George E. Pataki
Governor

Judith A. Calogero
Commissioner

New York State Division of Housing and Community Renewal
Office of Rent Administration
Gertz Plaza
92-31 Union Hall Street
Jamaica, NY 11433

NOTICE OF MAXIMUM BASE RENT PUBLIC HEARING

Public Notice is Hereby Given pursuant to §26-405a(9) of the New York City Rent and Rehabilitation Law that the New York State Division of Housing and Community Renewal (DHCR) will conduct a public hearing to be held at the Department of City Planning, 22 Reade Street (Spector Hall), First Floor, New York, NY, on Tuesday, January 6, 2004 for the purpose of collecting information relating to all factors which the DHCR may consider in establishing a Maximum Base Rent (MBR) for rent controlled housing accommodations located in the City of New York for the 2004-2005 biennial MBR cycle. The morning session of the hearing will be held from 10:00 a.m. to 12:30 p.m.; the afternoon session will run from 2:00 p.m. to 4:30 p.m.

Pre-registration of speakers is advised. Those who wish to pre-register may call the office of Michael Berrios, Executive Assistant at 718-262-4717 and state the time they wish to speak at the hearing and whom they represent. Pre-registered speakers who have reserved a time to speak will be heard at approximately that time. Speakers who register the day of the hearing will be heard in the order of registration at those times not already reserved by pre-registered speakers. Speaking time will be limited to five minutes in order to give as many people as possible the opportunity to be heard. Speakers should be prepared to submit copies of their remarks to the DHCR official presiding over the hearing. The hearing will conclude when all registered speakers in attendance at the hearing have been heard. DHCR will also accept written testimony submitted prior to the end of the hearing. Submissions may also be sent in advance to Michael Berrios, Executive Assistant, Room 4134, Division of Housing and Community Renewal, Gertz Plaza, 92-31 Union Hall Street, Jamaica, NY 11433. To obtain a report on the DHCR recommendation for the 2004-2005 MBR cycle, interested parties should call (718) 262-4717.

George E. Pataki
Governor

Judith A. Calogero
Commissioner

New York State Division of Housing and Community Renewal
Office of Rent Administration
Gertz Plaza
92-31 Union Hall Street
Jamaica, NY 11433

PRELIMINARY STANDARD ADJUSTMENT FACTOR REPORT FOR THE 2004/2005 MAXIMUM BASE RENT CYCLE FOR RENT CONTROLLED HOUSING UNITS IN NEW YORK CITY

November 21, 2003

PREFACE

The rents in rent controlled apartments in New York City are governed by the Maximum Base Rent (MBR) system. This system is based on a mathematical formula for computing the maximum rent levels for each controlled apartment in the City. This theoretical MBR represents an approximation of the actual income required to operate the housing unit under current costs, including an 8.5% return on the equalized assessed value. The MBR is adjusted every two years to reflect changes in economic conditions.

This report presents the economic and statistical data that will be the basis for determining the Standard Adjustment Factor (SAF) for the 2004/05 MBR cycle. The factor will then be applied to previously calculated MBRs, thus establishing the MBRs that will be in effect in 2004 and 2005.

The report is organized as follows:

Web Site: www.dhcr.state.ny.us
Email address: dhcrinfo@dhcr.state.ny.us

I. Executive Summary

The preliminary SAF for the 2004/05 MBR Cycle is 17.2%. The SAF for the 2002/03 cycle was 10.5%. Prior to establishing the SAF for the 2004/2005 MBR Cycle a public hearing will be held for the purpose of collecting information from interested parties. The Office of Rent Administration will consider all of the information received from the public hearing before establishing the SAF for the 2004/2005 MBR Cycle.

The 2004/05 preliminary SAF reflects changes in the assumed MBRs of a sample of 4,785 rent controlled buildings from 2001 to 2003. The factor was determined by calculating the median of the percentage change in each of the sample's building-wide MBRs. The mathematical formula that determines the MBR is derived from four cost components (operation and maintenance expenses, real estate taxes, water and sewer charges, and an allowance for vacancy and collection losses), a return on capital value allowance, and commercial income. The relative importance of each component varies, with operation and maintenance costs accounting for 40% of the 2004/05 MBR and the allowance for losses pegged at 1% of the MBR.

