Updated Findings of the 2005 Income and Expense Study

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what's new

From 2002-03, increases in operating costs outpaced increases in rental income and total income. Since operating cost growth was greater than the increase in income, net operating income (revenue remaining after operating expenses are paid) fell.

In stabilized buildings, from 2002-2003:

- ✔ Rental income increased by **3.6**%.
- ✔ Total income rose by **4.5**%.
- ✔ Operating costs increased by **12.5**%.
- ✔ Net operating income (NOI) declined by **8.7**%.

Important Notes on Updated Findings

Beginning with the 2003 RPIE, the NYC Department of Finance (DOF) made significant changes to various aspects of the process used to collect and analyze the RPIE data. Significant changes were made to the RPIE form itself; to methods of data entry; and to the computer program used to record and analyze the data obtained from the RPIE filings. All these changes had an adverse impact on the RGB's ability to properly utilize the data for this year's *Income and Expense Study*. In particular, RPIE forms no longer request data on real estate tax expenses, necessitating the use of an alternate method for determining tax costs for this study. Furthermore, significant anomalies were found among reported aggregate income in a few sub sectors of the City. These income anomalies have been corrected in this version of the *I&E Study*.

However, it is important to note that the reporting of expense data must be qualified for this version of the *I&E Study*, as was done for the preliminary version, for several reasons. Tax expenses were determined in two different ways, depending on whether RPIE forms were submitted. Since owners were no longer required to report real estate tax expense on the 2003 RPIE, DOF estimated real estate taxes paid.[1] If an RPIE filing was not utilized, either because the owner did not submit it or total income or expenses was not reported, the TCIE-reported real estate tax expense was used. Also, DOF used redesigned forms in collecting RPIE information that recategorized a few expense categories, making comparison to prior years imprecise. Finally, for data used in this study, the DOF did not audit and reject forms in situations where individual expense components did not sum to the total expense amount provided by the owner. For these reasons, individual expense components are not reported in this study.

Introduction

As required by the Rent Stabilization Law, the Rent Guidelines Board (RGB) has analyzed the cost of operating and maintaining rental housing in New York City since 1969, as part of the process of establishing rent adjustments for stabilized apartments. Historically, the Board's primary instrument for measuring changes in prices and costs has been the Price Index of Operating Costs (PIOC), a survey of prices and costs for various goods and services required to operate and maintain rent stabilized apartment buildings.

In 1990, the RGB acquired a new data source that enabled researchers to compare PIOC-measured prices and costs with those reported by owners: Real Property Income and Expense (RPIE) statements from rent stabilized buildings collected by the NYC Department of Finance. These Income and Expense (I&E)

statements, filed annually by property owners, provide detailed information on the revenues and costs of "income producing" properties. The addition of I&E statements has greatly expanded the information base used in the rent setting process. I&E statements not only describe conditions in rent stabilized housing in a given year, but also depict changes in conditions over a two-year period. Most importantly, I&E data encompasses both revenues and expenses, allowing the Board to more accurately gauge the overall economic condition of New York City's rent stabilized housing stock.

These updated findings examine the conditions that existed in New York's rent stabilized housing market in 2003, the year for which the most recent data is available, and also the extent by which these conditions changed from 2002.

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 and other properties to file RPIE statements with the Department of Finance annually. While certain types of properties are exempt from filing RPIE forms (cooperatives, condominiums, buildings with fewer than 11 units or with an assessed value under $40,000)[2], the mandate produces detailed financial records on thousands of rent stabilized buildings. Although information on individual properties is strictly confidential, the Department of Finance is allowed to release summary statistics of the data to the RGB.

Since 1990, the RGB has received data on samples of rent stabilized properties that file RPIE forms. Samples in the first two studies (data for 1988 and 1989) were limited to 500 buildings, because RPIE files were not automated. Upon computerization of I&E filings in 1992 (for cross-sectional data from 1990 and longitudinal data from 1989-90), the size of the samples used in RGB I&E studies has grown to more than 12,000 properties containing nearly 545,000 units.

Cross-Sectional Study

Rents and Income[3]

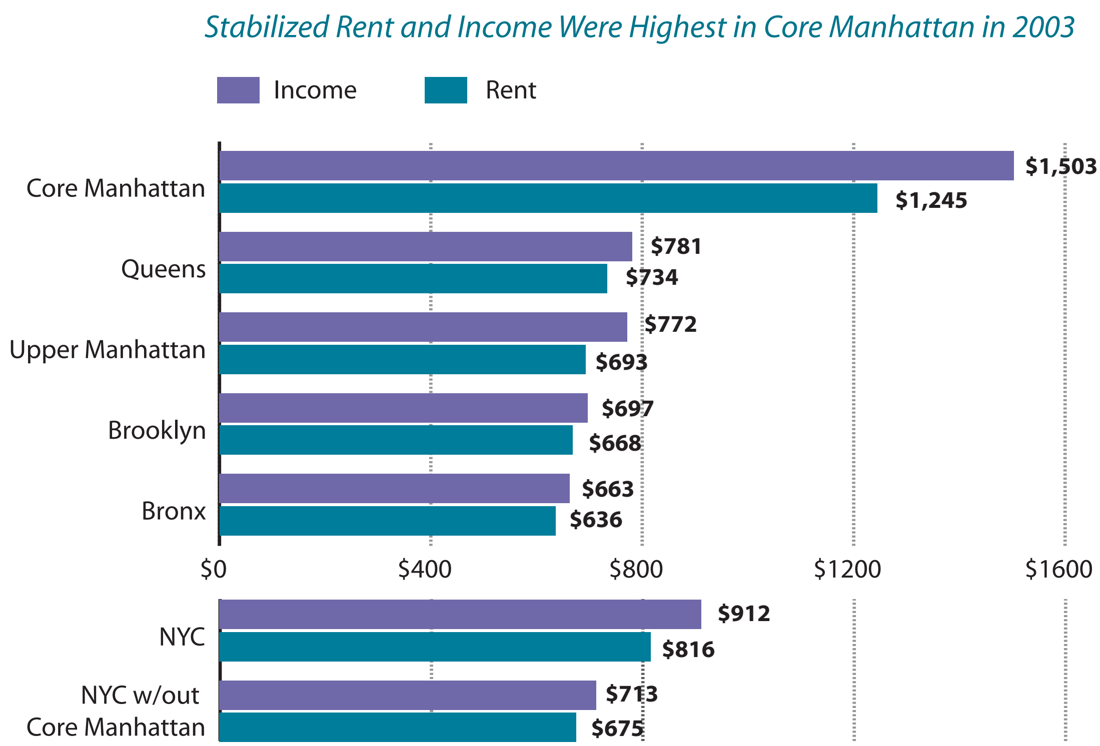
In 2003, rent stabilized property owners collected monthly rent averaging $816 per unit. As in prior years, units in pre-war buildings rented for less on average ($763 per month) than those in post-war buildings ($985 per month).[4] At the borough level, monthly rents in stabilized buildings were $1,071 in Manhattan, $734 in Queens, $668 in Brooklyn and $636 in the Bronx (as noted in the Methodology, figures for Staten Island were not included throughout the analysis due to the small number of buildings in the data sets).

Many owners of stabilized buildings augment income from 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 $912 per rent stabilized unit in 2003, with pre-war buildings earning $858 per unit and those in post-war properties earning $1,084 per unit. Gross income was highest in Core Manhattan at $1,503 per unit per month and lowest in the Bronx at $663. Monthly income per unit in the City, excluding Core Manhattan, was $713. These gross income figures encompass rent from stabilized apartments as well as the sale of services (e.g. laundry, vending, parking) and commercial income. Such proceeds accounted for a 10.5% share of the total income earned by building owners in 2003, slightly more than the distributions observed in the previous six I&E studies. By borough, the highest share of income earned from the sale of services was 16% in Manhattan (17% in Core Manhattan and 10% in Upper Manhattan), 6% in Queens and 4% in Brooklyn and the Bronx. The graph on the next page shows the average rent and income collected in 2003 by borough, and for the City as a whole. (See Appendix 1)

Comparing Rent Measurements

Another data source, the NYS Division of Housing and Community Renewal (DHCR) annual registration data, provides important comparative rent data to the collected rents stated in RPIE filings. A comparison of the collected RPIE rents to the DHCR rents is a good indicator of the overall rental market and reflects both

Average Monthly Collected Rent/Income per Dwelling Unit by Borough*



* See Endnote 3
Source: NYC Department of Finance, 2003 RPIE Filings

how well owners are able to collect the rent roll and the prevalence of vacancies.

