HSTPA Impacts Study

Briefing Book

February 28, 2024

Introduction

Goals of Study

On behalf of REBNY and RSA, HR&A is evaluating the impacts of HSTPA.

The goals of the study are to:

- Develop a clear fact base of information on the impacts of HSTPA, following its passage in 2019.
- Analyze changes in building quality, reinvestment, vacancy, tenants, and city tax revenue.
- Help stakeholders develop a deeper understanding of the short- and medium-term impacts of HSTPA.

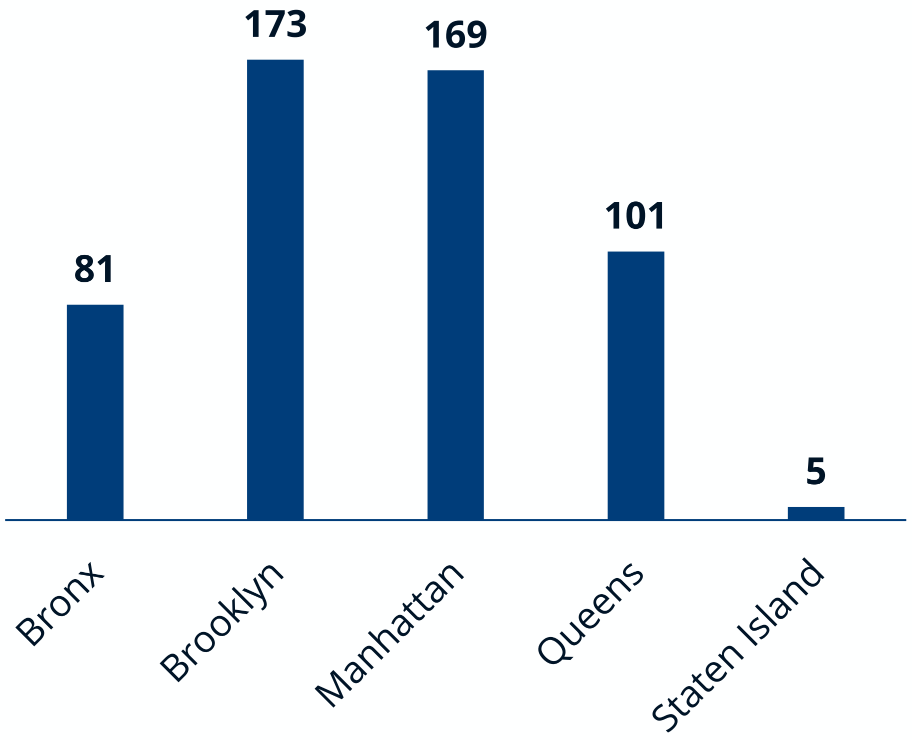
Owners & Managers Survey

Between November and December 2023, HR&A conducted a survey of property owners and managers* capturing 781 responses with representation across share of rent stabilized units, portfolio size, and borough.

Survey Response Counts

Share of Rent Stabilized Units	All Owners
0%-25% Rent Stabilized	134
26%-75% Rent Stabilized	200
76%-100% Rent Stabilized	447
Total Responses	**781****

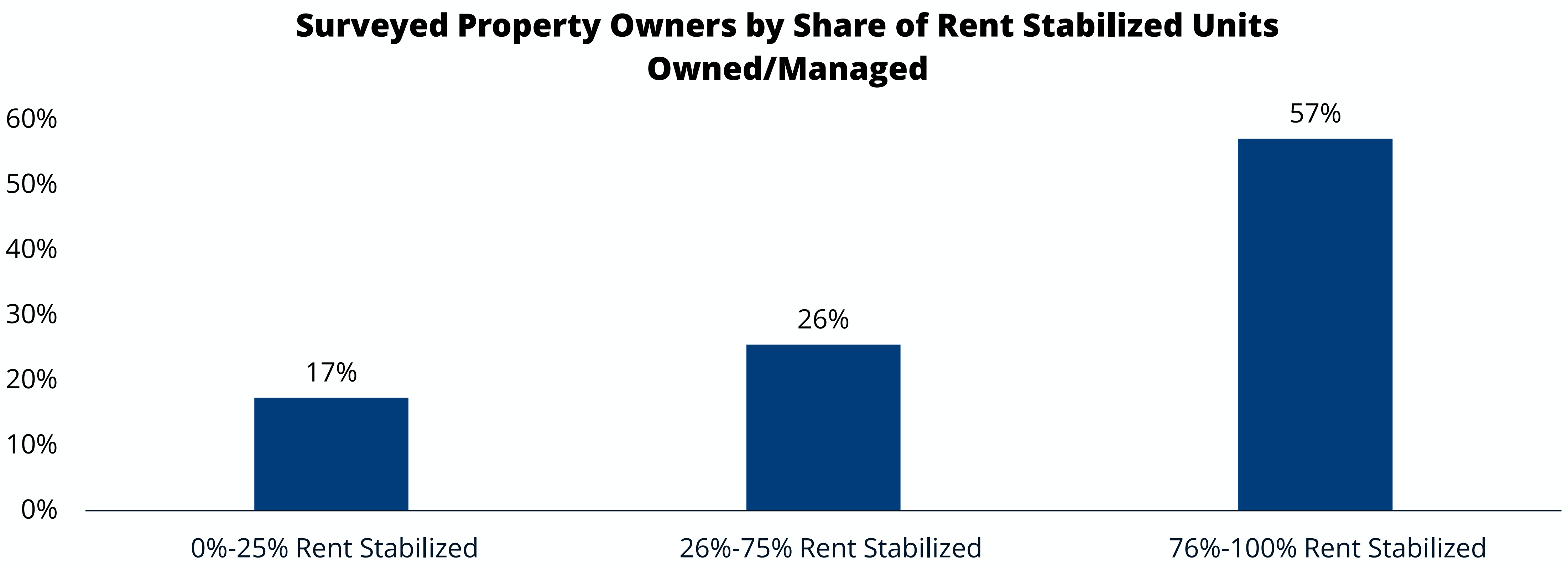
Responses by Borough



Note:
*The survey was taken by property owners and managers, which are referred to collectively as "owners" in this section.
**The survey received 781 responses from property owners and managers, with a completion rate of 69% (537 responses) for total unit counts. 21% of respondents indicated that their portfolios are small (i.e., less than 11 units) and 49% of respondents indicated that their portfolios are large (11 units or more). The remaining 30% of respondents did not provide information on their portfolio size.

