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Testimony on Senate Bill 3082 on Good Cause Eviction

Submitted to the Senate Standing Committee on Judiciary and the Senate Standing Committee on Housing, Construction and Community Development

January 7, 2022

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Thank you for the opportunity to testify on S3082, which would amend the Real Property Law to prohibit eviction or non-renewal of leases without "good cause." I am Sean Campion, Senior Research Associate at the Citizens Budget Commission (CBC), a nonpartisan, nonprofit think tank and watchdog devoted to constructive change in the finances, services, and policies of New York City and New York State.

The goal of protecting tenants from arbitrary and exorbitant rent increases and ensuring their housing continuity is reasonable and well-intended. In theory, granting tenants a right to renew their leases at a reasonable rent increase would offer them security and stability while, assuming those increases are appropriate, also ensuring that landlords can maintain their properties in good condition.

S3082 would provide these benefits to thousands of households in New York State who live in units not currently subject to rent regulation under State or federal law. But it also could have deleterious effects on the housing market, the condition of the housing stock, and the amount of new rental development.

Good cause policies have been implemented in other states only in recent years. In many cases, it is too early to evaluate their impact on real estate markets and on renter households. However, the provisions of those laws and S3082 are similar to aspects of rent regulation that have been in place in New York City for decades. They have "right to renew" provisions intended to promote housing stability and maximum rent increases intended to prevent rent gouging.

CBC has long studied rent regulation in New York City, and our findings can inform the debate about S3082. Our 2010 report, *Rent Regulation: Beyond the Rhetoric*, and 2019 report, *Reconsidering Rent Regulation Reforms*, found several adverse impacts of New York City's rent regulation system that affect both tenants and owners:

- **Expenses grew faster than rents.** In New York City, operating expenses in rent-regulated buildings have grown faster than both the rate of inflation and rent increases approved by the Rent Guidelines Board (RGB). Between 2010 and 2019, the costs of operating rent-stabilized buildings increased at an average annual rate of 3.6 percent. This was twice the rate of inflation (1.8 percent) and twice the average one-year rent increases allowed by the RGB (1.8 percent). Cumulatively, over ten years, rents of rent-stabilized units increased 15.1 percent, while expenses increased 37.5 percent.

- **The ability of owners to finance repairs and pay for maintenance is constrained.** With expenses rising faster than rents, less money is available to pay for repairs and maintenance. This is reflected when comparing the conditions of rent-stabilized and market-rate units. While the age and size of rent-regulated and free-market buildings differ, New York City tenants of rent-stabilized units report 80 percent more maintenance deficiencies than tenants living in market rate units, a maintenance gap that has persisted despite continued improvement in the quality and condition of the city's housing stock. While it is too early to evaluate the impacts of the 2019 changes to the rent regulation laws, these divergent conditions likely will widen due to the elimination of capital improvement allowances and vacancy decontrol.

- **Rent regulation has decreased the City of New York's property tax revenue.** Rent regulation has created tens of thousands of below-market units where allowable rent increases have not kept pace with market growth. The below-market regulated units also put upward pressure on free-market units. The combined effect, however, is that the lower rents attributable to rent regulation decreased property values, which in turn decreased the City's property tax base and reduced the overall amount of property tax revenue.

The design and implementation of good cause policies matter. For a good cause policy to provide its intended benefits without consequential harms its components should balance legitimate tenant protections with the need to maintain a well-functioning rental market that ensures that both current and future renter households can find housing that is affordable to them and meets their needs. Getting this balance wrong can have negative consequences for both current and future renters and could suppress the amount of development.

CBC's prior research and features of good cause policies in place in Oregon and California yield four questions that should be considered when deciding whether to enact or how to design a good cause policy for New York.

1. **Does the policy allow rent increases that are sufficient and encourage owners to maintain buildings and invest in repairs and rehabilitation?**

   The current bill proposes to limit annual rent increases to the greater of 3 percent, or 1.5 times the rate of inflation in the previous year. In the majority of years before the onset of the pandemic, the allowable rent increase would have been lower than the annual increase in operating costs for many property owners. Between 2010 and 2019, the bill's formula would have resulted in an average annual increase of 3.3 percent, which is less than the 3.6 percent average annual growth in expenses of rent-stabilized buildings. Importantly, expenses for some buildings grew faster than the average rate, widening the gap in those cases.

   Other states have higher caps. Their good cause provisions were designed to promote stability through guaranteed renewal and to discourage rent gouging, rather than to limit rent increases. Good cause laws in California and Oregon cap increases at 5 percent plus the consumer price index (CPI) and 7 percent plus CPI, respectively. Their laws retain the incentive and ability of property owners to re-invest in their properties and to keep up with repair needs while making it financially desirable to own and develop rental housing.

2. **Does the policy serve as a disincentive to new rental housing development?**

   New York City and the downstate suburbs have not produced an adequate amount of housing over the last decade, which has negatively affected housing availability and affordability. Recognizing the need to support and incentivize housing development, good cause laws in California and Oregon exempt new development for a period of time, typically 15 years. S3082 has no such exemption, which could discourage investment in new rental housing. Uncertainty about rental income and the ability to cover operating costs and debt service would make it difficult to secure financing for construction projects. Similarly, California and Oregon include provisions that allow for existing residential buildings to be redeveloped; S3082 does not.

3. **Will this depress property values and property tax base?**

   If the maximum allowable rent increases are below what the market would have allowed, property values will be lower over time, which will result in either lower revenue, higher tax rates, or shifts in tax burdens across different property types.

4. **Could the goals be met better by other policy interventions?**

   Right to renew policies like those proposed in the current bill are intended to encourage and promote stability and security of tenure for renter households; they will not and should not be used to address every housing policy concern, including affordability. Other programs, such as the federal Section 8 Housing Choice Voucher program, are better suited to alleviating rent burdens, which are most common and most severe among New York's lowest income households. In addition, right to counsel programs can help tenants enforce their existing legal rights in housing court.

Thank you for holding this hearing this morning, and I look forward to answering any questions you may have.