Rents included in RPIE filings are different than DHCR figures primarily because of differences in how average rents are computed. RPIE data reflects actual rent collections that account for vacancies or non-payment of rent. By contrast, DHCR data consists of legal rents registered annually with the agency. Since DHCR rent data does not include vacancy and collection losses, in most years these rents are generally higher than RPIE rent collections data. Furthermore, RPIE information includes unregulated apartments in buildings containing rent stabilized units. Also, the RPIE information reflects rents collected over a 12-month period while DHCR data reflects rents registered on April 1, 2003. In sum, despite the anomalies between the two rent indicators, the difference between RPIE rents and DHCR rents is a good estimate of vacancy and collection losses incurred by building owners, and the relative change in the gap is one way of estimating the change in such losses from year to year.

In comparing annual RPIE and DHCR average rents, the gap between the two contracted steadily from 1991 to 2001. In 1991, the average RPIE collected rent was 15% lower, while in 2001, the average RPIE collected rent was just 5.6% lower, a decline of almost two-thirds over the ten year period. Since then, RPIE returns indicate that the gap between RPIE rent and DHCR's mean stabilized rent is growing again, up to a gap of 10.0% in 2003. This is the largest gap since 1995. (See graph on next page.) At the borough level, the gap between collected and legal rent varies widely. In 2003, rent ($1,071) was 5.5% below DHCR's average legal rent in Manhattan ($1,133), while owners in the other boroughs collected average rents that were 14.7% lower than legal rents in Queens, 14.8% lower in the Bronx and 14.9% lower in Brooklyn. At least part of this differential in the other boroughs is due to preferential

rent comparisons

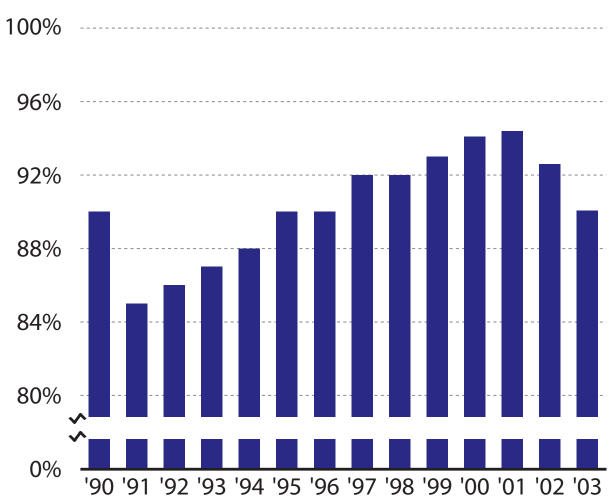
RPIE Rent Collections Grew Less Than DHCR Legal Rents and the RGB Rent Index for the Second Consecutive Year

	RPIE Rent Growth	DHCR Rent Growth (Adjusted)	RGB Rent Index (Adjusted)
90-91	3.4%	4.8%	4.7%
91-92	3.5%	3.5%	4.0%
92-93	3.8%	2.9%	3.3%
93-94	4.5%	2.8%	3.0%
94-95	4.3%	2.5%	2.8%
95-96	4.1%	3.6%	3.8%
96-97	5.4%	4.4%	5.3%
97-98	5.5%	4.2%	4.2%
98-99	5.5%	3.1%	3.7%
99-00	6.2%	4.1%	3.9%
00-01	4.9%	4.8%§	4.8%
01-02	4.0%	5.1%§	4.8%
02-03	3.6%	4.5%	3.9%
1990 to 2003*	77.6%	63.8%	66.5%

*Not adjusted for inflation.
§Revised from prior study due to DHCR update.
Source: DHCR Annual Rent Registrations; NYC Department of Finance, 1990-2003 RPIE Filings

Average Monthly Citywide Collected Rents as a Share of Average Monthly DHCR Legal Registered Rents 1990-2003

Percentage of Legal Rent Collected Decreased in 2003



Source: DHCR Annual Rent Registrations; NYC Department of Finance, 1990-2003 RPIE Filings

rents, usually offered when the legal stabilized rent exceeds the market rate for the area.

A final benchmark that can help place RPIE rent data in context is the RGB Rent Index, which measures the overall effect of the board's annual rent increases on contract rents each year. Until two years ago, average RPIE rent collection increases were growing faster than the renewal lease increases allowed by the RGB's guidelines. However, in 2002 and 2003, rent collections increased by 4.0% and 3.6%, respectively, increasing less than the growth in the RGB rent index (4.8% in 2002 and 3.9% in 2003, adjusted for the July-to-June fiscal year). This shift over the last two years may be due to owners' inability to increase collectible renewal rents by the maximum guideline permitted or increases in vacancy and collection losses. (See table on this page.)

Operating Costs

Rent stabilized apartment buildings incur several types of expenses in order to operate efficiently. RPIE filings include data on eight categories of operating and maintenance (O&M) costs: taxes; labor; utilities; fuel; insurance; maintenance; administrative and miscellaneous 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. Thus, the operating costs reported are comparatively high because they include maintenance costs for commercial space.

The average monthly operating cost for stabilized units was $618 in 2003. Costs were lower in units in pre-war buildings ($590), and substantially higher among post-war structures ($706). Geographically, average costs were lowest in the Bronx, Brooklyn and Queens ($499, $504 and $538, respectively) and highest in Manhattan ($808). Looking more closely at Manhattan properties, costs for units located in Core Manhattan averaged $909 a month while the costs in Upper Manhattan were $578. The average monthly operating costs for stabilized building owners in New York City, excluding Core Manhattan, reduces the City average to $517. (See Appendix 1 for a breakdown of costs by borough and building age.)

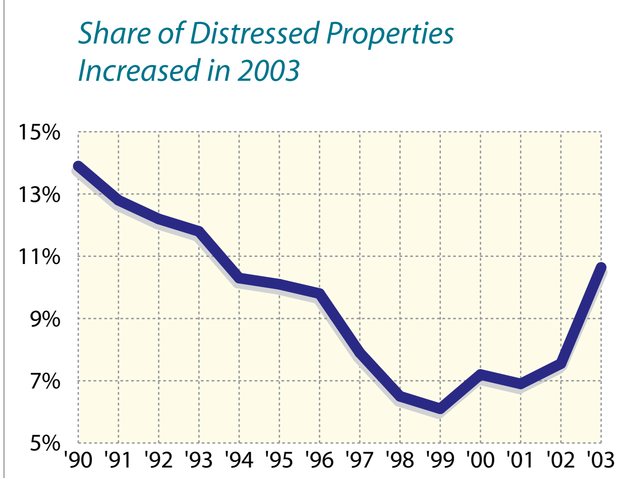
In 1992, Department of Finance and RGB staff tested RPIE expense data for accuracy. Initial examinations found that most "miscellaneous" costs were actually administrative or maintenance costs, while 15% were not valid business expenses. Further audits on the revenues and expenses of forty-six rent stabilized properties 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 the Department of Finance's assessors. Adjustment of the 2003 RPIE O&M cost ($618) by the results of the 1992 audits results in an average monthly O&M cost of $567 citywide.

Just as buildings without commercial space typically generate less revenue than stabilized properties with commercial space, operating expenses in these buildings tend to be lower on average than in buildings with a mixture of uses. This year, unaudited average O&M costs for "residential-only" buildings were $569 per month, while average audited O&M costs for units in "residential-only" buildings were $522 per month.

