



TESTIMONY ON

RENT INCREASES FOR  
SINGLE ROOM OCCUPANCY HOTELS

PRESENTED BEFORE:

NEW YORK CITY  
RENT GUIDELINES BOARD

PRESENTED BY:

BRIAN J. SULLIVAN  
SENIOR STAFF ATTORNEY  
MFY LEGAL SERVICES, INC.

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Good afternoon, Chairman and members of the Board. My name is Brian Sullivan. I am a senior staff attorney in the SRO Law Project at MFY Legal Services, Inc.

MFY envisions a society in which no one is denied justice because he or she cannot afford an attorney. To make this vision a reality, for 50 years MFY has provided free legal assistance to residents of New York City on a wide range of civil legal issues, prioritizing services to vulnerable and under-served populations, while simultaneously working to end the root causes of inequities through impact litigation, law reform and policy advocacy. We provide advice and representation to more than 8,500 New Yorkers each year. For over 20 years, MFY's SRO Law Project has provided free legal services to the City's tenant population that lives in Single Room Occupancies. Thank you for inviting MFY to speak about the impact a rent increase would have on the SRO community.

SROs are the housing of last resort for poor New Yorkers. They are the safety net at the bottom of the market that keeps thousands of people off the street and out of shelters. Unfortunately, this safety net is steadily fraying. Over 50,000 people go to bed each night without a home or shelter of their own, a figure toting even 2013's historically high level.<sup>1</sup> SRO tenants are amongst New York City's poorest residents, and a rent increase for SROs would likely push more of these tenants out of their homes and into the shelter system.<sup>2</sup>

SRO owners, on the other hand, continue to exploit profitable operating strategies, such as renting to transient guests and institutional tenants,<sup>3</sup> that are entirely independent from the rent increase rates set by the Rent Guidelines Board. Furthermore, while even a slight increase to SRO rents can have a devastating impact on their very low income tenants, the benefit conferred to SRO owners would be negligible. MFY therefore requests that the Board decline to approve a rent increase for 2013-2014.

### **The Basics of SRO Housing in New York City**

SROs are the most basic form of housing available in New York City. They come in many different forms, but generally consist of a small, single room, often between 60 and 100 square feet. These rooms can be found in both small and large buildings. Larger SRO buildings often resemble traditional hotels, with multiple rooms on long hallways. Some larger SRO buildings, such as those in the Bowery, are massive loft spaces divided into cubicles by basic walls. The majority of these large SRO buildings have communal bathrooms and no cooking facilities (or very basic cooking facilities). These larger SROs can be found throughout the City, but in MFY's experience are mostly located in Manhattan.

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<sup>1</sup> Coalition for the Homeless, Basic Facts About Homelessness, available at:

<http://www.coalitionforthehomeless.org/pages/basic-facts-about-homelessness-new-york-city-data-and-charts>.

<sup>2</sup> A 1980 survey of homeless men entering shelters indicated that approximately 50% had previously resided in an SRO. See Malcolm Gladwell, NY Hopes to Help Homeless by Reviving Single Room Occupancy Hotels, Washington Post, April 25, 1993; historically, SRO residents have subsisted on the verge of homelessness (Anthony J. Blackburn, Single Room Living in New York City 8 (N.Y. City Dep't of Housing Preservation and Dev't 1996)).

<sup>3</sup> See, e.g., Joseph Berger, For Some Landlords, Real Money in the Homeless, New York Times, February 8, 2013; David Seifman and Amber Sutherland, City's Ex-'Homeless' Homeless Honcho in New Storm, New York Post, August 14, 2012.

Smaller SRO buildings more closely resemble apartment buildings, and the rooms themselves can resemble dormitory units. Like their larger counterparts, these SROs typically have communal bathrooms. It is more common in these buildings to find basic kitchen facilities in individual rooms, though communal cooking facilities are not uncommon. Smaller SROs can be found in brownstones or other small buildings throughout the City.