The 17.24% median increase in the MBR was caused by double-digit rises in all of its components. Real estate taxes, which constituted 17.47 % of the 2002/03 MBR (see page 10) rose by 26.29% over two years. The return on capital value allowance, 35.25 % of the 2002/03 MBR, rose by 16.64%. The operations and maintenance allowance, 42.18% of 2002/03 MBR, rose by 13.77%. Water and sewer charges, 4.11% of 2002/03 MBR, rose by 12.36%. Commercial income increased by 8.93% over the two year period.

The previous (2002/03) MBR cycle's SAF was the product of smaller increases in most of its components. The operations and maintenance allowance and real estate taxes increased by about half as much for 2002/03 cycle as for 2004/05. The water and sewer charges increase for the previous cycle was a about third of the current increase. Only the return on capital value allowance increased by roughly the same rate for both cycles. On the other hand, commercial income increased less sharply than two years ago. Changes in the commercial income component have a reverse impact on the direction of the change in the SAF (i.e. an increase in commercial income lowers the overall SAF increase modestly).

TABLE I: MBR COMPONENTS' MEDIAN CHANGES

MBR Component	Median Change	
	2002 MBR	2004 MBR
Operation and Maintenance Allowance	**+ 6.64%**	**+ 13.77%**
Return on Capital Value Allowance	**+ 16.37%**	**+ 16.64%**
Real Estate Taxes	**+ 12.54%**	**+ 26.29%**
Water and Sewer Charges	**+ 4.03%**	**+ 12.36%**
Commercial Income	**+ 22.87%**	**+ 8.93%**
Total Maximum Base Rent	**+ 10.48%**	**+ 17.24%**

II. Background

The rent control program in New York City dates back sixty years to the Federal imposition of wage and price controls in 1943 as a wartime anti-inflation measure. When Federal controls lapsed, New York State enacted the Emergency Housing Rent Control Law because of the extremely tight housing market. Generally, the rent control program applies to buildings constructed before February, 1947 and containing apartments in which the tenant has been in continuous occupancy since June 30, 1971.

The enactment in 1970 of New York City Local Law #30 created the MBR (MBR) system. It has been the most significant revision of the rent control program. The MBR formula is based on the economics of operating pre-1947 residential buildings. The formula, which establishes maximum rents for each rent controlled apartment, takes into account operating expenses, an allowance for return on capital value, and commercial income.

The original MBR for most rent controlled units was computed for 1972 in accordance with Amendment #33 to the Rent and Eviction Regulations which was adopted on December 22, 1971. From 1973 to 1983, New York City's Department of Housing Preservation and Development (HPD) computed the MBR's SAF. The New York State Omnibus Housing Act of 1983 transferred the responsibility for administering rent control from HPD to the New York State Division of Housing and Community Renewal (DHCR) beginning April 1, 1984. The 2004/05 SAF will be the tenth to be issued by DHCR.

The number of buildings containing rent controlled units has been diminishing, since the provisions of Chapter 371 of the Laws of 1971 provided for decontrol of rent controlled units vacated on or after July 1, 1971. The number of rent controlled units, based on the New York City Housing and Vacancy Survey, has fallen by 96.7% from 642,000 in 1975 to 59,918 in 2002. Consequently, the random sample of rent controlled buildings selected by HPD for the 1974/75 MBR cycle had decreased from 1241 buildings to 371 in 1997. Therefore, for the 2000/01 MBR cycle, DHCR instituted a new sample based on MBR filings by property owners in the previous cycle. Since then, the sample has decreased from 6,363 to 4,785 buildings, all of which have filed for the last three cycles.

