

The Rent Guidelines Board 1997 Income & Expense Study

April 9 , 1997

The fortunes of New York City's rental housing market have dramatically changed in recent years. Among rent-stabilized properties, this turnaround started in 1993, when rents and revenues outgrew operating costs for the first time since 1990. These trends intensified in 1994, as local economic growth, though limited, boosted revenues and dampened collection losses to the point where profitability approached levels not seen since the late 1980's. In 1995, these conditions remained in effect, further raising earnings in the City's rent-stabilized housing, and signaling an almost complete recovery from the ravages of the recent recession.

The Rent Guidelines Board (RGB) has monitored conditions in New York's rental housing market since the City's Rent Stabilization Law was enacted in 1969. For many years, the Board formed its view of the market almost exclusively from its Price Index of Operating Costs (PIOC), a survey of prices for various goods and services required to maintain apartment buildings. Despite on-going complaints from both tenant and landlord groups about its accuracy, the PIOC was ultimately the major influence affecting the Board in determining annual rent increases for rent-stabilized apartments.

In 1990, the RGB acquired new data that permitted the PIOC's accuracy to be verified: income and expense (I&E) statements of rent-stabilized buildings from the Department of Finance. These I&E statements, filed annually by property owners, detail revenues earned, and maintenance costs incurred, by "income producing" properties such as apartment buildings. I&E statements are particularly useful because they not only describe conditions in rent-stabilized housing in a given year, but also illuminate changes in conditions over a two year period. Ultimately, I&E data, by encompassing both revenues and expenses, allows the Board to more effectively evaluate the overall condition of New York's rent-stabilized housing. This I&E Study determines conditions in New York's rent-stabilized housing market in 1995, and the extent by which these conditions changed from the year before.

Local Law 63

Local Law 63, enacted by the New York City Council in 1986, requires owners of apartment buildings to annually file Real Property Income and Expense (RPIE) statements with the Department of Finance. This mandate produces detailed financial records on thousands of rent-stabilized buildings every year, despite the fact that cooperatives, condominiums, buildings with fewer than 11 units and those assessed for less than \$40,000 are exempt from filing. While data on individual properties is strictly confidential, the Department of Finance is allowed to release summary statistics of RPIE data.

Since 1990, the RGB has received data on samples of 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.

What's New

Owners of rent-stabilized apartment buildings, according to their own financial records, had a good year in 1995. Rents and revenues rose faster than operating costs in the city's stabilized stock for the third year in a row, causing Net Operating Income (NOI, revenue left over after operating expenses) to increase by an average of 8%. This growth rate was similar to that experienced in the city's unregulated housing stock, which was analyzed for the first time this year.

Overall, these trends have helped the city's stabilized market recover from the effects of the recession of the early 1990's, to the point where typical inflation-adjusted net earnings approached levels observed in the late 1980's. However, New York City's persistently high unemployment and tepid economic growth may hinder the future ability of owners to collect the kind of rent increases they have been able to in recent years.

- ✓ Rental income in stabilized buildings rose by 4.3% from 1994-95.
- ✓ Total income rose by 4.4% from 1994-95.
- ✓ Operating costs rose by 2.5% from 1994-95.
- ✓ Net income in stabilized buildings rose by 8% from 1994-95.

Methodology

This year, the Income & Expense Study has been expanded to analyze the financial condition of both rent-stabilized and unregulated apartment buildings. This was done by making additional efforts to obtain records for buildings not subject to rent regulation. The methods used for drawing rent-stabilized buildings were unchanged from last year.

The information in this report was gleaned from 1996 RPIE forms filed with the Department of Finance by owners of apartment buildings with eleven or more dwellings. Both cross-sectional and longitudinal data were obtained for stabilized and non-stabilized buildings. Cross-sectional data comes from properties that filed RPIE forms in 1996, and is used to compute average rents, operating costs, etc. Longitudinal data encompasses properties that filed RPIE forms in both 1995 and 1996, and describes changes in average rents, operating costs, etc. Analysis of filing dates shows that RPIE forms reflect conditions around July of the calendar year in question. Thus, cross-sectional data in this report measures conditions in effect throughout 1995, while longitudinal data measures changes in conditions that occurred from 1994 to 1995.

This year 13,277 rent-stabilized and 1,909 non-stabilized apartment buildings were analyzed in the cross-sectional study, and 11,868 stabilized and 1,461 non-stabilized properties were examined in the longitudinal study. Buildings were sampled by matching a list of 40,000 properties registered with the New York State Division of Housing and Community Renewal (DHCR) in 1994 with buildings that filed a 1996 RPIE statement (or 1995 and 1996 statements for the longitudinal sample). Buildings not on the RGB's list of stabilized properties were classified as "non-stabilized", and were presumed to be unregulated, provided they did not show up on lists of Mitchell-Lama rental and condominium projects. Since this is the first year a sample of non-stabilized buildings was studied, the findings in this report for non-stabilized buildings should be treated with caution. Further refinement of the sampling process is probably necessary to completely weed out properties governed by Section 8 subsidies or other federal, state, or local subsidy programs from our pool of "non-stabilized" buildings.

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 1996 RPIE form for the cross-sectional study, or a 1995 and a 1996 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, 399 buildings were expelled from both samples for this reason. Most (238) of these buildings were expelled for having average rents below \$100 per month, although 161 buildings with average rents in excess of \$2000 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. Eight properties were excluded from each sample for this reason. Among these buildings, operating costs exceeded revenues by an average of eight times in 1995.

As in prior studies, after compiling both samples, Finance categorized sample data into "cells" reflecting particular types of buildings throughout the five boroughs (such as structures with 20-99 units built in Brooklyn before 1947).

Cross Sectional Study

Rents

In 1995, rent-stabilized property owners collected monthly rents averaging \$591 per unit. As in prior years, units in pre-war buildings rented for less (an average of \$534 per month) than those in post-war buildings (\$739 per month). Stabilized rents were highest in Manhattan (\$731), followed by Queens (\$546), Brooklyn (\$495) and the Bronx (\$477).