"Distressed" Buildings

Buildings that have operating and maintenance costs greater than gross income are considered distressed. Among the properties that filed 2003 RPIE forms, 1,294 buildings, or 10.8% of the cross-sectional sample, had O&M costs in excess of gross income, up from 7.5% found the prior year. In 2003, only 67 (5.2%) of these distressed buildings were built after 1946. Since 1990, when 13.9% of the sample of stabilized properties were considered distressed, the proportion of distressed buildings declined to a low of 6.1% in 1999. Since then, the proportion has increased in three of the last four years, to 10.8% in 2003. Most distressed stabilized properties are mid-sized (20 to 99 units), pre-war and are located in the Bronx, Manhattan and Brooklyn. (See graph on this page)

Percent of Distressed Properties in Cross-Sectional Samples 1990-2003



Source: NYC Department of Finance, 1990-2003 RPIE Filings

Net Operating Income

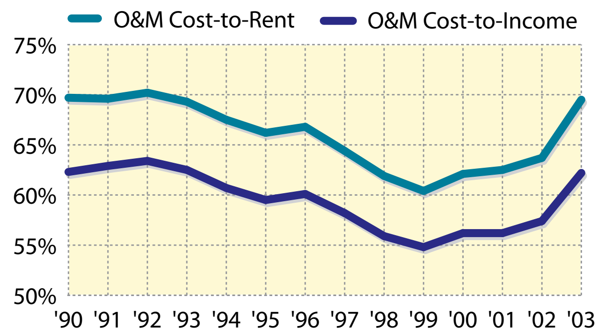
In most stabilized buildings, revenues exceed operating costs, yielding funds that can be used for mortgage payments, improvements and/or pre-tax profit. The amount of income remaining after all operating and maintenance (O&M) expenses are paid is typically referred to as "Net Operating Income" (NOI). While financing costs, income taxes and appreciation determine the ultimate profitability of a property, NOI is a good indicator of its basic financial condition. Moreover, changes in NOI are easier to track on an aggregated basis than changes in profitability, which require an individualized examination of return on capital placed at risk.

On average, apartments in rent stabilized buildings generated $295 of net income per month in 2003, with units in post-war buildings earning more ($377 per month) than those in pre-war buildings ($269 per month). Average monthly NOI in "residential-only" properties citywide was $255 per unit in 2003, 14% lower than the norm for all stabilized buildings. Average monthly NOI tended to be considerably greater for stabilized properties in Manhattan ($472) than for those in the other boroughs: $164 in the Bronx, $192 in Brooklyn and $243 in Queens. There was a large dichotomy when looking at NOI on a sub-borough level in Manhattan. Core Manhattan properties earned on average $594 a month in NOI, while properties in Upper Manhattan had an NOI of $193, which was close to the monthly NOI average calculated citywide, excluding Core Manhattan ($196). Looking at the NOI using audited expense figures, the citywide NOI in 2003 was $345.

NOI reflects the revenue available after payment of operating costs, that is, the money owners have for financing their buildings, making improvements, and for pre-income tax profits. While NOI should not be the only criteria to determine the ultimate profitability of a particular property, it is a useful exercise to calculate the annual NOI for a hypothetical "average stabilized building" with 11 units or more. Multiplying the average unaudited monthly NOI of $295 per stabilized unit by the typical size of buildings in this year's cross-sectional sample (45 units) yields an estimated mean annual NOI of about $160,000 in 2003. Notably, the RPIE data cannot provide estimates for NOI in rent stabilized buildings with 10 or fewer apartments.

Ratios of Citywide Average Monthly Audited O&M Costs to Average Monthly Gross Income and Rent 1990-2003

Both Cost-to-Income and Cost-to-Rent Ratios Rise in 2003



Source: NYC Department of Finance, 1990-2003 RPIE Filings

Operating Cost Ratios

Another way to evaluate the profitability of New York City's rent stabilized housing is by measuring the ratio of expenses to revenues. Traditionally, the RGB has used O&M Cost-to-Income and O&M Cost-to-Rent ratios to assess the overall health of the stabilized housing stock, presuming that buildings are better off by spending a lower percentage of revenue on expenses. The chart on this page shows how over the period from 1990-2003, the proportion of total income and rent collections spent on audited operating costs has fluctuated but largely decreased in stabilized buildings citywide. The Cost-to-Income ratio in 2003 is 62.2%, an increase over the prior year's 57.4%. This means that on average, owners of rent stabilized properties spent about 62 cents out of every dollar of revenue on operating and maintenance costs in 2003. Looking at unaudited expenses, the cost-to-income ratio in 2003 was 67.7%.

Since the highest ratio of 63.4% measured in 1992, the Cost-to-Income ratio has fallen every year except for three years in which there were spikes in heating oil costs, 1996, 2000 and 2003; and in 2002 and 2003, when insurance and taxes saw large increases. Overall, from 1990 to 2003, the Cost-to-Income ratio remained virtually unchanged, showing a 0.1 percentage point decline. Looking at the ratio of costs to rent collections, operating costs in 2003 were 69.5% of revenues from rent, an increase of 5.8 percentage points from the prior year, and since 1990, virtually unchanged, with a 0.2 percentage point decline. Using unaudited expenses, the cost-to-rent ratio in 2003 was 75.6%.

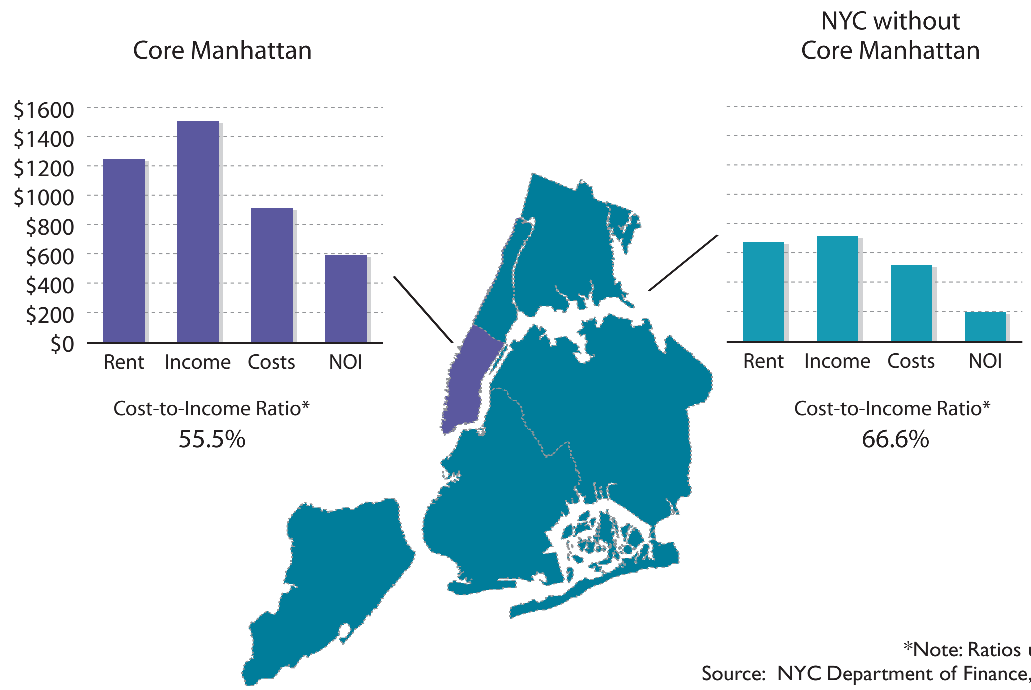
Rents, income and costs per unit on average were highest in Core Manhattan in 2003 (see map and graphs on next page). When Core Manhattan is excluded from the analysis, the average revenue and costs figures are generally lower, but the two areas also have very different expense to revenue ratios. The Cost-to-Income Ratio for the rest of the City was 66.6%, significantly higher than the Cost-to-Income Ratio for stabilized buildings in Manhattan's Core (55.5%). These figures indicate that on average, owners of stabilized properties outside of Core Manhattan spend 11 cents more of every dollar of revenue on expenses compared to their counterparts in Core Manhattan.