In order for owners to receive rent increases for rent controlled units they must file MBR applications. Because of this incentive, the universe of rent controlled buildings in New York City will closely proximate those buildings filing MBR applications. Thus, owners of rent controlled properties that did not file MBR applications for the 2002/03 cycle were excluded from the population from which the sample was drawn. Buildings have also been excluded from the data set because complete statistical information (i.e. year of construction, number of units, number of rooms, assessed valuation, water and sewer charges, etc.) was unobtainable from the various computerized data bases.

Rents are permitted to rise by 7.5% annually until the MBR is reached. In order to be eligible for such increases the building must meet all certification requirements. Thus, the owner must be providing all essential services and the building must have no major outstanding code violations. In addition, owners must also spend appropriate amounts of the building's rental income on operation and maintenance expenses.

TABLE II:
IMPLEMENTED AND CUMULATIVE
STANDARD ADJUSTMENT FACTORS
SINCE 1974/75

YEAR	IMPLEMENTED SAF	CUMULATIVE SAF
1974	8.5%	8.5%
1976	22.0%	32.4%
1978	9.0%	44.3%
1980	10.0%	58.7%
1982	11.0%	76.2%
1984	7.5%	89.4%
1986	11.5%	111.2%
1988	16.4%	145.8%
1990	8.0%	165.5%
1992	10.8%	194.1%
1994	14.7%	237.4%
1996	3.0%	247.5%
1998	3.8%	260.7%
2000	4.3%	276.2%
2002	10.5%	315.7%
2004*	17.2%	387.2%

* Preliminary

III. Derivation of the 2004/05 Standard Adjustment Factor and Changes in Individual Cost Components.

A. The Determination of the MBR Standard Adjustment Factor

The 2004/05 17.2% preliminary MBR SAF was computed by determining the percentage change from 2001 to 2003 for each building's MBR. Table 1 in the Appendix provides both graphic and tabular descriptions of the distribution of the MBR's percentage change among the sample's 4,785 buildings. It clusters the extreme values of the sample's observations at each end and details the distribution of the remaining buildings at 1% intervals.

As can be seen in the table, there is no single rate of change in building-wide MBRs for each of the 4,785 buildings in the sample. The most relevant measure of central tendency--the 17.24% median, rounded to 17.2% -- was used to determine the preliminary SAF. The median is less likely than the mean to be affected by extreme atypical percentage changes in the values of individual building MBRs.

B. Operation and Maintenance

The operation and maintenance expense allowance rose by 13.77% from 2001 to 2003. All of its cost components, with the exception of replacements, showed significant increases. The 64% increase in insurance costs brought the operations and maintenance allowance into the two digit range.

The operation and maintenance expense allowance is determined by a formula designed to reflect an amount necessary to maintain a building in proper condition. The New York City RAND Institute developed the formula on the basis of statistical analysis of Operation and Maintenance expenditures in 1967 for units in a sample of well maintained buildings that would fall under the jurisdiction of the MBR system. The components of Operation and Maintenance expenditures covered by this formula are labor, fuel and utilities, repairs and maintenance, replacements and improvements, administrative costs, and insurance. Two formulas were provided--one for "normal payroll" buildings, and the other for "high payroll" buildings which are defined as having a payroll in excess of $200 per apartment in 1967.

1967 O&M cost per "normal payroll" unit =
$180.30
\+ ($.24 x number of units)
\+ ($49.78 x average rooms per unit)
\+ ($1.46 x building age, i.e. 1967 - year of construction).

1967 O&M cost per "high payroll" unit =
$213.78
\+ ($.06 x number of units)
\+ ($87.05 x average rooms per unit)
\+ ($1.99 x building age, i.e. 1967 - year of construction)
\+ per-unit payroll in excess of $200.00.

For the 2004/05 update of the SAF the O&M component for each building was determined by using the above formulas. The following data sources were used:

1. The number of units in each building and its year of construction were derived from the NYC Department of Finance (DOF) assessed valuation files.

