

## 2025 421-a Audit Report

### Exec Summary

In the inaugural year of this 421-a audit report, there was over 90% compliance in all three categories of review. The New York City (NYC) Department of Housing Preservation & Development (“HPD” or “the agency”) found that approximately 6.7% of buildings were out of compliance with rent registration requirements and 8% of buildings were out of compliance with some portion of affordability requirements. One building was found to be out of compliance with rent stabilization for decreased services, representing less than 2% of building noncompliance.

### Background

This report is created pursuant to RPT 421-a (18), which requires HPD to annually and randomly audit up to twenty-five percent (25%) of properties in receipt of 421-a benefits on or after January 1, 2014. Specifically, the agency is required to audit compliance with “rent registration,” “affordability,” and “rent stabilization” requirements.

The audit was conducted in collaborations with several teams at HPD, including the Office of Policy & Strategy, the Office of Legal Affairs, the Divisions of Housing Incentives and Compliance & Enforcement of Housing Incentives (C&E) within the Office of Development. The work was further supported by contributions from the State Division of Homes and Community Renewal (HCR).

C&E is HPD’s dedicated housing incentives enforcement team. Since its inception in 2017, C&E has revoked over \$76 million<sup>[1]</sup> in real property tax benefits, collected approximately \$11 million<sup>[2]</sup> in penalty payments, and brought over 4,200 buildings (representing 77,000 apartments) back into compliance. The team is currently expanding its role to include enforcement of additional tax incentives programs as well as the updated zoning incentives program.

In its inaugural year of this report, the agency randomly selected three percent (3%) of eligible buildings resulting in 60 buildings being examined under each of the three prongs of review.



Three percent was deemed the minimum number that is also statistically significant. Once the process for this annual audit becomes routine, the agency intends to evaluate whether to increase the number of buildings reviewed each year for future reports.

## **Methodology**

### **Scope of Audit**

The scope of this audit included NYC rental buildings receiving either 421-a (1-15) or 421-a (16) tax exemption benefits starting from January 1, 2014, through June 30, 2025 (FY25). Utilizing both Department of Finance (DOF) and HPD tax exemption data, the agency identified that the universal set of 421-a (1-15) and 421-a (16) rental buildings with active benefits within that timeframe was approximately 2,000 buildings. From that list of 2,000 buildings, 3% were randomly selected through an automated data process, resulting in a final pool of 60 buildings being audited. Those 60 buildings were reviewed to confirm if owners were complying with the three areas identified in the New York state law: rent registration, affordability, and rent stabilization requirements.

### **Audit of Rent Registrations**

The first prong of the audit undertaken was to verify that rents were annually registered with Homes and Community Renewal (HCR) for the pool of 60 buildings. HPD utilized a database that provided real-time HCR rent registration information to verify if building owners had annually registered rents with HCR for each of the 60 buildings. Annual registrations of buildings were verified from the time-period starting with the first year building owners were required to submit registrations to HCR, through every subsequent year, until CY24. Findings of the audit include every year each building did not have their rents registered, *i.e.*, every year a building is considered out of compliance with New York state law rent registration requirements. To ensure accuracy of matches between the 60-building list and the internal database containing HCR registration information, additional datasets/databases were utilized to validate building addresses and AKA addresses were identified and used to help secure matches.

#### **Delimitations:**

- The HCR registration submission timeline provides certain owners the opportunity to register rents into August of CY25. However, to provide sufficient time to conduct the audit, evaluate findings and publish this report by the end of CY25, verification of CY25 rent registrations was not included in this audit.
- After the audit was conducted, a few of the buildings in the final pool of 60 were determined to have had their 421-a benefits suspended or revoked and either (a) did not have active benefits at the time the audit was conducted, or (b) did not require rent



registration until their first submission year of CY2025. These buildings were excluded from the findings of the audit, including the compliance rate, as they were ultimately deemed ineligible buildings for registration verification purposes. However, these buildings are included in the Findings discussion below.

### **Audit of Affordability**

HPD identifies how many units are affordable within a building upon its approval of the 421-a (1-15) and 421-a (16) benefit. For projects that applied under 421-a (16), HPD further documents individual unit affordability. Using the population of randomly selected buildings to be audited, HPD established which buildings participate in the 421-a (1-15) and 421-a (16) programs.

