HSTPA and the Challenge of Preserving NYC's Unsubsidized and Subsidized Affordable Housing Stock

Rent Guidelines Board Hearing April 10, 2025

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Mark A. Willis

NYU Furman Center

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Outline

- What did HSTPA change in 2019?
- What remains the same?
- The dilemma RGB faces in setting rent increases
- The need for analyses focused more on buildings that seem most at risk
- Some early data suggesting a decline in expenditures on maintenance and operations
- Concluding observations

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What Has Changed and What Has Not

- The 2019 Housing Stability and Tenant Protection Act (HSTPA) limits rent increases to those annually allowed by the Rent Guidelines Board (RGB)
  - HSTPA eliminated ways owners could raise their rental income beyond the constraints imposed by the RGB (no longer allowed are vacancy allowances or MCIs and IAIs which were generous enough to enhance revenue beyond what was needed to cover the capital costs)
  - HSTPA limits rent increases (and hence residential income for 100% rent stabilized buildings) solely to that allowed by the RGB whose annual guidelines now govern the long-run economics of 100% rent-stabilized buildings.
- Key economic requirements for owners to preserve the quality and scale of their multifamily housing
  - At a minimum, rental revenue needs to be sufficient both to cover the costs necessary to properly maintain a building (operating costs includes maintenance and operations) and maintain the level of net operating income (NOI) in inflation-adjusted dollars to preserve the financial health of a building
  - Long-run, financial sustainability requires that rental income be allowed to increase sufficiently to cover any increases in operating costs and to preserve the value of the remaining income in inflation-adjusted dollars

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RGB's Decision Making Process Complicated by Inflation

- State legislation tasks RGB with reconciling five goals, two of which are:
    1. Preserving affordability by protecting tenants from speculative rent increases resulting from excess market demand
    2. Enabling financial sustainability so that owners can properly maintain and operate rent stabilized units (sometimes referred to as providing a fair return)
- Both of these goals would be easy to reconcile in a world of no inflation—zero rent increase
- Inflation puts the two in tension as not all tenants experience a corresponding rise in income
- RGB is caught in the middle between demands to minimize rent increases (e.g., zero increases) and increases necessary to allow the buildings to be properly maintained and remain financially stable
- Likely resulting is a comprise with growth in rental income falling short of what is needed for financial sustainability

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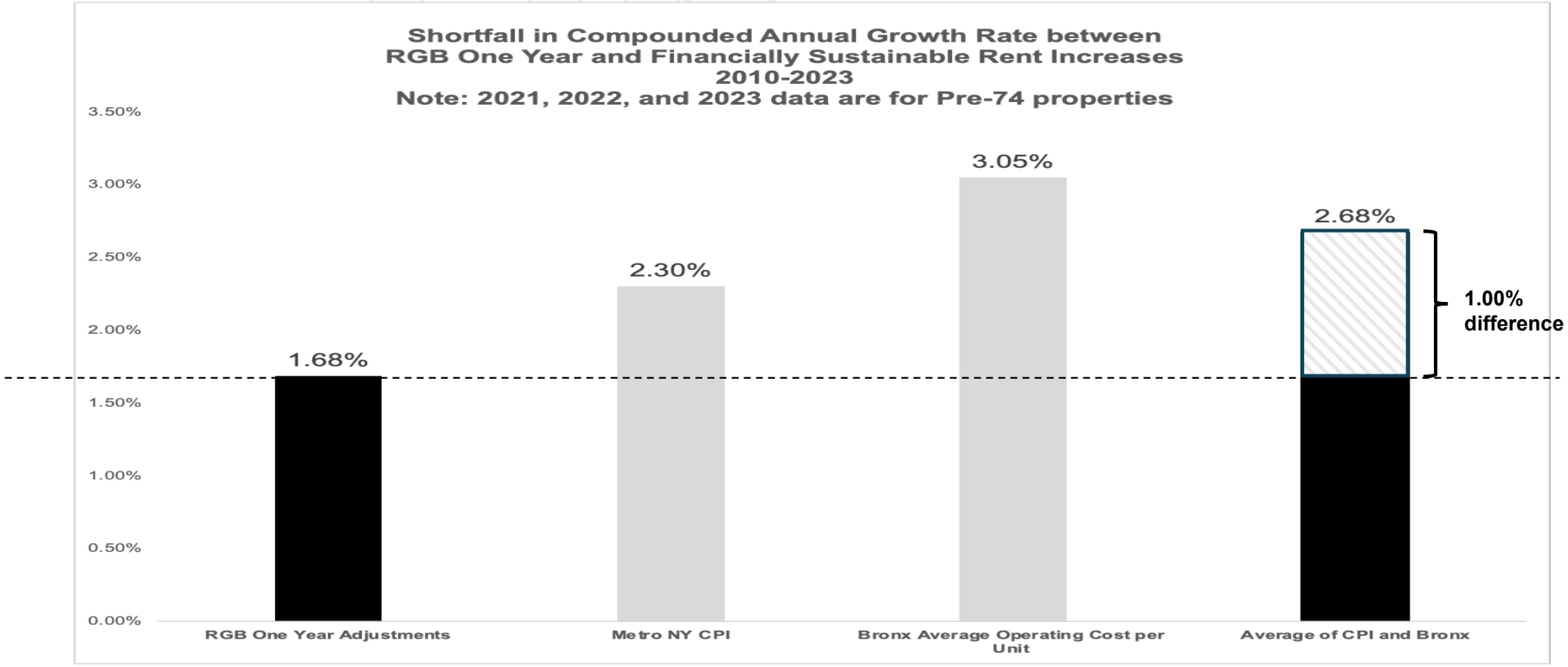
Shortfalls Rapidly Escalate for Pre-1974 Rent Stabilized Buildings in the Bronx

