



November 22, 2011

Mr. Robert LiMandri
Chair
New York City Loft Board
280 Broadway, 7th Floor
New York, NY 10007

Dear Mr. LiMandri:

The Real Estate Board of New York (REBNY) is a trade association representing more than 12,000 owners, builders, managers, brokers and other professionals active in real estate in New York.

REBNY supported the 2010 amendments to the Loft Law which extended tenant protection to numerous loft buildings in Brooklyn and other parts of the city. In addition, REBNY supported the 2011 amendments which provided that tenants had protections that were anticipated in the earlier amendment.

Our support was an acknowledgement that in many areas manufacturing is no longer a viable economic use of loft buildings, that the zoning changes which are a more suitable approach were not likely to occur and that our city continues to need an increase in its supply of housing to better serve our current residents and to address the needs of our growing population. For these reasons, we supported the extension of the loft law. These amendments, though, were neither an attempt to create affordable housing nor do we think the loft law is an appropriate mechanism for achieving this important goal.

We would like to offer our perspective on the issue of rent increases for these loft dwellings in order for the Board to arrive at a fair, economically prudent number that would be an incentive to renovate quickly and to preserve the economic viability of these properties now and in the future under rent stabilization.

One publicly recognized measure to set rent increases is the Rent Guidelines Board (RGB). Over the last ten years, the Rent Guideline Board increases for a one-year lease with the landlord paying electricity was 33.5 percent, for an annual average of 3.35 percent. These increases generally reflect allowable increases needed to continue the operation of a building. In areas where the residential market is improving, RGB increases actually keep rents below market, thus providing an economic benefit to tenants. This is also the case here, especially in the areas of Brooklyn where many of these illegal lofts are located.



We have looked at the changes in the sale prices of apartments in Brooklyn overall, as well as in Williamsburg and Bushwick. This information is based on recorded sales which are publicly available.

In Brooklyn, the median sales price of an apartment between 2004 and 2011 increased 48.1 percent, or an annual average of 6.9 percent. Over the same time period, the median sales price of an apartment in Williamsburg increased 113.3 percent, or 16.2 percent annually. In Bushwick between 2007 and 2011, the median sales price increased 19.8 percent for an annual increase of 4.9 percent. The market price increases in the borough and the neighborhoods with illegal lofts exceed the allowable RGB increase.

However, while the sales market is slowly improving from the financial crisis of 2008, the rental housing market by some accounts is seeing rents exceed 2007 levels. The annual increases in sales price probably understates the market increases in residential rents, but it does show how even RGB increases keep rents down in a rising market.

These trends in the increasing value of residential property as well as loft buildings are demonstrated in the market value increases that the New York City Department of Finance assigns to such properties. For example, two loft buildings whose market values increased tremendously in Williamsburg (573 Metropolitan Avenue and 83 Meserole Street), which based on newspaper accounts had illegal residential tenants. According to the New York City Department of Finance, their market values increased 360 percent (36 percent annually) and 135 percent (13.5 percent annually), respectively, over the last ten years. In comparison, the market value of two rental buildings in the same neighborhood (122 Bedford Avenue and 210 Meserole Street) increased 140 percent (14 percent annually) and 205 percent (20.5 percent annually), respectively, according to the Department of Finance.

This growth includes the great recession's impact on residential market values. As a result of this growth, real property assessments for these properties have risen significantly as well, thus increasing the taxes these properties pay. The legalization of these buildings over time and the continuing improvement in the neighborhoods where these buildings are located can be expected to bring increased operating expenses, especially real property taxes.

The Board's deliberations should recognize the period of time these properties have gone without a rent increases. Also, the Board's deliberations should recognize that owners will incur the cost of paying for the tenant's leasehold improvements. These factors must be taken into consideration to arrive at a fair, economically prudent rent increase that would be an incentive to renovate quickly, that would preserve the economic viability of these properties now and in the future under rent stabilization, and that these properties would not be eligible for the economic benefits of luxury or vacancy decontrol.



We hope that this information makes clear that market values in the city, including areas in which illegal loft conversions occurred, have risen dramatically and more importantly that their taxes have likewise dramatically increased.

In conclusion, the Loft Board needs to complement the legislative action that permitted the legalization of these lofts and work to make these buildings code compliant residential multiple dwellings and approve a fair, economically prudent rent increase that benefits the tenants and landlords now and in the future.

Cordially,

Michael Slattery

cc: Steven Spinola