2. The average number of rooms in each building was derived from DHCR's data for annual apartment registration.

3. To update the 1967 calculations DHCR has been using the yearly reports on the "Price Index of Operating Costs for Rent Stabilized Apartment Houses in New York City" published by NYC's Rent Guidelines Board. The most recent adjusted data from these studies is shown under "PERCENTAGE CHANGES" in Table III below. Accordingly, appropriate multipliers were derived for each formula's 1967 amounts.

TABLE III: 2003 O&M CALCULATION PROCEDURES

PERCENTAGE CHANGES

COST COMPONENTS	2001-2002	2002-2003	2001-2003
Fuel (no increase)	0.00%	0.00%	0.00%
Utilities (no heat)	-18.32%	41.76%	15.80%
Labor	4.03%	3.45%	7.62%
Repairs & Maintenance	3.49%	4.28%	7.92%
Replacements	-0.60%	1.41%	0.80%
Administrative	4.64%	5.40%	10.29%
Insurance	16.50%	40.46%	63.64%

THE TWO MODELS' DOLLAR AMOUNTS FOR SELECTED YEARS

COST COMPONENTS	1967 O&M NORMAL PR	1967 O&M HIGH PR	2001 O&M NORMAL PR	2001 O&M HIGH PR	2003 O&M NORMAL PR	2003 O&M HIGH PR
Fuel (no increase)	$61.66	$81.44	$493.87	$493.87	$493.87	$493.87
Utilities (no heat)	$44.34	$58.56	$197.43	$534.33	$228.62	$618.73
Labor	$99.00	$0.00	$730.69	$0.00	$786.36	$0.00
Repairs & Maintenance	$98.00	$163.00	$987.00	$1,488.45	$1,065.13	$1,606.27
Replacements	$37.00	$44.00	$ 56.17	$60.64	$56.62	$61.12
Administrative	$56.00	$84.00	$389.49	$530.27	$429.58	$584.83
Insurance	$31.00	$30.00	$376.29	$330.51	$615.74	$540.83
TOTAL	$427.00	$461.00	$3,230.95	$3,438.06	$3,675.92	$3,905.66
TWO YEAR CHANGE					1.1377	1.1360
CHANGE FROM 1967					8.6087	8.4721

NOTE: For high payroll buildings, the applicable portion of labor costs were multiplied by the appropriate cost increase factor. The factor was 1.0762 for the 2001 to 2003 period or 9.1646 for the 36 year period beginning in 1967. Total labor costs in 1967 for high payroll buildings were $524.

C. Return on Capital Value

The return on capital value allowance remains at the legislated amount of 8.5% of the equalized assessed value for each building. The median percentage change for the return on capital value allowance was 16.64%. The distribution of return on capital value allowances percentage changes among the sample's buildings is shown in the Appendix Table 2.

Equalization utilizes Article 12 class ratios which vary according to the four tax classes into which the City's taxable real estate is divided:

1. Class 1 consists of 1,2 and 3 family residential properties, small condominiums, and certain vacant land zoned for residential use;

2. Class 2 consists of all other residential property including cooperatives and condominiums;

3. Class 3 consists of utility company equipment and special franchises; and

4. Class 4 consists of all other real property, such as office buildings, factories, stores, hotels and lofts.

The appropriate tax class ratio for each of the sample's buildings was used to determine the return on capital value allowances. The sample's 4,785 properties fall into three tax classes--with the overwhelming majority (99.5%) being Class Two properties.

The 2002 class ratios (the latest available) are 8.00% for Class One, 45.00% for Class Two and 45.00% for Class Four. The 2000 class ratios were essentially the same. The increase in the return on capital value component was caused by a 16.64% increase from 2000 to 2002 in assessed valuations.

D. Real Estate Taxes

Real estate taxes billed for the 2003/2004 tax year were calculated for each building in the sample using its 2003/2004 assessed valuation, exemption and abatement information and tax rates. The data was obtained from New York City's DOF in machine readable format. The 26.29% change in real estate taxes is the result of a 17% increase of Class 2 buildings' tax rates, combined with an 8% increase in assessed valuations. The distribution of real estate tax changes among the sample's buildings is shown in the Appendix Table 3.

