Landlord Myths

Sorry, ACORN: Most rent-stabilized owners small-time, breaking even

Ask most apartment tenants or tenant advocacy organizers to describe the typical New York City landlord and they would likely describe Mr. Potter, the mean-spirited, grumpy old man played by Lionel Barrymore in Frank Capra's 1946 holiday classic *It's a Wonderful Life*. In the movie, Mr. Potter is the perfect villain and counterpoint to the virtuous hero, George Bailey, played by Jimmy Stewart.

Robert Knakal
Columnist

That perception should change tangibly based upon a new study released last week by Urbanomics, the acclaimed economic consulting firm. The study is an expanded survey of owners of rent-stabilized buildings in New York City. The Community Housing Improvement Program (CHIP), with the cooperation of the Rent Stabilization Association (RSA), retained Urbanomics to prepare the survey to better understand who rent-stabilized owners are as well as the problems they face. The survey was performed by the polling firm Business Beanstalk, which had no direct contact with CHIP or RSA.

This highly comprehensive study is the first of its nature in more than 25 years and consists of cumulative data and information based on a sampling of 50,000 rent-stabilized buildings. The study provides strong evidence to dispel the Potter-like characterization that rent-stabilized owners are primarily large corporate interests, speculators, frequent "flippers" of properties or absentee owners who make obscene amounts of profits, unfairly taking advantage of their tenants.

In fact, the survey shows that a typical owner is a long-term investor and an immigrant managing his or her own properties through a family business, living in or near the properties and dependent upon the rental revenue for a significant portion of his or her income. If we take a closer look at some of the myths about multifamily building ownership, using statistical data from the survey, the results are impactful.

Myth No. 1: Owners are primarily large corporate interests. In actuality, 48.2 percent of all owners are immigrants or children of immigrants. In Queens, this percentage rises to 58.8 percent. Interestingly, nearly 40 percent of owners are minorities and 75.1 percent of owners either own individually or are part of a family business. In the Bronx, this percentage increases to 83.7 percent. Moreover, the survey found that 39.8 percent held 10 or fewer total units and 76.1 percent owned fewer than 50 total units.

Myth No. 2: Owners are speculators and frequent flippers. Tenant advocacy groups like to vilify owners as speculators who are only in the game for quick profits. I find the reference to "speculators," in this case, almost as amusing as President Obama referring to secured bondholders in Chrysler as speculators. Perhaps his speechwriters should have done a little due diligence to understand that a significant percentage of those "speculators" were actually retired teachers, laborers and municipal workers who were investing their retirement funds on a relatively conservative basis (or so they thought before the White House vaporized their senior rights).

Owners of multifamily properties are not speculators; they are investors. Speculators passively speculate that something will be worth much more in the future based upon short-term occurrences over which they have no control. Stock speculation is the quintessential example of this. Owning and managing rent-regulated housing in New York City profitably requires a lot of hard work. The very complicated maze of regulations is difficult to navigate and creates a tangible hurdle for first-time buyers. Often, it is only through capital investment and operating efficiencies, over the long term, that profits are realized. It is for these reasons that the survey found that 70.5 percent of all owners have held their properties for more than 20 years. Only 13.4 percent of owners have had their buildings for less than 10 years and, of these, nearly half (46.4 percent) are foreign born.

Myth No. 3: Owners are not hands-on, and operate as absentee landlords. The survey found that an astonishing 92.1 percent of owners manage their own properties and, more surprisingly, 30.5 percent live in one of their buildings. Of those that live elsewhere, 25.1 percent live in the same borough and an additional 13.1 percent live in another borough of New York City.

Myth No. 4: Owners are making obscene levels of profits. The fact is that operating costs are increasing at a much more rapid rate than revenue is increasing based upon allowable regulated increases. Water and sewer charges, fuel and real estate taxes have all seen massive increases for many years running. Given these conditions, the survey found that 49.1 percent of owners said the profitability of their buildings has decreased in the past five years; an additional 24.1 percent have seen little change. Also, 8.9 percent said their revenues do not cover operating costs, and 31.2 percent barely break even.

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Tenant advocacy groups claim that owners are making money hand over fist by deregulating apartments. The survey found that only 34.4 percent of owners have had individual units exempted due to high rent decontrol, and a mere 24 percent had units exempted due to high income decontrol. Of these two groups, 72.1 percent had to subsidize regulated units with the income from deregulated units.

It is important to understand that rent-stabilized housing in New York City is misallocated. The rent laws provide maximum benefits to those who have been in place for a long time regardless of their financial status or need. Studies completed by the Wharton School and MIT have independently demonstrated that rent regulation actually keeps average rent levels elevated in New York because of the supply constraint it causes. Tenants in regulated units are reluctant to move, creating fewer options for those looking for an apartment.

Unfortunately, even if every economist in the nation proved to politicians that the elimination of rent regulation would lower average rents for New Yorkers, it would be political suicide for any legislator to take a position against rent regulation. Even those who privately tell you that the system is problematic would never say so publicly. There are simply more tenant voters than non-tenant voters, and evidence of this dynamic is everywhere.

It was amusing to me when, last year, a City Council member referred to the architecture of Stuy Town and Peter Cooper Village as "beautiful and of unique character possessing a wonderful sense of place worthy of landmarking." If that was not a position taken transparently for 25,000 votes, I don't know what is. But political pressures to bolster pro-tenant regulation also exist because many elected officials here are beneficiaries of rent regulation themselves. Regulated apartments are supposed to be used only as a tenant's primary residence. One notorious politico has three rent-regulated primary residences. I must have been absent from school on the day that the math teacher taught that 1 + 1 + 1 = 1.

Fueling the anti-owner sentiment is the list of tenant advocacy groups, which is lengthy and growing. ACORN, NYS Tenants and Neighbors Coalition, Met Council, New York Is Our Home and Urban Homesteading and Assistance Board are just a few of the dozens that exist. Property owners are regularly accused by these groups of using unfair tactics to evict regulated tenants. The point few ever make is that regulated tenants, who are legally in possession of their units, have absolutely nothing to worry about. The fact is that abuses of the system, in the form of non-primary residence occupancy and illegal subletting, is extensive. Prudent owners are simply seeking out these abusers.

I recall, as a young broker in the mid-1980s, conducting an inspection of a building in Washington Heights for an owner who was considering selling. Typical for the area, many of the apartments were three- and four-bedroom units. I was curious why there were padlocks on most of the bedroom doors in so many of the apartments I looked at. I came to learn that tenants were renting rooms to non-family members and, essentially, running mini hotels. While not legal, this was a fairly common practice in the area.

Twenty-five years later, the padlocks are still on many of those bedroom doors. Given the recently released undercover video showing the tactics used by some organizers, might they be instructing tenants how to game the system? They use terms like "predatory equity," "shoddy lending practices" and "irresponsible ownership" to incite the ire of those who have the power to modify the regulations. All at the expense of and detriment to property owners, very few of whom resemble Mr. Potter.

Perhaps the Urbanomics study will change the way the public perceives the typical property owner. As Patrick Siconolfi, the executive director of CHIP, says, "The survey creates a distinct image of who multifamily property owners are and what their livelihood is all about. We are hopeful that this dispels many of the myths that have been created in the media and in the minds of tenants."

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