Some SRO rooms come fully furnished, but more often tenants furnish their own rooms. Typically, these furnishings include a bed, a dresser, and a small work space such as a table or desk. Even when space is tight, SRO tenants find clever storage solutions and other means for making comfortable homes for themselves. Common areas in SRO buildings are important locations among the tenants for socializing and passing the time, as are other nearby public locations such as coffee shops and local delis.<sup>4</sup>

SRO buildings have been subject to rent regulation since the enactment of the modern Rent Stabilization Code in 1987.<sup>5</sup> Because of their historically low rents, SROs are a critical segment of the City's housing stock. They make up a significant percentage (5-10%) of all units affordable<sup>6</sup> to poor New Yorkers.<sup>7</sup> Rents for SRO units are lower than those for any other form of non-subsidized housing.<sup>8</sup>

Over the last several decades, tens of thousands of SRO units have been converted to other uses.<sup>9</sup> Rents for the remaining units have increased dramatically while the cheapest units—those renting for less than the public assistance shelter allowance—have all but disappeared. The City has been left scrambling to find shelter for the 53,000 New Yorkers who do not have a place to stay each night.<sup>10</sup>

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<sup>4</sup> For an excellent description of hotel living throughout US history, see Paul Groth, Living Downtown: The History of Residential Hotels in the United States (1994).

<sup>5</sup> W. Dennis Keating, Landlord Self-Regulation: N.Y. City's Rent Stabilization System 1969 – 1985, 21 Wash. U.J. Urb. & Contemp. L. 77 (1987).

<sup>6</sup> A housing unit is affordable if the rent is equivalent to 30% or less of a household's income. See, e.g., U.S. Department of Housing and Urban Development, "Affordable Housing" (available at <http://www.hud.gov/offices/cpd/affordablehousing/>) ("Families who pay more than 30 percent of their income for housing are considered cost burdened...").

<sup>7</sup> Based on Census data, MFY estimates that there are approximately 30,000 SRO units in New York City, the vast majority of which are affordable. See U.S. Dep't. of Commerce, U.S. Census Bureau, 2011 Housing and Vacancy Survey, available at: <https://www.census.gov/housing/nyc/hvs/data/2011/ser1a.html> (table 15). These units are under great pressure and are constantly being converted to higher rent use. A common means of such conversion is unlawful rent increases. Compare Rent Guidelines Board Hotel Order # 39 – Explanatory Statement (estimating median registered legal rent at \$977.00) with Rent Guidelines Board Hotel Order # 42 – Explanatory Statement (providing median registered legal rent of \$1,094.00) with Rent Guidelines Board Hotel Orders # 1 – 42 (Summary) (showing that the RGB approved a single 3% increase between 2009 and 2012).

<sup>8</sup> Data compiled from DHCR rent registrations and Housing and Vacancy Survey (HVS) by the West Side SRO Law Project suggest that in 2002 the median rent for an SRO unit was \$450 per month. Assuming only lawful increases since 2002, the median rent in 2014 would be approximately \$521 per month. The median rent for a rent-controlled unit, the next least-expensive form of housing, is \$895 per month. 2011 HVS, at pp. 5-6.

<sup>9</sup> In the late 1940s there were approximately 200,000 SRO units in New York City. See Malcolm Gladwell, NY Hopes to Help Homeless by Reviving Single Room Occupancy Hotels, Washington Post, April 25, 1993. By 1993 there were approximately 46,744 SRO units. Id. By 2002 this number had dropped to 35,227. See U.S. Bureau of the Census, 2002 HVS. Currently there are probably around 30,000 SRO units left. See supra note 7.

<sup>10</sup> Basic Facts About Homelessness, supra note 1. This grim figure has increased since last year, when, according to Coalition for the Homeless, "New York City's homeless shelter population soared to its highest levels ever, *with*

## **SRO Tenants Cannot Afford a Rent Increase**

The majority of SRO tenants live below the poverty line.<sup>11</sup> They pay an unconscionable percentage of the little income they have toward rent. Since the mid-1990s, SRO tenants' rent burdens have actually increased<sup>12</sup> as rent increases<sup>13</sup> have far outstripped income growth.<sup>14</sup> The average SRO tenant now pays around 50% of his/her income toward rent and approximately one-quarter to one-third pay in excess of 70%.<sup>15</sup> This situation is largely a consequence of the fact that SRO tenants, already positioned at the bottom of the housing market, cannot relocate in response to rent increases. If they do not quickly find a similar unit, they can seldom afford to upgrade to a full studio or apartment.