- Between 2010 and 2023 RGB Allowed Rent Increases Fell Short by 1% per Year



Notes: Average operating cost per unit in Bronx Pre-47 housing with at least one rent stabilized unit. Does not include property taxes or water/sewer costs. Rightmost column implicitly assumes operating costs accounts for 50 percent of gross rental income.

Comparing Rent Growth with RGB One-Year Increases for a Pre-1947 Bronx Rent Stabilized Unit vs. with Increasing Metro NY CPI Shows an Estimated Annual Shortfall by 2024 of More than One Month's Rent

Annual Rent Shortfall (2018-2024) Starting Rent of $1,027 (Bronx Pre-47 2018 Average Rent per Unit)				
Year	**RGB One Year Increases**	**Growth by Metro NY CPI**	**Monthly Shortfall (per Unit)**	**Annual Shortfall (per Unit)**
2018 (Base)	$1,027	$1,027	$0	$0
2019	$1,042	$1,043	($0)	($1)
2020	$1,058	$1,061	($3)	($32)
2021	$1,058	$1,107	($49)	($585)
2022	$1,074	$1,173	($100)	($1,195)
2023	$1,109	$1,214	($106)	($1,266)
2024	$1,142	$1,262	($120)	($1,444)

Note: Uses actual changes during time period

Assumptions Used to Model the Shortfall Estimate

- Year-by-year estimates of the cumulative size of the rent shortfall on a building-by-building basis is calculated using data government routinely collects:
  - For measuring the rate of inflation, the U.S. Bureau of Labor Statistics issues monthly New York Metro CPI as the measure of inflation. **We also use CPI to serve as a proxy for increases in operating costs (though actual costs might be going up at a rate faster than inflation).**
  - For initial rents in the base year, owners must annually register with those rent levels with NYS HCR. But that data is sort of publicly available in RGB income and expense reports. **We use the 2018 average pre-47 Bronx rental income in buildings with at least one rent stabilized unit ($1,027).**
  - RGB declares allowed percentage annual rent increases each year. **We use one-year, rent growth caps issued by the RGB, which are implemented October 1 of that year.**

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The Scale of the 100% Rent-Stabilized Stock is Significant, Calling for Focused Analysis

- ~200,000 privately owned rent stabilized units
  - Of the ~ 400,000 total units we estimate to be in pre-1974, 76-100% rent stabilized buildings, we impose a further restriction on the maximum building wide average rent.
  - Setting that rent cap at the median of those building-wide average rents yields an estimate of ~200,000 units
- ~300,000+ subsidized rent stabilized units
  - 100 percent affordable housing where regulatory agreements restrict annual rent increases to the lower of the rent stabilization guidelines or the AMI cap

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Lower Rent, 90-100% Rent Stabilized Buildings Have Fared Poorly Compared to those Sub Segments that are Less Rent Stabilized, 2019-2023

As a proxy to assess the relative impact on the ~ 200,000 units from 2019 to 2023, we isolated pre-1974, 90-100% rent stabilized buildings in the Bronx with below-median rent of $1240 and found in inflation-adjusted dollars (in contrast to the trends for the broader housing categories):

- A substantial 7.54% decline in expenses--the largest decline in the chart of inflation-adjusted expenditures on maintenance and operations
- A -3.98% decline in gross income–the only housing segment with a decline in inflation-adjusted income
- A 0.60% increase in inflation-adjusted NOI which would not be sufficient to offset the decline in expenses even if used for that purpose.

