

The Rent Guidelines Board 1998 Income & Expense Study

April 7, 1998

Introduction

The Rent Guidelines Board (RGB), mandated to establish rent adjustments for city dwelling units under the Rent Stabilization Law, has monitored the cost of operating and maintaining rental apartment buildings in New York City since the law's enactment. For more than 20 years, the Board's primary instrument for measuring cost shifts has been the Price Index of Operating Costs (PIOC), a survey of prices for various goods and services required to maintain apartment buildings. The PIOC has been subject to on-going calls for revision by both tenant and landlord groups, yet despite concerns raised over the reliability of the survey's findings, the PIOC has remained the research foundation upon which the Board determined its annual rent increases for rent-stabilized apartments throughout the 1970s and 80s.

In 1990, the RGB acquired new data that permitted independent verification of the PIOC's accuracy: income and expense (I&E) statements of rent-stabilized buildings from the Department of Finance. These I&E statements, filed annually by property owners, provide detailed information on the revenues and costs garnered by "income producing" properties such as apartment buildings. The inclusion of I&E statements in the Board's arsenal of research denoted a marked improvement in the collective data upon which adjustments are based. I&E statements not only describe conditions in rent-stabilized housing in a given year, but also illuminate changes in conditions over a two-year period, as an additional yet independent measure of the market's cost side. More importantly, I&E data encompasses both revenues and expenses, allowing the Board to more effectively evaluate the overall condition of New York's rent-stabilized housing, including profitability.

This I&E Study determines conditions in New York's rent-stabilized housing market in 1996, the year for which the most recent data is available, and also the extent by which these conditions changed from the year before.

Local Law 63

The income and expense data for stabilized properties originates from Local Law 63, enacted by the New York City Council in 1986. This statute requires owners of apartment buildings to annually file Real Property Income and Expense (RPIE) statements with the Department of Finance. While certain types of properties are exempt from filing requirements — cooperatives, condominiums, and buildings with fewer than 11 units or assessments less than \$40,000, Local Law 63's mandate produces detailed financial records on thousands of rent-stabilized buildings every year. Data on individual properties is strictly confidential; however the Department of Finance is allowed to release summary statistics of RPIE data.

WHAT'S NEW

The year 1996 was one of shifting trends, both to the benefit and the detriment of the owners of rent stabilized buildings. For the first time in three years, operating costs rose faster than revenue or rent collections, causing Net Operating Income (or NOI, the revenue remaining after operating expenses are paid) to increase by an average of only 2.3%. A dramatic rise in fuel costs owing to both the 1996 blizzard and the colder than average winter contributed to a large increase in the expense of operating and maintaining stabilized properties. Despite the lackluster NOI returns to owners, both the collection of rents and revenues were just slightly below the figures observed last year.

This change in trends does not indicate that 1996 was a poor year in the stabilized market, however. Scrutiny of the expense data suggests that some owners may have parlayed the benefits of three years of growth into refurbishment of their buildings. Other 1996 indicators, such as the decline in New York City interest rates for new multi-family mortgages from 10.1% in 1995 to 8.6% meant that there was propitious climate for borrowing and spending money. However, New York City's high unemployment rate and only moderate expansion of the City economy may have hindered owners' ability to collect the kind of increases they have been able to procure in the early to mid 1990s.

- ✓ Rental income in stabilized buildings rose by 4.1% from 1995-96.
- ✓ Total income rose by 4.3%.
- ✓ Operating costs rose by 5.4%.
- ✓ Net operating income in stabilized buildings rose by 2.3%.

The year 1998 marks the eighth time that the RGB has received a data sample of the rent-stabilized properties that file RPIE forms. Samples in the first two studies were limited to 500 buildings, because RPIE files were not automated. Upon computerization of all I&E filings several years ago, the size of samples has risen to over 10,000 properties.

Methodology

The information in this report was generated from summaries of RPIE forms filed with the Department of Finance in 1997 by owners of apartment buildings with eleven or more dwellings. The data in these forms, which reflects financial conditions in stabilized buildings for the year 1996, was computerized in late 1997, and made available to RGB research staff early this year.

Two types of summarized data, cross-sectional and longitudinal, were obtained for buildings. Cross-sectional data, which provides a “snapshot” view, comes from properties that filed RPIE forms in 1997. This data is used to compute average rents, operating costs, etc. that are typical of the year 1996. Longitudinal data, which provides a direct comparison of identical elements over time, encompasses properties that filed RPIE forms in both 1996 and 1997. This data describes changing conditions in average rents, operating costs, etc by comparing matched forms from the same buildings over two years. Analysis of filing dates shows that RPIE forms reflect conditions around July of the previous calendar year. Thus, cross-sectional data in this report measures conditions in effect throughout 1996, while longitudinal data measures changes in conditions that occurred from 1995 to 1996.

This year, 12,261 rent-stabilized apartment buildings were analyzed in the cross-sectional study, and 11,135 stabilized properties were examined in the longitudinal study. Buildings were sampled by matching a list of 36,000 properties registered with the New York State Division of Housing and Community Renewal (DHCR) in 1995 with buildings that filed a 1997 RPIE statement, (or 1996 and 1997 statements for the longitudinal sample). For the first time since the RGB has been obtaining data from RPIE

forms, the number of buildings in both samples decreased from the previous year, by 1016 buildings or 8% in the cross-sectional sample and by 733 buildings or 7% in the longitudinal sample. Explanations for this drop would be purely speculative, however the downturn is confirmed by the Department of Finance which reports a similar decline in overall RPIE filings for 1997. Despite this decrease, the sample sizes for both studies are more than adequate to arrive at findings which reflect the stabilized rental housing market as a whole.

Once drawn, preliminary building samples were “cleansed” by rejecting properties that met the following criteria:

- They contained fewer than 11 units. Owners of buildings with fewer than 11 apartments (without commercial units) are not required to file RPIE forms;
- Owners did not file a 1997 RPIE form for the cross-sectional study, or a 1996 and a 1997 RPIE form for the longitudinal study;
- No unit count could be found in RPIE filings;
- No “apartment rent” was recorded on the RPIE forms. In these cases, forms were improperly completed or the building was vacant;

Three additional methods were used to weed out inaccurate building information which could have distorted the final results:

- In early I&E studies, Finance used the total number of units from the RPAD (assessed value) file to classify buildings by size and location. Board researchers found that sometimes the unit counts on RPIE forms were different than those on the RPAD file. It was decided that residential counts from the RPIE form were more reliable.
- Average monthly rents for each building were compared to rent intervals for each borough, computed from the 1993 Housing and Vacancy Survey to control data quality.

Properties with average rents outside of the ranges were removed from all samples. This year, 476 buildings were expelled from both samples for this reason. Most (262) of these buildings were expelled for having average rents in excess of \$2000 per month, although 214 buildings with average rents below \$100 per month were also removed.

- Buildings in which operating costs exceeded income by more than 300% were excluded from both the cross-sectional and longitudinal samples. Twelve properties were excluded from each sample for this reason.

As in prior studies, after compiling both samples, the Department of Finance categorized sample data reflecting particular types of buildings throughout the five boroughs (such as structures with 20-99 units built in Brooklyn before 1947). Staten Island is not included in data comparisons between boroughs because it contains too few stabilized buildings in most size and age categories to calculate reliable statistics.

Cross-Sectional Study

Rents and Income

In 1996, rent-stabilized property owners collected monthly rent averaging \$611 per unit. As in prior years, units in pre-war buildings rented for less (an average of \$551 per month) than those in post-war buildings (\$768 per month). Stabilized rents were highest in Manhattan (\$765), followed by Queens (\$560), Brooklyn (\$509) and the Bronx (\$485).