Owners & Managers Survey – Unit Composition

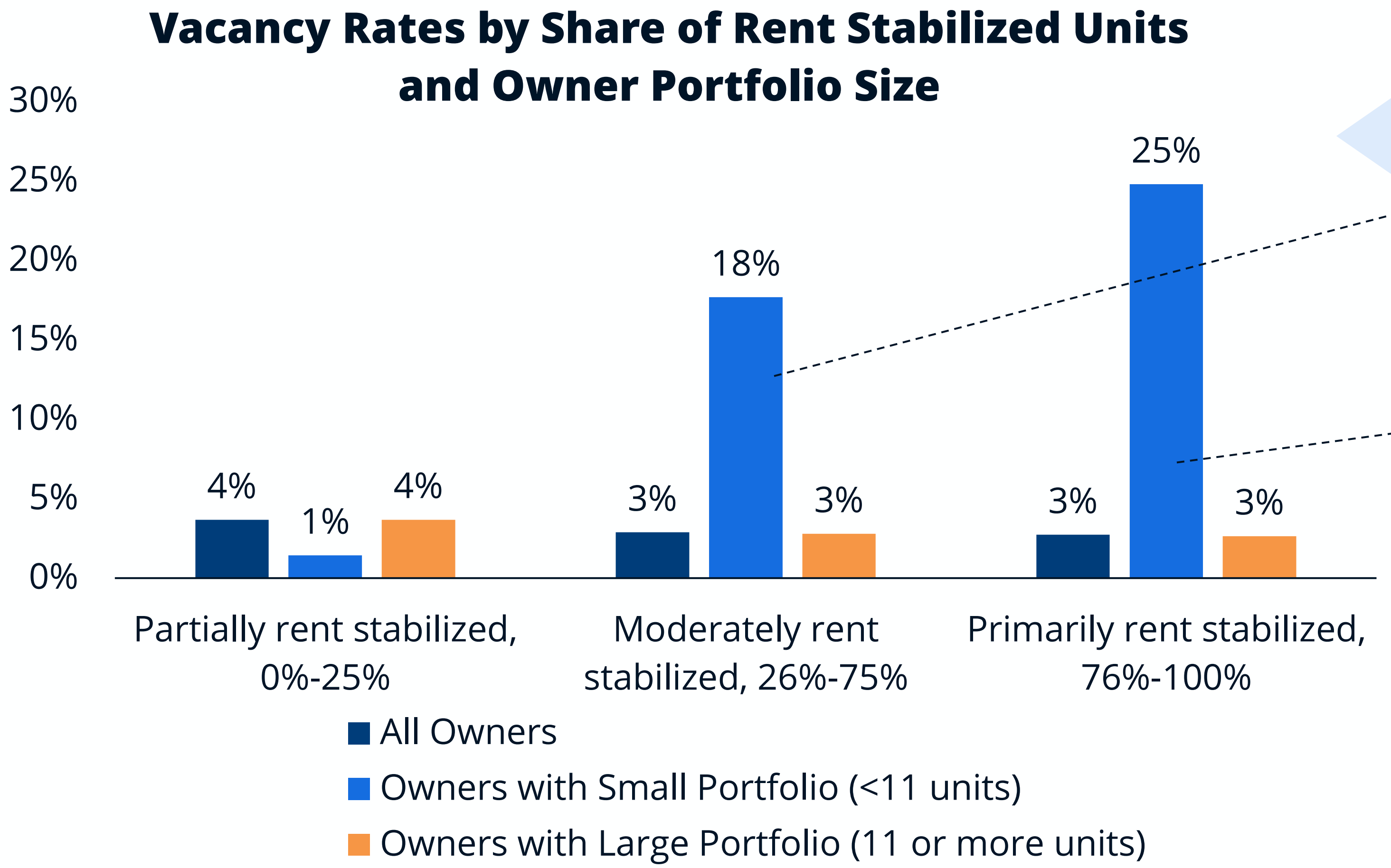
The majority of surveyed property owners own portfolios that are primarily rent stabilized. Survey takers represent approximately **242,000 units, 11% of the rental stock in NYC.** (both rent stabilized and market-rate)



Vacancies

Vacancy Rates

The survey shows higher vacancy rates for owners with small portfolios (18% and 25%) that are over 25% rent stabilized.



18%

(Owner with Small Portfolio + Moderately Rent Stabilized)
This group represents 266 total units, and 18% of those units were vacant.

25%

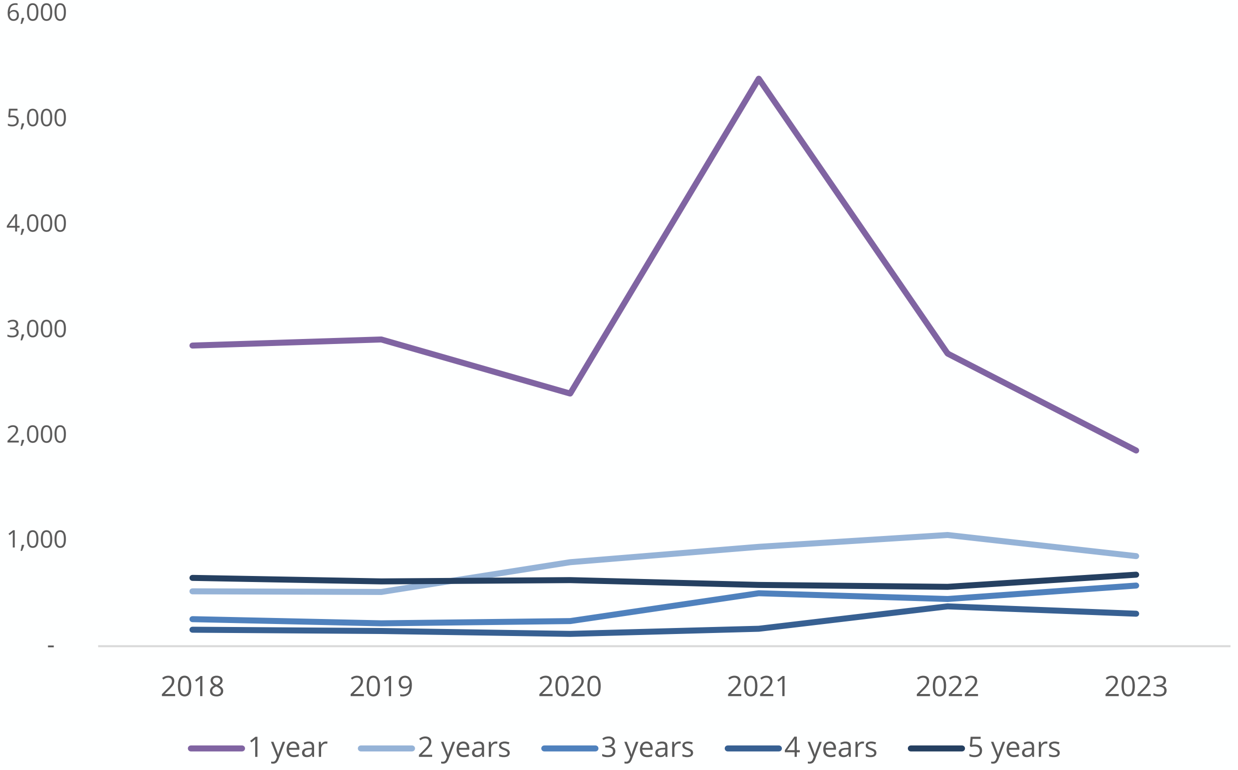
(Owner with Small Portfolio + Primarily Rent Stabilized)
This group represents 579 total units, and 25% of those units were vacant.

Note: *The vacancy rates reported in the survey are higher than the vacancy rates reported in the 2023 Housing and Vacancy Survey (HVS). This may be due to two reasons: 1) HVS was conducted from January through mid-June 2023, whereas the survey was conducted between Nov-Dec 2023, and 2) the survey findings may or may not be within the HVS's error margins for the granular data cuts presented on the slides. The team will do a deep dive on the error margins, when HVS's microdata is released.