E. Water and Sewer Charges

The data for calculating changes in water and sewer charges was obtained from New York City's Department of Environmental Protection (DEP). Using DEP's computerized accounting data, each building's water and sewer charges were calculated. DEP's computerized records have been used since the City has been gradually switching from a standardized rate based on frontage to a system based on usage.

F. Vacancy and Collection Loss

As prescribed in the Rent and Eviction Regulations, the vacancy and collection loss allowance was calculated at the mandated 1% of each building's MBR.

G. Commercial Income

According to summary data which was provided by New York City's DOF, commercial income rose by 8.93% from 2000 to 2002 – the most recent year for which data is available.

Local Law 63 of 1986 requires owners of multifamily, residential properties to annually file Real Property Income and Expense (RPIE) statements with the New York City DOF. These statements produce detailed financial records of residential apartment buildings. While certain categories of residential properties are excluded (cooperatives, condominiums, and buildings with fewer than 11 units or assessments of less than $40,000) the vast majority of buildings with rent controlled units are required to file RPIE statements. Similarly, owners provide the DOF with updated information upon assessment appeals. DHCR provided the DOF with a computer diskette listing the buildings in the sample. Data on individual properties is strictly confidential. However, the DOF is allowed to release summary statistics of RPIE data. The summary data received from DOF was then applied to the sample's buildings.

IV. Impact of Individual Cost Components on the Standard Adjustment Factor

The individual cost components of the MBR account for unequal portions of the total MBR. The importance of each component is shown by its "expenditure weight" for the years 1971, 2001 and 2003 in Table IV below.

TABLE IV: THE MBR'S COMPONENTS' RELATIVE WEIGHTS

RELATIVE WEIGHTS OF THE COMPONENTS' TOTALS

COMPONENTS	1971	2001	2003
Operation and Maintenance	39.00	42.18	40.15
Return on Capital Value	42.40	35.25	36.12
Real Estate Taxes	14.90	17.47	18.79
Water and Sewer Charges	2.70	4.11	3.94
Vacancy and Collection Loss	1.00	1.00	1.00
TOTAL	100.00	100.00	100.00