Net Operating Income After Inflation

The amount of net income is a function of the level of expense and the level of revenue in a given year (revenues minus operating expenses equals net operating income). Adjusting NOI as well as rent,

Average Monthly Rent, Income, Operating Costs and Net Operating Income per Dwelling Unit and Cost-to-Income ratios, Core Manhattan and the Rest of the City, 2003

Cost-to-Income Ratio Lower in Core Manhattan in 2003



*Note: Ratios use audited costs.
Source: NYC Department of Finance, 2003 RPIE Filings

income and costs figures for inflation (in constant 2003 dollars) and comparing different base years to the latest data available is a useful way to assess the health of the stabilized housing stock and how well revenues have been meeting or exceeding expenses without erosion by inflation.

Converting income and expense figures into constant 2003 dollars helps to analyze how much NOI has grown in real terms since the RGB began collecting RPIE data. Point-to-point comparisons of average monthly figures show that from 1989 to 2003 (a 15-year period), after adjusting for inflation, NOI, the surrogate measure for profit, has declined 1.3%, indicating that expenses have outpaced revenues to the extent that average monthly NOI was worth 1.3% less in 2003 than it was in 1989, after adjusting for inflation.[5]

Another way to look at how rent, income, costs and NOI have changed absent the effect of inflation is to graph inflation-adjusted monthly figures for each of the four components measured in the I&E studies. Inflation-adjusted rents, income, costs and NOI all increased in real value from 1989 to 2003. During the 1989 to 2003 period, inflation-adjusted rent increased a cumulative 5.3%, income by 6.2%, costs by 10.2% and NOI declined by 1.3%. Tracking costs, since 1993, costs fluctuated slightly until 1999, when costs began increasing each year (except 2001) by about 5%.

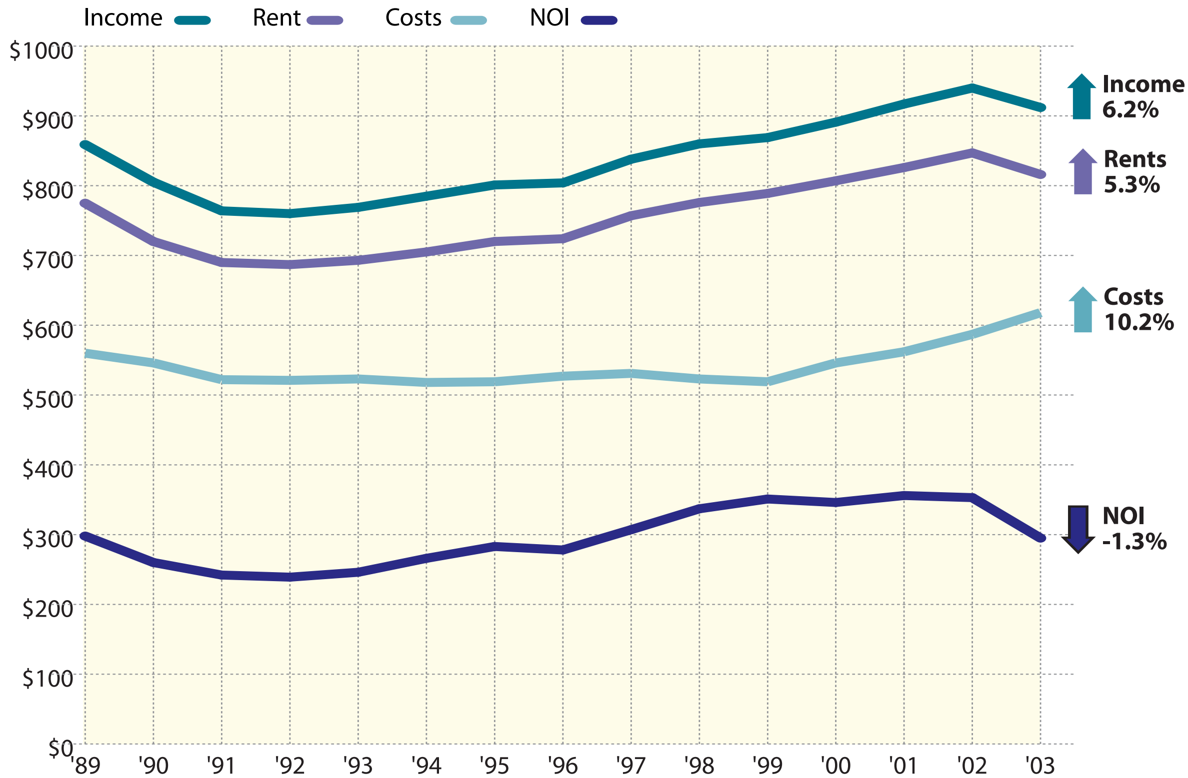
After seven years in which NOI did not reach levels seen in 1989, the years 1997-2001 showed real improvement in NOI from the base year 1989, except for a slight decline in 2000. From 1989-96 the ratio of NOI/income was about 33%; while from 1997-2001, NOI's share of income was about 39%. Average monthly NOI was worth 18% more after inflation in 2002 than in 1989, but declined in 2003, to a point where NOI was 1.3% lower than in 1989.

While the citywide chart of inflation-adjusted revenue, expense and NOI figures is useful for

NOI After Inflation

After Inflation, NOI Are Below Levels Seen in 1989

(Average Monthly Income, Rent, Operating Costs and Net Operating Income per Dwelling Unit in Constant 2003 Dollars)