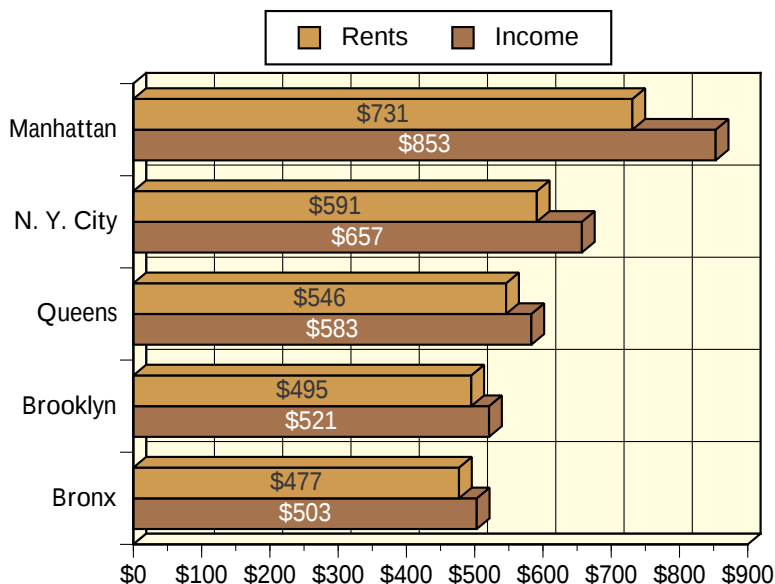
Rents stated in RPIE filings tend to be lower than figures obtained from both the triennial New York City Housing and Vacancy Survey (HVS) and the New York State Division of Housing and Community Renewal (DHCR). This is primarily because RPIE averages measure rent actually collected each month, while 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 three months of the survey.

Despite this anomaly, 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. That said, declines in the number of rent-controlled apartments also lowers the difference between the two averages.

The “gap” between RPIE and DHCR rents has fallen steadily since 1991, when the average I&E rent was 15% lower than DHCR’s mean registered rent.

In 1995, Stabilized Rents Were Highest in Manhattan

(Average monthly collected rent / income per dwelling unit by borough)



Source: NYC Dept. of Finance, 1996 RPIE Filings

Note: Not all stabilized properties in Manhattan had high rents in 1995. Buildings located north of Central Park collected an average of \$496 per unit in monthly rent, as opposed to the \$865 per unit typically earned by their counter-parts to the south. Buildings in Northern Manhattan earned total revenues averaging \$551 per unit per month, while those below East 96th and West 110th Streets generally earned a total of \$1025 per unit per month.

By 1994, this differential had fallen to 12%. Current RPIE returns indicate the gap between I&E rent and DHCR's mean stabilized rent fell to 10% in 1995, double the decline observed in last year's Income & Expense Study. The fact that average RPIE rents increased faster (4.3%) from 1994 to 1995 than the RGB's rent index (2.8%) further suggests that stabilized building owners may be deriving additional revenues from lower vacancies and fewer non-payment actions rather than from guideline rent increases. However, the RGB Rent Index does not account for rent increases from apartment refurbishing and building improvements, which are undoubtedly playing a role in the current recovery.

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 \$657 per rent stabilized unit in 1995, with pre-war buildings earning \$593 per unit and those in post-war properties earning \$825 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 1995. Manhattan owners particularly benefit from commercial income, with 14% of their revenues coming from commercial units and services. The respective figures for the other boroughs were 6% in Queens, and 5% each in Brooklyn and the Bronx.

Operating Costs

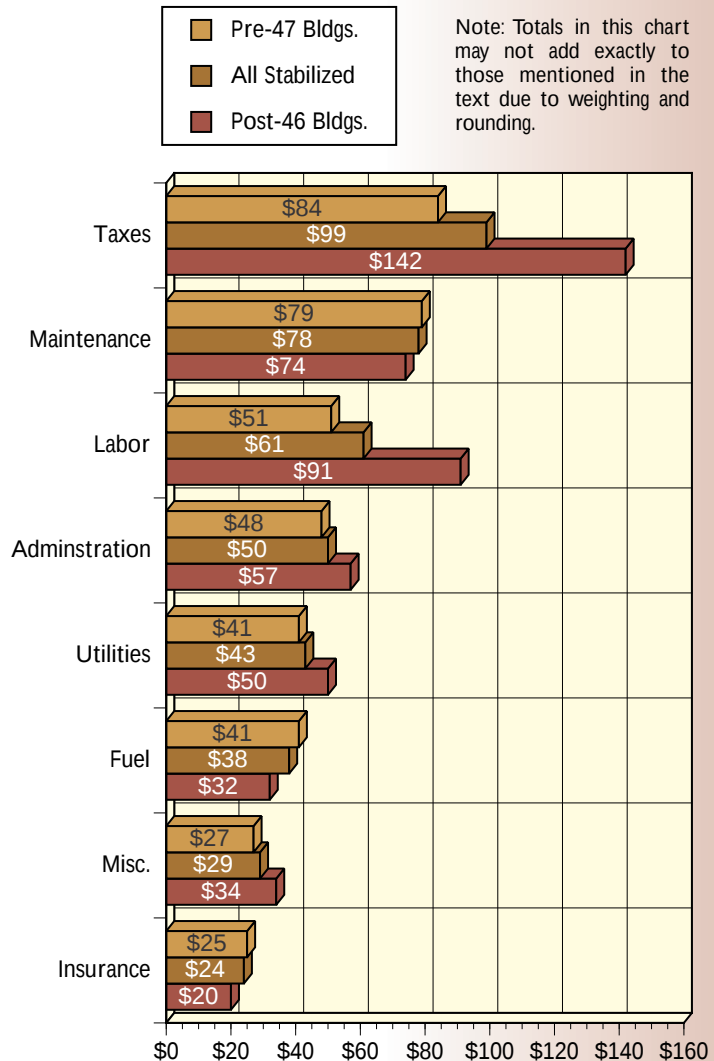
Rent-stabilized apartment buildings incur considerable expenses in the course of their operation. RPIE filings include data on eight categories of maintenance costs. In contrast to revenues, however, this data does not distinguish between expenses for commercial space and those for apartments, making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

The average monthly operating cost for stabilized units was \$425 in 1995. Costs were substantially lower in units situated in pre-war buildings (\$396), and much higher in the post-war sector (\$503). Geographically, costs resembled the distribution of average rents, being lowest in Brooklyn (\$354) and highest in Manhattan (\$525).