Vacancy Duration

RSA member filings data* shows a dramatic increase in 1-year vacancies from 2020 to 2021 that reversed the following year. However, longer-term vacancies have trended upward from 2018 to 2023.

Long Term Unit Vacancy Totals Reported, 2018-2023



Note: *RSA provided aggregate data on the Annual Rent Registrations they file to HCR on behalf of their members. RSA membership filings represent approximately 10% of the rent stabilized stock in NYC. This data supplemented the survey.

Change in Total Annual Unit Vacancies, by Category

Term	Change in Totals, 2018-2021	Change in Totals, 2021-2023	Change in Totals, 2018-2023
1 year	2,531	-3,526	-995
2 years	422	-87	335
3 years	246	74	320
4 years	7	145	152
5 years	-66	96	30
Total	3,140	-3,298	-158

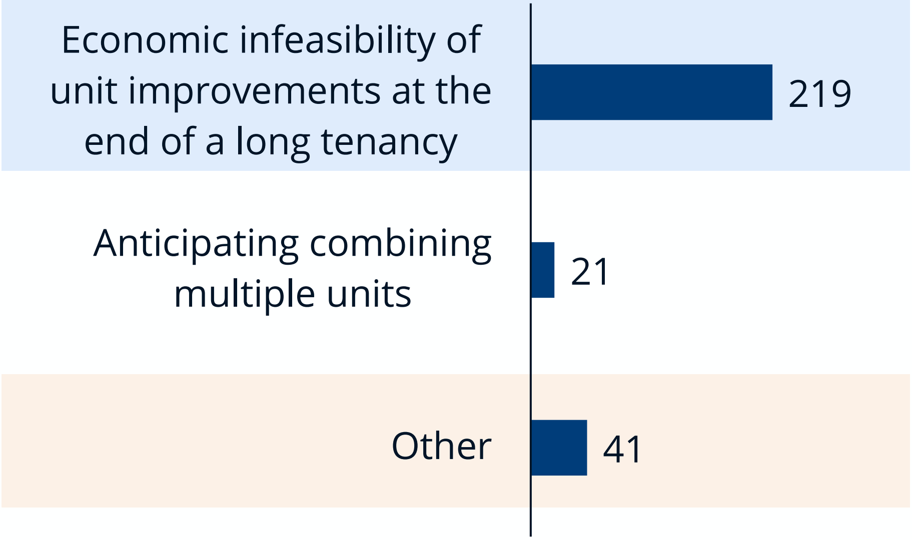
% Change in Annual Unit Vacancies, by Category

Term	% Change, 2018-2021	% Change, 2021-2023	% Change, 2018-2023
1 year	89%	-66%	-35%
2 years	81%	-9%	+65%
3 years	96%	15%	+125%
4 years	4%	89%	+97%
5 years	-10%	17%	+5%
Total	**71%**	**-44%**	**-4%**

Reasons for Continued Vacancy

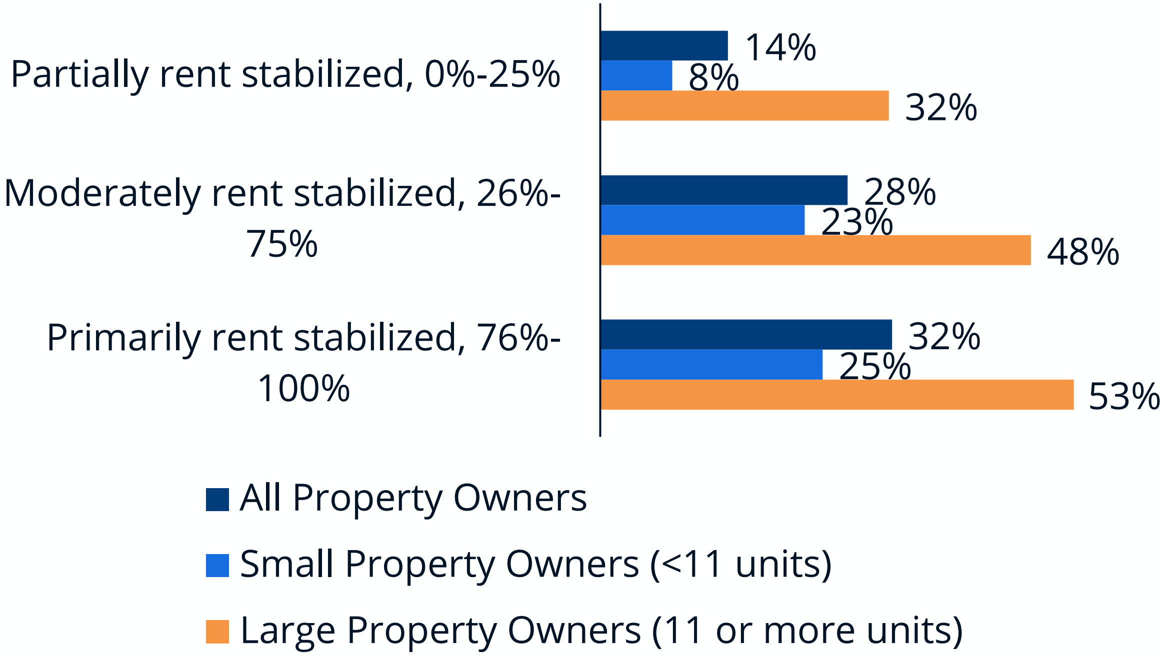
28% of survey respondents cite economic infeasibility of unit improvements at the end of a long tenancy as a reason for continued vacancy. The share of respondents selecting this reason was highest for owners with large portfolios that are over 75% rent stabilized.

Reasons for Continued Vacancy



Note: Frequent reasons for vacancy within the "Other" category include making repairs (tenant just moved out, lead remediation, etc.), a lack of funds for repair, and further comments on the economic infeasibility of improvements.

Share of Survey Respondents who Selected "Economic infeasibility..." by Share of Rent Stabilization and Portfolio Size