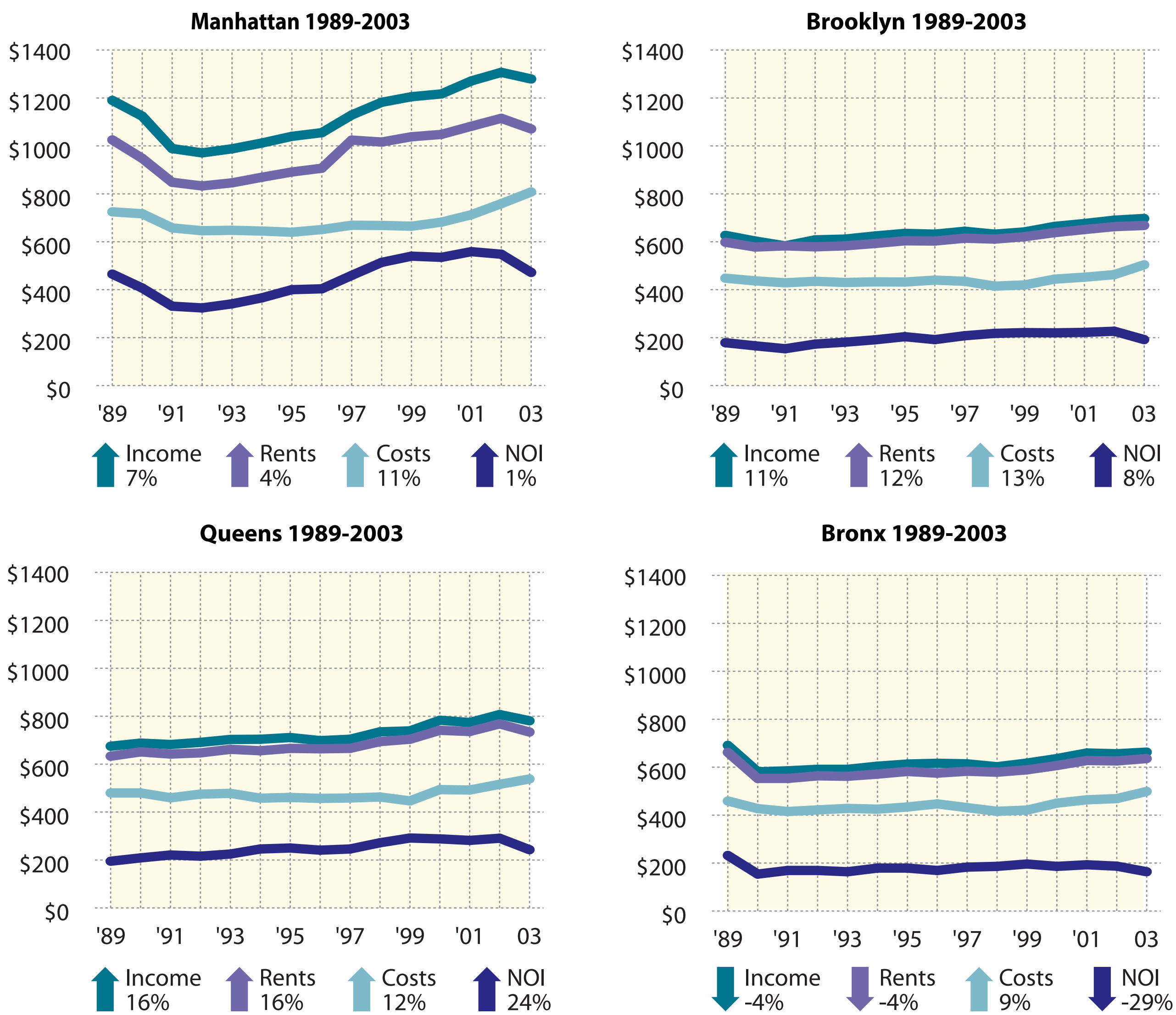


Note: Percent changes are point-to-point measurements and should not be considered cumulatively.
Source: RGB Income and Expense Studies, 1991-2005. NYC Department of Finance, 1990-2003 RPIE Filings

demonstrating the overall stabilized rental housing market, disaggregating the same figures by borough shows how the market can differ from area to area. At least two interesting points emerge from the borough charts. First, the four borough graphs on the next page each shown on the same scale, reveal that most of the inflation-adjusted numbers for rent, cost and NOI would fall between $200 and $800 over the years of study if not for the data from Manhattan. Manhattan's relatively high revenues, expenses and NOI figures put significant upward pressure on the citywide numbers. The nominal Manhattan rent, income, cost and NOI figures bring the citywide averages for these categories up well beyond the $200-$800 range seen in the inflation-adjusted, other-borough charts. Secondly, it is notable that from 2002-03, costs outpaced revenues causing net income to fall in all the boroughs, following increases in most years and boroughs from 1991-2002. Looking at each of the boroughs individually, from 1989 to 2003, most boroughs saw increases in their net income, with Queens seeing the largest increase, 24%, followed by Brooklyn at 8% and Manhattan at 1%. Conversely, in the Bronx, inflation-adjusted NOI fell 29% over the same 1989-2003 period.

NOI After Inflation per Borough, 1989-2003

Since 1989, Inflation-Adjusted NOI Rises In All Boroughs Except the Bronx



Source: RGB Income and Expense Studies, 1991-2005

Longitudinal Study

Rents and Income

Average rent collections in stabilized buildings rose by 3.6% in 2003, which was 0.4 percentage points lower than the increases observed during 2002 (4.0%). Increases in rent collections occur for many reasons, including increases allowed under RGB renewal guidelines, vacancy allowances of 17-20% allowed under the Rent Regulation Reform Act of 1997 and investments in individual apartment and building-wide improvements.

The total income collected in rent stabilized buildings, comprising apartment rents, commercial rents and sales of services, increased by 4.5% from 2002 to 2003, 0.4 percentage point higher than income collection in the previous year. Revenues rose in pre-war buildings by 4.9% and in post-war buildings by 3.5%. In the Bronx, Brooklyn and Queens, property owners' total income grew by 4.6%, 3.9% and 3.4%, respectively. The gross income of Core Manhattan properties grew by 4.8%, while Upper Manhattan income grew 4.0%, less rapidly than the City average (4.5%).

Operating Costs

Expenses in stabilized buildings grew 12.5%, a higher rate than increases in both rents and total income from 2002-03. Costs rose slightly less in newer buildings, up 12.4%, in contrast to the increase in costs realized by pre-war buildings (12.5%). While I&E studies have found that rent and income revenues tend to rise at similar rates to one another, operating cost increases are much more variable, often the result of volatile changes in the cost of fuel, maintenance, insurance or utilities. The 12.5% increase in expenses was driven upward primarily by large increases in fuel, taxes and insurance. This year, costs rose most rapidly in Manhattan (13.6%), and the least in the Bronx (11.0%). For a detailed breakdown of the changes in rent income and costs by building size age and location, see Appendix 5.

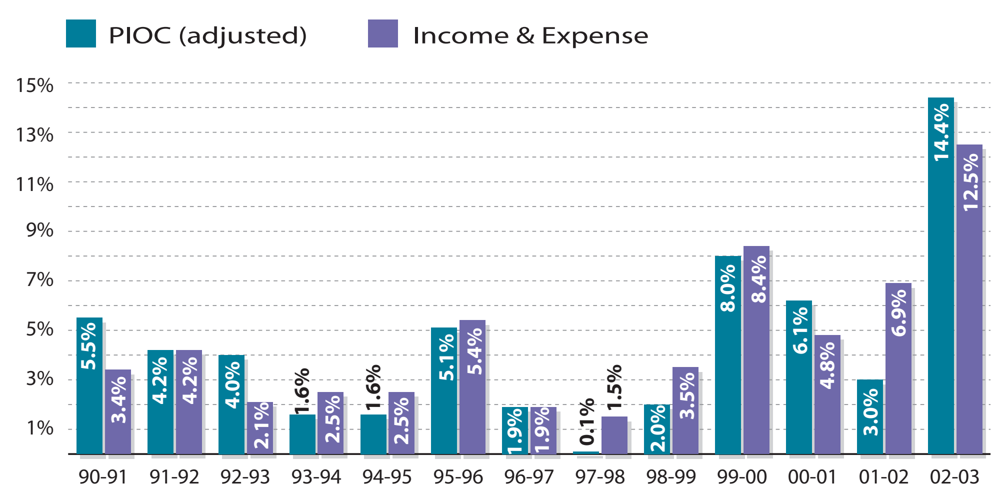
RPIE Expenses and the PIOC

The RPIE and the RGB's long-running survey, the Price Index of Operating Costs (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 time periods. For example, there is a difference between when expenses are incurred and actually paid by owners as reported in the RPIE, versus the price 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 filed by landlords are based on the calendar year. To compare the two, weighted averages of each must be calculated, which may cause a slight loss in accuracy. Finally, the PIOC measures a hybrid of costs, cost-weighted prices and pure prices, whereas the RPIE provides unaudited owner-reported costs.

From 1989-90 to 2002-03, cumulative growth in the two indices seem to confirm the accuracy of one another in measuring expense changes for rent stabilized

Change in Operating & Maintenance Costs, I&E and the PIOC, 1990-91 to 2002-03

From 2002-2003, the PIOC Increased at a Higher Rate than Owner-Reported RPIE Costs



Note: The PIOC increase is adjusted from the April-to-April to the July-to-June fiscal year.

Source: NYC Department of Finance, 1990-2003 RPIE Filings; PIOC 1990-2003

Expense Increases Outpace Growth in Revenue from 2002-2003

(Changes in Average Monthly Rents, Income, Operating Costs and Net Operating Income per Dwelling Unit, 1989-2003)

	Avg. Rent Growth	Avg. Income Growth	Avg. Cost Growth	Avg. NOI Growth
89-90	3.3%	3.7%	7.1%	-1.8%
90-91	3.4%	3.2%	3.4%	2.8%
91-92	3.5%	3.1%	4.2%	1.2%
92-93	3.8%	3.4%	2.1%	6.3%
93-94	4.5%	4.7%	2.5%	9.3%
94-95	4.3%	4.4%	2.5%	8.0%
95-96	4.1%	4.3%	5.4%	2.3%
96-97	5.4%	5.2%	1.9%	11.4%
97-98	5.5%	5.3%	1.5%	11.8%
98-99	5.5%	5.5%	3.5%	8.7%
99-00	6.2%	6.5%	8.4%	3.5%
00-01	4.9%	5.2%	4.8%	5.9%
01-02	4.0%	4.1%	6.9%	-0.1%
02-03	**3.6%**	**4.5%**	**12.5%**	**-8.7%**

Source: NYC Department of Finance, 1990-2003 RPIE Filings

properties. Overall, nominal costs measured in the PIOC and in the I&E studies grew at the same rate, increasing, according to both the I&E and PIOC by 91% in stabilized buildings over this period. In addition, the PIOC rose 14.4% from 2002 to 2003, the same period as the 12.5% increase in I&E costs, a 1.9 percentage point difference.