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

Taxes Were the Largest Single Cost in 1995

(Average monthly expense per dwelling unit per month)



Source: NYC Dept. of Finance, 1996 RPIE Filings

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 1995 RPIE data by the results of the 1992 audits reduces the monthly average O&M cost for stabilized units from \$425 to \$391.

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 with a mixture of uses. Audited monthly O&M costs for buildings without commercial units were about \$34 lower (\$357) than the average for all buildings in 1995. As in last year's Income & Expense Study, most of the difference in costs between the two types of properties stemmed from taxes, maintenance and labor expenses that were respectively 18%, 11% and 7% lower on average for buildings without commercial space than for all stabilized properties.

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. The relationship between apartment rents, commercial income and operating expenses in determining NOI is summarized on the sidebar above for the average rent stabilized building.

This year, for the first time ever, RGB staff computed NOI for buildings that filed RPIE forms. On average, apartments in rent-stabilized buildings earned \$232 of net income per month in 1995, with units in the pre-war stock earning less (\$197 per month) than those in post-war properties (\$322 per month). As shown in the chart to the right, NOI tended to be much higher for stabilized buildings in Manhattan than for those in the outer boroughs. Average NOI in "all-residential" properties was only \$188 per unit per month in 1995, 19% lower than the norm for all stabilized buildings.

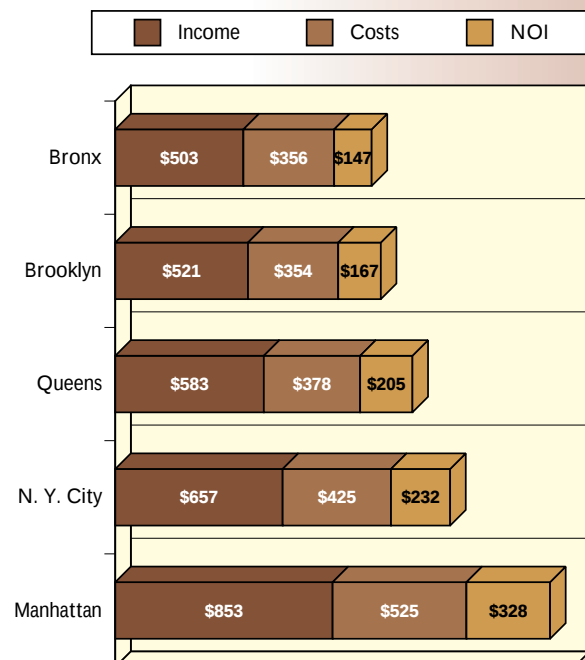
What exactly do these new figures tell us? As the revenue available after payment of operating costs, NOI is the money owners have for financing their buildings, making improvements and for pre-(income) tax profits. NOI does not say anything about the ultimate profitability of a particular property,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

Calculation of Net Operating Income*

Apartment Rents	\$591
Commercial Revenue	+ \$66
Total Income	\$657
Operating Costs	- \$425
NOI	\$232

* Note: Average rents, income and operating costs per unit per month.

Net Operating Income was Highest in Manhattan During 1995



Source: NYC Dept. of Finance, 1996 RPIE Filings

payments and income taxation, data which is currently unavailable for analysis. That said, multiplying the average monthly NOI of \$232 per stabilized unit by the typical size of the buildings in this year's cross-sectional sample (45 units), yields an mean annual NOI figure of roughly \$125,000 for owners in 1995.

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. As operating costs have consumed less revenue in recent years, inflation-adjusted NOI has risen to 95% of the 1989 average, as shown on the adjacent chart.

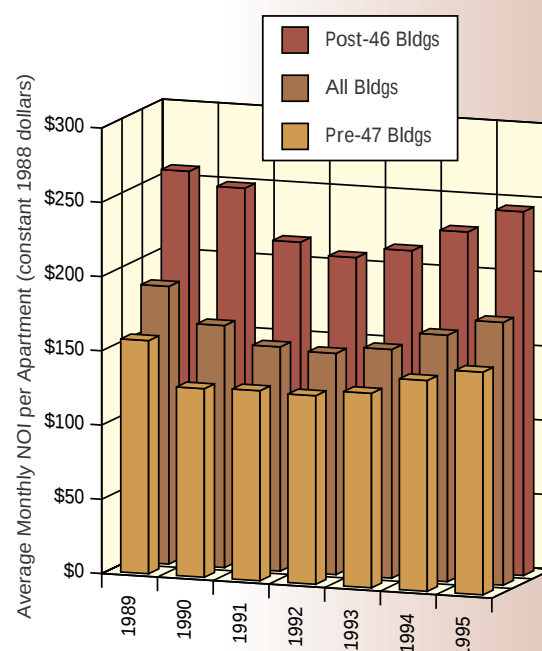
These figures suggest that New York's stabilized housing market has emerged from the deep recession of the early 1990's and is now experiencing better financial conditions. During the "lean" years, unemployment and collection losses all rose in the city, limiting owners' ability to offset rising operating 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. However, the city's persistently high unemployment rate may be dampening this recovery, as shown by a slight slow down in the decline of the average cost-to-income ratio. Furthermore, 1996 HVS data indicates that recent rent increases may have raised vacancies, limiting owners' leeway to hike rents. Such effects, if present, should appear in next year's RPIE filings.