Rents stated in RPIE filings tend to be lower than figures obtained from both the triennial New York City Housing and Vacancy Survey (HVS) and the New York State agency Division of Housing and Community Renewal (DHCR). This is primarily because RPIE averages measure rent actually collected each month, while the others deal strictly with contract rents (i.e. the amounts stated on leases). RPIE information also reflects rents collected over a 12-month period, while HVS figures apply to contract rents in effect during the first half of the year.

How does the average RPIE rent compare to the HVS mean rent in 1996? Data from the HVS shows that the mean contract rent for all rent regulated apartments (\$667) exceeded the average rent from the RPIE data by roughly 9% that year.¹ Rent by building age also varies in the HVS. The mean contract rent in older pre-war apartments (\$623) stood 12% higher than the RPIE average, while the 1996 mean contract rent for units built after 1946 (\$793) exceeded the 1996 RPIE average for such dwellings by 3%. If even a portion of this “gap” between HVS and RPIE data reflect vacancy and collection losses, then it seems that older stabilized buildings continued to face much greater hardships than modern properties in the actual collection of their annual income in 1996.

In comparing RPIE and DHCR average rents, the “gap” between RPIE and DHCR rents has contracted steadily since 1991, when the average I&E rent was 15% lower than DHCR’s mean registered rent. By 1994, this differential had fallen to 12%. Current RPIE returns indicate the gap between I&E rent and DHCR’s mean stabilized rent (\$678) was 10% in 1996, the same rate observed in last year’s Income & Expense Study.

Despite the anomalies between the three rent indicators, the “gap” between RPIE rents and HVS/DHCR rents is a good estimate of vacancy and collection losses incurred by building owners, and the relative change in this “gap” is one way of estimating the change in such losses from year to year. Reduced variation probably indicates that building owners are collecting a greater portion of their legal rent roll due to lower vacancies, and fewer “preferential rents” and non-paying tenants, although the gains from this trend appear to be slowing in 1996.

A final benchmark index to use for comparison is the RGB Rent Index, which measures the overall effect of the board’s annual rent increases on contract rents each year. The fact that average RPIE rents increased faster (4.1%) longitudinally from

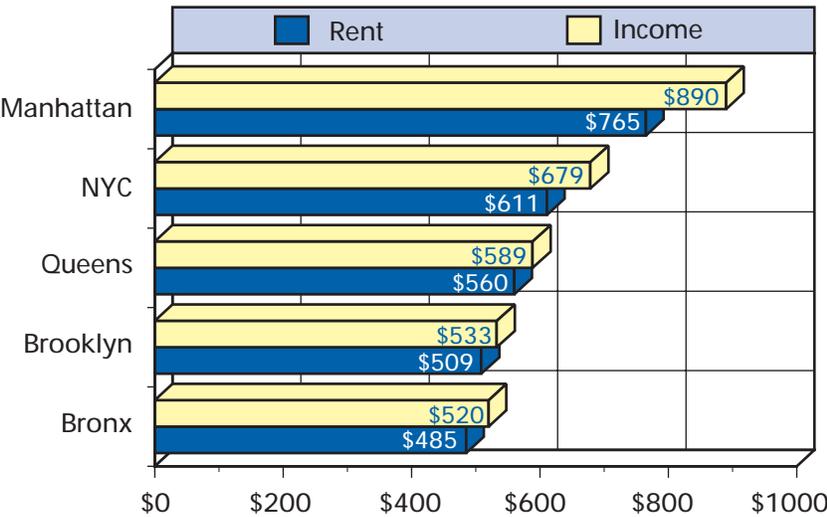
1. Mean contract rents for 1996 were computed from the 1996 New York City Housing and Vacancy Survey (HVS). RPIE data includes information on some rent controlled units. In order to arrive at a rent figure comparable to the I&E data, controlled and stabilized units from the 1996 HVS data were combined to compute an average rent for all regulated units.

1995 to 1996 than the RGB's Rent Index (3.8%) suggests that stabilized building owners still raised revenue from sources other than renewal and vacancy leases. However, the gap between these effects narrowed considerably from that observed in 1994 to 1995 when RPIE rents increased 4.3% and the RGB index rose 2.8%. This supports the hypothesis that the gains made from declining vacancy and collection losses may have been exhausted in 1996. It is interesting to note that a longer view of the three indices that give annual figures shows a virtually identical rate of increase from 1989 to 1996. The DHCR rents increased 26%, RPIE rents increased 27% and the RGB Rent Index increased 28% in that period.

Many owners of stabilized buildings augment their apartment rents by selling services to their tenants as well as by renting commercial space. Current RPIE filings show an average monthly gross income of \$679 per rent-stabilized unit in 1996, with pre-war buildings earning \$610 per unit and those in post-war properties earning \$857 per unit. These figures encompass rent from stabilized apartments as well as the sale of services (e.g. laundry, garages/parking) and commercial income. Such proceeds constituted roughly 10% of the total income earned by building owners in 1996, the same as the rate observed last year. Manhattan owners particularly benefit from commercial income, with 14% of their total revenues coming from commercial units and services. The respective figures for the other boroughs were 7% in the Bronx, and 5% in both Brooklyn and Queens. These percentages of commercial and service income are similar to the previous year, save for a smaller rate of improvement in the Bronx and a decline in Queens. The chart below shows the average rent and income collected in 1996 by borough and for the city as a whole.

Stabilized Rents and Income Were Highest in Manhattan in 1996

(Average Monthly Collected Rent/Income per Dwelling Unit by Borough)



Source: NYC Dept. of Finance, 1997 RPIE Filings

Operating Costs

Rent-stabilized apartment buildings incur considerable expenses in the course of their operation. RPIE filings include data on eight categories of maintenance costs. In contrast to revenues, however, this data does not distinguish between expenses for commercial space and those for apartments, making the calculation of “pure” residential operating and maintenance costs impossible, except in a smaller sample of residential buildings analyzed below. Thus, the operating costs reported below are rather high because they include maintenance costs for commercial space.

The average monthly operating cost for stabilized units was \$444 in 1996. Costs were substantially lower in units situated in pre-war buildings (\$413), and much higher in the post-war sector (\$525). Geographically, costs weighed in lowest in Brooklyn (\$371) and highest in Manhattan (\$549). The chart below details average monthly expenses by cost category and building age for 1996.

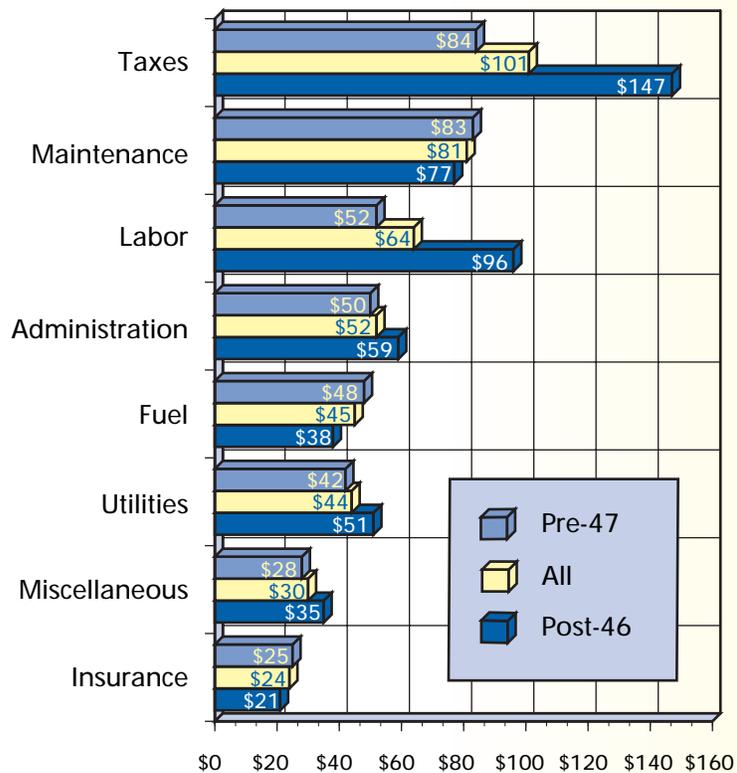
Since 1990, Department of Finance and RGB staff have tested RPIE expense data for accuracy. Initial examinations found that most “miscellaneous” costs were actually administrative or maintenance costs, while 15% were not valid business expenses. Further audits on the revenues and expenses of forty-six rent-stabilized properties in 1992 discovered that O&M costs stated in RPIE filings were generally exaggerated by 8%. Costs tended to be less accurate in small (11-19 units) properties and most precise for large (100+ units) buildings. However, these results are somewhat inconclusive since several owners of large stabilized properties refused to cooperate with Finance’s assessors.