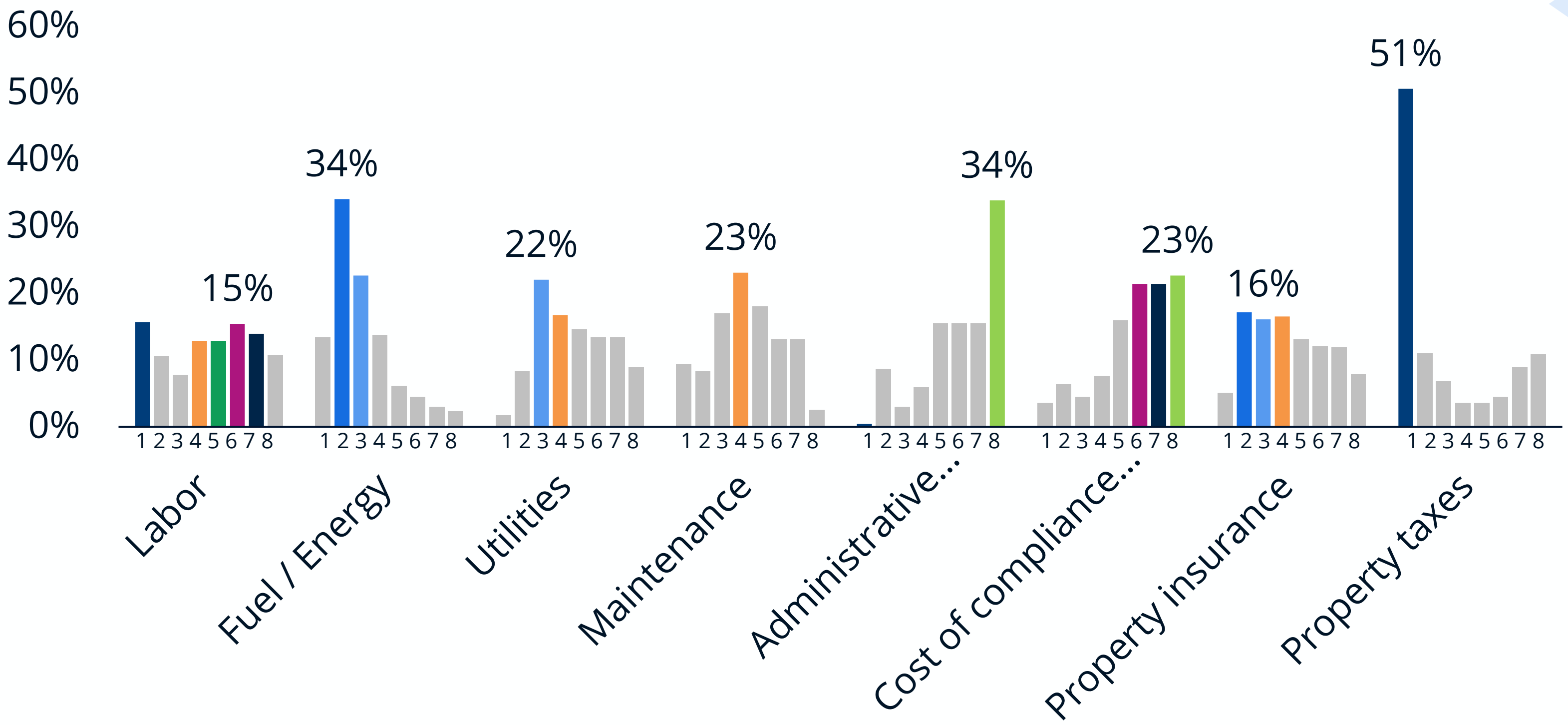


Building Operations

Share of Building Expenses

According to the survey, property taxes, fuel/energy, and property insurance are the three largest expense categories for the rent stabilized stock.

Which expense represent the largest share of expenses for your rent stabilized units? (1 represents the largest share)



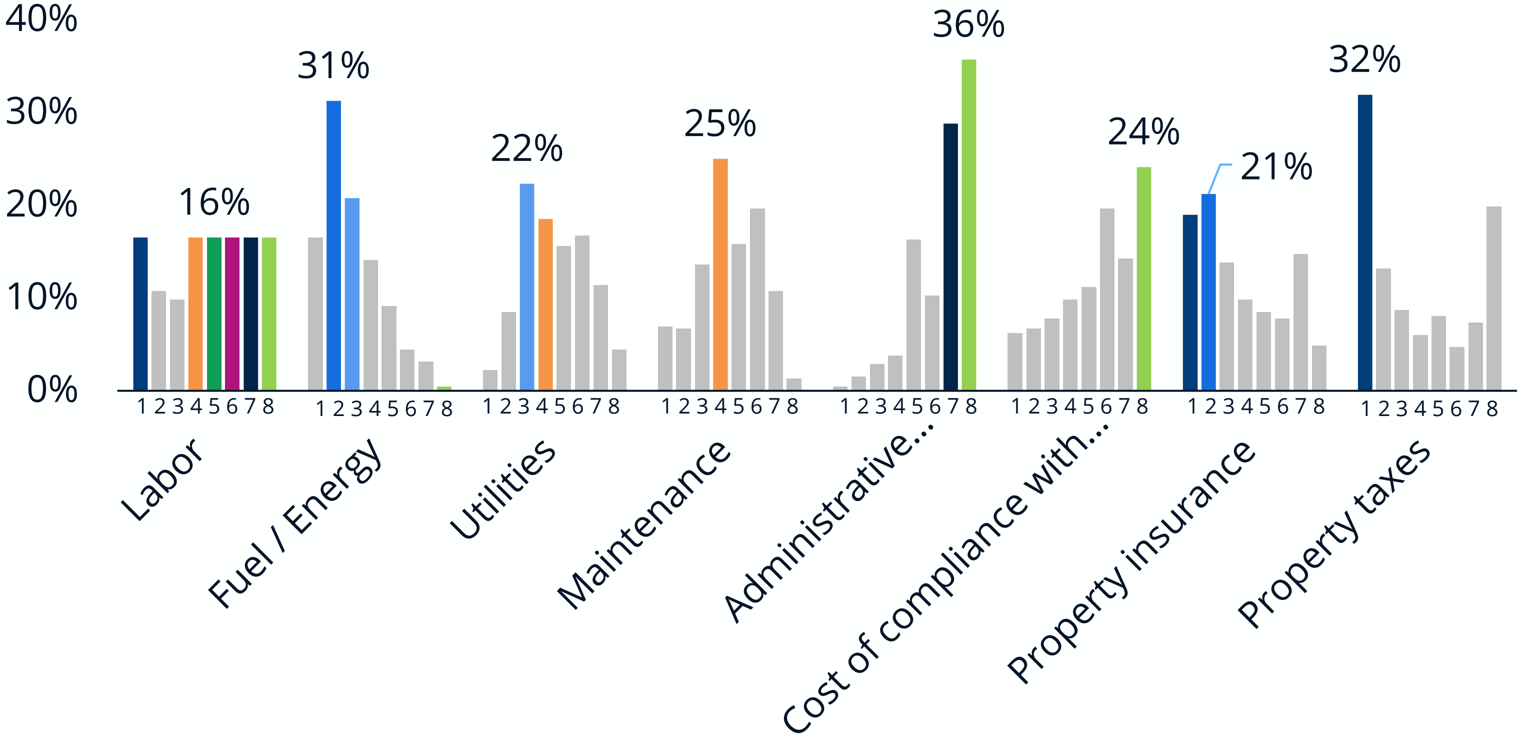
- 51% of respondents said property taxes represent the highest share of their expenses.
- Fuel/energy is on average the second largest expense for owners/managers, followed by property insurance and utilities.
- Labor expenses vary across building type and size, as a result of code and statute requirements for various programs.

Note: *471 or 60% of respondents answered this question.

Change in Building Expenses

Also according to the survey, property taxes, fuel/energy, and property insurance were the three cost categories that have increased the most since 2019.