Non-Stabilized Buildings

Traditionally, the Income & Expense Study had dealt strictly with conditions in rent-stabilized buildings. As noted earlier, this year RGB staff, with the help of the Department of Finance, compiled data on non-stabilized apartment buildings that filed 1996 RPIE forms. Since most of these buildings in New York have fewer than eleven dwellings, and are thus not required to post RPIE statements, the number of properties for which RPIE data was gathered was much lower (1,909) than the number of stabilized properties. However, this number of buildings is sufficiently large to calculate reliable statistics about non-stabilized buildings with eleven or more units.

As expected, non-stabilized properties generally earned higher revenues than stabilized buildings in 1995. Rents in market-rate buildings averaged \$744 per month, while gross income averaged \$838 per month. As in the stabilized sector, average rents and income were greater in modern buildings (respectively \$807 and

After Inflation, NOI is Approaching Levels Last Seen in the Late 1980's



Average Monthly NOI per Apartment (constant 1988 dollars)

	1989	1990	1991	1992	1993	1994	1995
<u>POST-46</u>	\$258	\$249	\$215	\$207	\$214	\$229	\$245
<u>ALL</u>	\$187	\$163	\$151	\$149	\$154	\$166	\$177
<u>PRE-47</u>	\$157	\$127	\$128	\$127	\$131	\$142	\$150

RGB Rent Index* (temporally adjusted)

	1989	'90	'91	'92	'93	'94	'95	'96
<u>Rent Index</u>	6.3%	6.2%	4.7%	4.0%	3.3%	3.0%	2.8%	4.5%

* The RGB Rent Index estimates the overall effect of the Board's guideline rent increases for a given year. However, it includes neither the effects of administrative rent increases (for apartment or building wide improvements) nor preferential rents (ie. rents below established legal maximums). Because the RGB's guidelines are based on a October 1 to September 30 year, the Rent Index must be adjusted for comparison to RPIE data.

Source: NYC Dept. of Finance, 1996 RPIE Filings

\$896 per month) than in older ones (respectively \$712 and \$757 per month).

Geographically, average rents for market-rate units ranged from \$927 per month in Manhattan, \$664 per month in Brooklyn, \$623 per month in the Bronx and \$579 per month in Queens, as illustrated in the chart below. The gulf between Manhattan and the outer boroughs is likely due in part to differences in building size, since rents in small (11-19 units) and medium sized (20-99 units) non-stabilized buildings were typically much lower (\$676 and \$665 per month) than in large properties (\$912 per month). Surprisingly, the difference between Manhattan and outer borough rents in non-stabilized buildings is not much larger than that observed for stabilized rents. Since living space is at a premium in Manhattan, we expected to observe a greater difference between non-stabilized rents in the borough and rents for units elsewhere in the city.

Similar to rents and income, operating costs in non-stabilized buildings tended to be higher than in their stabilized counterparts. On average, expenses for market-rate units totalled \$529 per month, ranging from \$506 per month in pre-war buildings and \$545 per month in post-war properties. Audited operating costs for all non-stabilized units totalled \$487 per month, and comprised (59.5%) of total income, slightly lower than in the stabilized stock. Expenses in non-stabilized buildings

were higher across all categories measured in RPIE filings, as shown in the table below. Average labor and administrative costs were particularly high compared to the stabilized norm, followed by maintenance costs, util-

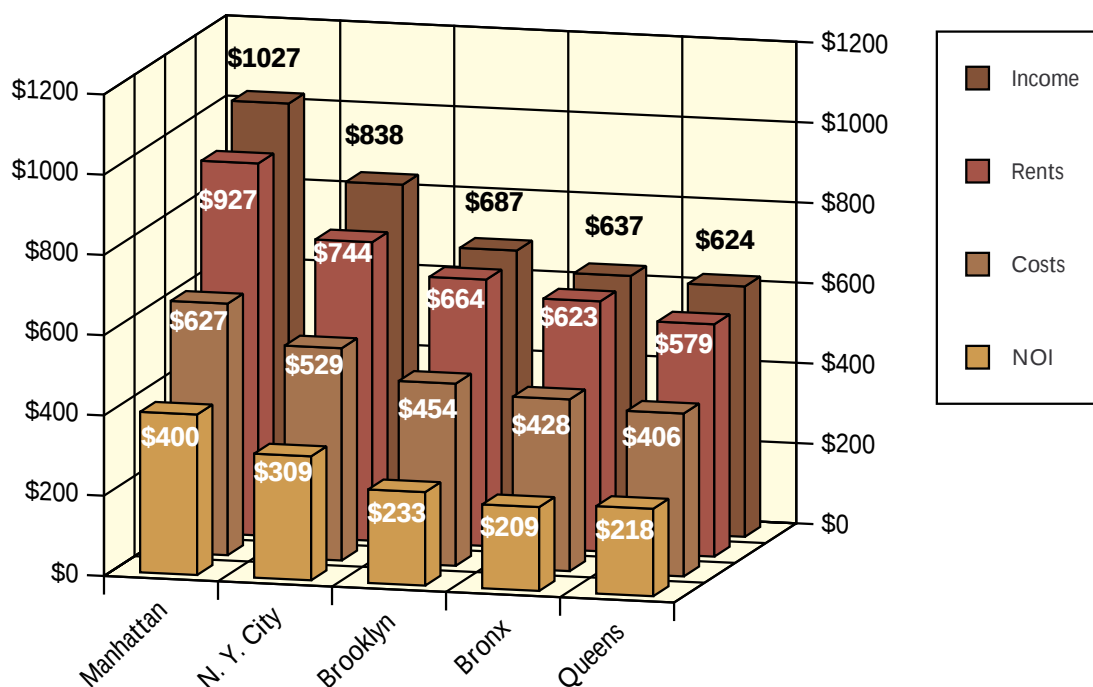
Unregulated Buildings Faced Higher Operating Costs in 1995

	Stabilized Buildings	Unregulated Buildings
Property Taxes	\$99	\$110
Labor Costs	\$61	\$99
Fuel Costs	\$38	\$39
Utilities	\$43	\$55
Maintenance	\$78	\$93
Administrative	\$50	\$70
Insurance	\$24	\$28
Miscellaneous	\$29	\$35
Total*	\$425	\$529

* Note: Components may not add to totals due to weighting and rounding.