Expense reductions were concentrated in three categories: maintenance, administration, and miscellaneous costs. Maintenance had to be lowered by an average of 11% for all buildings, while administration and miscellaneous costs were respectively trimmed by 25% and 37%. Adjustment of 1996 RPIE data by the results of the 1992 audits reduces the monthly average O&M cost for stabilized units from \$444 to \$408.

Just as buildings without commercial space typically generate less revenue than stabilized properties with stores, operating expenses in these buildings were generally lower than in buildings

Taxes and Maintenance Were the Largest Expenses in 1996

(Average Monthly Expense per Dwelling Unit per month)



Source: NYC Dept. of Finance, 1997 RPIE Filings

with a mixture of uses. Audited monthly O&M costs for buildings without commercial units were about \$37 lower (\$371) than the average for all buildings in 1996. As in last year's Income & Expense Study, most of the difference in costs between the two types of properties stemmed from taxes, labor and administration expenses that were respectively 19%, 9%, and 9% lower on average for buildings without commercial space than for all stabilized properties.

Components of Operating Costs

In 1996, two-thirds of total expenses in stabilized buildings were comprised of taxes, maintenance, labor and administration costs. Older (pre-47) buildings spent proportionately more on average on maintenance, fuel, insurance and administrative costs, while consequently spending less on taxes and labor. Conversely, newer (post-46) buildings spent relatively more money on taxes and labor costs and less on maintenance, fuel, insurance and administration costs. Much less variation was observed within the other two expense categories (utilities, and miscellaneous costs) among buildings of different age.

Building size also affected the distribution of costs in rent stabilized buildings. As in previous years, taxes, maintenance, labor and administration costs dominated total operating costs in buildings of various sizes in 1996. Labor costs continued to be particularly associated with size, comprising much larger shares of total O&M costs in larger buildings, probably due to the concentration of large, modern (post-46) stabilized buildings in Manhattan, which tend to employ doormen. In contrast, fuel and insurance shares decreased with larger buildings in 1996, probably due to efficiencies of scale realized by larger properties, particularly those with 100 or more units.

"Distressed" Buildings

Among the properties that filed 1997 RPIE forms, 1198 buildings, one tenth of the cross-sectional sample, had O&M costs in excess of gross income. Only 43 of these buildings were built after 1946. In the previous two years, such "distressed"

buildings comprised the same percent of the cross-sectional sample.

Buildings with expenses greater than revenues in 1996 suffered from both abnormally high expenses, (109% of the 1996 all-building average), and low rents and income, (respectively only 63% and 61% of the all-building average). Most of the variance in unadjusted costs between these and other stabilized buildings was found in insurance, fuel, maintenance, and "miscellaneous" categories, which in these "distressed" buildings were respectively 119%, 127%, 141% and 161% of the stabilized average. Not surprisingly, these buildings also paid less property taxes (74% of the all-building average) than other stabilized structures.

Net Operating Income and Operating Cost Ratios

In most apartment buildings, revenues exceed operating costs, yielding funds that can be used for mortgage payments, improvements and, after local, state and federal taxes are paid, profit. The amount of income remaining after maintenance expenses are paid is typically referred to as "Net Operating Income" (NOI). While debt service and income taxes then determine the ultimate profitability of a property, NOI is a good indicator of its basic financial condition.

This is the second year that RGB staff computed NOI for buildings filing RPIE forms. On average, apartments in rent-stabilized buildings earned \$234 of net income per month in 1996, with units in the pre-war stock earning less (\$197 per month) than those in post-war properties (\$332 per month). NOI tended to be much higher for stabilized buildings in Manhattan (\$341) than for those in the outer boroughs. Average NOI in "all-residential" properties was \$187 per unit per month in 1996, 20% lower than the norm for all stabilized buildings.

What exactly do these figures tell us? As the revenue available after payment of operating costs, NOI is the money owners have for financing their buildings, making improvements, and for pre-income tax profits. NOI does not say anything about the ultimate profitability of a particular property, which depends on mortgage payments and income taxation,

data which is not included in this analysis. That said, multiplying the average monthly NOI of \$234 per stabilized unit by the typical size of buildings in this year’s cross-sectional sample (43.5 units), yields a mean annual NOI figure of roughly \$122,000 for owners in 1996.

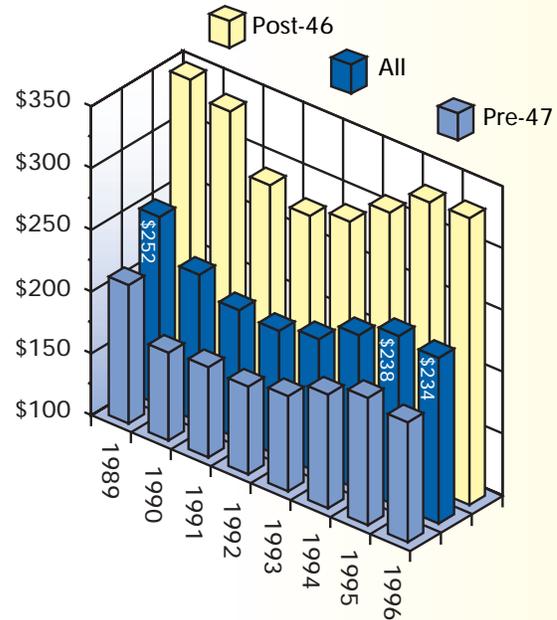
Traditionally, the RGB has used “cost-to-income ratios” to evaluate the profitability of New York’s stabilized housing, presuming that buildings are better off by spending a lower percentage of revenue on expenses. Over the last few years the proportion of total income spent on audited operating costs has dramatically declined in stabilized buildings, from an average of 63.4% in 1992 to 59.5% in 1995. This trend reversed in 1996, with the ratio of income spent on audited costs increasing to 60.1%. As operating costs have consumed less revenue in recent years, inflation adjusted NOI has adjusted to 93% of the 1989 average in 1996, somewhat lower than the 95% of the base-year average last year.

These NOI figures suggest that gains from declining vacancy and collection losses may be exhausted, or at least decreasing. During the deep recession of the early 1990’s, unemployment and collection losses rose in the City, limiting owners’ ability to offset rising operating costs by raising rents. This trend started reversing around 1993, when the City’s economy improved to the point where building owners could increase rents (and revenues) faster than costs, which remained stable.

