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Testimony of New York State Senator Brad Hoylman before the New York State Division of Housing and Community Renewal Regarding the Preliminary Standard Adjustment Factor for the 2018/2019 Maximum Base Rent Cycle November 29, 2017

Thank you, Commissioner Rubin, for the opportunity to testify. I represent New York State's 27th Senate District, which includes the Lower East Side, East Village, Greenwich Village, Chelsea, West and East Midtown, Clinton/Hell's Kitchen and the Upper West Side. This mixed-income district is composed largely of tenants, many of whom are rent-controlled, in countless small rental buildings as well as iconic rental complexes, including Stuyvesant Town-Peter Cooper Village, London Terrace Gardens, Westbeth and Phipps Plaza. As such, the Standard Adjustment Factor (SAF) is crucial to my district and, I believe, New York City as a whole.

As a matter of equity among regulated renters and justice for our senior citizens, I believe controlled tenants deserve a rent freeze, just as stabilized tenants were granted by the Rent Guidelines Board 2016/2107 year. I also believe that landlords can absorb the cost of a rent freeze for controlled tenants and continue to reap sizeable profits and that, as such, it is the most ethical option available to us.

The preliminary SAF of 7.42% for the 2018/19 cycle is unacceptably high and will have an extraordinary negative impact on the lives of over 27,000 rent-controlled tenants, who have the lowest median household income of any renter group in the City and are among the least able to afford further rent increases. Rising housing costs are forcing vulnerable seniors – who comprise the majority of rent-controlled tenants – out of their homes on a consistent basis. Establishing a reasonable SAF is one of the best tools available to us for ensuring the continued housing security of fixed-income senior citizens.

I urge you to consider the real human costs of these decisions. One of my constituents, a woman in her late 70s, recently contacted my office to share her fear of impending homelessness should such a rate hike occur. Because of the absurdity of Major Capital Improvement charges, she has recently received a 12% increase in her rent, for brickwork her landlord has invested into the building. Thanks to the regressive SAF formula, these increases prevent her home from staying affordable. This is contrary to the aims and initial intent of the rent control system: to keep older New Yorkers living in their homes.

The current Maximum Base Rent (MBR) formula, designed over 40 years ago, is deeply flawed and skewed in landlords' favor. It takes into account landlord costs but not landlord income, with the exception of "commercial income" in a few of the buildings sampled. Furthermore, as landlords improve their buildings – usually through Major Capital Improvements, which are more than paid for over time by tenants – the assessed values of the buildings rise. This increase in value is added to by the decontrol of units once tenants vacate, which occurs at a stunning pace – we have lost 22,000 rent-controlled units in the last three years alone, and will only lose more if this 7.42% SAF is approved.

The value of the buildings is one aspect of how the SAF is determined, but it is perversely considered as a matter of being fair to landlords given the value of their holdings in contrast to the income collected via rent-controlled tenants, rather than as a means of assessing what might constitute a just societal allotment of resources. It is telling that the greatest increase in any component of the SAF formula over the last two years is not operational costs (6.83%) or taxes (9.02%), but rather the return on capital value for landlords (10.07%).

As such, and accounting for consistently compounded rental costs alongside also compounded landlord profits, I urge DHCR to institute a rent freeze for rent-controlled tenants for the 2018/19 cycle.

I understand the SAF formula is set by statute. That same statute also requires landlords to certify that 90% of the MBR increase will be put back into the operating and maintenance cost of their buildings. Until the MBR system can be ended, I urge DHCR to fully enforce the existing rules by inspecting the books of all landlords seeking increases and denying increases to those that do not meet this burden. If the SAF formula is set in stone, so too must be its attendant obligations; if the obligations are not set in stone, then I respectfully submit that neither is the SAF.

Thank you for the opportunity to testify before you today.