2019-2023 Total Percent Change in Income, Expense, NOI, and Property Taxes (Reflects RPIE changes for 2019-2023) $2024					
	Citywide			Bronx Only	
Percent Rent Stabilized	0+-25%	26-75%	76-100%	90-100%	90-100% Below Average Rents*
Gross Income	3.41%	2.88%	1.38%	0.18%	-3.98%
Expense (No PT)	4.52%	1.59%	-0.62%	-2.39%	-7.54%
NOI (Includes PT)	2.86%	3.66%	3.14%	3.52%	0.60%
Property Taxes	-6.47%	-3.93%	-0.70%	0.00%	-2.71%

Notes: This slide was updated April 18, 2025, with averages instead of medians. (see the Appendix for the original slide). The table was compiled using data from the NYC Department of Finance for pre-1974 residential buildings. The most recent data, released in 2025 is based on the RPIE filings for 2023. Included are properties with six or more units and with at least one rent-stabilized unit but no commercial square footage. Excluded are any buildings subject to a government regulatory agreement. The percentage increases reflect changes on a square foot basis.

*Data restricted to buildings with average rents below $1240/month. The average rent for a building is estimated by dividing gross income by number of units.

Rising RGB Operating Cost-to-Income Ratios for Highest Deciles, 2018-2023

- RGB Income and Expense Reports provide a distribution of buildings according to their ratio of costs (expenses) to gross income
- The higher the cost-to-income ratio, the lower the share of income available to cover NOI dependent activities/functions; once the ratio reaches 1.0, NOI disappears altogether
- From 2018 to 2023, expenditures (costs) for rent stabilized buildings increased as a percentage of income for the top 7 deciles, pushing down NOI
- At the 80-90% decile The Bronx ratio grew over the same period to 1.04, exceeding 1.0 and up from 0.93 in 2018
- Over the same period the citywide ratio grew to 0.99, just short of 1.0 and up from 0.91 in 2018)
- As for the 90-100% decile both the citywide and The Bronx ratio continued to exceed 1.0.

Source: Rent Guidelines Board, 2017-2025 Income and Expense Reports, Appendix 7. Prior to 2020, the building age cutoff was pre-1947.

Concluding Observations

- The rent shortfall has likely grown since HSTPA passed and will continue to grow, potentially exponentially, in 100% rent-stabilized buildings
- To preserve the long-term viability of the most vulnerable sub segments of this stock, the shortfall may need to be dealt with outside of the RGB process
- This is a large-scale problem: simply filling the gap with public subsidy could be very expensive over the long run