Which expense categories have gone up the most for your properties since 2019, affecting your ability to maintain your rent stabilized units? (1 represents the largest increase)

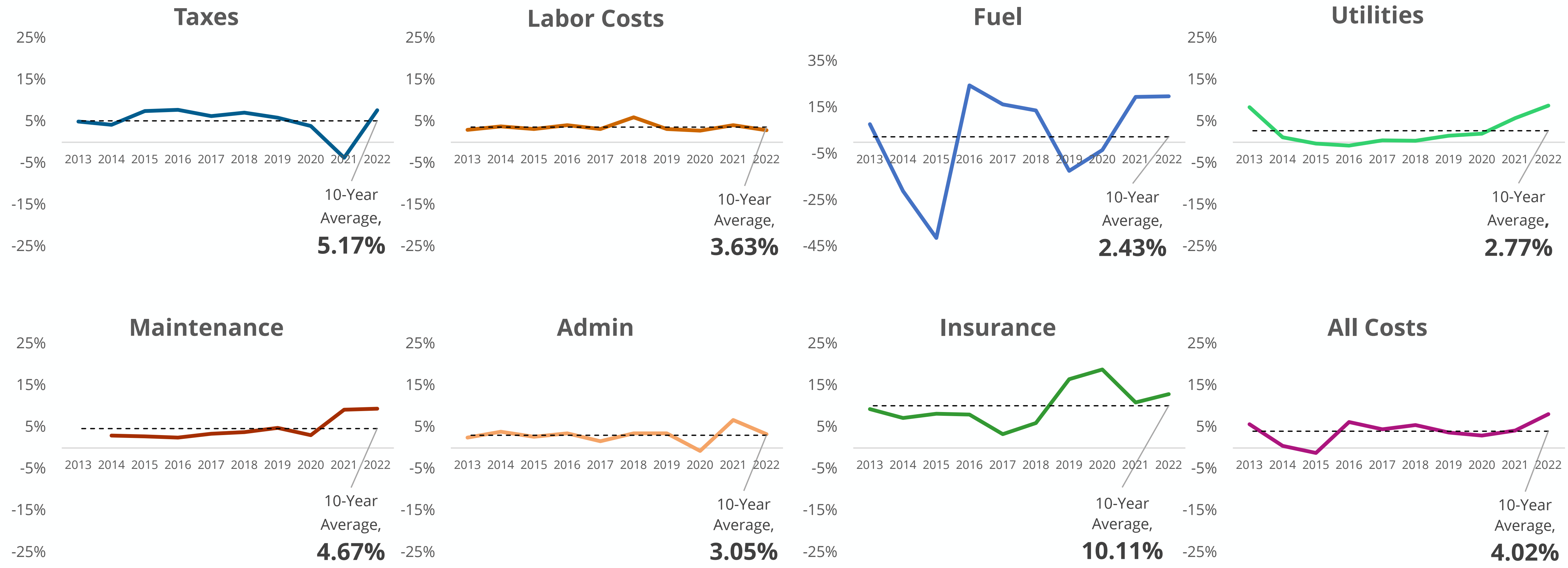


- 32% of owners say property taxes increased the most.
- Owners said that fuel/energy and property insurance are the second and third cost categories that increased the most.

Note: *459 or 59% of respondents answered this question.

Annual Change Rates in Building Expenses

Over the past 10 years, insurance costs have increased dramatically, at nearly twice the 10-year pace of any other expense category.

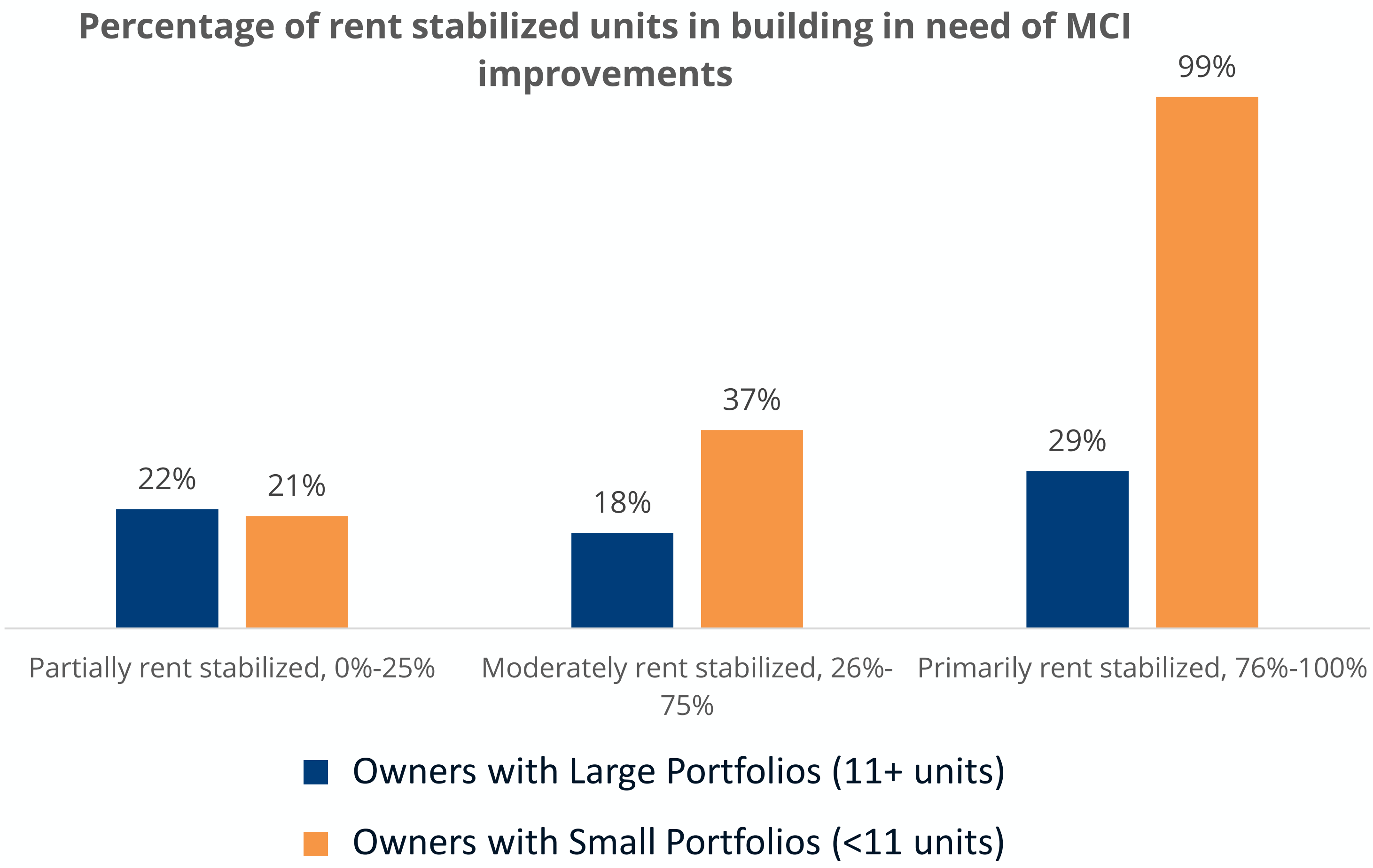


Source: Price Index of Operating Costs (PIOC), 2014-2023. Cost growth is nominal (e.g. not inflation-adjusted). PIOC is released in April each year, covering between April of the previous calendar year until March of the current calendar year. So, the 2023 PIOC covers April 2022-March 2023, and is labeled as "2022" in the charts.
*Note: 10-year average of annual inflation (CPI) during the same period (from April 2013 through March 2023) was **2.96%.***

Reinvestment

Major Capital Investments (MCIs) – Units in Need

99% of units in small portfolios that are over 75% rent stabilized are in buildings in need of MCIs.