Source: NYC Dept. of Finance, 1996 RPIE Filings

Non-stabilized Rents were Highest in Manhattan During 1995



Source: NYC Dept. of Finance, 1996 RPIE Filings

ity expenses and real estate taxes. Most of this difference stemmed from the fact that non-stabilized buildings tended to be slightly newer and larger, on average, than their stabilized counterparts in 1995. However, the size of the cost “gap” between stabilized and non-stabilized properties indicates that the typical level of service offered in the private market stock may be higher, requiring greater outlays to maintain.

With higher average revenues and operating costs, it is no surprise that non-stabilized apartment buildings tended to earn higher NOI than their stabilized counterparts in 1995. On average, net income was \$309 per unit per month, equivalent to \$204,000 annually for the typical non-stabilized building in this year’s cross-sectional sample. As in the stabilized stock, older properties tended to have below-average NOI (\$251 per unit per month) while modern buildings had above average NOI (\$351 per unit per month). Again, as illustrated in the chart on the previous page, NOI was greater for non-stabilized buildings located in Manhattan (\$400 per unit per month) than for similar properties located in Brooklyn (\$233 per unit per month), Queens (\$218 per unit per month) and the Bronx (\$209 per unit per month).

Longitudinal Study

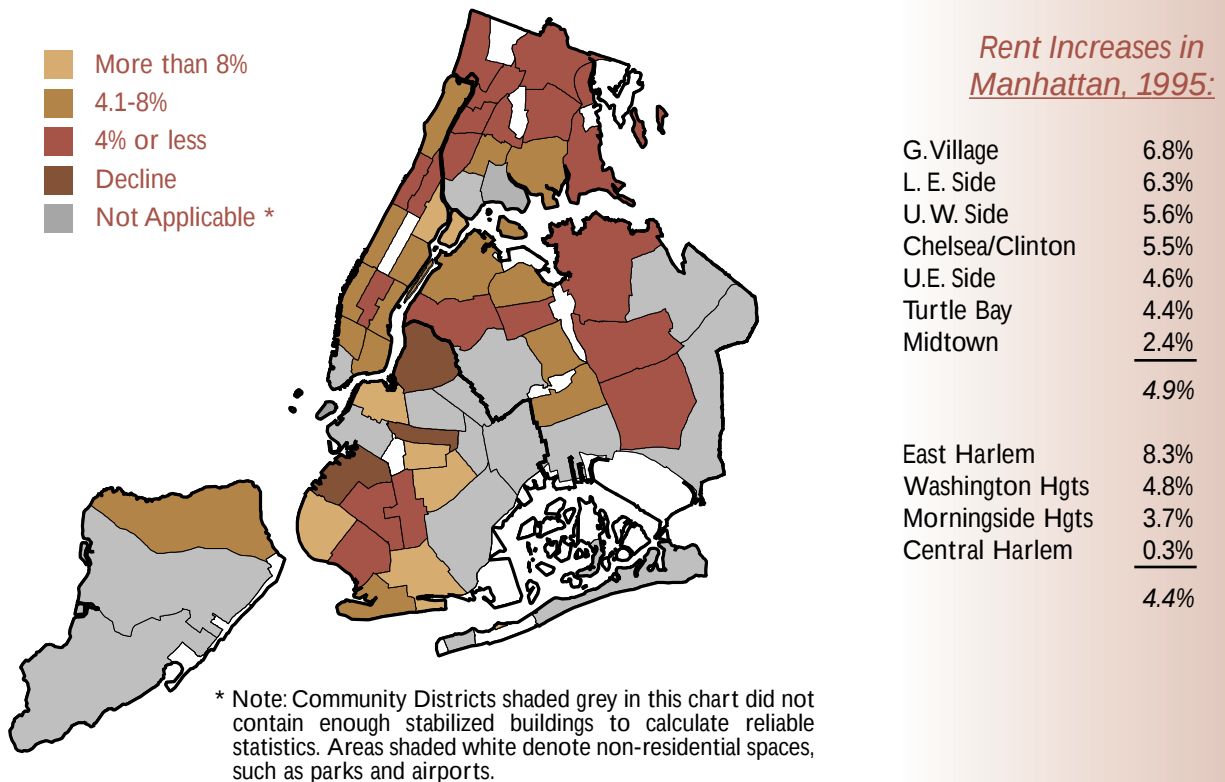
Rents

In the face of a resurgent local economy, average rents in stabilized buildings rose by 4.3% in 1995, slightly lower than the increase observed during 1994 (4.5%). Similar to last year, rents in older (pre-47) buildings grew faster (4.4%) than those in more modern (post-46) properties (4.1%), although this variance narrowed over the year. Rents increased by 4.4%, 4.5% and 4.1% for small (11-19 unit), medium (20-99 unit) and large (100+ unit) buildings respectively.

As shown on the map on the next page, rent growth in stabilized buildings from 1994-1995 was uneven across the city. In Manhattan, rents rose briskly in the “Core”, the area below East 96th and West 110th Streets, with increases between 4.1% and 8% in six out of seven Community Districts. However, in the poorer neighborhoods to the north rent growth was generally more modest, averaging less than the borough average (4.8%) everywhere except for East Harlem. These patterns partially explain why average rents in Manhattan rose faster than the city as a whole for the third consecutive year. In contrast, rent growth in Brooklyn was lower (3.3%) than the citywide norm, while also being much more variable. Rents actually declined in Greenpoint, Crown Heights and Sunset Park while those in Brooklyn Heights and Sheepshead Bay increased by more than 10%. Rents in the Bronx were more stable, rising by an average of 3.5%. Rents increased slightly throughout the borough, rising more than 5% only in the Highbridge and Soundview/Parkchester areas. In Queens, stabilized rents rose by 3.4%, with all applicable Community Districts recording modest gains.