The real life impact of statistics like those above is brutal: after rent is paid, most SRO tenants have somewhere in the approximate range of \$4.40 per day to cover all other expenses (food, clothing, medicine, etc).<sup>16</sup> Entire days' worth of desperately needed financial resources would be wiped out by even a small rent increase.<sup>17</sup>

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*more than 43,000 homeless New Yorkers – including a record 17,000 children – bedding down each night in municipal shelters.” See Coalition for the Homeless, State of the Homeless 2012: “If Not Now, When?” (June 2012) (emphasis supplied).*

<sup>11</sup> HVS data from 2002 suggested that approximately 48% of SRO tenants lived below the federal poverty line. 2002 HVS at pp.4-5. Since 2009, however, New York City has used a poverty measure that is substantially more accurate than the federal measure. Sam Roberts, City Report Shows More Were Near Poverty in 2011, New York Times, April 21, 2013. The poverty income-threshold under the New York City measure is approximately 25% higher than under the federal measure. *Id.* It is therefore reasonable to project that, under the New York City measure, a significant majority of SRO tenants fall below the poverty line.

<sup>12</sup> According to Single Room Living (1996), the median rent burden for rent regulated SRO tenants in 1993 was 33%. Data compiled by the West Side SRO Law Project and submitted to the Rent Guidelines Board in 2008 suggested that the median rent burden for SRO tenants had increased to approximately 39% by 2002. The median rent burden for all renters was 30.9% in 2011. Dr. Moon Wha Lee, Selected Initial Findings of the 2011 New York City Housing and Vacancy Survey 6 (N.Y. City Department of Housing Preservation and Development, 2012).

<sup>13</sup> According to the Single Room Living (1996), the average monthly rent for an SRO in 1991 was \$324.00 and the median was \$280.00. Data compiled by the West Side SRO Law Project and submitted to the Rent Guidelines Board in 2008 suggested that, as of 2002, the average rent for an SRO was \$705 and the median was \$450. Information compiled by the Rent Guidelines Board in 2008 from DHCR rent registration data indicated that the median contract rent in “buildings that are at least 85% rent stabilized” was \$705 in 2008. Rent Guidelines Board, Explanatory Statement – Hotel Order #39, p. 9. Data from the Rent Guidelines Board’s Explanatory Statement for 2013 suggests that the median legal rent for SROs (based on owner filings) is \$1,065. Rent Guidelines Board, Explanatory Statement – Hotel Order #43, p. 10.

<sup>14</sup> Average real income for households at the 75<sup>th</sup>, 50<sup>th</sup>, and 25<sup>th</sup> percentiles of the earnings distributions have fallen since 1999. Real non-managerial/non-professional wages fell by nearly 5% between 2007 and 2010. See Community Service Society, Poverty in New York City; Fiscal Policy Institute, New York City Poverty 2010.

<sup>15</sup> These estimates are based upon HVS data and upon MFY’s experience.

<sup>16</sup> This estimate is based upon conclusions drawn in the Community Service Society’s report, Making the Rent: Before and After the Recession, released in June 2012 and updated in September 2013 (available at: [http://b.3cdn.net/nycss/2b541395152c0a6d1e\\_vpm6b5w43.pdf](http://b.3cdn.net/nycss/2b541395152c0a6d1e_vpm6b5w43.pdf)).

<sup>17</sup> The amount of income lost depends, of course, on the tenant’s income and the rent he pays. Assuming a rent of \$450, and a monthly residual income of \$450, a 4.5% increase represents a loss equivalent to more than four days’ worth of income.

## **Property Owners Can Not Demonstrated a Need for a Rent Increase**

According to the Board's own figures, more than half of all units in the buildings we term "SROs" are not rented as regulated SRO units. The individuals and companies that own these buildings are property owners who, having done everything in their power to drive permanent tenants out, are left holding a significant number of residual SRO units that they have no intention of re-renting to new permanent, rent-stabilized tenants. To treat these property owners as though they were legitimately concerned with SRO policies—to pretend that their activities are significantly informed by the Board's SRO orders<sup>18</sup>—does not comport with reality.