The 1996 RPIE data shows that rent-stabilized properties experienced planned or unplanned leaps in several cost categories, reversing the three year trend of stable and moderate cost growth. Although rent and income collections remained strong, both categories declined in 1996 and the result of these conditions is a small decrease in average monthly inflation-adjusted NOI from the previous year (\$238 to \$234). For a detailed view of NOI trends, the adjacent chart and table show average monthly NOI by building age from 1989 to 1996 in constant 1996 dollars.

After Inflation, NOI Decreases in 1996

Average Monthly NOI per Apartment
(Constant 1996 Dollars)



AVERAGE MONTHLY NOI PER APARTMENT
(CONSTANT 1996 DOLLARS)

	Post-46	All	Pre-47
1989	\$348	\$252	\$212
1990	\$336	\$219	\$171
1991	\$290	\$204	\$173
1992	\$279	\$201	\$171
1993	\$288	\$208	\$177
1994	\$309	\$225	\$192
1995	\$331	\$238	\$203
1996	\$332	\$234	\$197

Longitudinal Study

Rents and Income

As the local economy continued its trend towards recovery by showing moderate expansion, average rents in stabilized buildings rose by 4.1% in 1996, slightly lower than the increase observed during 1995 (4.3%) and 1994 (4.5%). At

Source: NYC Dept. of Finance, 1997 RPIE Filings

least part of this decrease can be attributed to two years of low guidelines ordered by the Rent Guidelines Board in 1995 and most of 1996. The increases allowed to owners were 2% for a one-year lease and 4% for a two-year lease both years, the lowest guidelines in 15 years.

In a departure from 1995, the fate of modern buildings improved as rents in older (pre-47) buildings grew more slowly (3.9%) than those in newer (post-46) properties (4.5%). The fact that rents increased less rapidly than the previous year, when the rates were 4.4% in pre war buildings and 4.1% in modern buildings, is another indication that overall gains from vacancy and collection losses are slowing, especially in older buildings. This is confirmed by the aforementioned “gap” between the HVS and RPIE average rents in 1996 which suggests that pre-war buildings are having a more difficult time than modern properties in collection of their income. Rents increased by 6.2%, 3.7%, and 3.9% for small (11-19 unit), medium (20-99 unit), and large (100+ unit) buildings respectively. Small buildings appear to be the most successful in the rent collection department, gaining the highest rent increases of all the size categories for three years in a row².

Rent growth in stabilized buildings from 1995-1996 was uneven across the City. Because this is the third year RGB staff have been receiving summarized Community District data, an analysis of the neighborhood trends over this period is in order. The map and table on the next page show rent growth over three years by community district.

The total income collected in rent-stabilized buildings, comprising apartment rents, commercial rents, and sales of services, increased by 4.3% in 1996, slightly lower than the rate observed in the previous year (4.5%). Revenues rose at differing rates in pre-war (3.9%) and post-war (5.1%) buildings. Similar to last year’s findings, income grew by 5.4% in small buildings, 3.8% in medium-sized ones, and 4.7% in large properties. Like the patterns seen in rent collections, income gains have been the highest in

small buildings for three years, above the average gain in each I&E study.

Focus on Manhattan

Manhattan rents are a focal point, not only locally for New York City residents, but also internationally, setting the benchmark for the cost of housing in one of the world’s most desirable city neighborhoods. This section examines rent increase trends over three years in the rent regulated market throughout Manhattan’s 12 Community Districts. In Manhattan as a whole, rents rose 16% from 1993-96 outpacing the citywide average of 13% and each outer borough (Brooklyn rents increased 11%; Queens and the Bronx grew 10%) for the same period. Rents rose even more briskly, by 18%, in Manhattan’s “Core,” the area below East 96th and West 110th Streets. As the map and table on the next page shows, each and every “Core” neighborhood exceeded the three-year Manhattan borough average (the Financial District is not counted because it has too few stabilized buildings to draw reliable averages).

In the poorer neighborhoods to the north, rent growth was moderately resurgent in three of four districts, checking in just below the Manhattan average in Morningside/Hamilton Heights (14%) and Washington Heights/Inwood (12%), and surpassing the borough average in East Harlem (17%). Central Harlem did not fare as well with three-year rent growth of only 8%.

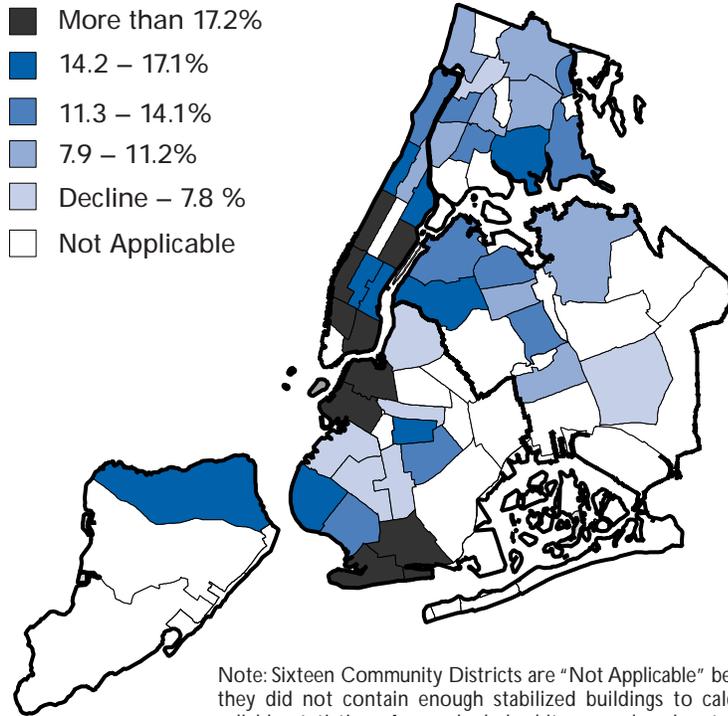
Rents in the Outer Boroughs

Rent growth in Queens (10%), the Bronx (10%) and Brooklyn (11%) was slower than the Manhattan increase (16%) from 1993-96. At the neighborhood level, rent grew more slowly than the city average (13%) in all but 10 Community Districts with enough stabilized buildings to sample. As the map and table on the next page show, two neighborhoods in Queens surpassed the three-year city rent growth average: Sunnyside and Jackson Heights. In the Bronx, two districts also grew faster than the city in rent collections: Soundview/Parkchester, and Morrisania. Similar gains were found in several Brooklyn neighborhoods including Brooklyn

² Small buildings rent collections increased in 1995 by 4.2%, tied with medium (4.2%) and surpassing large buildings (4.0%). In 1994, the figures were 6.2% for small buildings, and 4.8% and 3.8% for medium and large buildings.

Stabilized Rents Rose fastest in Manhattan Neighborhoods from 1993-96

(Change in Collected Rents 1993-96)



Note: Sixteen Community Districts are "Not Applicable" because they did not contain enough stabilized buildings to calculate reliable statistics. Areas shaded white may also denote non-residential spaces, such as parks, bodies of water and airports.

Source: NYC Dept. of Finance, 1995, 96, & 97 RPIE Filings

Heights/Fort Greene, Park Slope/Carroll Gardens, Sheepshead Bay/Gravesend, Coney Island, South Crown Heights, Bay Ridge and East Flatbush.

Operating Costs

In 1996, expenses in stabilized buildings grew faster (5.4%) than both rents and revenues for the first time in four years. Costs rose at the same rate (5.4%) in modern properties as in pre-war buildings. This steep climb from the previous year's rate (2.5%) was attributable to fuel, maintenance, administrative and labor costs which rose swiftly in all buildings over the course of the year. Size influenced cost growth to a much larger extent than it did the previous year, as costs rose by respectively 7.4%, 5.3%, and 5.1% in small, medium, and large buildings. Small buildings, the fastest gainers in rents and income, contended with well above-average expenses in 5 of 8 categories in 1996.