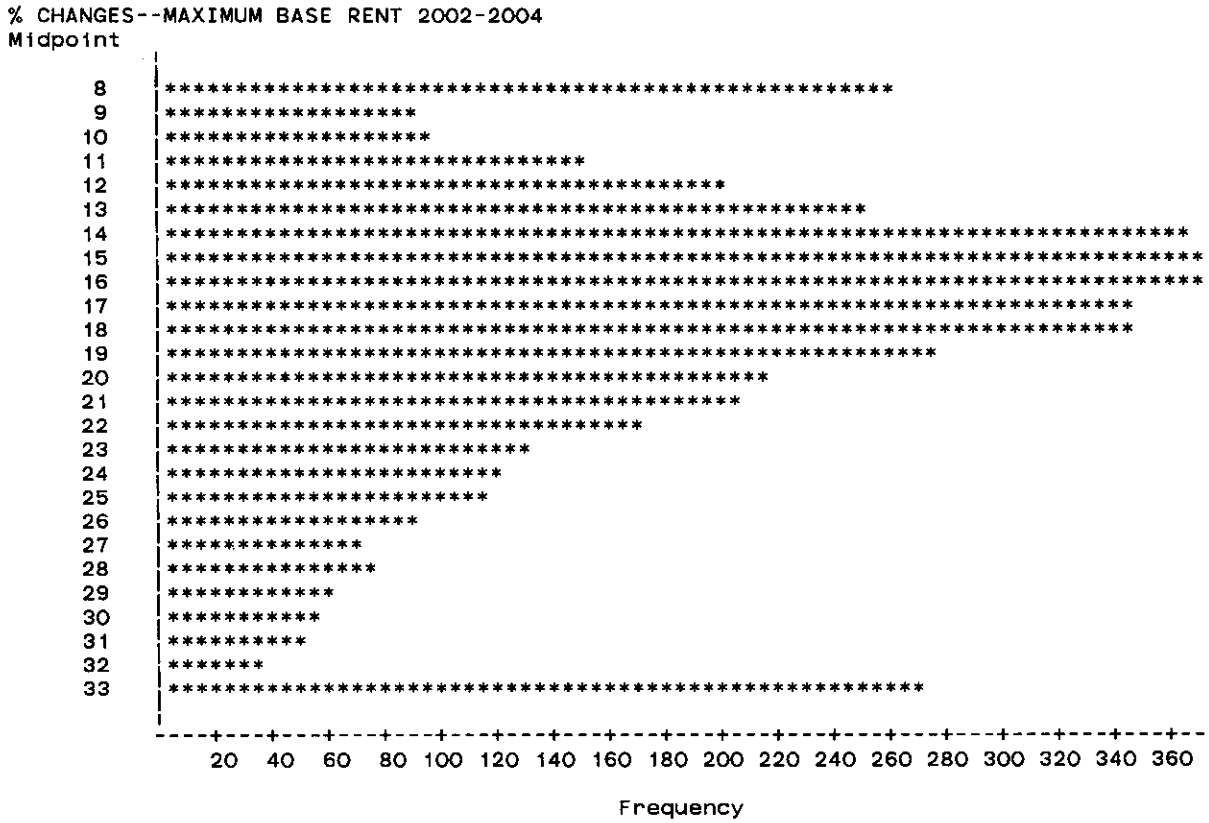
APPENDIX: STATISTICAL TABLES

TABLE 1 Percent Changes in Maximum Base Rents 2002-2004

TABLE 2 Percent Changes in Return on Capital Value 2000-2002

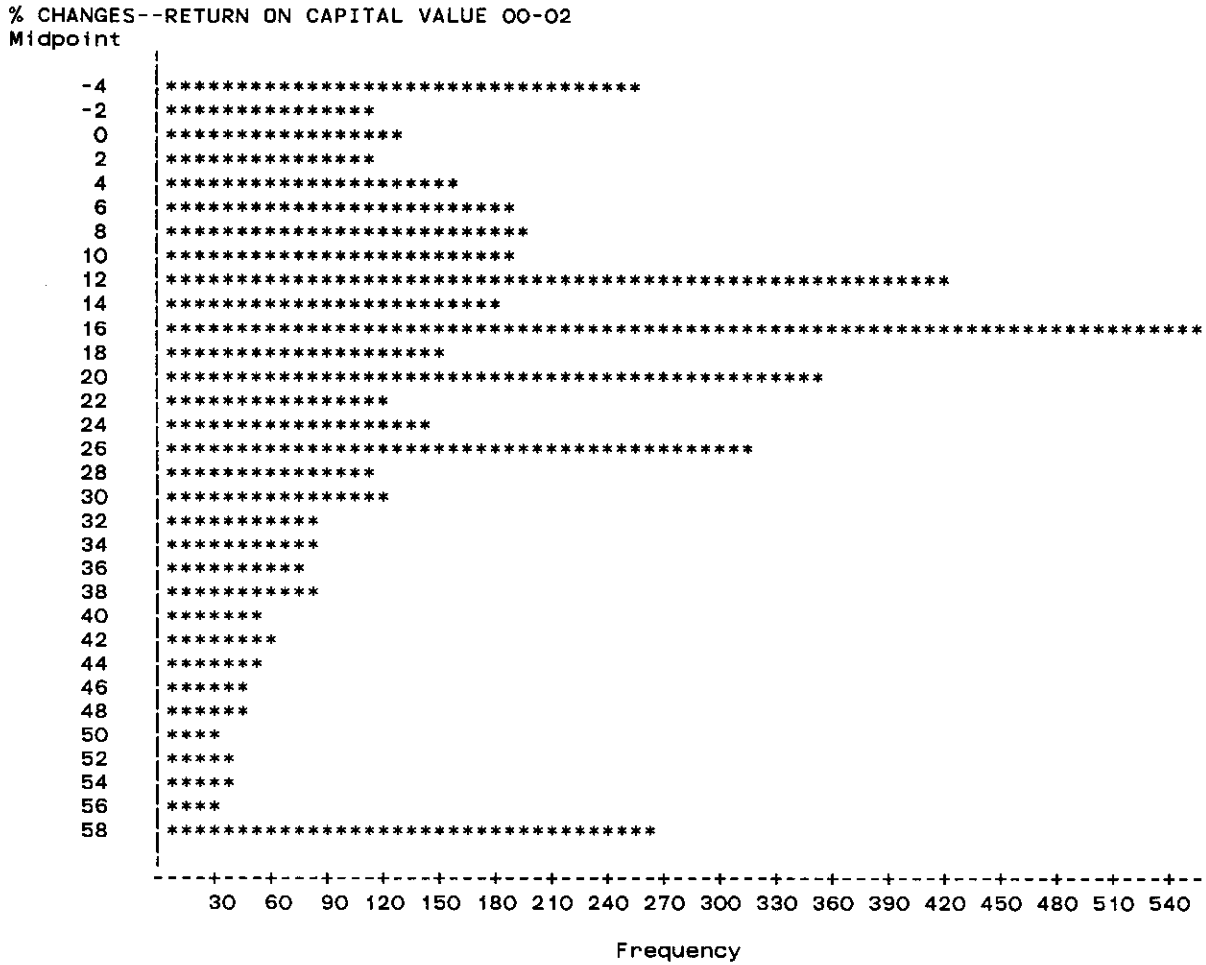
TABLE 3 Percent Changes in Real Estate Taxes 2001-2003

