NEW YORK CITY COMPTROLLER
BRAD LANDER

FOR THE LONG TERM

Responsible Property Management Standards

BACKGROUND

An unprecedented level of investment capital in the rental housing market invited a unique opportunity to develop standards for responsible property management that were designed to create the conditions for long-term prosperity for investors and renters alike.

The **Office of New York City Comptroller Brad Lander** and **For the Long Term**, a nonprofit organization that works with public Treasurers and other public fiduciaries to support the long-term well-being of their beneficiaries, collaborated on an effort to define and promote responsible property management standards with the goal of enhancing the long-term sustainability of the rental housing market.

As a trustee and investment advisor with fiduciary responsibility for the long-term sustainability of New York City's public pension funds, which serve 800,000 members and beneficiaries, and as a housing expert with several decades of experience in affordable housing development and tenants' rights advocacy, New York City Comptroller Brad Lander was For the Long Term's lead partner on this work.

Together, Comptroller Lander and For the Long Term worked with stakeholders to develop a set of **Responsible Property Management Standards,** consistent with fiduciary duty, that support fair practices towards residents living in properties owned or funded by asset managers. The standards are designed to reduce housing instability for tenants and improve the long-term quality and sustainability of residential rental real estate investments, while providing sufficient flexibility to manage investment risks and attain target financial returns.

Setting Standards: Making the Business Case

In the absence of widely accepted standards, property management practice in residential rental real estate varies considerably across the industry. As investment in the rental housing market has continued to grow, an opportunity has emerged for investors to fill this gap and set responsible standards for the industry.

Investors have an economic and moral imperative to manage the properties they own in fair and equitable ways that improve resident stability and long-term well-being and enhance the health of the rental housing marketplace. Ignoring this responsibility poses real risks, and the benefits for acknowledging this responsibility are clear. They include, but are not limited to:

1. **Improved long-term investment risk and return through resident stability.**
   Strong practices in property management lead to lower resident turnover and eviction rates, decreasing the significant burden of turn costs.
2. **Preserved and enhanced property values.**
   Increased capital expenditures and investments in housing quality positively impact property values and lower risk. Investment in one property contributes to an increased value for surrounding properties.

3. **The tools to navigate new regulatory environments.**

   New regulation in this market is becoming increasingly likely, as negative sentiment over institutional landlords grows. Smart investors will pre-emptively strengthen their property management practices helping maintain their profitability in new regulatory environments.

4. **A decreased potential for reputational risk.**

   As investors increase their involvement in the rental housing market, their exposure to reputational risk as a result of poor property management increases in parallel.

Unprecedented Investment, With a Growing Focus on Investments in Single-Family Homes

Single-family home purchases are a rapidly growing portion of institutional investors' portfolios. From 2011 to 2017, institutional investors fueled a combined $36 billion investment in acquisition of 200,000 single family homes. The share of single-family homes purchased by investors grew from 16% in 2020 to 24% in 2021.

For institutional investors purchasing these homes who are interested in the long-term sustainability of the market there is a clear lack of guidance on property management. Implementing a uniform set of standards for quality property management is critical to protecting the long-term profitability of investments.

Creating a New Narrative for Property Management

Poor property management practices impact all stakeholders, from tenants to operators to investors. Currently, there is a concerning pattern of egregious behavior by some real estate firms who purchase rental properties and inflict predatory practices on current tenants. Many tenants have reported facing unprecedented harassment by these firms, from construction at all hours, to delayed repairs, to unreasonable rent hikes.

As many members and beneficiaries of the city's public pension funds are renters, poor property management practices have a far-reaching impact stretching beyond the funds' returns. They can impact quality of life for pension fund members.

When an institutional investor purchases a rental property, whether single-family or multifamily, they are looking to maximize their risk-adjusted investment returns but doing so at the expense of tenants' well-being and long-term market sustainability creates unacceptable risks and makes for a poor investment.

With new, industry-wide standards for responsible property management practices, profits are positioned to increase across-the-board without creating competitive disadvantages for any property management firm committed to quality services in the meantime. The Responsible Property Management Standards will be a positive development for tenants, operators, and investors alike.