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Appendix

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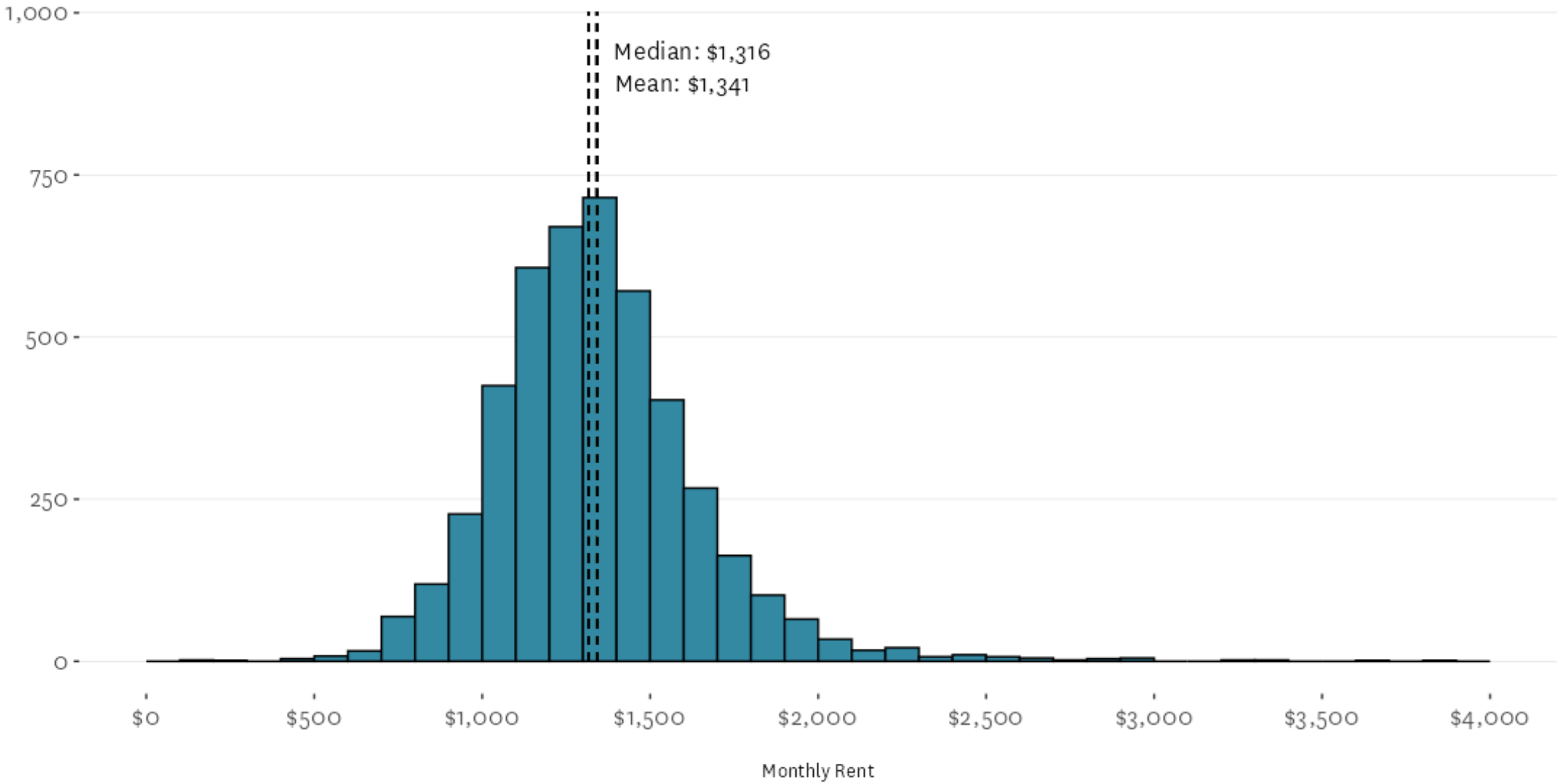