Operating Cost Ratios

Between 2002 and 2003, the proportion of gross income spent on audited expenses (the O&M Cost-to-Income ratio) increased by 4.4 percentage points. The proportion of rental income used for audited expenses (the O&M Cost-to-Rent ratio) also increased, up by 5.5 percentage points. This is the fourth increase in O&M Cost-to-Income and O&M Cost-to-Rent ratios since 1992. These ratios increased due to sharp increases in tax, fuel and insurance costs.

"Distressed" Buildings

Of the buildings in this year's longitudinal sample, 9.4% (916) had O&M expenses that exceeded revenues, 2.4 percentage points higher than the share in last year's longitudinal study. Only 51 (5.6%) distressed properties were built after 1946. As stated earlier, distressed properties are burdened by low rents, lack of commercial income, and high operating expenses.

Net Operating Income

Since average operating costs grew more rapidly than revenues during 2003, citywide net operating income in rent stabilized buildings decreased, by 8.7%. The 8.7% decline was the second decline in NOI since this study began to use computerized records in the *1994 Income and Expense Study*. (In 2002, NOI declined 0.1%.) As mentioned earlier, NOI refers to the earnings that remain after operating and maintenance (O&M) expenses are taken care of, but before payments in income tax and debt service.

Decline in NOI from 2002-03 varied among the boroughs. Queens saw the largest decline, falling 11.8%, followed by Brooklyn (down 11.5%), the Bronx (down 10.5%) and Manhattan (down 7.3%). Specifically, Core Manhattan saw a 6.4% decline in NOI, while Upper Manhattan's NOI decreased by 12.0%. The City excluding Core Manhattan experienced a decline in NOI of 11.4%.

Conclusion

The RPIE filings from over 12,000 rent stabilized buildings containing nearly 545,000 units in the cross-sectional sample suggest that increased expenses, combined with slower increases in both rent and income, reduced net operating income for owners in 2003.

Revenue collections increased 4.5%, but it was exceeded by the 12.5% increase in costs. The greater increase in expenses from 2002-03 resulted in an NOI decrease of 8.7% citywide, the second consecutive year of decrease.

Methodology

The information in this report was generated from summaries of raw data from RPIE forms filed with the NYC Department of Finance in 2004 by owners of apartment buildings with primarily eleven or more dwelling units. The data in these forms, which reflects financial conditions in stabilized buildings for the year 2003, was made available to RGB research staff in June, 2005 for analysis.

As in past studies, two types of summarized data, cross-sectional and longitudinal, were obtained for stabilized buildings. Cross-sectional data, which provides a "snapshot" or "moment in time" view, comes from properties that filed 2003 RPIE forms. Where no RPIE forms were filed, TCIE forms were used instead. In 2003, 2,143 TCIEs were used when RPIEs were not available. Further, for those filing RPIEs but where no rental income was entered, the TCIE form was used instead. This occurred in 4,026 cases. Data from the RPIEs (or TCIEs) was used to compute average rents, operating costs, etc. that were typical of the year 2003. Longitudinal data, which provides a direct comparison of identical elements over time, encompasses properties that filed RPIE forms for the years 2002 and 2003. The longitudinal data describes changing conditions in average rents, operating costs, etc. by comparing 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 2003, while longitudinal data measures changes in conditions that occurred from 2002 to 2003.

This year, 12,017 rent stabilized apartment buildings were analyzed in the cross-sectional study and 9,759 stabilized properties were examined in the longitudinal study. The sample of buildings was created by matching a list of properties registered with the DHCR against buildings data found in 2003 RPIE or TCIE statements (or 2002 and 2003 statements for the longitudinal sample). A building is considered rent stabilized if it contains at least one rent stabilized unit. For the second year in a row, the number of buildings in both the cross-sectional and the longitudinal sample decreased from the previous year. The cross-sectional sample decreased by 329 buildings (3%) and the longitudinal sample decreased by 1,296 buildings (12%).

Once the two samples were drawn, properties that met the following criteria were removed:

- Buildings containing 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 2003 RPIE form for the cross-sectional study, or a 2002 and a 2003 RPIE form for the longitudinal study;
- No unit count could be found in RPIE records; and
- No apartment rent figures were recorded on the RPIE forms. In these cases, forms were improperly completed or the building was vacant.

Three additional methods were used to screen the samples so properties with inaccurate building information could be removed to protect the integrity of the samples:

- In early I&E studies, the Department of Finance used the total number of units from their Real Property Assessment Data (RPAD) files to classify buildings by size and location. RGB researchers found that sometimes the unit counts on RPIE forms were different than those on the RPAD file, and consequently deemed the residential counts from the RPIE form more reliable;

- Average monthly rents for each building were compared to rent intervals for each borough to improve data quality. Properties with average rents outside of the borough rent ranges were removed from all samples. This year, 184 buildings were removed from both samples for this reason. Seventy-seven percent of these buildings (142) had average rents below $100 per month, and the remaining twenty-three percent (42) had average rents in excess of the upper limits. Such screening for outliers is critical since such deviations may reflect data entry errors and thus could skew the analysis; and
- Buildings in which operating costs exceeded income by more than 300% were excluded from both samples. Twenty-one properties were excluded 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 (e.g. structures with 20-99 units).

Endnotes

1. Actual billed real estate taxes from FY 2004 were used to calculate the tax expenses for 2003 RPIE filings.

2. Beginning with the 2003 RPIE, the Department of Finance lowered the minimum assessed value requirement from $80,000 to $40,000.

3. RPIE rent figures include money collected for apartments, owner-occupied or related space and government subsidies. Income encompasses all revenue from rents, sales of services, such as laundry, valet and vending, and all other operating income.

4. Pre-war buildings refer to those built before 1947; post-war buildings refer to those built after 1946.

5. The year 1989 is used as a base year because that is the first year the RGB received data for a large sample of buildings. Comparisons are made to 2003 data because that is the latest data available.

1. Cross-Sectional Income and Expense Study, Estimated Average Rent and Income (2003) per Apartment per Month by Building Size and Location

	Post-46			Pre-47			All		
	Rent	Income	Costs	Rent	Income	Costs	Rent	Income	Costs
Citywide	**$985**	**$1,084**	**$706**	**$763**	**$858**	**$590**	**$816**	**$912**	**$618**
11-19 units	$836	$974	$641	$779	$977	$669	$782	$977	$667
20-99 units	$780	$827	$573	$732	$800	$555	$741	$805	$558
100+ units	$1,213	$1,365	$854	$1,042	$1,160	$759	$1,155	$1,296	$821
Bronx	$743	$774	$555	$613	$639	$487	$636	$663	$499
11-19 units	-	-	-	$619	$669	$552	$619	$668	$550
20-99 units	$685	$709	$526	$612	$636	$483	$622	$647	$489
100+ units	-	-	-	$625	$643	$463	$755	$786	$545
Brooklyn	$741	$777	$558	$648	$675	$490	$668	$697	$504
11-19 units	-	-	-	$662	$712	$530	$664	$719	$533
20-99 units	$726	$756	$549	$642	$662	$477	$663	$685	$495
100+ units	$769	$810	$571	$686	$711	$506	$743	$778	$551
Manhattan	$1,665	$1,916	$1,116	$953	$1,153	$746	$1,071	$1,279	$808
11-19 units	$1,133	$1,404	$892	$904	$1,251	$806	$907	$1,253	$808
20-99 units	$1,178	$1,309	$811	$903	$1,054	$688	$926	$1,075	$698
100+ units	$1,869	$2,168	$1,243	$1,344	$1,542	$973	$1,649	$1,906	$1,130
Queens	$777	$845	$585	$699	$727	$499	$734	$781	$538
11-19 units	$712	$780	$530	$653	$678	$490	$667	$702	$500
20-99 units	$729	$774	$525	$698	$726	$491	$709	$744	$504
100+ units	$823	$909	$646	-	-	-	$814	$891	$632
St. Island	$732	$766	$570	-	-	-	$732	$766	$570
Core Man	$1,780	$2,056	$1,177	$1,097	$1,351	$835	$1,245	$1,503	$909
11-19 units	-	-	-	$935	$1,317	$836	$937	$1,318	$836
20-99 units	$1,272	$1,424	$857	$1,090	$1,298	$790	$1,106	$1,309	$796
100+ units	$1,942	$2,257	$1,279	$1,432	$1,647	$1,032	$1,726	$1,998	$1,174
Upper Man	$808	$860	$663	$675	$758	$565	$693	$772	$578
11-19 units	-	-	-	$691	$795	$604	$686	$792	$623
20-99 units	-	-	-	$672	$752	$561	$681	$759	$565
100+ units	-	-	-	$707	$788	$548	$779	$844	$651
City w/o Core Manhattan	$758	$806	$569	$645	$679	$498	$675	$713	$517