Recently, rent collections measured by RPIE filings have risen faster than expected, outpacing growth in both the RGB Rent Index and DHCR’s registered rents. From 1992 to 1994, RPIE rents grew by 8.5%, exceeding both the RGB’s rent index (6.4%) and the increase observed in DHCR registered rents (6%). This trend continued in 1995, as growth in rent collections (4.3%) exceeded that in the Rent Index (2.8%) and DHCR registered rents (2.3%). While comparisons between these variables are imperfect due to differences in measurement periods, they provide some evidence that growth in stabilized rents is continuing to be propelled mainly by reductions in vacancy and collec-

Overall, Stabilized Rents Rose Fastest in Manhattan in 1995



Source: NYC Dept. of Finance, 1996 RPIE Filings

tion losses, which allow building owners to keep a greater portion of their rent rolls. Rising investment in property improvements may also be boosting rent collections, since the costs of renovating building-wide systems and individual apartments can be added to stabilized rents. These types of rent increases are not factored into the RGB Rent Index. Although hard data is unavailable, it seems logical to assume that sustained growth in rents and revenues would induce owners to upgrade their properties.

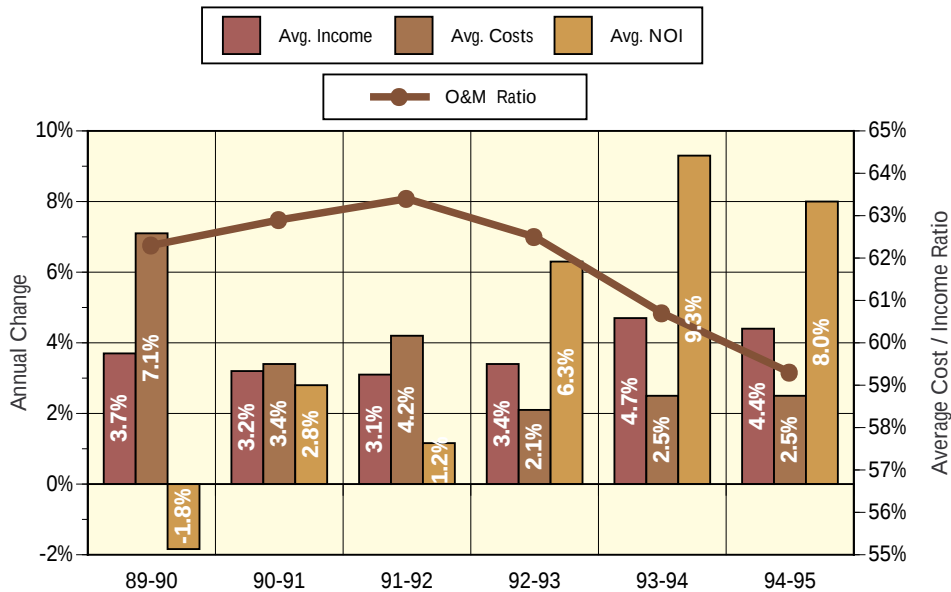
The total income collected in rent-stabilized buildings, comprising apartment rents, commercial rents and sales of services, increased by 4.4% in 1995, slightly lower than the rate observed in the previous year. Revenues rose at equal rates in both pre-war and post-war buildings. Similar to last year's findings, income grew by 5.2% in small buildings, 4.1% in medium-sized ones and 4.4% in large properties.

Operating Costs

In 1995, expenses in stabilized buildings grew slower (2.5%) than both rents and revenues for the third consecutive year. Costs rose slightly less in modern properties (2.4%) than in pre-war buildings (2.6%). This variance was attributable to administrative, maintenance and labor costs that rose much more sharply in pre-war buildings over the course of the year. Size influenced cost growth to a much smaller extent than it did the previous year, as costs rose by respectively 2.4%, 2.7% and 2.3% in small, medium and large buildings.

While overall cost growth was modest in 1995, some expenses increased more than others. Insurance premiums rose most (6.1%), followed by miscel-

Rising Revenues and NOI Have Reduced O&M Ratios



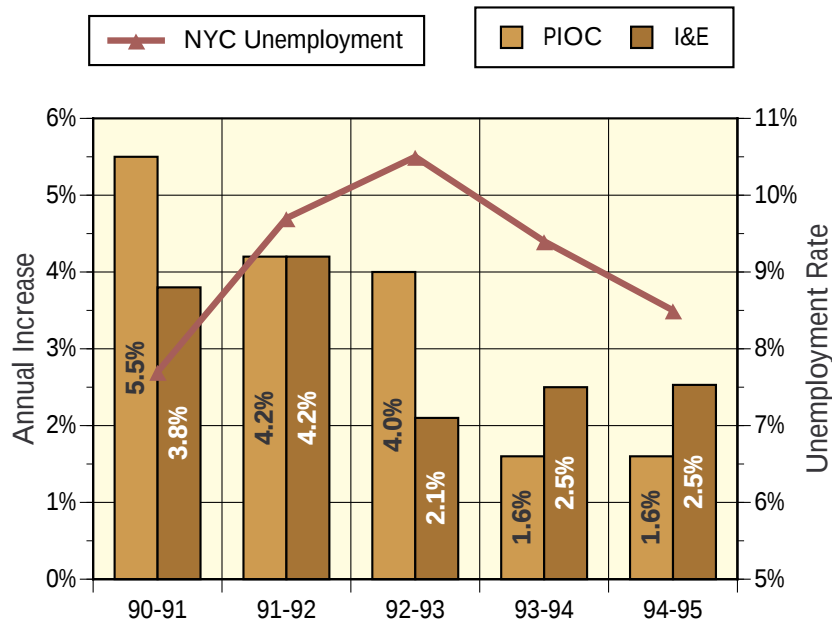
Source: NYC Dept. of Finance, 1996 RPIE Filings

laneous, labor and administrative costs (which grew respectively by 4.2%, 4.1% and 3.8%). These gains were offset by stable utilities (1.7% growth) and a 4% decline in fuel costs, brought about by mild winter weather. Maintenance costs and property taxes, proportionately two of the largest costs faced by building owners, grew modestly, by 2.5% for the former and 2.3% for the latter.

