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A NEW APPROACH TO RENT REGULATION

Proposal to the CHPC Board of Directors  
From the Rent Regulation Committee

Members of the Committee: Austin Laber, Chairman; David Gardner, Anthony Gleidman, Bruce Gould, Frank Kristof, Richard Scheuer, Albert Walsh.

The Rent Regulation Committee is suggesting some fundamental revisions in rent regulation in New York. Basically, the revisions involve the termination of the current Rent Control Law and the substitution of a new State-administered system patterned after the Rent Stabilization Code.

The Committee is unanimously agreed on the general principles of the revisions, although there are some disagreements with or amendments to some of the specifics. These amendments or reservations, when held by a minority of the Committee, are included as footnotes to each recommendation.

1. A Single System of Rent Regulation Accelerated by this winter's extraordinary fuel costs, a substantial portion of the rent controlled housing stock is on the verge of irreversible decline. A 7½ percent increase on an artificially low base in those buildings that have met the MBR standard is inadequate to halt the accelerating deterioration of a major portion of the rent controlled sector. The Committee proposes that the 525,000 rent controlled units in New York City be brought into a single system, together with the 700,000 apartments that are presently rent stabilized. Subject to a 25 percent rent/income limitation, the rents on presently rent controlled units would be raised, initially, to the full MBR level and, thereafter, the entire regulated housing stock would be administered under the rules now governing rent stabilized apartments. Occupancy of all units would be governed by written leases and future rent increases would depend upon determinations by a Rent Guidelines Board using the Bureau of Labor Statistics Housing Cost Index.

2. Rent/Income Ratio Limitation Weighed against the critical need for a substantial injection of income to save the crumbling rent controlled stock, is the stark fact that a substantial number of rent controlled families are presently paying rents that are already between 25-35 percent of their annual incomes, and thus, realistically, are not capable of paying the rent increase which a jump to the full MBR level would entail. Although there is disagreement as to whether the maximum rent/income ratio should be 25 percent or 33 percent, the Committee proposes that the increase to MBR rent level should not be applicable to any rent controlled tenant presently paying more than 25 percent of income for rent, 33-1/3 percent in the case of the low income elderly. To limit administrative involvement, the burden should be on tenants to submit income figures

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to establish that the full MBR increase would result in a rent/income ratio in excess of 25 percent. Subsequent rent hikes under the new system for all units should be subject to a 33 percent rent/income ceiling.

Note: Some Committee members feel that a 25 percent income ratio is too arbitrary and that a more sensitive scale has to be used as a triggering mechanism, one that would take family income and size into account.

Some Committee members also feel strongly that an income ratio as a basis for determining what tenants should pay should apply only to the hike to MBR levels of currently rent controlled units prior to their entry into the new State system.

3. State Administration of Rent Regulation The State government, under a single statute, should assume rent regulation. Each community will have the option of joining the system. A State system will help rationalize and depoliticize the rent regulation process.

4. Real Property Tax Exemption <sup>Apartment</sup> Because, statistically, the families with the lowest incomes have the highest rent/income ratios, often in excess of 35 percent, many of the buildings in most need of substantial rental increases would not benefit significantly from the proposed hike to full MBR levels because a preponderance of tenants would be exempt from paying the increase. Thus, the Committee proposes that in cases where, after the MBR increase, the total building income has not reached the building-wide MBR figure, reduced by an 8½ percent profit factor (the "Net MBR"), the owner will be entitled to a real estate tax exemption, dollar for dollar to the extent of the difference between the total building income and the Net MBR provided, however, that in no event would the total tax exemption for the building be in excess of 50 percent of the current tax bill.

Note: One Committee member feels that the tax exemption should be the inducement to assure code enforcement. (See item six.)

5. Vacancies Regulated apartments under the new state system would be offered at the market if they become vacant. Future increases would be subject to the State rent regulations.

Note: One Committee member feels that a vacant apartment should rent at the market and be forever free of any rent regulation. Other Committee members feel that this "vacancy decontrol" mechanism should apply only to those units now rent controlled until they move under the new State system. The State system, they feel, should not have a vacancy decontrol feature.

6. Code Enforcement While it may be inequitable to grant rent increases in badly maintained buildings, it is also true that in many instances the landlord is presently losing money and has no way of bringing a building to a Code standard without substantial monetary aid. The Committee proposes, therefore, that removal of violations not be a precondition to an increase of rents in

rent controlled buildings under the proposed formula. However, we also recommend that the first rent increase allowed under the new program must be accompanied by an owner's commitment that all hazardous violations will be removed. If an owner fails to correct hazardous violations, as certified by the city, or, in other areas of the state, by the state or county government, then the owner will not be entitled to any further rent increases under the program.

Note: One Committee member feels that rent increases under the new program should be placed in an escrow account which can be used by the landlord solely for correcting any such health or hazardous violations and that, if within two years after the new rent has been set, the landlord has not removed the violations, then he will not be entitled to further rent increases.

7. Effective Date The new system would go into effect on January 1, 1978. This will give the new state agency sufficient time to organize for implementation.

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Encouraging Cooperative and Condominium Ownership The preservation and maintenance of New York's housing stock depends largely on making apartment and building ownership an attractive and feasible role for more of the city's population. To encourage this proprietary interest, the rules governing cooperative and condominium conversions of rental buildings must be liberalized.

- Owners should be permitted to proceed with conversions without requiring minimum participation as long as the nonpurchasing tenants' rights are protected.
- If 35 percent of the tenants in the building have agreed to purchase within six months, the occupancy rights of nonparticipating tenants should be terminable within two years.
- If 51 percent of the tenants purchase within any period of time, the other tenants must vacate within two years.
- Elderly tenants who presently qualify for rent increase exemptions may continue in occupancy indefinitely.

Note: The Committee is including this item because the Board ought to begin considering its position on coop conversions as soon as possible. The Committee felt that the coop conversion issue should be kept separate from CHPC's rent regulation proposals. Nonetheless, it would be useful to get some Board reaction to these ideas.

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