While overall cost growth was rapid in 1996, some expenses increased more than others. As previously noted, the blizzard of 1996 had far-reaching ramifications. Fuel costs rose sharply, by 19.0%, an amount

RENT GROWTH IN NYC NEIGHBORHOODS OVER THREE YEARS

Boro	Neighborhood	% Rent Growth 1994-96
Bklyn	Brooklyn Hgts/Fort Greene	29.4%
Man	Lower E. Side/Chinatown	21.4%
Man	Greenwich Village	20.4%
Bklyn	Park Slope/Carroll Gdns	19.1%
Bklyn	Sheepshead Bay/Gravesend	18.6%
Man	Chelsea/Clinton	18.5%
Bklyn	Coney Island	17.4%
Man	Upper East Side	17.4%
Man	Upper West Side	17.2%
Man	East Harlem	17.1%
Man	Stuyvesant Tn/Turtle Bay	16.8%
Bronx	Soundview/Parkchester	16.3%
Man	Midtown	16.3%
Bklyn	Bay Ridge	16.2%
Bklyn	South Crown Heights	16.2%
Qns	Sunnyside/Woodside	14.9%
SI	North Shore	14.3%
Man	Morningside Hgts/Hamilton Hgts	14.2%
Qns	Jackson Hgts	13.7%
Bklyn	East Flatbush	13.4%
Bronx	Morrisania	13.2%
Qns	Astoria	12.9%
Bronx	Throgs Neck/Co-op City	12.7%
Man	Washington Hgts/Inwood	12.2%
Qns	Forest Hills/Rego Park	11.8%
Bronx	University Hgts/Fordham	11.6%
Bklyn	Bensonhurst	11.3%
Bronx	Highbridge/S. Concourse	11.2%
Bronx	Riverdale/Kingsbridge	11.1%
Bronx	East Tremont	10.1%
Qns	Kew Gardens/Woodhaven	9.6%
Bronx	Baychester/Williamsbridge	9.1%
Qns	Flushing/Whitestone	9.0%
Qns	Elmhurst/Corona	8.8%
Bronx	Pelham Parkway	8.1%
Man	Central Harlem	7.9%
Bklyn	Flatbush	7.1%
Bklyn	Borough Park	7.0%
Bronx	Kingsbridge Hgts/Moshulu	5.5%
Qns	Jamaica	5.0%
Bklyn	Williamsburg/Greenpoint	0.7%
Bklyn	Sunset Park	-3.8%
Bklyn	N. Crown Hgts/Prospect Hgts	-4.8%

unprecedented in the history of the I&E study. Other expenses contributing to the high average increase in 1996 included maintenance, administrative, and labor costs (which grew respectively by 7.0%, 4.2% and 4.1%). Utilities and property taxes, proportionately one of the largest costs faced by building owners, grew more modestly at 3.0% and 2.7%. These gains were minimally offset by stable insurance premiums (1.9%), which reversed a two-year trend of high increases in the insurance category. The chart below provides a three-year comparison of expense increases in stabilized buildings, clearly showing 1996's sharp increases in fuel and maintenance expenditures .

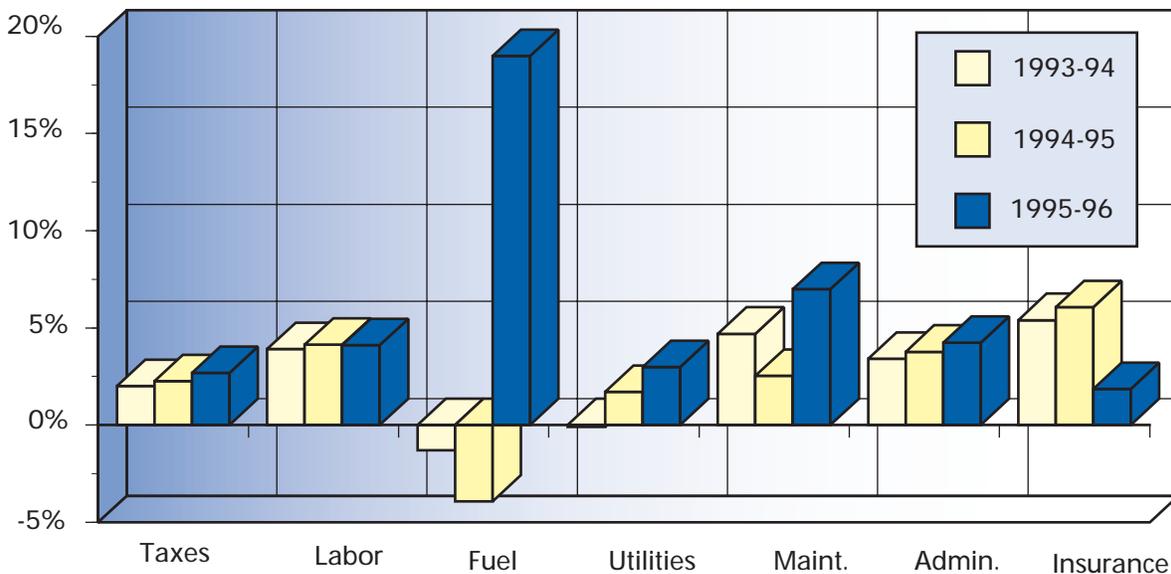
The RPIE and the RGB's long-running in-house survey, the PIOC, each provide a form of independent verification for the expense findings in the other. However, comparison of I&E and PIOC data is somewhat distorted due to differences in the way each instrument defines costs and gathers data about them. For example, there is a difference between when expenses are incurred and actually paid by owners as reported in the RPIE, versus the cost quotes obtained from vendors for specific

periods as surveyed in the PIOC. In addition, the PIOC primarily measures prices on an April-to-April basis, while most RPIE statements (88%) filed by landlords are based on the calendar year. To compare the two, weighted averages of each must be calculated, at the price of some accuracy.

Over the past several years, growth in PIOC-measured costs has consistently differed from expense increases reported in RPIE data. Since the beginning of the decade, the PIOC has grown faster in periods of economic downturn, and the RPIE has grown faster in recovery. Additionally, since 1993, the "gap" between the two indices has been steadily narrowing. This year, the PIOC and the RPIE showed virtually identical overall growth in expenses, at 5.1% and 5.4% respectively. Closer examination reveals that the two indices mirror one another quite closely in most cost categories in 1996.

Looking at the indices in the longer term, it seems that the PIOC may be a more accurate measure of cost increase trends as New York's rent-stabilized housing market emerges from recession because the PIOC is better at tracking costs during economic upswings, when all types of costs are

Fuel Costs Show Largest Increase 1993-96



Source: NYC Dept. of Finance, 1995, 96, & 97 RPIE Filings

generally increasing, and when accelerating revenue growth induces fewer owners to cut back on maintenance services and other elective costs. The RPIE data, on the other hand, may be a more accurate measure of annual variation, when owners react to changing economic conditions and alter their elective spending, such as choosing when to make repairs. Overall, from 1990 and 1996, the PIOC registered cost growth of 24% in stabilized buildings compared to a 22% increase reported in RPIE filings.