OVERVIEW

The Responsible Property Management Standards aim to improve the long-term quality and sustainability of residential rental real estate investments, as well as reduce housing instability and encourage fair practices and transparency for residents living in properties owned or funded by managers, while also providing sufficient flexibility for managers to manage investment risks and attain targeted financial returns for the benefit of residents, investors, plan participants, and beneficiaries.

There are four components to the Responsible Property Management Standards: Principles, Standard Practices, Best Practices, and Disclosures.

The Responsible Property Management Standards are designed around seven core **Principles**.

Each Principle is associated with one or more **Standard Practices**. A Standard Practice is a norm or common approach, policy, procedure and/or process employed as an established practice to produce a consistent desired outcome. Standard Practices represent the minimum expectations.

Beyond the Standard Practices, the Principles are supported by several **Best Practices**, which are intended to provide a road map for asset managers seeking to further elevate property management quality over time. A Best Practice is a method or approach that experience, and research have shown is likely more effective at producing a desired outcome.

Finally, the principles and practices are accompanied by a set of public **Disclosures**. The Disclosures are designed to increase market transparency and enable prospective tenants to make more informed choices. The Disclosures are intended to be public and are in addition to any disclosures that might be provided in the normal course of investor due diligence.

PRINCIPLE 1
Implement consistent and fair tenant screening and selection practices.

Standard 1.1 | Ensure compliance with federal, state, and local fair housing, civil rights, and consumer protection laws.
Disclosure — Violations of federal, state, and local fair housing and civil rights laws.

Standard 1.2 | Provide plain language explanation of application fees, screening criteria, and documentation requirements.
Best Practice — Minimize application fees such that they accurately reflect the actual costs incurred by the manager and its agents in the evaluation and processing of an application.

Standard 1.3 | Disclose all tenant financial obligations including rent, utilities, fees, etc. at the time of application.
Best Practice — Offer draft lease terms or key information, e.g., term, rate, deposits, late fees, limits on occupancy, etc., and other communications in plain language and offer translated copies in multiple languages to non-English speaking tenants.

Standard 1.4 | Accept Housing Choice Vouchers and do not use source of income as a tenant screening criteria.
Best Practice — Explore utilization of and reporting of positive screening criteria, e.g., positive rental payment history data, as a potential offset for items such as a low credit score, and limit use of public records of bankruptcies, foreclosures, and eviction filings (not successful evictions).

Standard 1.5 | Share screening criteria before accepting an application and limit criminal background checks to convictions (not arrests) for serious offenses.
Best Practice — Limit the use of criminal convictions (not arrests), except for in the case of serious offenses, as a singular criteria for denial of a rental application, adopt reasonable lookback periods (a maximum of ten years), mitigate the utilization of screening criteria and criminal background data that is discriminatory in nature and allow applicants the opportunity to provide mitigating evidence.

Standard 1.6 | Limit collection of personal data to decision-critical information.
Best Practice — Prohibit use of proprietary screening algorithms that do not routinely utilize algorithmic bias detection to test for discriminatory bias and, as necessary, employ mitigation practices. Utilize alternative credit scoring models demonstrated to reduce bias.

Standard 1.7 | Ensure application and screening process is consistent across all properties under the same ownership.
Best Practice — Minimize the impact of past evictions, bankruptcies, and foreclosures in screening.

Standard 1.8 | Disclose the reason(s) to the applicant when an application is rejected and, if applicable, require third party vendors to also follow similar disclosure procedures.

PRINCIPLE 2
Offer clear and fair leases; Reduce undue burdens of security deposits.

Standard 2.1 | Provide a minimum 1-year renewable lease with clear explanation of all lease terms, tenant rights and responsibilities.
Disclosure — Contract rents benchmarked against HUD fair market rents and income limits for each property including adjustment for unit sizes.

Standard 2.2 | Provide at least 30-day notice for rent increases and limit increases on one-year renewals of existing leases to no more than the 12-month change in CPI + 5%.

In circumstances where the asset managers deem an increase exceeding the 12-month change in CPI + 5% necessary in accordance with fiduciary duty, a minimum 60-day notice will be provided, and the increase will be reported to the investors.