Over the past few years, as the chart on the next page indicates, growth in PIOC-measured costs has consistently differed from expense increases reported in RPIE data. At the start of the decade, when New York's economy started to slide into recession (as indicated by increasing unemployment), the PIOC grew faster than RPIE costs. At the depth of the recession, from 1992 to 1993, when joblessness in the city exceeded 10%, the "gap" between the PIOC and RPIE costs was at its widest. As the national and local economy rebounded, this trend reversed. Over the period from 1993 to 1995 average expenses measured by RPIE filings exceeded the price index by a margin of 5% to 3.2%. Most of this variance stemmed from faster owner-reported growth in insurance premiums, maintenance costs, utility charges and property taxes. Similarly, from 1989 to 1993, the PIOC regularly reported higher increases in the insurance, maintenance and fuel sectors than were actually recorded in RPIE filings.

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. 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. Despite these drawbacks, it seems that the PIOC may be more "accurate", in terms of the disparity between I&E and PIOC measured expenses, as New York's rent-stabilized housing market emerges from recession. In turn, this may demonstrate that the PIOC is better at tracking costs during economic upswings, when all types of costs are generally increasing, and when accelerating revenue growth induces fewer owners to cut back on maintenance

As New York's Economy Improves, the PIOC May Understate Increases in Operating Costs



Source: NYC Dept. of Finance, 1996 RPIE Filings

services. Overall, from 1990 and 1995, the PIOC was quite accurate, registering cost growth of 18% in stabilized buildings compared to a 16% increase reported in RPIE filings. This indicates that the PIOC adequately measures long-term expansion in operating costs, at the cost of missing some annual variation.

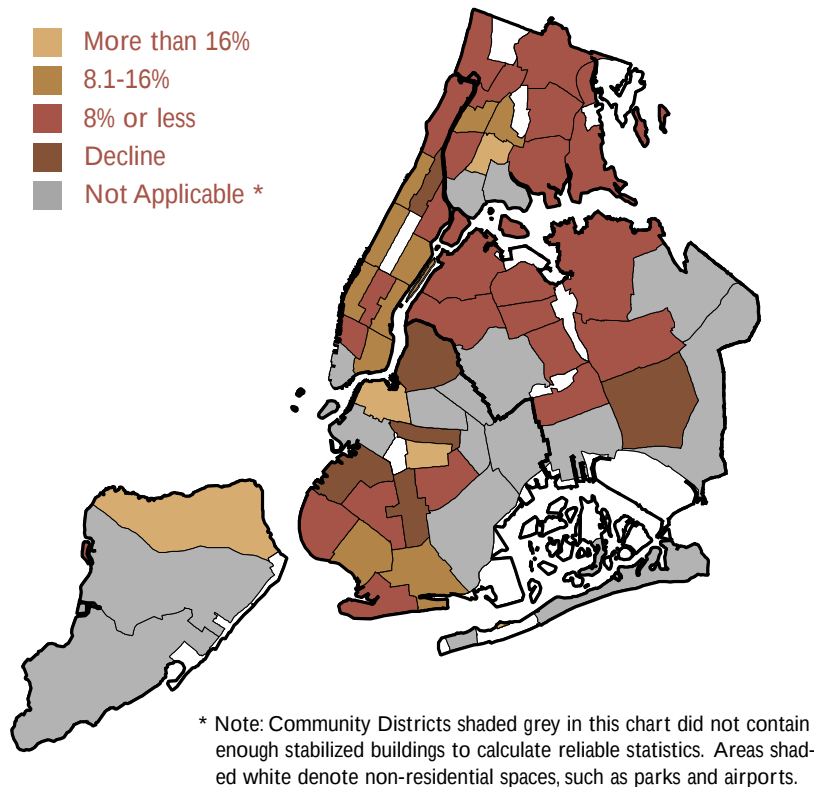
Net Operating Income and Operating Cost Ratios

Since revenues generally outgrew operating costs in stabilized buildings during 1995, it is not surprising that NOI increased over the year by an average of 8%. As found with other variables, NOI grew faster on average in the pre-war stock (8.4%) than in post-war properties (7.4%). Pre-tax earnings rose most in small buildings (10.9%), followed by large (7.7%) and medium-sized ones (7.1%).

However, as the map on the next page illustrates, NOI growth varied widely across the city. NOI rose strongly throughout most of Manhattan at an average rate of 10%. Buildings in the outer boroughs experienced more modest increases. In the Bronx, NOI grew less than 10% in every Community District except for Highbridge. Brooklyn buildings experienced very uneven earnings growth, which averaged 4.4%. NOI increased sharply in Brooklyn Heights, South Crown Heights, Bensonhurst and Sheepshead Bay, but declined in Williamsburg, North Crown Heights, Sunset Park and Flatbush. Conditions in Queens were similar to those in the Bronx, with stable NOI growth averaging 4.6%. Every Community District in the borough had increases of 8% or less except for the Jamaica section, where earnings fell.