Net Operating Income and Operating Cost Ratios

Since revenues did not outgrow operating costs in stabilized buildings during 1996, it is not surprising that NOI increased over the year by an average of only 2.3%, a steep drop from 1995's figure (8%). NOI adjusted to inflation using 1996 dollars dropped by -1.7% from 1995 (\$238) to 1996 (\$234). Across the city, building age and size correlated with the amount of pre-tax earnings gained by owners. NOI grew much faster than the average in modern post-war buildings with 100 or more units (6.1%), than in their large counterparts built before the war (-1.1%). Conversely, small buildings (11-19 units) which are almost all pre-war by definition, enjoyed NOI growth just above average (2.5%). As the chart to the right indicates, these trends are uniform over three years, showing that small older buildings consistently exceeded average NOI growth rates. No other size-age combination in buildings achieved such NOI growth.

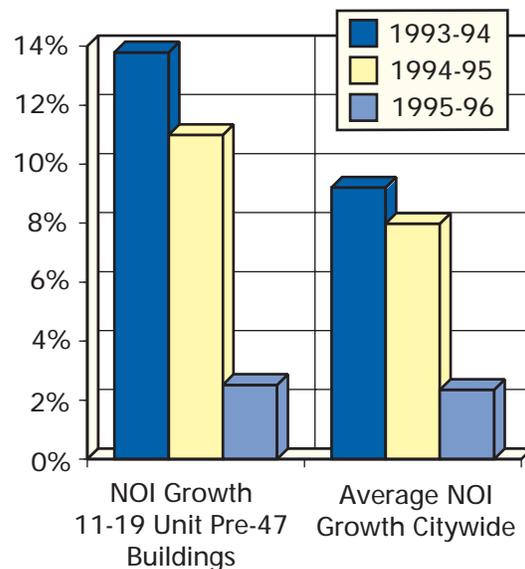
Focus on NOI in Small Buildings

NOI is a useful indicator for evaluating the financial well-being of buildings because NOI captures rent, income and expenditure growth, and can be compared for changes in all these factors from year to year. A comprehensive study of small buildings (11-19 units) was undertaken by RGB staff in 1995 and found that small buildings were slightly worse off than large buildings in every variable studied. While by no measure a complete updating of this study, a look at NOI from 1993 to 1996 will provide some indication of the viability of small stabilized buildings in New

York City since that time. This section will only focus on small pre war buildings as there are too few small modern buildings to be significant.

During the period of 1993-96, small buildings have achieved the highest growth rates in almost all categories: income, rents, O&M costs and NOI. In these years, income in small buildings grew at the fastest rate of any category, at 6%, 5% and 6% from 1993-96. Operating and maintenance costs also grew fastest in small buildings (2%, 3% and 7%) except for 1994 when medium buildings grew the most. NOI also increased the fastest in small buildings in 1994 (14%) and 1995 (11%) and was above average in 1996 (2.5%). While the 1995 study showed that small stabilized buildings face higher vacancy rates, lower income, higher than average expenses, and lower than average household income than their larger kin, it appears that improved income gains in small buildings from 1994 and 1995 resulted in the fastest NOI growth of the three size categories. That said, NOI growth in small buildings declined significantly in 1996 from the two previous years, as illustrated in the chart below which compares average NOI growth to NOI growth in small buildings from 1993-96.

NOI Growth was Strongest in Small Pre-war Buildings Over 3 Years



Source: NYC Dept. of Finance, 1995, 96, & 97 RPIE Filings

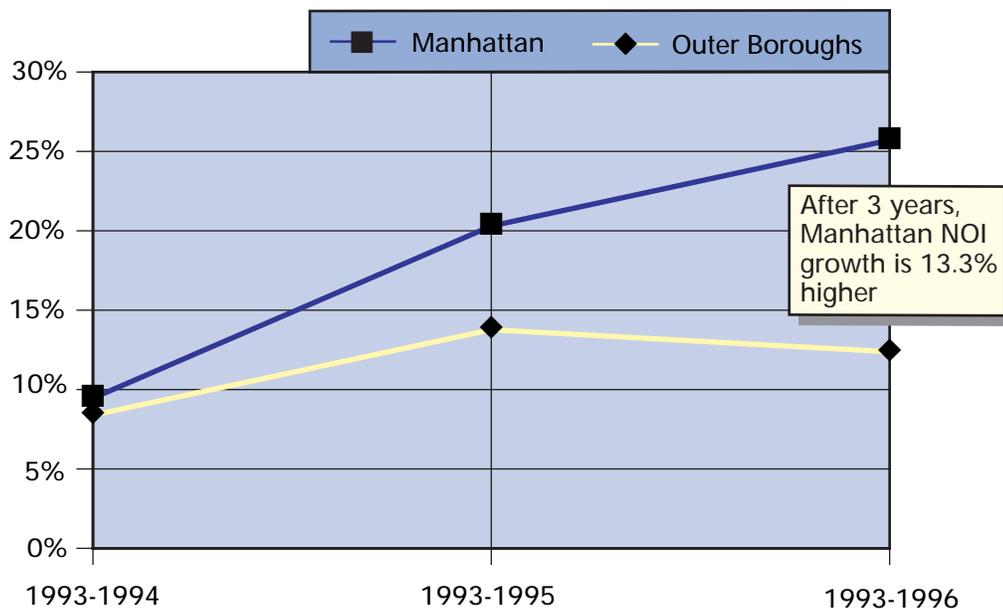
NOI and Neighborhoods

Three years of Community District data offers insight into growth trends in pre-tax gains to owners at the neighborhood level. NOI was uneven across the city from 1993 to 1996. The borough of Manhattan's NOI growth of 26% was again able to outshine average NOI growth over three years in the outer boroughs (Queens increased 13%, the Bronx 12%, and Brooklyn 10%). In Manhattan's "Core," NOI exceeded the borough average in 5 of 7 districts. NOI growth was particularly strong in the Lower E. Side/Chinatown, Stuyvesant Town/Turtle Bay, and the Upper East Side. NOI growth was sub-par only in Chelsea/Clinton and the Upper West Side, which had relatively lower rent and income growth and higher expense increases than other "Core" districts during that period. This suggests that rent growth in these highly sought-after neighborhoods may have "peaked" by 1996. In upper Manhattan, NOI grew faster than the borough average in both Morningside Heights and East Harlem over three years. Net earnings in the

Washington Heights/Inwood neighborhood grew slowly at 8%, and only Central Harlem did not share in the borough gains as earnings fell over the period. The chart below contrasts overall borough NOI growth over three years, demonstrating that the recovery has not benefitted all boroughs equally.

The outer boroughs all showed gains in NOI below Manhattan and the Citywide average (20%) for the years 1993 to 1996. Net income in Queens grew 13%, the Bronx grew 12% and Brooklyn grew 10%. A closer look at the district level demonstrates the neighborhoods' variable earnings trends. Conditions in Queens were the most stable over three years with NOI gains above the borough average in Jackson Heights, Sunnyside and Forest Hills. Only the Jamaica neighborhood grew far below average with a 7.5% increase. In the Bronx, NOI increased above the city average in two neighborhoods, Morrisania and University Heights, however, NOI growth was below the Bronx's stabilized average in Kingsbridge Heights, Riverdale, Throgs Neck/Co-op City, and

Manhattan NOI Growth Surpassed the Outer Boroughs by 13.3% from 1993-96



Source: NYC Dept. of Finance, 1995, 96, & 97 RPIE Filings

Baychester, and declined in East Tremont and Pelham Parkway. Brooklyn buildings experienced very uneven earnings growth over three years. Earnings grew rapidly in Brooklyn Heights/Fort Greene, Park Slope, Bensonhurst and Coney Island, yet declined in Williamsburg, Sunset Park, North Crown Heights and East Flatbush.

NOI - Some Conclusions

What do these figures indicate about the overall financial condition of New York's stabilized housing? It is clear that owners generally had a slightly smaller amount of inflation adjusted income after expenses to use for mortgages, building improvements, or pre-tax profit than they netted in the previous year.