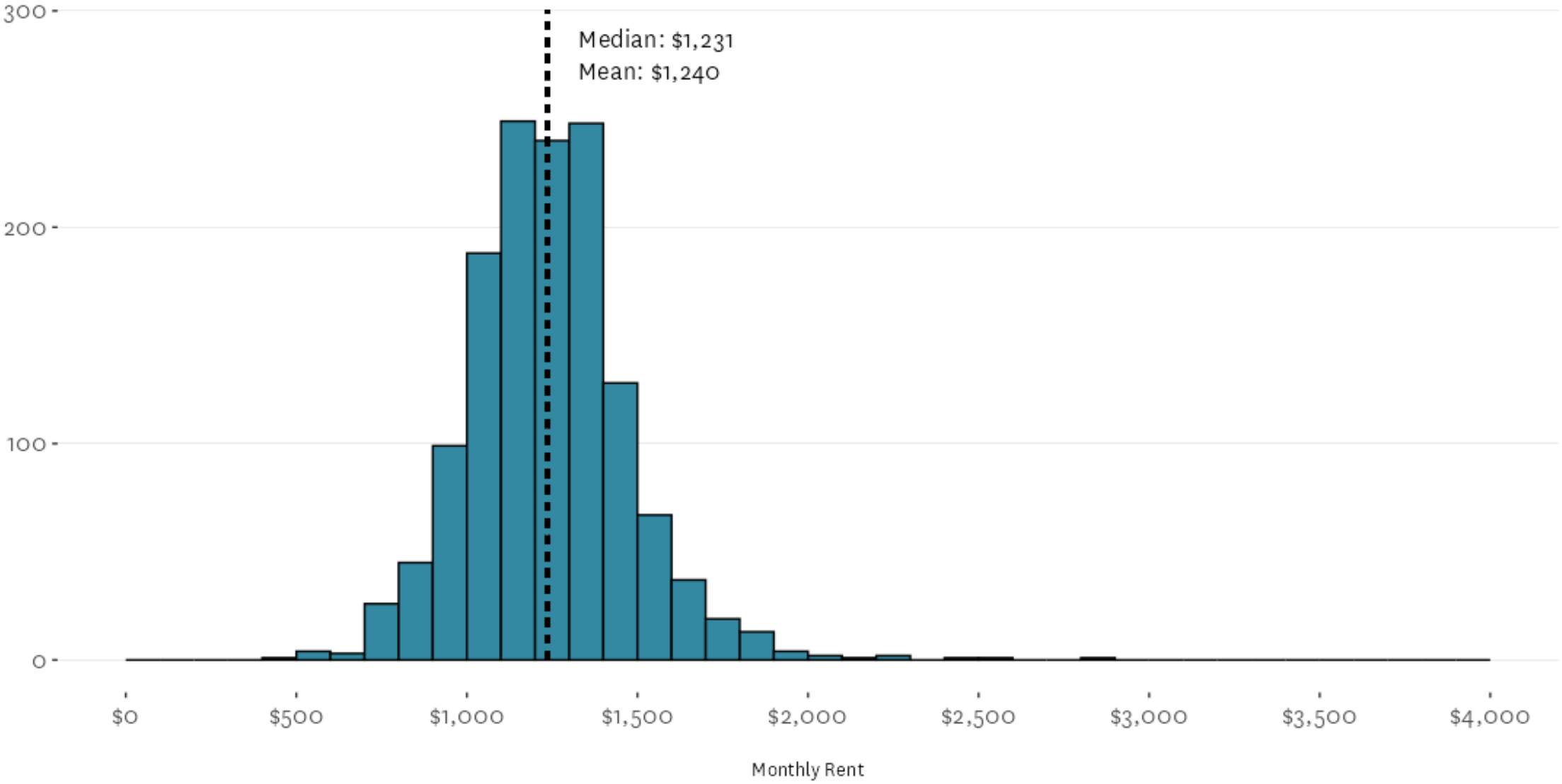
Monthly Rent Distribution for Citywide Buildings with High Rent Stabilization, 2025