Notes: City and borough totals are weighted, while figures for building size categories are unweighted. Cost figures in this table are NOT adjusted for the results of the 1992 Department of Finance audit on I&E reported operating costs. The number of Post-46 rent stabilized buildings with fewer than 20 units in the Bronx, Brooklyn, Staten Island, Core and Upper Manhattan as well as buildings with 20-99 and 100+ units in Upper Manhattan were too small to calculate reliable statistics, as was the number of Pre-47 buildings in Staten Island. Borough averages without building size figures for Post-46 Staten Island are provided.

Source: NYC Department of Finance, RPIE Filings.

2. Cross-Sectional Income and Expense Study, Net Operating Income in 2003 per Apartment per Month by Building Size and Location

	Post-46	Pre-47	All
Citywide	**$377**	**$269**	**$295**
11-19 units	$332	$309	$310
20-99 units	$254	$245	$247
100+ units	$512	$402	$474
Bronx	$219	$152	$164
11-19 units	-	$117	$118
20-99 units	$182	$153	$157
100+ units	-	$181	$241
Brooklyn	$219	$185	$192
11-19 units	-	$182	$187
20-99 units	$207	$185	$190
100+ units	$239	$204	$228
Manhattan	$800	$406	$472
11-19 units	$511	$444	$445
20-99 units	$498	$366	$377
100+ units	$925	$569	$776
Queens	$260	$229	$243
11-19 units	$250	$187	$202
20-99 units	$249	$235	$240
100+ units	$263	-	$259
St. Island	$195	-	$195

	Post-46	Pre-47	All
Core Man	$880	$516	$594
11-19 units	-	$481	$482
20-99 units	$567	$508	$513
100+ units	$977	$615	$824
Upper Man	$197	$193	$193
11-19 units	-	$191	$169
20-99 units	-	$191	$193
100+ units	-	$241	$193
City w/o Core Manhattan	$237	$181	$196

Notes: City and borough totals are weighted, while figures for building size categories are unweighted. Cost figures in this table are NOT adjusted for the results of the 1992 Department of Finance audit on I&E reported operating costs. The number of Post-46 rent stabilized buildings with fewer than 20 units in the Bronx, Brooklyn, Staten Island and Upper Manhattan as well as buildings with 20-99 and 100+ units in Upper Manhattan were too small to calculate reliable statistics, as was the number of Pre-47 buildings in Staten Island. Borough averages without building size figures for Post-46 Staten Island are provided.

Source: NYC Department of Finance, RPIE Filings.

3. Cross-Sectional Distribution of "Distressed" Buildings, 2003 RPIE Filings

	Citywide	Bronx	Brooklyn	Manhattan	Queens	St. Island	Core Man	Upper Man
Pre-47								
11-19 units	438	63	91	242	41	1	202	40
20-99 units	777	206	180	340	51	0	157	183
100+ units	12	3	1	5	3	0	2	3
All	1227	272	272	587	95	1	361	226
Post-46								
11-19 units	13	2	1	5	5	0	3	2
20-99 units	45	12	11	8	14	0	5	3
100+ units	9	0	1	5	2	1	4	1
All	67	14	13	18	21	1	12	6
All Bldgs.								
11-19 units	451	65	92	247	46	1	205	42
20-99 units	822	218	191	348	65	0	162	186
100+ units	21	3	2	10	5	1	6	4
All	**1294**	**286**	**285**	**605**	**116**	**2**	**373**	**232**

Source: NYC Department of Finance, RPIE Filings.

4. Cross-Sectional Sample, 2003 RPIE Filings

	Post-46		Pre-47		All	
	Bldgs.	DU's	Bldgs.	DU's	Bldgs.	DU's
Citywide	**1,261**	**132,410**	**10,756**	**411,910**	**12,017**	**544,320**
11-19 units	116	1,708	2,759	41,670	2,875	43,378
20-99 units	744	42,989	7,682	314,669	8,426	357,658
100+ units	401	87,713	315	55,571	716	143,284
Bronx	198	14,408	2,113	97,454	2,368	111,862
11-19 units	12	167	225	3,392	237	3,559
20-99 units	158	9,470	1,888	86,780	2,046	96,250
100+ units	28	4,771	57	7,282	85	12,053
Brooklyn	243	21,715	2,397	92,136	2,640	113,851
11-19 units	14	206	583	8,712	597	8,918
20-99 units	164	10,711	1,755	76,301	1,919	87,012
100+ units	65	10,798	59	7,123	124	17,921
Manhattan	410	63,197	5,137	182,349	5,547	245,546
11-19 units	36	541	1,669	25,190	1,705	25,731
20-99 units	176	9,229	3,305	120,731	3,481	129,960
100+ units	198	53,427	163	36,428	361	89,855
Queens	360	30,115	1,042	39,547	1,402	69,662
11-19 units	43	640	279	4,329	322	4,969
20-99 units	216	12,338	729	30,702	945	43,040
100+ units	101	17,137	34	4,516	135	21,653
St. Island	50	2,975	10	424	60	3,399
11-19 units	11	154	3	47	14	201
20-99 units	30	1,241	5	155	35	1,396
100+ units	9	1,580	2	222	11	1,802
Core Man	362	57,877	3,629	120,663	3,991	178,540
11-19 units	33	495	1,464	22,008	1,497	22,503
20-99 units	143	7,397	2,037	66,654	2,180	74,051
100+ units	186	49,985	128	32,001	314	81,986
Upper Man	48	5,320	1,508	61,686	1,556	67,006
11-19 units	3	46	205	3,182	208	3,228
20-99 units	33	1,832	1,268	54,077	1,301	55,909
100+ units	12	3,442	35	4,427	47	7,869

Source: NYC Department of Finance, RPIE Filings.

5. Longitudinal Income and Expense Study, Estimated Average Rent and Income Changes (2002-2003) by Building Size and Location