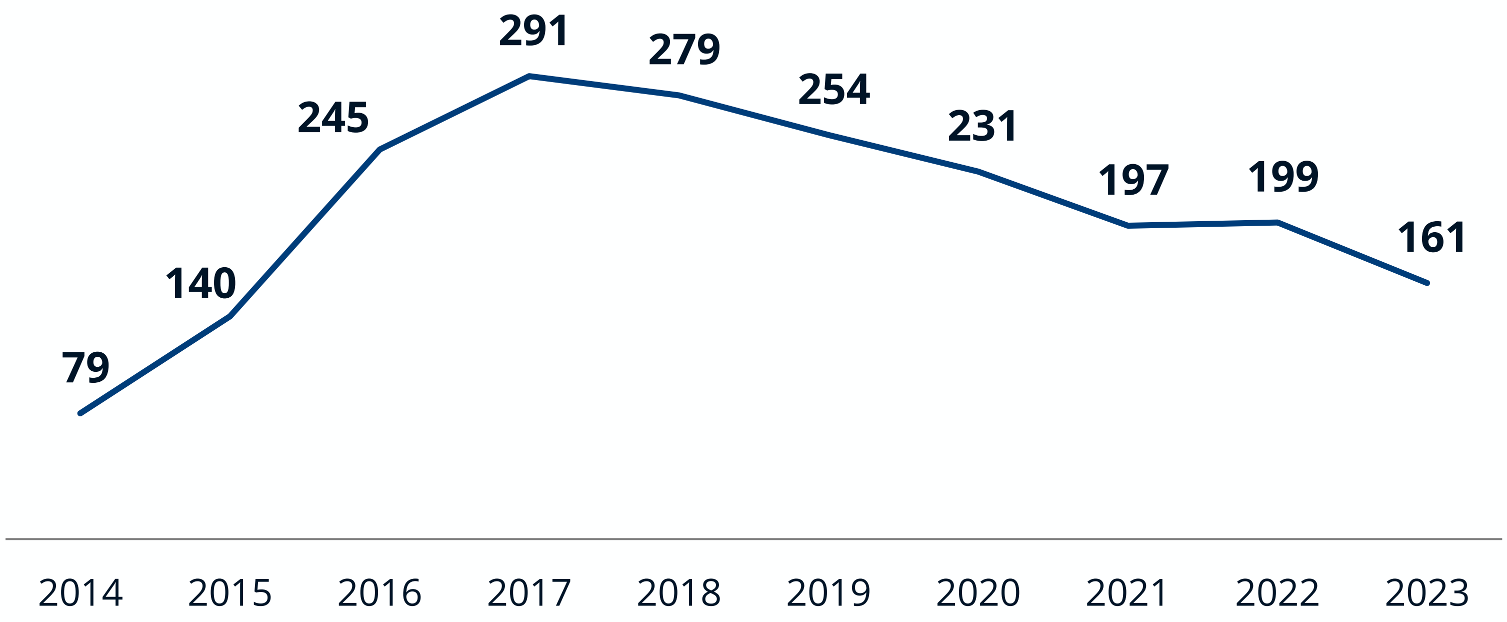
Note: 356 or 47% of survey takers responded to this question.

- Responses represent approximately 1,000 units in small portfolios (<11 units) and 216,000 units in large portfolios (11+ units).
- 29% of units in large portfolios that are over 75% rent stabilized are in buildings in need of MCIs.
- Over 20% of units in partially rent stabilized portfolios are in buildings in need of MCIs.

Major Capital Investments (MCIs) – Reduction in Filings and Spending

MCI filings by RSA members* have declined gradually since peaking in 2017. By 2023, annual MCI filings had declined by 45% compared to 2017 (and by 37% compared to 2019).

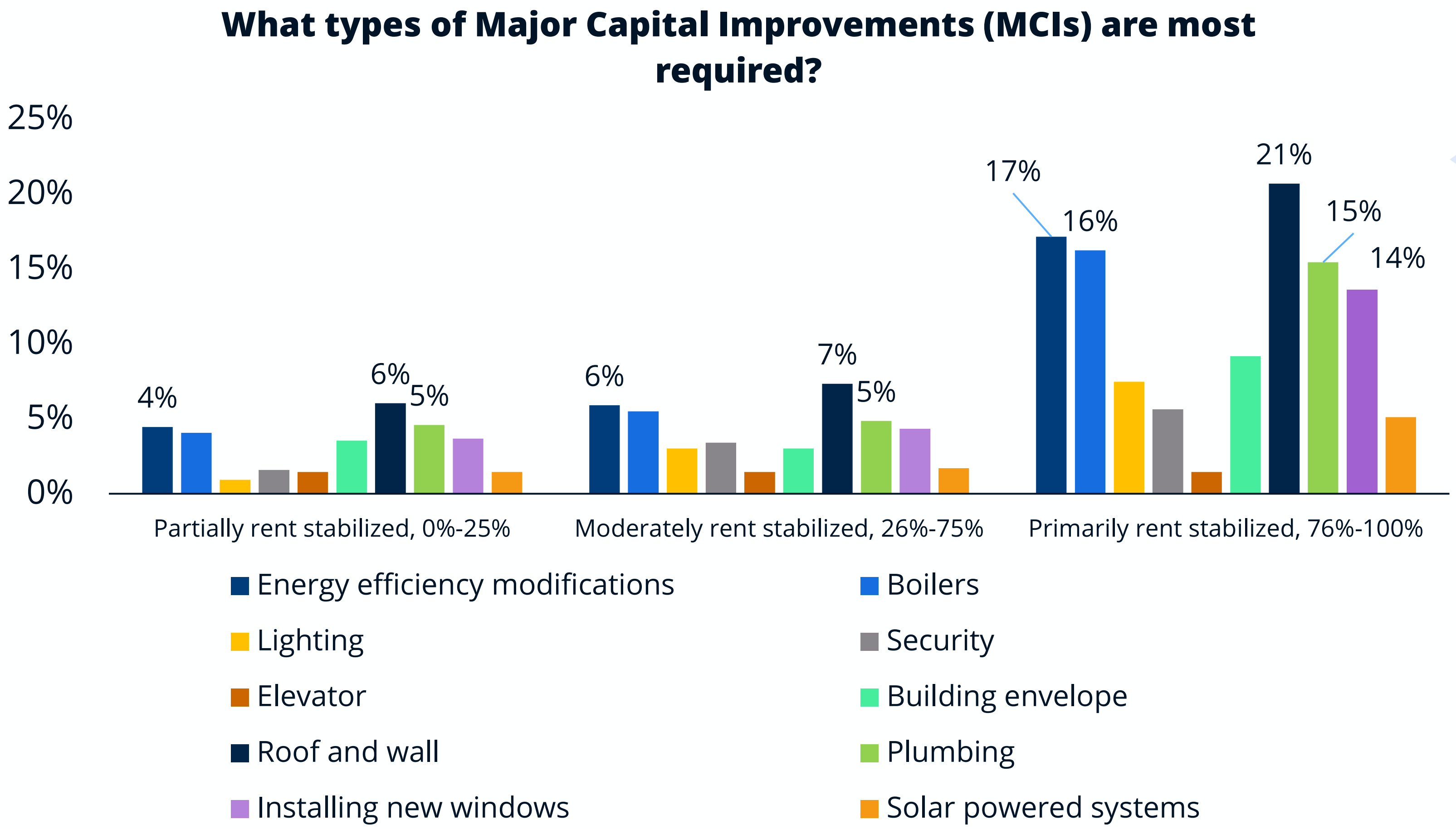
MCIs filed by RSA Members by Year, 2014-2023



Note: * RSA membership filings represent approximately 10% of the rent stabilized stock in NYC.