Best Practice — Provide at least 30-day notice for rent increases and limit increases on new leases to no more than the 12-month change in CPI + 5% and refer tenants unable to afford rent increases to relocation assistance services and resources and provide relocation assistance to tenants unable to afford rent increases. In circumstances where the asset managers deem an increase exceeding the 12-month change in CPI + 5% necessary in accordance with fiduciary duty, a minimum 60-day notice will be provided, and the increase will be reported to the investors.

Standard 2.3 | The lease must not include hidden fees or other unfair or deceptive practices.
Best Practice: Ensure that any additional fees, such as those for pets, parking, and amenities, are not in excess of market rates.

Standard 2.4 | Limit security deposits to a maximum of 1.5x monthly rent and return security deposits within 14 days of departure or provide notice within 14 days of departure of the amount of the security deposit to be returned and return the security deposit within 30 days.

Standard 2.5 | Fully disclose security deposit policies including conditions, process, and timelines for return; prohibit mid-lease increases in security deposits.
Best Practice: Allow early lease termination under a defined set of circumstances clearly specified in the lease agreement.

PRINCIPLE 3
Maintain safe, quality, accessible housing.

Standard 3.1 | Keep all properties up to habitability standards as described in Section 302a of the Revised Uniform Residential Landlord and Tenant Act (2015).
Disclosure: Contract rents benchmarked against HUD fair market rents and income limits for each property including adjustment for unit sizes.

Standard 3.2 | Ensure that heat and air conditioning are available at all times required by applicable laws.
Best Practice — Provide air conditioning in all units in locations that regularly experience extreme heat conditions as defined by FEMA.

Standard 3.3 | Provide a user-friendly process for reporting, tracking, and resolving maintenance and repair issues.
Best Practice — Allow for repair deductions from rent under defined circumstances.

PRINCIPLE 4
Foster positive tenant-landlord relations.

Standard 4.1 | Establish and monitor service levels for response and resolution of repair and maintenance issues.
Disclosure — Average time to resolve maintenance requests.

Standard 4.2 | Provide at least 24 hours' notice for access to premises, except as requested by the tenant or in case of emergencies.

Standard 4.3 | Deploy periodic tenant satisfaction surveys leveraging tools like the Kingsley Resident Survey, National Apartment Association Survey of Operating Income & Expenses in Rental Apartment Communities, etc.
Disclosure — Property management staff turnover.
Best Practice — Results of the periodic tenant satisfaction surveys accessible for tenants and investors and aggregated similarly to the Kingsley Resident Survey, National Apartment Association Survey of Operating Income & Expenses in Rental Apartment Communities, etc.

PRINCIPLE 5
Honor tenants' rights to free speech and free association.

Standard 5.1 | Commit to neutrality in tenant organizing and explicitly prohibit harassment and retaliation.
Best Practice — Recognize and negotiate with tenant unions/organizations.
Disclosure — Information on existing tenant union/organization and current contact information for the tenant union/organization.
Best Practice — Allow the use of common spaces for tenant meetings and organizing activities.

PRINCIPLE 6
Optimize tenant stability.

Standard 6.1 | Track and monitor the reasons for tenant moves.
Disclosure — Tenant exits by reason for move.
Best Practice — Reasons for tenant moves accessible for investors.

Standard 6.2 | Refer residents to rental assistance and other services that support stable tenancy. Include information on rental assistance and services in late payment and pre-filing notices.
Disclosure — Median annual rent increase by unit size.
Best Practice — Facilitate reporting of **all** rent payment history to the major credit bureaus.
Best Practice — Offer tenants the right to purchase when a property is put up for sale. Applicable only to single family rental properties, not multifamily rental properties, and where the ownership structure allows for individual unit transactions.

PRINCIPLE 7
Minimize evictions and other negative exits.

Standard 7.1 | Clearly define and communicate causes for eviction based on tenant responsibilities defined in the lease.

Disclosure — Eviction filing rate benchmarked against aggregate rates calculated by the Eviction Lab.

Standard 7.2 | Provide a late notice within the first two weeks of the month in which a tenant has failed to pay rent.

Best Practice — Implement repayment plans for tenants in arrears.

Best Practice — Use mediation and conflict resolution processes to resolve landlord-tenant disputes.

Standard 7.3 | Provide 30 days pre-filing notice before filing for eviction of tenants who are in arrears on rent and allow an opportunity to cure of at least 14 days.