For buildings participating in the 421-a (1-15) program and subject to an affordability requirement, HPD established the certified total number of units in the project and requisite certified total number of affordable units in the project based on the benefit type and construction start date. The agency then determined whether at least twenty percent of the units in the project are currently registered with income-restriction status with HCR. Projects were determined non-compliant if the total number of income restricted units did not equal at least twenty percent of the dwelling unit total of the project.

For 421-a (16) buildings, HPD matched each HCR unit registration with its respective 421-a (16) approval record and compared the legal rent registered for the affordable unit to the maximum gross monthly rent of the selected HUD Income Limits also known as Area Median Income (“AMI”) band, adjusted by bedroom count and year. 421-a (16) affordable units were excluded from any non-compliance categorization if: (1) the legal monthly rent registered for 2023 did not exceed 2023 AMI gross rent, adjusted for HPD-approved AMI band and bedroom count; (2) the unit was denoted with income restricted status; and, (3) the unit’s income restriction percent of AMI was no greater than the HPD-approved AMI.

### **Audit of Rent Stabilization**

When requested to provide information on compliance with rent stabilization for the randomly selected sixty buildings under review, HCR reviewed the histories for each building and provided the determinations for any applicable finalized administrative case. HCR excluded any open cases that were still being adjudicated at the time the review took place in about July 2025, because open cases are not dispositive of a violation of the rent stabilizations laws.



## **Findings**

### **Rent Registration**

For the randomly selected buildings, HPD reviewed whether the buildings had properly registered with HCR as rent stabilized for all years since first required to do so. The start date is different for each building as the registration requirement commences at a point in time after a building's completion date.

Five of the 60 buildings showed no registration with HCR. One of those buildings already had its 421-a benefits suspended and is not receiving benefits due to HPD's ongoing 421-a enforcement work; one already had its 421-a benefits revoked and is not receiving benefits due to HPD's ongoing 421-a enforcement work, which would identify all noncompliant buildings in time; and one has not yet completed construction and is, therefore, not yet required to register. This left two (2) buildings without the required registrations, representing a noncompliance rate of approximately three percent (3%). If counting all four buildings that were required to register and failed to do so without regard to ongoing enforcement efforts, the noncompliance rate would be calculated at approximately 6.7%.

### **Affordability**

The agency reviewed the affordability requirement of the 421-a (16) buildings based on the 2023 registration cycle and 2023 AMIs, the last complete year of available data. Building registrations were reviewed to determine whether they indicated income restriction status. Where income restriction status was indicated, the correct maximum rent was verified based on apartment size. Where a maximum rent was established, the registered rent was reviewed to confirm it was at or below the approved rent.

With respect to affordability compliance, five buildings were found to warrant follow up in relation to noncompliance. One building, previously referenced in the Rent Registration section, was missing its annual 2023 registrations; four buildings failed to correctly denote the income restriction status and approved AMI band on a portion or all of the affordable units in the DHCR registrations; and no buildings were found to have income restrictions as a percent of AMI greater than the HPD-approved AMI band.

### **Rent Stabilization**

HCR reviewed the selected 60 buildings for compliance with rent stabilization. HCR determined that it would look at only closed cases since any open ones are still being adjudicated. As of July 2025, the selected buildings had 28 closed cases combined. Of those, all cases were withdrawn, denied, or closed without action, except for one finding of decreased services (and one tenant harassment case where the final determination was listed as "other" because it was settled in a different forum).



## **Conclusion**

The agency found over 90% compliance in each of the three prongs of review in the inaugural year of the 421-a (18) Audit report. The results included several instances where compliance actions had already been taken indicating that existing enforcement efforts are working. C&E will continue to review and enforce against instances of noncompliance with 421-a.

<sup>[1]</sup> This number was calculated by adding revoked amounts from several points in time; however, the actual amount revoked may change as buildings get into compliance even after revocation and their tax benefits may be restored upon paying a penalty among other requirements.

<sup>[2]</sup> This figure includes penalty payments collected by C&E's legal staff, as well as settlement payments collected through successfully defending Article 78 proceedings.