Major Capital Investments (MCIs) – Investments Most Needed

The top four categories of MCIs needed for buildings with rent stabilized units are energy efficiency modifications, boilers, roof and wall, and plumbing.

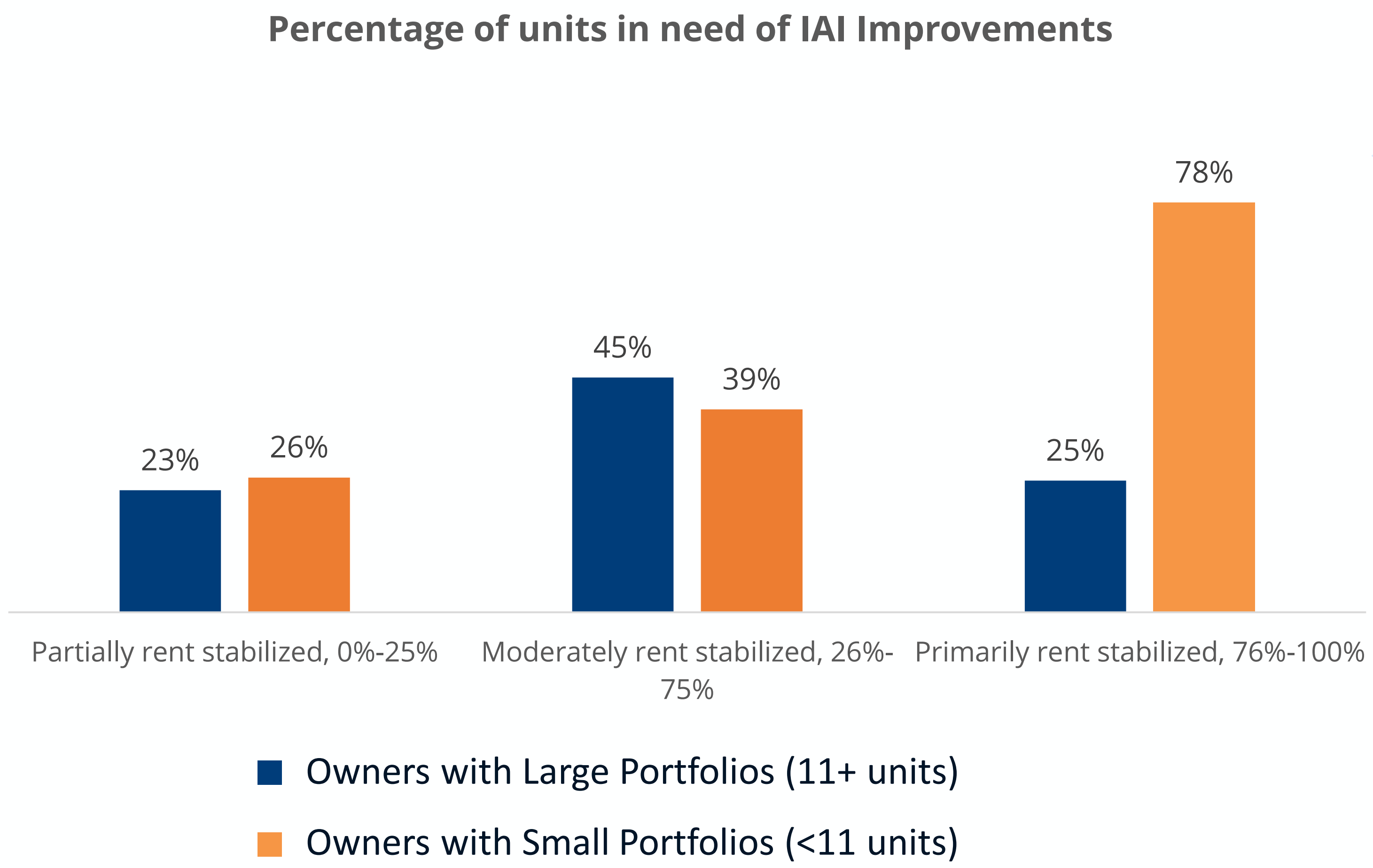


- Units in portfolios that are over 75% rent stabilized were in most need for MCIs, with 21% needing roof and wall improvements.
- After roof and wall, all building types express the highest need for energy efficiency modifications and boiler improvements.
- Owners expressed the lowest need for lighting, security, and elevator improvements.

Note: 364 or 48% of respondents answered this question. 66% of the 364 respondents were large portfolio owners or managers (11+ units).

Individual Apartment Improvements (IAIs) – Units in Need

78% of units in small portfolios that are over 75% rent stabilized need IAIs.



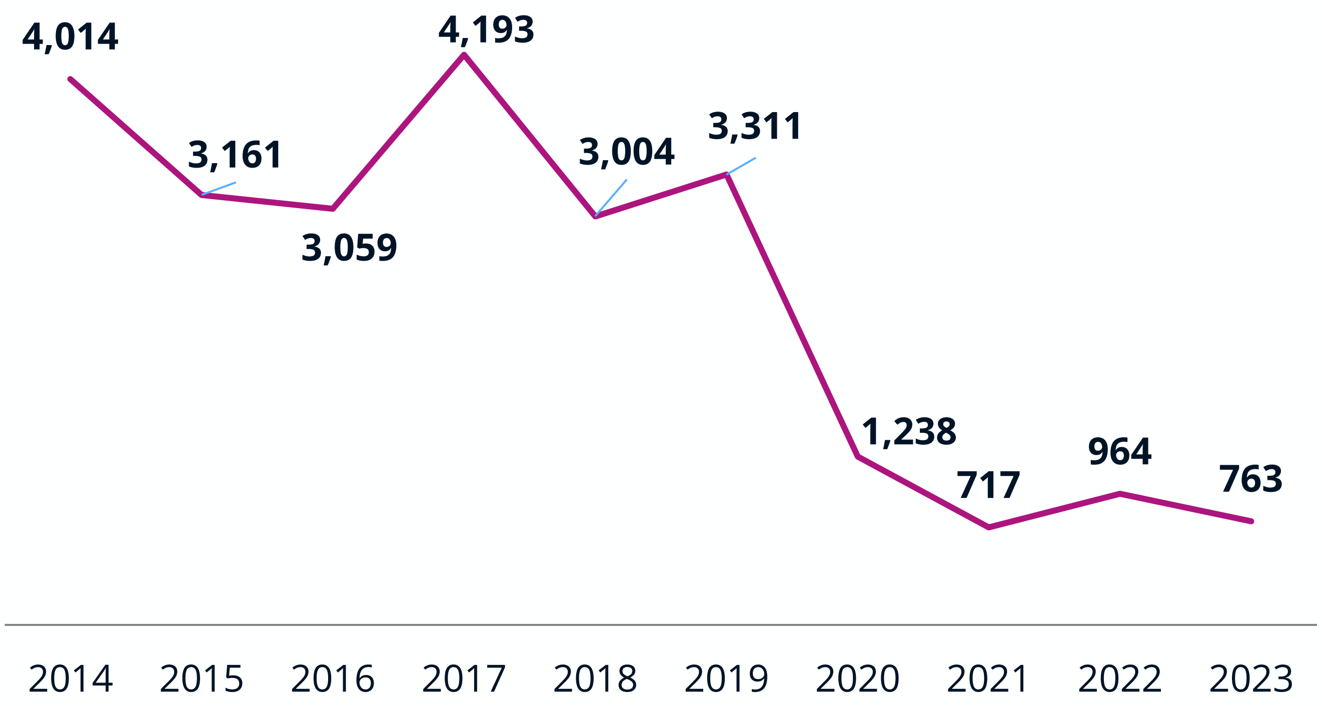
- Responses represent approximately 1,000 units in small portfolios (<11 units) and 216,000 units in large portfolios (11+ units).
- Over 40% of units in portfolios that are 26%-75% rent stabilized need IAIs.
- Approximately 25% of units in partially rent stabilized portfolios need IAIs.