Best Practice — Offer opportunities for redemption following an eviction judgment or proceeding the actual event.

Standard 7.4 | Prohibit harassment and other activities intended to pressure residents to move such as performing construction work outside of normal business hours etc. or neglecting hazardous conditions.

FAQ

What was the goal of the Responsible Property Management Standards?

The standards were designed to improve the long-term quality and sustainability of residential rental real estate investments and reduce housing instability for residents, while providing sufficient flexibility to manage investment risks and attain target financial returns.

How were the standards developed?

The standards were developed by The Office of the New York City Comptroller and For the Long Term (FTLT), a nonprofit organization that supports public fiscal officers and fiduciaries in advancing the long-term well-being of public pension fund beneficiaries. Comptroller's office staff and consultants retained by FTLT reviewed existing state and local laws, academic research, and, most importantly, consulted with a wide array of stakeholders including tenants, tenant advocates, housing policy experts, real estate industry experts, asset managers, investment consultants, pension fund trustees, and more.

Why develop property management standards now?

Property management practice in residential rental real estate varies considerably across the industry and is further complicated by an inconsistent patchwork of state and local landlord tenant laws. The absence of robust standards exposes investors to a variety of risks including higher capital and operating costs associated with low resident satisfaction, higher turnover rates, difficulties retaining management employees, and a growing array of regulatory and reputational challenges.

The standards provide assurance to investors with diverse national portfolios that the properties in which they invest are maintained and operated to a consistent standard of quality that provides expected financial returns, assures fair and equitable treatment of tenants, and enhances long-term value. Implementing a uniform set of standards for quality property management protects the long-term sustainability and profitability of rental housing market investments.

What do the standards contain?

There are four components to the standards: Principles, Standard Practices, Best Practices, and Disclosures.

There are seven *Principles*:

1. Implement consistent and fair tenant screening and selection practices.
2. Offer clear and fair leases; reduce undue burdens of security deposits.
3. Maintain safe, quality, accessible housing.
4. Foster positive tenant-landlord relations.
5. Honor tenants' rights to free speech and free association.
6. Optimize tenant stability.
7. Minimize evictions and other negative exits.

Each principle is associated with one or more *Standard Practices*, which represent the minimum expectations. Beyond the *Standard Practices*, the principles are supported by several *Best Practices*, which are intended to provide a road map for investors seeking to further elevate property management quality over time. Finally, the principles and practices are accompanied by a set of public *Disclosures*. The disclosures are designed to increase market transparency and enable prospective tenants to make more informed choices.
The disclosures are intended to be public and are in addition to any disclosures that might be provided in the normal course of investor due diligence.

How do the standards fit into broader regulatory frameworks?

The standards are designed to ensure that asset managers take prudent and careful action in accordance with the standards to enhance responsible property management for tenants, operators, and investors alike in alignment with investors' fiduciary duty.

Notwithstanding any other considerations set forth in these Standards, Asset Managers must always manage assets for the exclusive benefit of, and with loyalty, honesty, good faith, and fairness towards all holders of ownership interests in such investments, including, without limitation, investors, plan participants, and beneficiaries. The Standards are not intended to conflict with any Federal, State, or local law or regulation, and are designed to augment such laws and regulations to further enhance tenant protections, thereby resulting in greater stability of occupancy, which redounds to the benefit of investors, plan participants, and beneficiaries.

What happens when an asset manager deviates from the Responsible Property Management Standards?

Managers of applicable investments are responsible for communicating the policy to all property or asset managers and reporting, on an annual basis, to the Office of the NYC Comptroller, any deviations from the standard practices and/or the utilization of any of the best practices as outlined in the standards including their own efforts as well as those by property or asset managers and their subcontractors.

How will the standards be implemented?

The Comptroller's Office and FTLT has collaborated with Asset Managers, among other stakeholders, on the development on the responsible property management standards to propose to the trustees of the five NYC public pension funds. If approved by the various funds, asset managers investing on behalf of the funds would be asked to adopt the standards in their investment policies for residential rental real estate. The standards will be further promoted and disseminated widely to encourage asset owners, property managers and other stakeholders to voluntarily adopt them.