No single factor can be blamed for the drop in NOI, however, analysis of the 1996 RPIE expense data reveals two important findings about managing costs in buildings that year. First, unpredictable rises in non-discretionary expenses, such as fuel costs resulting from inclement weather, can offset even strong gains in rent and income. Second, 1996's drop in NOI may have been at least in part elective. As discussed previously, the high increase in maintenance expenses seen in 1996 suggests that some owners chose this year to reinvest in their buildings, accomplishing repairs and improvements deferred from the period of recession in the early 1990s. While this hypothesis cannot be proven conclusively, the years of robust growth in income and rent collections and stable expenses from 1993 to 1995 would have provided the cash if not necessarily the confidence required to undertake maintenance work.

The NYC Office of the Comptroller also indicates that New York City is traditionally slower to recover from recessionary periods than other areas of the nation, thus, the benefits from the mid-1990's economic recovery should be seen in the records of rent stabilized buildings for the coming years. Given these indicators, we cannot ascertain to what degree this year's low NOI resulted from gains directed to building maintenance and improvement, or from simply increases in the cost of operating stabilized buildings.

Operating Cost Ratios

The proportion of gross income spent on unaudited expenses increased by just over one (1.1) percentage point between 1995 and 1996. A similar rise was observed in the amount of income spent on audited expenses. The proportion of rent used to pay audited costs increased by a slightly larger amount (1.3%). These increases reverse a 4-year trend of steady decline in the proportion of income spent on expenses. This reversal offers additional evidence that owners of stabilized buildings enjoyed fewer gains in 1996 because they paid more of their income to expenses than in previous years.

Roughly 9% of the buildings in this year's longitudinal sample (1015) faced costs that exceeded revenues, identical to the rate observed last year. Only 39 of these buildings were built after 1946. The fundamental conditions besetting these buildings did not change. Such properties are burdened by low rents, lack commercial income, and suffer high operating expenses. □

Appendix

1. CROSS-SECTIONAL INCOME AND EXPENSE STUDY FOR STRUCTURES BUILT BEFORE 1947 Estimated Average Operating & Maintenance Cost (1996) per Apartment per Month by Building Size and Location

	<u>Taxes</u>	<u>Labor</u>	<u>Fuel</u>	<u>Water/Sewer</u>	<u>Light & Power</u>	<u>Maint.</u>	<u>Admin.</u>	<u>Insurance</u>	<u>Misc.</u>	<u>Total</u>
Citywide	\$84	\$52	\$48	\$25	\$17	\$83	\$50	\$25	\$28	\$413
11-19 units	\$110	\$25	\$56	\$26	\$19	\$91	\$51	\$30	\$34	\$443
20-99 units	\$76	\$45	\$48	\$25	\$15	\$83	\$47	\$25	\$28	\$393
100+ units	\$109	\$118	\$39	\$27	\$24	\$86	\$64	\$21	\$28	\$517
Bronx	\$51	\$44	\$51	\$25	\$15	\$80	\$45	\$27	\$25	\$362
11-19 units	\$50	\$30	\$70	\$27	\$17	\$95	\$46	\$34	\$29	\$397
20-99 units	\$46	\$38	\$50	\$24	\$14	\$78	\$43	\$27	\$25	\$345
100+ units	\$26	\$77	\$47	\$25	\$18	\$87	\$72	\$23	\$12	\$386
Brooklyn	\$67	\$40	\$50	\$24	\$15	\$74	\$41	\$23	\$25	\$360
11-19 units	63	\$17	\$62	\$25	\$13	\$79	\$35	\$26	\$25	\$346
20-99 units	60	\$31	\$49	\$25	\$14	\$71	\$39	\$23	\$24	\$337
100+ units	\$68	\$51	\$42	\$24	\$15	\$75	\$35	\$18	\$21	\$350
Manhattan	\$114	\$66	\$45	\$27	\$19	\$95	\$60	\$27	\$34	\$486
11-19 units	\$155	\$28	\$49	\$28	\$24	\$101	\$65	\$33	\$43	\$527
20-99 units	\$107	\$62	\$46	\$26	\$17	\$96	\$58	\$27	\$33	\$470
100+ units	\$172	\$169	\$34	\$28	\$34	\$92	\$73	\$22	\$40	\$665
Queens	\$77	\$37	\$48	\$24	\$13	\$70	\$39	\$22	\$22	\$354
11-19 units	\$77	\$20	\$56	\$24	\$11	\$73	\$29	\$23	\$17	\$331
20-99 units	\$73	\$30	\$47	\$25	\$12	\$68	\$39	\$22	\$22	\$338
100+ units	\$72	\$70	\$41	\$23	\$11	\$69	\$39	\$19	\$22	\$367
St Island *										
20+	-	-	-	-	-	-	-	-	-	-

* The number of pre - 47 buildings in Staten Island was too small to calculate reliable statistics.

Totals in this table may not match those in Table 3 due to rounding. Data in this table are NOT adjusted for the results of the 1992 Department of Finance audit on I&E reported operating costs. The category "Utilities" used in the I & E report is the sum of "Water & Sewer" and "Light & Power".

Source: NYC Department of Finance, RPIE Filings.

2. CROSS-SECTIONAL INCOME AND EXPENSE STUDY FOR STRUCTURES BUILT AFTER 1946

Estimated Average Operating & Maintenance Cost (1996) per Apartment per Month by Building Size and Location

	<u>Taxes</u>	<u>Labor</u>	<u>Fuel</u>	<u>Water/Sewer</u>	<u>Light & Power</u>	<u>Maint.</u>	<u>Admin.</u>	<u>Insurance</u>	<u>Misc.</u>	<u>Total</u>
Citywide	\$147	\$96	\$38	\$25	\$26	\$77	\$59	\$21	\$35	\$525
11-19 units	\$137	\$18	\$43	\$28	\$28	\$90	\$66	\$29	\$32	\$471
20-99 units	\$102	\$56	\$40	\$25	\$21	\$69	\$47	\$22	\$27	\$410
100+ units	\$194	\$142	\$36	\$25	\$30	\$84	\$71	\$19	\$43	\$644
Bronx	\$96	\$68	\$44	\$25	\$23	\$73	\$43	\$24	\$51	\$449
11-19 units	-	-	-	-	-	-	-	-	-	-
20-99 units	\$82	\$42	\$43	\$24	\$18	\$70	\$40	\$23	\$37	\$379
100+ units	\$117	\$121	\$45	\$28	\$31	\$78	\$47	\$26	\$80	\$575
Brooklyn	\$89	\$62	\$42	\$25	\$21	\$68	\$55	\$22	\$30	\$413
11-19 units	\$117	\$8	\$52	\$22	\$13	\$105	\$70	\$27	\$11	\$424
20-99 units	\$85	\$51	\$43	\$25	\$19	\$69	\$50	\$23	\$29	\$394
100+ units	\$93	\$102	\$38	\$26	\$26	\$62	\$69	\$19	\$32	\$466
Manhattan	\$266	\$169	\$35	\$25	\$33	\$100	\$83	\$20	\$51	\$781
11-19 units	\$204	\$19	\$39	\$35	\$46	\$103	\$107	\$31	\$36	\$620
20-99 units	\$181	\$84	\$35	\$25	\$23	\$90	\$66	\$23	\$31	\$560
100+ units	\$286	\$190	\$34	\$25	\$35	\$102	\$87	\$19	\$56	\$834
Queens	\$103	\$67	\$37	\$25	\$24	\$65	\$48	\$20	\$20	\$410
11-19 units	\$106	\$27	\$45	\$29	\$22	\$77	\$45	\$29	\$37	\$417
20-99 units	\$100	\$56	\$38	\$26	\$24	\$64	\$43	\$21	\$22	\$393
100+ units	\$104	\$87	\$34	\$24	\$24	\$65	\$54	\$18	\$17	\$427
St. Island	\$104	\$53	\$41	\$26	\$20	\$72	\$55	\$22	\$35	\$428
20+ units	\$92	\$65	\$40	\$28	\$14	\$66	\$52	\$19	\$36	\$413

* The number of rent stabilized units located in buildings with fewer than 20 units in Brooklyn, the Bronx and Staten Island were too small to calculate reliable statistics.