Note: 386 or 49% of the survey takers responded to this question.

Individual Apartment Improvements (IAIs) – Reduction in Filings and Spending

By 2023, annual IAI filings had declined by 77% since 2019. Owners cut back most on appliance improvements, with slightly smaller cutbacks to AC and window improvements.

IAIs filed by RSA by Year, 2014-2023



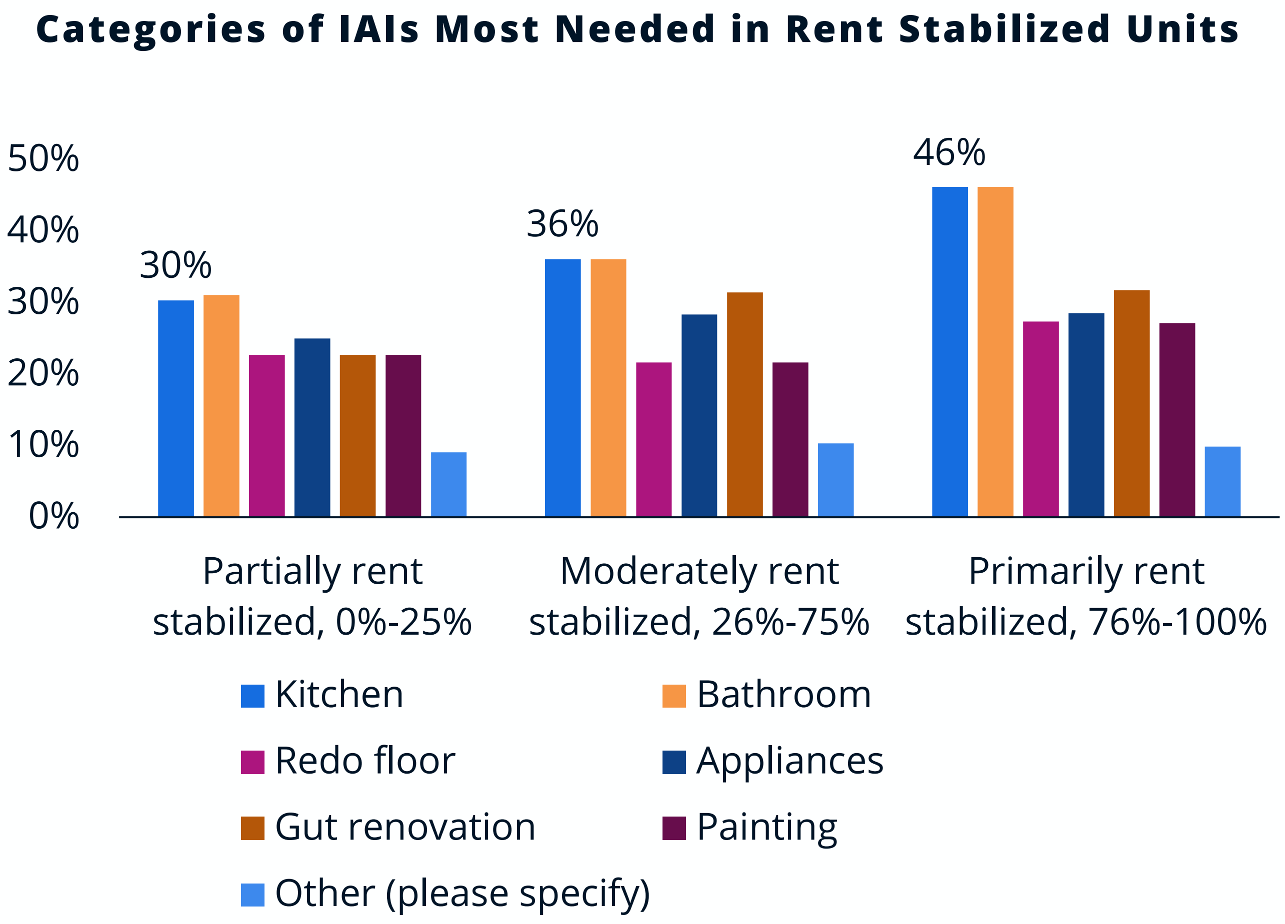
Changes in IAI Filings by Category

Category	% Change, Post-2019 compared to Pre-2020
All IAIs	*-73%*
Stove	-59%
Refrigerator	-59%
Dishwasher	-65%
Windows	-53%
AC	-45%
Other	-76%

Note: * RSA membership filings represent approximately 10% of the rent stabilized stock in NYC.

Individual Apartment Improvements (IAIs) – Investments Most Needed

According to the survey, kitchen and bathroom improvements are the most needed IAI categories across all building types.



- 76 owners selected "Other", and the two IAI categories that they mentioned the most frequently under "Other" were electrical upgrades (29% of 76 responses) and lead abatement (16% of 76 responses), which indicate costs associated with compliance with City regulations.

Tax Impact Analysis

Tax Impact Analysis

Decreases in NOI result in a fiscal impact on property taxes.

- NOI, or Net Operating Income, is equal to a building's **income minus operating expenses**. NOI is devoted to three broad uses: repayment of mortgage or other debt, reinvestment in the property, and profit. In New York City, property taxes are assessed based on a building's NOI.
- **For every 1% drop in NOI** across the rent stabilized stock, rent stabilized apartments will generate **$67.3 million less** in property taxes.
- Potential **NOI reduction** is estimated **between 40-60%** across the rent stabilized stock **by early 2030s**.
- The property tax revenue generated by the City's rent stabilized stock could fall **$1.3 - $2 billion on an annual basis**.

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