019 rent laws. The idea that property owners are choosing to not rent them is a lie. They don't have a choice. The government has mandated a rent below their operating and renovation cost. The unit is vacant. It's being kept vacant by bad policy. No other city or state in the country regulates the rents on empty apartments for this exact reason. NY lawmakers reduced the housing supply with HSTPA."

According to Weber Realty's portfolio of 400 residential units, in 2022, alteration permit filings dropped by 75% compared to their pre-HSTPA level. As a result, workers including contractors, plumbers, electricians, carpenters and local hardware stores have had a steep decline in sales and loss of job opportunities due to the financial disincentives of renovating a regulated apartment.

Recently, CHIP proposed a solution to the NYC Council allowing owners to set a new first rent after a tenant vacates. This would give owners the ability to fund renovations and put units back on the market without deregulating them.

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