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The impact of rent regulation - by Robert Khodadadian

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For landlords, the playbook had long been simple and lucrative: buy run-down buildings that are, in New York lingo, rent-stabilized, fix them up, pass along the expense to tenants by raising rents (allowed under the regulations), cash out, and repeat. Once rents approached $2,800 a month, owners could charge what the market would bear, turning the apartments into potential gold mines.

New York has had some form of rent regulation since 1969. However, in 2019, New York state lawmakers rewrote the rules, reducing how much landlords could raise rents after renovations. More importantly, the apartments no longer leave the program when rents rise high enough, leaving property owners to now face the dilemma of investing in aging units without the certainty of recouping these investments through rents. Essentially, this recalibrated the balance of power between landlords and tenants.

As a result, the New York City rental market has undergone a seismic shift in recent years. Last year, buildings with at least one rent-stabilized apartment sold on average for $203,000 a unit, down 34% since 2019. Despite these challenges, investor interest in rent-stabilized properties persists, albeit at discounted prices compared to pre-regulation valuations.

The recent sale of Sentinel's portfolio of 24 properties totaling 1.2 million s/f for $180 million — a significant drop from its original price of nearly $300 million — exemplifies this trend. Sales such as 658 W 188th St. (bought for $23.1 million in 2015 and sold for $10.7 million in 2023), 519 W 143rd St. (bought for $9.3 million in 2016 and sold for $3.8 million in 2023), or the recent transaction involving 120 and 125 Riverside Dr., which sold to Aya Acquisitions at a 64% discount from the previous purchase price, illustrate the multifaceted nature of the market response to regulatory changes.

As landlords and investors navigate the intricacies of New York City's rent stabilization laws, the debate over the financial viability of rent-stabilized properties continues. The real estate landscape in New York City is ever- evolving, shaped by a myriad of factors, from regulatory reforms to shifting investor preferences. Understanding these dynamics is essential for stakeholders seeking to navigate the complexities of this dynamic market.

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