What do these figures indicate about the overall financial condition of New York's stabilized housing? It is clear that owners generally had 8% more cash at their disposal in 1995 to use for paying mortgages, making building improve-

NOI Grew Fastest in Manhattan's Stabilized Building's During 1995



Source: NYC Dept. of Finance, 1996 RPIE Filings

NOI Growth in Manhattan Neighborhoods, 1995:

U. W. Side	12.3%
L. E. Side	10.6%
U.E. Side	10.2%
Turtle Bay	10.1%
Chelsea/Clinton	10.1%
Midtown	7.9%
G. Village	7.9%
	10.2%
Morningside Hgts	12%
Washington Hgts	7.5%
East Harlem	7.1%
Central Harlem	-6.8%
	6.9%

ments and pre-tax profit. However, interest rates on multi-family mortgages in the city rose at the same time, as the Federal Reserve Board tried to dampen inflation. Given this development, and the limitations of our data, we cannot say with absolute certainty that whether NOI growth observed in 1995 resulted in greater pre-tax gains for owners of rent-stabilized buildings.

The proportion of gross income spent on unaudited expenses declined by one (1.0) percentage point between 1994 and 1995. A similar drop was observed in the amount of income spent on audited expenses. The proportion of rent used to pay audited costs, also declined by an identical amount.

Roughly 9% of the buildings in this year's longitudinal sample faced costs that exceeded revenues, identical to the rate observed last year. The fundamental conditions besetting these buildings did not change. Such properties are burdened by low rents, lack commercial income and suffer high operating expenses. Unfortunately, the figures available to staff do not permit more thorough insights into the plight of such buildings.

Non-Stabilized Buildings

This year, for the first time, RGB staff was able to access income and expense data for nearly 1500 apartment buildings that did not register with the DHCR in 1994, and that filed RPIE forms in both 1995 and 1996. This data reflects trends occurring from 1994 to 1995. Because properties with fewer than

eleven dwellings do not have to file RPIE forms, data on more non-stabilized buildings could not be obtained, since such small buildings make up most of New York's non-stabilized housing stock. As this was the first year we drew a sample of non-stabilized buildings for study, the results reported below should be treated with caution, because they may be affected by the presence of some buildings subsidized by federal, state or local programs but which are not subject to stabilization (such as Section 8, Article 421a, HUD properties).

Non-stabilized rents rose by an average of 5.1% in 1995. As in the stabilized sector, non-stabilized rents increased faster in pre-war buildings (5.2%) than in post-war ones (4.9%). Rent growth also varied inversely to building size, with the greatest gains observed in small buildings (11.7%), and more modest increases witnessed for medium-sized (5%) and large buildings (3.7%). Geographically, rent growth in the non-stabilized stock was highest in the Bronx (5.4%) and Manhattan (5.1%), followed by Queens (3.6%) and Brooklyn (3.4%). This pattern is hard to explain, since evidence from the past two years has pointed to a very tight, and expensive, rental market in Manhattan.

The total revenue earned in non-stabilized buildings increased by an average of 5.3% in 1995, with slightly greater gains in older properties (5.5%) as opposed to modern ones (5.2%). As with rents, income rose most in smaller buildings (13%), followed by mid-sized (5.8%) and large (3.4%) properties. Revenues increased most in the Bronx (5.4%) and Manhattan (5.3%), followed by Brooklyn (4.1%) and Queens (3.9%). Once again, we cannot adequately explain the reasons for the impressive growth witnessed in Bronx buildings.

While non-stabilized buildings earned more revenue in 1995, they also paid higher costs. Overall, operating expenses rose by an average of 3.4%, significantly higher than the average in the stabilized sector. Cost increases did not differ much by building age, with average increases of 3.4% in older buildings and 3.3% in modern ones. However, small and medium-sized buildings faced higher average increases (4.5% for each) than did large properties (2.3%). Queens faced much higher cost increases (6.7%) than the Bronx (3.5%), Brooklyn (2.7%) or Manhattan (2.5%). Why this was so is not clear.

As the chart to the right demonstrates, most operating expenses increased faster in non-stabilized buildings than in stabilized ones during 1995. Rapid growth in maintenance and labor costs may reflect improvements in service levels, demanded by

tenants paying higher rents. Likewise, the relatively fast revenue growth mentioned earlier probably boosted property taxes, since the city values properties according to their income generating capacity.

Although non-stabilized properties experienced greater gains in rents and income than stabilized buildings in 1995, rapid cost growth limited overall expansion of NOI to 8.9% over the year. Earnings grew most in the pre-war stock (9.8%) and slightly less in post-war stock (8.5%). NOI rose fastest in Manhattan (10.4%) and the Bronx (9.7%), followed by Brooklyn (7%). Tepid revenue growth combined with rampant cost increases caused average earnings to drop slightly among non-stabilized buildings in Queens (-1%). Again, given local lending conditions in 1995, it is impossible to know whether the increase in NOI was large enough to offset increased mortgage payments wrought by greater interest rates.

The most surprising finding of this year's Income & Expense Study is that owners of non-stabilized buildings, despite their unhindered ability to raise rents, did not benefit from significantly greater NOI growth than their stabilized counterparts in 1995. This probably reflects the relative skill of stabilized owners at containing cost growth, since they have been forced for the past twenty years to maintain the profitability of their buildings with limited capacity to raise revenues to cover increases in expenses. It also points to the influence of rent increases from apartment and building improvements that can increase revenues in stabilized buildings beyond what is set forth in the RGB's annual rent guidelines. □

Costs Rose Faster in Unregulated Buildings in 1995

	Stabilized Buildings	Non-stabilized Buildings
Property Taxes	2.3%	3.8%
Labor Costs	4.1%	5.3%
Fuel Costs	-4.0%	-2.6%
Utilities	1.7%	2.8%
Maintenance	2.5%	5.0%
Administrative	3.8%	3.6%
Insurance	6.1%	3.5%
Miscellaneous	4.2%	0.3%
Total	2.5%	3.4%

Source: NYC Dept. of Finance, 1996 RPIE Filings