Importantly, the profitability of SRO buildings is not based upon the rents owners collect from permanent SRO tenants paying their legal rent. Regulated rents serve only as a small supplement to the revenues owners realize from the large number of SRO rooms that are rented outside the regulated system. Owners lawfully and unlawfully rent regulated SRO units to transients, tourists, and institutional lessees at rates that significantly exceed stabilized rents. For example, the New York Times last year reported that as part of its homelessness prevention effort the City has paid as much as \$3,000 per month rent a room in an SRO.<sup>19</sup> Indeed, some building owners have built business empires out of renting SRO units to institutional tenants.<sup>20</sup> In the Bowery, it is common to see SROs operated as traveler hostels or boutique hotels.<sup>21</sup>

Some buildings are also being given over to use by so-called three-quarter houses.<sup>22</sup> These operations falsely hold themselves out as supportive housing to draw tenants recently released from prison and in other situations where finding housing quickly and indiscriminately is of paramount importance.<sup>23</sup> They evade rent regulation and turn a profit by overcrowding rooms, disregarding even basic maintenance and upkeep, churning tenants, and taking advantage of various government subsidies.<sup>24</sup>

In past years, Board members have questioned whether increasing SRO rents would cause owners to return a significant number of units to the regulated system. The answer is no. There is no evidence that owners rent units outside of the regulated system to cover costs or secure a reasonable return from their properties. SRO owners rent units outside of the regulated system in pursuit of windfall profits—unregulated revenues from regulated buildings. Relatedly, there is no increase that would eliminate a building owner's incentive to illegally increase rents or

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<sup>18</sup> Over the last two decades, SRO owners have disregarded the Boards' attempts to manage SRO rents. While the Board has approved a cumulative increase of approximately 30%, owners have unlawfully increased SRO rents by many times that amount. Compare Blackburn, *supra* note 11 (noting a median monthly rent of \$280) with Rent Guidelines Board Hotel Order # 42 – Explanatory Statement (providing median registered legal rent of \$1,094.00).

<sup>19</sup> Joseph Berger, For Some Landlords, Real Money in the Homeless, New York Times, February 8, 2013 (“The City’s Department of Homeless Services pays many times the amount the rooms would usually rent for – spending \$3,000 a month for each threadbare room without a bathroom or kitchen....”).

<sup>20</sup> Andrew Rice, Why Run a Slum If You Can Make More Money Housing the Homeless?, New York Magazine, December 1, 2013.

<sup>21</sup> Dan Berry, On Bowery, Cultures Clash as the Shabby Meet the Shabby Chic, New York Times, October 12, 2011.

<sup>22</sup> John Jay College of Criminal Justice, Prisoner Reentry Institute, Three Quarter Houses: The View From Inside (October 2013).

<sup>23</sup> Patrick Arden, Deep Concerns about ‘Three-Quarter’ Housing, City Limits, March 9, 2012; Cindy Rodriguez, Drug Rehab for Housing: Alleged Scheme Targets City’s Most Vulnerable, WNYC, December 15, 2010.

<sup>24</sup> See note 22, p. 13.

remove this dwindling stock of truly affordable housing from the market for good. Unless the Board increases rents to the market rate, owners will continue to have a strong incentive to convert units and overcharge tenants. A solution to this problem will require legislative action that is, obviously, beyond the scope of the Boards' authority.

### **Conclusion**

We respectfully request that the Rent Guidelines Board decline to approve a rent increase for SRO units. SRO owners are not dependent upon the rents paid by the dwindling permanent tenant population to cover their overhead and make a profit. However, even the smallest rent increase will have a devastating impact upon tenants and will further exacerbate the City's homelessness crisis.

*For any questions about this testimony, please feel free to contact Brian Sullivan at (212) 417-3713 or [bsullivan@mfy.org](mailto:bsullivan@mfy.org), or Christopher Schwartz at (212) 417-3755 or [cschwartz@mfy.org](mailto:cschwartz@mfy.org).*