APPENDIX TABLE 1
PERCENT CHANGES IN MBR 2002-2004
(MEDIAN = 17.24%)



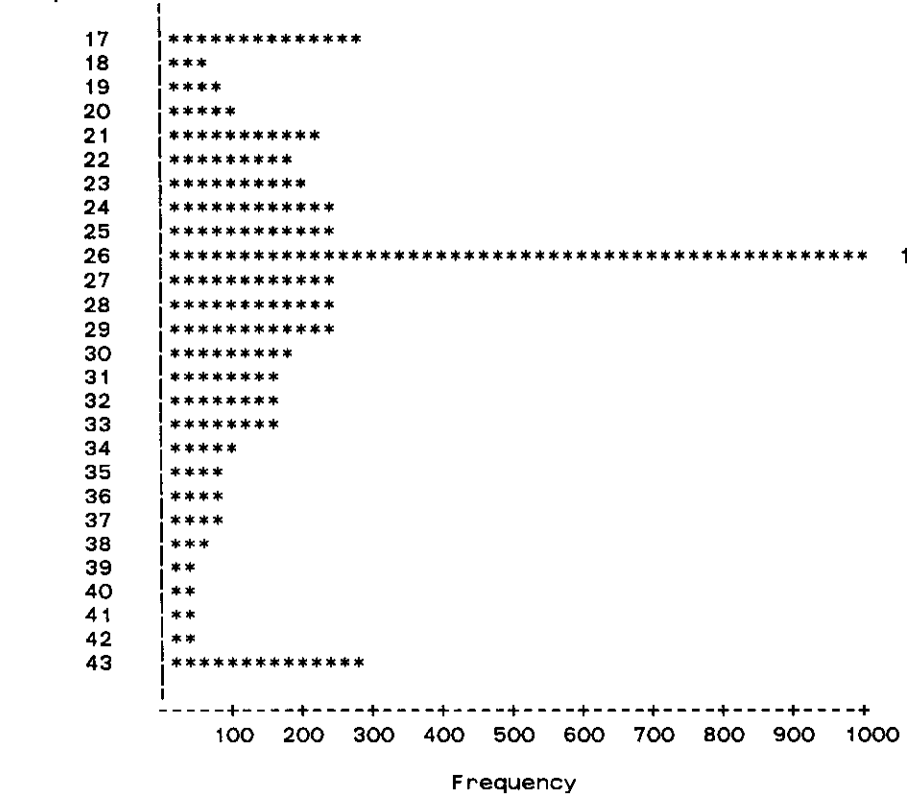
Midpoint	Freq	Cum. Freq	Percent	Cum. Percent
8	262	262	5.48	5.48
9	92	354	1.92	7.40
10	93	447	1.94	9.34
11	150	597	3.13	12.48
12	200	797	4.18	16.66
13	252	1049	5.27	21.92
14	363	1412	7.59	29.51
15	368	1780	7.69	37.20
16	371	2151	7.75	44.95
17	347	2498	7.25	52.20
18	347	2845	7.25	59.46
19	273	3118	5.71	65.16
20	214	3332	4.47	69.63
21	207	3539	4.33	73.96
22	171	3710	3.57	77.53
23	131	3841	2.74	80.27
24	122	3963	2.55	82.82
25	117	4080	2.45	85.27
26	90	4170	1.88	87.15
27	71	4241	1.48	88.63
28	75	4316	1.57	90.20
29	60	4376	1.25	91.45
30	54	4430	1.13	92.58
31	52	4482	1.09	93.67
32	34	4516	0.71	94.38
33	269	4785	5.62	100.00