Sources: NYC Department of Finance, NYU Furman Center.
Note: Monthly rent figures reflect gross income estimates for properties reporting 90% or more of their units as rent-stabilized from the 2026 Notice of Property Value, divided by 12. We exclude properties with fewer than 6 units, those built after 1974, and those with additional regulations like 421-a, Mitchell-Lama, and J-51. We also exclude properties with any commercial space, as well as those reporting income and expenses of 0. One outlier has been removed from the distribution.

Monthly Rent Distribution for Bronx Buildings with High Rent Stabilization, 2025



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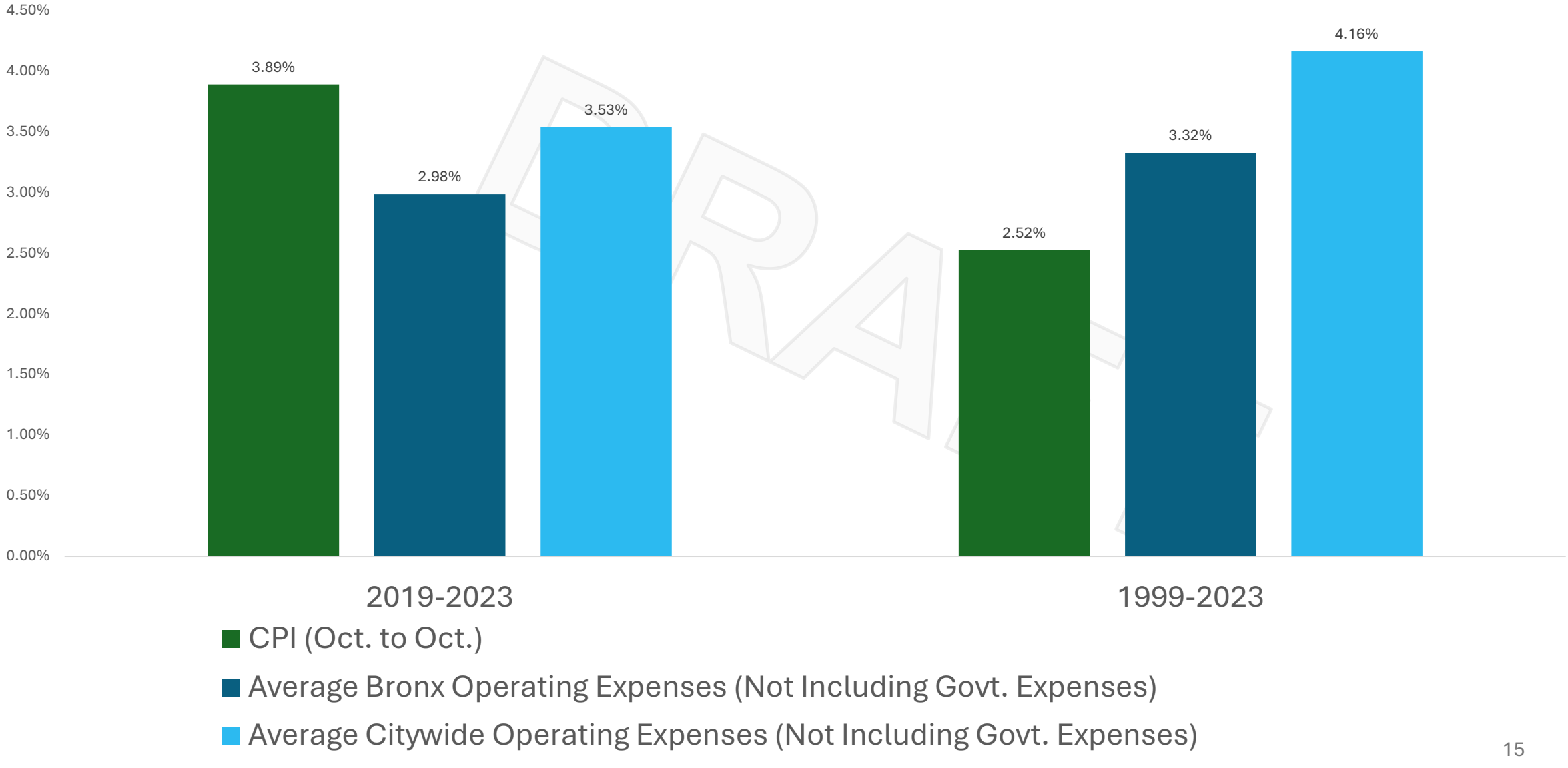
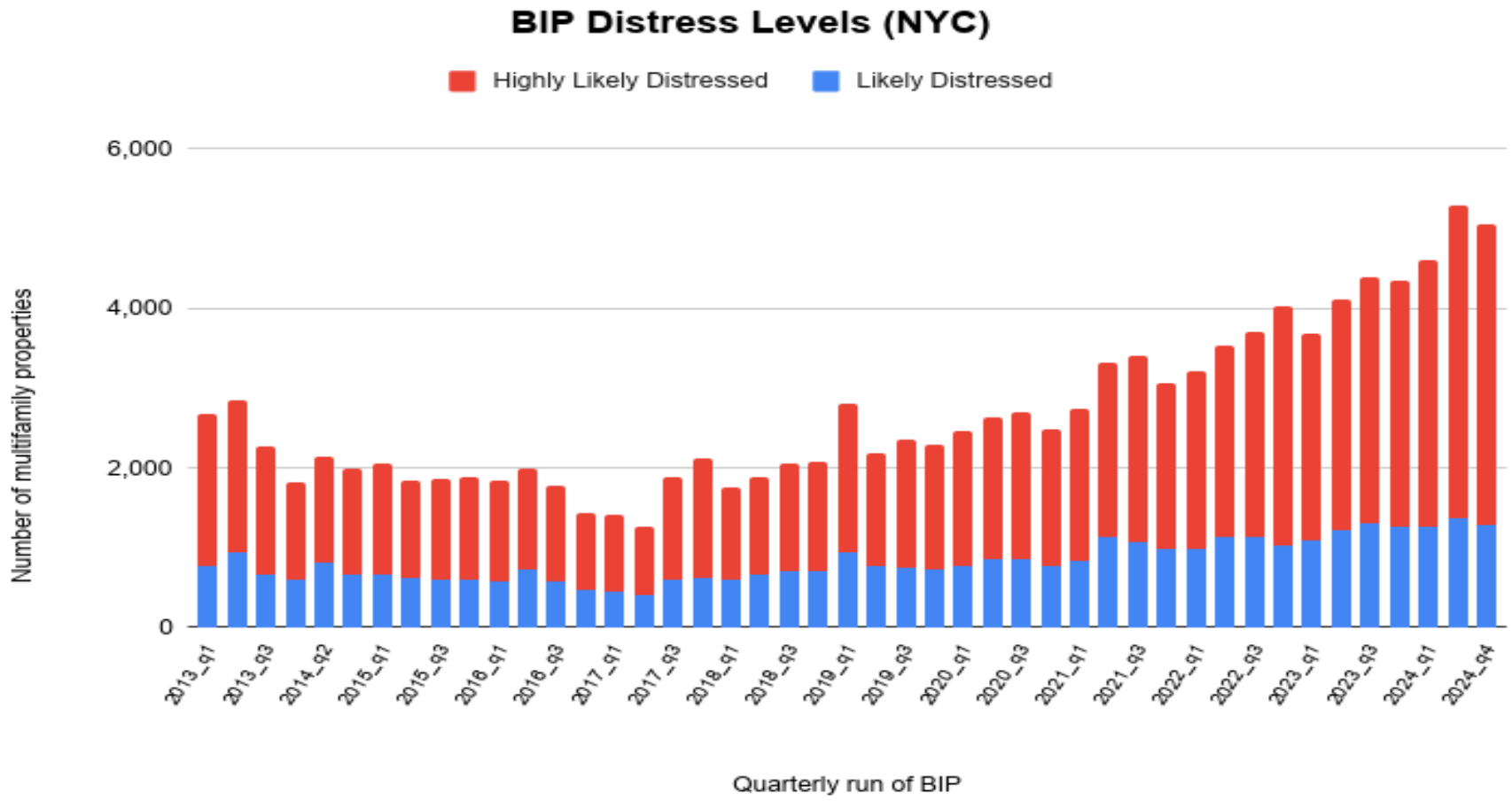
Annual Changes in CPI Compared to Annual Changes in Operating Expenses (CAGR)