Totals in this table may not match those in Table 3 due to rounding. Data in this table are NOT adjusted for the results of the 1992 Department of Finance audit on I&E reported operating costs.

Source: NYC Department of Finance, RPIE Filings.

3. CROSS-SECTIONAL INCOME AND EXPENSE STUDY

Estimated Average Rent, Income and Costs (1996) per Apartment per Month by Building Size and Location

	<u>Post-46</u>			<u>Pre-47</u>			<u>All</u>		
	<u>Rent</u>	<u>Income</u>	<u>Costs</u>	<u>Rent</u>	<u>Income</u>	<u>Costs</u>	<u>Rent</u>	<u>Income</u>	<u>Costs</u>
Citywide	\$768	\$857	\$525	\$551	\$610	\$413	\$611	\$679	\$444
11-19 units	\$611	\$725	\$471	\$529	\$640	\$443	\$538	\$648	\$446
20-99 units	\$583	\$615	\$410	\$530	\$576	\$393	\$542	\$585	\$397
100+ units	\$971	\$1,111	\$644	\$710	\$797	\$517	\$872	\$992	\$596
Bronx	\$548	\$627	\$449	\$472	\$498	\$362	\$485	\$520	\$377
11-19 units	-	-	-	\$441	\$487	\$397	\$445	\$504	\$404
20-99 units	\$523	\$541	\$379	\$453	\$473	\$345	\$463	\$482	\$350
100+ units	\$588	\$774	\$575	\$490	\$506	\$386	\$538	\$637	\$478
Brooklyn	\$559	\$586	\$413	\$496	\$520	\$360	\$509	\$533	\$371
11-19 units	-	-	-	\$446	\$476	\$346	\$456	\$486	\$352
20-99 units	\$547	\$567	\$394	\$470	\$483	\$337	\$490	\$504	\$352
100+ units	\$589	\$628	\$466	\$512	\$525	\$350	\$543	\$566	\$397
Manhattan	\$1,246	\$1,446	\$781	\$634	\$738	\$486	\$765	\$890	\$549
11-19 units	\$782	\$1,031	\$620	\$604	\$791	\$527	\$605	\$794	\$528
20-99 units	\$847	\$954	\$560	\$622	\$713	\$470	\$638	\$731	\$477
100+ units	\$1,341	\$1,563	\$834	\$917	\$1,079	\$665	\$1,166	\$1,364	\$764
Queens	\$586	\$619	\$410	\$523	\$546	\$354	\$560	\$589	\$386
11-19 units	\$563	\$611	\$417	\$478	\$491	\$331	\$505	\$530	\$359
20-99 units	\$561	\$586	\$393	\$509	\$526	\$338	\$538	\$560	\$369
100+ units	\$619	\$654	\$427	\$546	\$555	\$367	\$610	\$642	\$420
St. Island	\$582	\$621	\$428	-	-	-	\$582	\$621	\$428

City and borough totals are weighted, while figures for building size categories are unweighted. All expense data is unaudited. The number of Post-1946 buildings with 11-19 units in the Bronx and Brooklyn were too small to calculate reliable statistics as was the number of Pre-47 bldgs in Staten Island.

Source: NYC Department of Finance, RPIE Filings.

4. COMPOSITION OF OPERATING COSTS IN 1996, BY BUILDING SIZE AND AGE

	<u>Taxes</u>	<u>Maint.</u>	<u>Labor</u>	<u>Admin.</u>	<u>Utilities</u>	<u>Fuel</u>	<u>Misc.</u>	<u>Insurance</u>	<u>Total</u>
Pre-47	20.5%	20.0%	12.6%	12.1%	10.2%	11.6%	6.9%	6.1%	100.0%
11-19 units	24.9%	20.6%	5.6%	11.5%	10.2%	12.6%	7.6%	6.8%	100.0%
20-99 units	19.5%	21.0%	11.5%	12.1%	10.2%	12.2%	7.0%	6.4%	100.0%
100+ units	21.2%	16.6%	22.8%	12.3%	9.9%	7.6%	5.5%	4.1%	100.0%
Post-46	28.1%	14.7%	18.4%	11.3%	9.7%	7.2%	6.7%	4.0%	100.0%
11-19 units	29.1%	19.2%	3.8%	14.0%	11.9%	9.2%	6.8%	6.1%	100.0%
20-99 units	25.0%	16.9%	13.6%	11.5%	11.3%	9.7%	6.7%	5.4%	100.0%
100+ units	30.1%	13.1%	22.0%	11.0%	8.5%	5.5%	6.7%	3.0%	100.0%
All Bldgs.	22.9%	18.3%	14.4%	11.8%	10.0%	10.2%	6.8%	5.5%	100.0%
11-19 units	25.3%	20.5%	5.4%	11.8%	10.4%	12.3%	7.5%	6.7%	100.0%
20-99 units	20.0%	20.6%	11.8%	12.0%	10.3%	12.0%	7.0%	6.3%	100.0%
100+ units	22.3%	16.2%	22.7%	12.1%	9.7%	7.3%	5.7%	4.0%	100.0%

Source: NYC Department of Finance, RPIE Filings.

5. CROSS-SECTIONAL SAMPLE, 1996 RPIE FILINGS

	<u>Post-46</u>		<u>Pre-47</u>		<u>All</u>	
	<u>Bldgs</u>	<u>DU's</u>	<u>Bldgs</u>	<u>DU's</u>	<u>Bldgs</u>	<u>DU's</u>
Citywide	1,215	119,196	11,046	413,665	12,261	532,861
11-19 units	95	1,392	2,945	44,103	3,040	45,495
20-99 units	753	43,173	7,763	315,337	8,516	358,510
100+ units	367	74,631	338	54,225	705	128,856
Bronx	203	13,988	2,190	103,297	2,393	117,285
11-19 units	10	157	213	3,114	223	3,271
20-99 units	169	9,600	1,907	86,507	2,076	96,107
100+ units	24	4,231	70	13,676	94	17,907
Brooklyn	232	22,329	2,492	94,000	2,724	116,329
11-19 units	17	251	634	9,467	651	9,718
20-99 units	154	10,057	1,799	77,508	1,953	87,565
100+ units	61	12,021	59	7,025	120	19,046
Manhattan	375	49,345	5,203	173,051	5,578	222,396
11-19 units	27	400	1,739	26,061	1,766	26,461
20-99 units	184	9,401	3,300	120,184	3,484	129,585
100+ units	164	39,544	164	26,806	328	66,350
Queens	351	30,546	1,145	42,506	1,496	73,052
11-19 units	29	414	356	5,416	385	5,830
20-99 units	213	12,759	747	30,696	960	43,455
100+ units	109	17,373	42	6,394	151	23,767
St. Island	54	2,988	16	811	70	3,799
11-19 units	12	170	3	45	15	215
20-99 units	33	1,356	10	442	43	1,798
100+ units	9	1,462	3	324	12"	1,786

Source: NYC Department of Finance, RPIE Filings.