	Post-46			Pre-47			All		
	Rent	Income	Costs	Rent	Income	Costs	Rent	Income	Costs
Citywide	**3.0%**	**3.5%**	**12.4%**	**3.8%**	**4.9%**	**12.5%**	**3.6%**	**4.5%**	**12.5%**
11-19 units	4.9%	5.2%	11.7%	4.3%	5.9%	14.1%	4.4%	5.9%	13.9%
20-99 units	2.9%	3.4%	10.5%	3.6%	4.5%	11.8%	3.5%	4.3%	11.6%
100+ units	2.2%	2.7%	13.8%	4.3%	5.5%	14.4%	2.8%	3.5%	14.0%
Bronx	3.5%	3.6%	12.2%	5.0%	4.9%	10.6%	4.7%	4.6%	11.0%
11-19 units	-	-	-	5.9%	6.8%	10.5%	6.2%	6.8%	10.4%
20-99 units	3.9%	4.2%	11.9%	4.7%	4.5%	10.6%	4.6%	4.5%	10.8%
100+ units	-	-	-	8.7%	8.2%	11.0%	4.8%	4.7%	12.1%
Brooklyn	3.6%	3.4%	8.2%	3.7%	4.0%	12.5%	3.7%	3.9%	11.5%
11-19 units	-	-	-	4.0%	4.3%	10.0%	3.8%	4.2%	10.5%
20-99 units	3.9%	3.6%	7.1%	3.4%	3.7%	13.1%	3.5%	3.7%	11.4%
100+ units	2.8%	2.9%	10.3%	7.1%	7.1%	15.7%	3.2%	3.4%	12.1%
Manhattan	2.7%	2.4%	14.5%	3.5%	5.6%	13.3%	3.3%	4.8%	13.6%
11-19 units	-	-	-	4.4%	6.6%	16.2%	4.4%	6.6%	16.1%
20-99 units	3.6%	3.9%	15.4%	3.3%	5.3%	11.8%	3.3%	5.1%	12.2%
100+ units	2.5%	2.0%	14.3%	3.5%	5.2%	15.0%	2.8%	3.1%	14.6%
Queens	0.9%	3.7%	12.4%	2.8%	3.2%	12.4%	1.9%	3.4%	12.4%
11-19 units	2.7%	4.0%	12.3%	3.2%	4.2%	13.8%	3.1%	4.1%	13.4%
20-99 units	0.8%	2.5%	10.2%	2.8%	3.0%	12.1%	2.0%	2.8%	11.4%
100+ units	0.6%	4.6%	14.6%	-	-	-	1.0%	4.4%	14.2%
Staten Island	4.5%	4.5%	15.8%	-	-	-	4.5%	4.5%	15.8%
Core Manhattan‡	2.6%	2.3%	14.9%	3.4%	6.0%	13.7%	3.2%	4.8%	14.0%
11-19 units	-	-	-	3.3%	5.4%	16.5%	3.4%	5.5%	16.4%
20-99 units	3.1%	3.5%	15.9%	3.2%	6.3%	12.1%	3.2%	6.0%	12.4%
100+ units	2.5%	2.1%	14.7%	4.0%	5.7%	15.1%	3.0%	3.3%	14.8%
Upper Manhattan‡	4.4%	4.2%	9.3%	3.8%	3.9%	11.5%	3.9%	4.0%	11.2%
11-19 units	-	-	-	9.0%	9.4%	12.9%	9.2%	15.1%	15.7%
20-99 units	-	-	-	3.4%	3.4%	11.1%	3.7%	3.6%	11.2%
100+ units	-	-	-	-	-	-	-0.5%	0.2%	7.6%
All City w/o Core Manhattan	2.5%	3.6%	11.2%	4.0%	4.1%	11.7%	3.6%	4.0%	11.5%

Notes: City and borough totals are weighted, while figures for building size categories are unweighted. Cost figures in this table are NOT adjusted for the results of the 1992 Department of Finance audit on I&E reported operating costs. The number of post-46 rent stabilized buildings with fewer than 20 units in the Bronx, Brooklyn, Core and Upper Manhattan as well as buildings with 20-99 units and 100+ units in Upper Manhattan were too small to calculate reliable statistics as was the number of Pre-47 buildings in Staten Island. Borough averages without building size figures for Staten Island are provided.

‡ The data for Core and Upper Manhattan on this chart combine two calculations of costs in all their respective categories to take into account inconsistencies between the all-Manhattan values and the combination of the Core and Upper Manhattan figures.

Source: NYC Department of Finance, RPIE Filings.

6. Longitudinal Income and Expense Study, Net Operating Income Changes (2002-2003) by Building Size and Location

	Post-46	Pre-47	All
Citywide	**-9.6%**	**-8.3%**	**-8.7%**
11-19 units	-5.7%	-8.0%	-7.9%
20-99 units	-9.6%	-8.5%	-8.7%
100+ units	-11.1%	-7.7%	-10.1%
Bronx	-13.0%	-9.7%	-10.5%
11-19 units	-	-9.4%	-8.8%
20-99 units	-13.1%	-10.6%	-11.0%
100+ units	-	2.3%	-8.2%
Brooklyn	-7.0%	-12.8%	-11.5%
11-19 units	-	-8.3%	-9.0%
20-99 units	-4.8%	-14.5%	-12.0%
100+ units	-10.6%	-9.0%	-13.0%
Manhattan	-10.4%	-6.0%	-7.3%
11-19 units	-	-7.2%	-7.1%
20-99 units	-10.3%	-4.9%	-5.6%
100+ units	-10.4%	-8.0%	-9.7%
Queens	-11.3%	-12.3%	-11.8%
11-19 units	-10.7%	-15.9%	-14.4%
20-99 units	-10.7%	-11.6%	-11.3%
100+ units	-12.6%	-	-12.8%
St. Island	-18.4%	-	-18.4%

	Post-46	Pre-47	All
Core Manhattan	-10.4%	-4.4%	-6.4%
11-19 units	-	-8.8%	-8.7%
20-99 units	-11.0%	-1.7%	-2.7%
100+ units	-10.4%	-7.1%	-9.4%
Upper Manhattan	-6.9%	-12.8%	-12.0%
11-19 units	-	0.0%	-9.5%
20-99 units	-	-13.7%	-12.9%
100+ units	-	-	-17.3%
All City w/o Core Manhattan	-10.6%	-11.8%	-11.4%

Notes: City and borough totals are weighted, while figures for building size categories are unweighted. Cost figures in this table are NOT adjusted for the results of the 1992 Department of Finance audit on I&E reported operating costs. The number of post-46 rent stabilized buildings with fewer than 20 units in the Bronx, Brooklyn, Core and Upper Manhattan as well as buildings with 20-99 units and 100+ units in Upper Manhattan were too small to calculate reliable statistics as was the number of Pre-47 buildings in Staten Island. Borough averages without building size figures for Staten Island are provided.

Source: NYC Department of Finance, RPIE Filings.

7. Longitudinal Sample, 2002 & 2003 RPIE Filings

	Post-46		Pre-47		All	
	Bldgs.	DU's	Bldgs.	DU's	Bldgs.	DU's
Citywide	**1,065**	**111,172**	**8,694**	**347,377**	**9,759**	**458,549**
11-19 units	99	1,480	1,983	30,168	2,082	31,648
20-99 units	633	36,378	6,453	269,739	7,086	306,117
100+ units	333	73,314	258	47,470	591	120,784
Bronx	175	12,346	1,744	81,332	1,919	93,678
11-19 units	11	155	132	2,022	143	2,177
20-99 units	141	8,561	1,567	73,554	1,708	82,115
100+ units	23	3,630	45	5,756	68	9,386
Brooklyn	218	19,044	1,899	77,575	2,117	96,619
11-19 units	9	138	365	5,491	374	5,629
20-99 units	151	9,876	1,486	66,427	1,637	76,303
100+ units	58	9,030	48	5,657	106	14,687
Manhattan	341	52,560	4,166	154,134	4,507	206,694
11-19 units	34	518	1,264	19,219	1,298	19,737
20-99 units	149	7,751	2,766	102,512	2,915	110,263
100+ units	158	44,291	136	32,403	294	76,694
Queens	292	24,887	876	33,924	1,168	58,811
11-19 units	36	540	220	3,401	256	3,941
20-99 units	169	9,316	629	27,091	798	36,407
100+ units	87	15,031	27	3,432	114	18,463
St. Island	39	2,335	9	412	48	2,747
11-19 units	9	129	2	35	11	164
20-99 units	23	874	5	155	28	1,029
100+ units	7	1,332	2	222	9	1,554
Core Manhattan	302	49,054	2,954	101,900	3,256	150,954
11-19 units	31	472	1,144	17,355	1,175	17,827
20-99 units	122	6,236	1,705	56,138	1,827	62,374
100+ units	149	42,346	105	28,407	254	70,753
Upper Manhattan	39	3,506	1,212	52,234	1,251	55,740
11-19 units	3	46	120	1,864	123	1,910
20-99 units	27	1,515	1,061	46,374	1,088	47,889
100+ units	9	1,945	31	3,996	40	5,941

Source: NYC Department of Finance, RPIE Filings.