(Operating Costs for Pre-'47/'74 Rent-Stabilized Buildings)

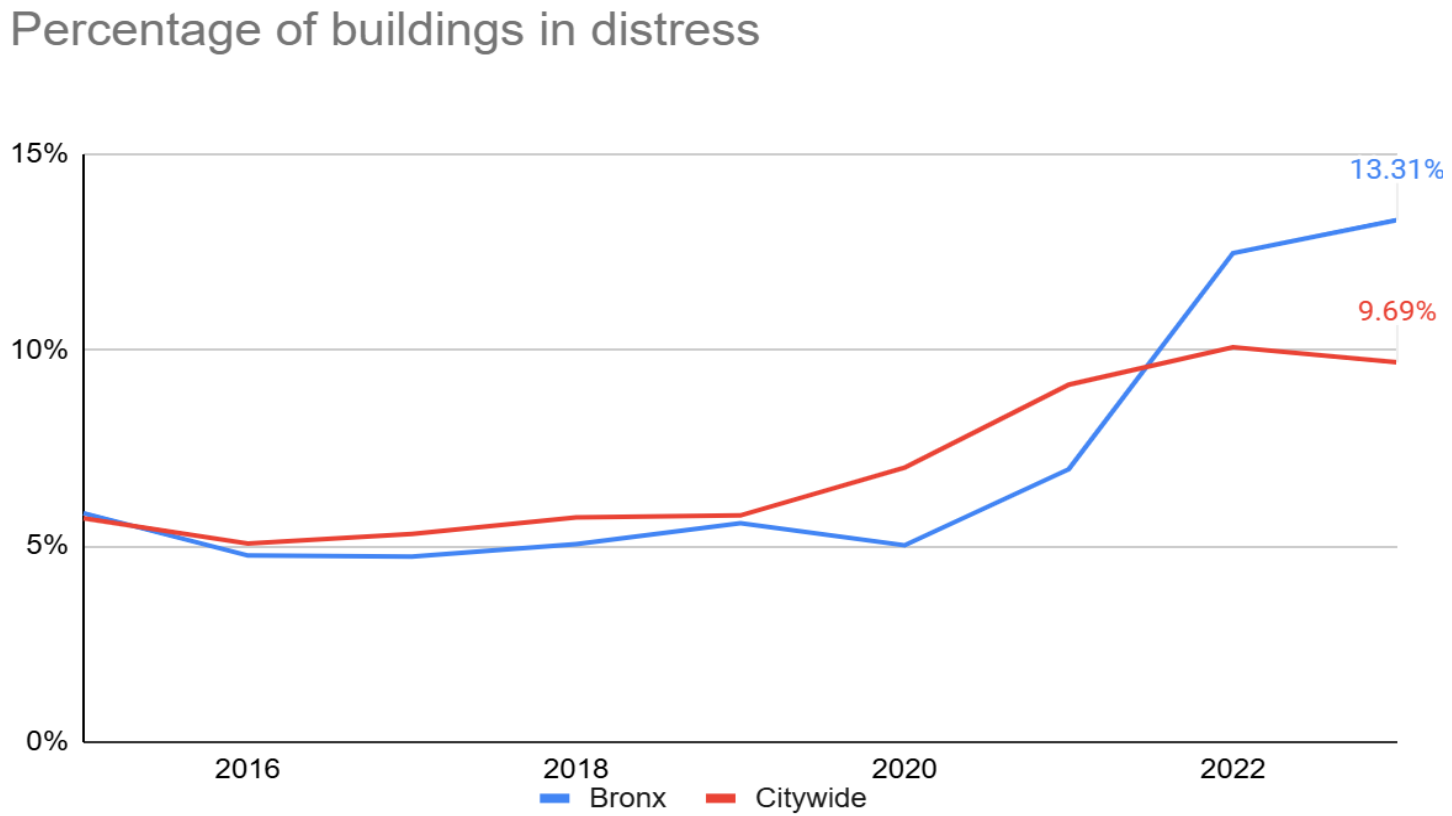


Increasing BIP Distress Levels Since 2019



Source: Building Indicator Project, University Neighborhood Housing Program, Inc.

Recent Rapid Rise in The Bronx in the Percentage Pre-1974 Rent Stabilized Buildings in Distress Compared to Citywide



Source: Rent Guidelines Board, 2017-2025 Income and Expense Reports, Appendices 7 and 9. Prior to 2020, the building age cutoff was pre-1947.

Operating Cost-to-Income Ratios 2018-2023

Operating Cost-to-Income Ratios by Decile 2018							
	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%
Citywide	0.63	0.66	0.70	0.74	0.80	0.91	4.36
Bronx	0.66	0.70	0.73	0.77	0.82	0.93	1.66
Operating Cost-to-Income Ratios by Decile 2023							
	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%
Citywide	0.65	0.69	0.73	0.78	0.86	0.99	2.97
Bronx	0.73	0.76	0.81	0.86	0.93	1.04	2.10
Change in Operating Cost-to-Income Ratios by Decile 2018-2023							
	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%
Citywide	0.02	0.03	0.03	0.04	0.06	0.08	-1.39
Bronx	0.07	0.06	0.08	0.09	0.11	0.11	0.44

Source: Rent Guidelines Board, 2017-2025 Income and Expense Reports, Appendix 8. Prior to 2020, the building age cutoff was pre-1947

(Original Slide 9)Bronx Pre-1974, 90-100% Rent Stabilized Buildings Fared Poorly Since 2019 ($2024)

As a proxy to assess what is already happening to the ~ 200,000 units from 2019 to 2023, we isolated pre-1974, 90-100% rent stabilized buildings in the Bronx with below-median rent of $1232 and found (in contrast to broader housing categories):

- A substantial 6.86% decline in expenses--the largest decline in the chart of expenditures on maintenance and operations
- A -3.03% decline in gross income–the only housing segment with a decline in inflation-adjusted income
- A 1.58% increase in NOI which would not be sufficient to offset the decline in expenses even if used for that purpose.

2019-2023 Percentage Changes in Median Gross Income/Expenses/NOI (2024$)

	Percent Rent Stabilized				
Per SqFt	1-25%	26-75%	76-100%	Bx 90-100%	Bx 90-100% Below Median Rent/Unit
Gross Income	3.22%	3.08%	2.27%	0.63%	-3.08%
Expense (no PT)	5.21%	1.23%	-0.54%	-1.43%	-6.86%
NOI (includes PT)	1.37%	3.38%	5.11%	3.29%	1.58%
PT	-7.08%	-0.97%	1.09%	0.74%	-2.07%

Source: Department of Finance NOPVs, 2021-2025 (based on RPIEs 2019-2023). Average rents in a building estimated by dividing the building's gross income by the number of units in the building.