APPENDIX TABLE 2
PERCENT CHANGES IN RETURN ON CAPITAL VALUE 2000-2002
(MEDIAN = 16.64%)



Midpoint	Freq	Cum. Freq	Percent	Cum. Percent
-4	258	258	5.39	5.39
-2	111	369	2.32	7.71
0	129	498	2.70	10.41
2	114	612	2.38	12.79
4	158	770	3.30	16.09
6	186	956	3.89	19.98
8	192	1148	4.01	23.99
10	190	1338	3.97	27.96
12	422	1760	8.82	36.78
14	180	1940	3.76	40.54
16	553	2493	11.56	52.10
18	151	2644	3.16	55.26
20	352	2996	7.36	62.61
22	123	3119	2.57	65.18
24	142	3261	2.97	68.15
26	316	3577	6.60	74.75
28	112	3689	2.34	77.10
30	121	3810	2.53	79.62
32	86	3896	1.80	81.42
34	80	3976	1.67	83.09
36	72	4048	1.50	84.60
38	83	4131	1.73	86.33
40	56	4187	1.17	87.50
42	58	4245	1.21	88.71
44	52	4297	1.09	89.80
46	48	4345	1.00	90.80
48	46	4391	0.96	91.77
50	27	4418	0.56	92.33
52	36	4454	0.75	93.08
54	41	4495	0.86	93.94
56	31	4526	0.65	94.59
58	259	4785	5.41	100.00

APPENDIX TABLE 3
PERCENT CHANGES IN REAL ESTATE TAXES 2001-2003
(MEDIAN = 26.29%)



Midpoint	Freq	Cum. Freq	Percent	Cum. Percent
17	289	289	6.06	6.06
18	59	348	1.24	7.30
19	71	419	1.49	8.79
20	99	518	2.08	10.87
21	211	729	4.43	15.30
22	183	912	3.84	19.14
23	199	1111	4.18	23.31
24	230	1341	4.83	28.14
25	244	1585	5.12	33.26
26	1000	2585	20.98	54.24
27	240	2825	5.04	59.27
28	233	3058	4.89	64.16
29	234	3292	4.91	69.07
30	177	3469	3.71	72.79
31	163	3632	3.42	76.21
32	158	3790	3.32	79.52
33	150	3940	3.15	82.67
34	108	4048	2.27	84.93
35	84	4132	1.76	86.70
36	73	4205	1.53	88.23
37	72	4277	1.51	89.74
38	64	4341	1.34	91.08
39	49	4390	1.03	92.11
40	38	4428	0.80	92.91
41	30	4458	0.63	93.54
42	32	4490	0.67	94.21
43	276	4766	5.79	100.00